THE GROWTH OF EMPLOYEE OWNED BUSINESSES IN SCOTLAND

Report to Scottish Enterprise

By The Employment Research Institute, Edinburgh Napier University

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EXECUTIVE SUMMARY

1. Introduction
This report presents the findings of an investigation into the growth performance and growth dynamics of a selection of Scottish EOBs compared to a peer group of companies who have conventional ownership structures. The report was commissioned by Scottish Enterprise and conducted by the Employment Research Institute (ERI), Edinburgh Napier University.

It has been estimated that the UK employee owned sector is worth £25-30 billion annually, representing 2% of GDP (Lampel et al., 2010; EOA, 2012). Employee Owned Businesses have been found among Scotland’s high growth firms (Mason and Brown 2010). However, until now there has been no specific study of this sub-set of high growth firms in Scotland in terms of their growth performance and growth dynamics.

In the UK there are no formal rules concerning the percentage of issued share capital to be owned by employees, or the percentage of employees owning share capital, needed for a business to be classified as an EOB. The Employee Owned Index (UK) includes UK-quoted companies that are over 10 per cent owned by employees (excluding main board directors) or employee trusts. Based upon whether the shares are owned directly by employees and/or on their behalf through a trust, EOBs fall into one of three main categories:

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The definition of an EOB followed in this report will be that of Co-operative Development Scotland where “an Employee Owned Business is one in which the employees, rather than external shareholders, hold the majority of the shares either directly or through an employee benefits trust which buys the business on their behalf. In addition, employees have a heightened level of voice within the business.” (Co-operative Development Scotland 2012)

2. Literature Review
In 2008 the Westminster all Party Parliamentary Group on Employee Ownership reported that the literature on EOBs was scarce and dated. Since then there has been a significant growth in literature relevant to EOBs, which this report considers and contributes to.
Evidence suggests that EOBs provide higher financial returns, productivity and growth and stability of employment (Lampel et al., 2010; Field Fisher Waterhouse LLP, 2012a). EOBs have even managed to weather the effects of the recession with some reporting employment growth during this time (Lampel et al., 2010). Major promoters of good performance for EOBs appear to be increased employee participation and engagement, resulting in improved decision-making (Burns, 2006; Ellins and Ham, 2009). In general EOBs appear to have lower absenteeism, a greater emphasis on maintaining stable employment and put more emphasis on forward growth planning and higher innovation (Blair et al., 2000; Park et al., 2004; Morris et al., 2006; Lampel et al., 2012). It is suggested that an outcome of these and related benefits are improvements in organisational productivity, profitability and the wellbeing of their employees (National Centre for Employee Ownership, no date; Morris et al., 2006; Kramer, 2010; Arando et al., 2011; McQuaid et al., 2012). However, there are difficulties in making comparisons between studies using a range of data sources and there are questions about the applicability of the international research to the Scottish and UK contexts. Hence there is a need for further analysis of EOBs in Scotland.

3. Methodology

Twelve EOBs, with headquarters in Scotland, participated in the research. The methodology had two phases:

- Phase 1: Qualitative interviews were conducted with the managing director and one employee, (10 of the selection of 12 EOBs took part in this phase).
- Phase 2: Financial data were used to compare the performance of participating EOBs against a selection of their peers. Two of the twelve participating EOBs did not participate in this part. The participating EOBs were asked to supply annual data since at least 2008 on: turnover; number of employees; pre-tax profit; percentage profit margin; return on capital employed. Using the FAME database and financial data from Companies House, a peer group of around ten non-EOB firms was identified from which a comparison of financial performance could be made. The peer group was selected from companies in the same sector and of similar size in terms of employees and turnover in 2011.
- The data were analysed graphically and statistically, with ‘t’ tests and analysis of variance applied to determine if differences in annual performance figures and annual growth rates between EOBs and their peers were statistically significant at the 5% level.\(^1\)
- Analysis was conducted between the EOBs to investigate if growth performance differed by ownership structure and by business sector.
- Cluster analysis was conducted to ascertain if clusters based on annual growth performance could be identified.

\(^1\) Testing at the 5% level means that one has 95% confidence that the entities being tested are different.
4. **Quantitative Findings**

From the ten EOBs investigated which employed a combined total of 1674 people in 2011, their mean and median annual percentage growth of turnover, numbers employed, sales, return on capital and profit margin were mostly positive. When each EOB is compared to around 10 peers matched by size and business sector, the performance of EOBs was generally superior to their peers. On average EOBs both employ more staff and exhibit higher turnover growth than their peers. The value added index, crudely measuring the contribution to the Scottish economy, was marginally greater for the EOBs than the peer groups.

Ownership structure was examined and it was found that EOBs with combined ownership had highest turnover, paid the highest salaries, had the highest profits before taxes and had the highest value added index. The one directly owned EOB had higher turnover per employee than those EOBs that were indirectly owned.

No significant or consistent differences were found between sectors other than the fastest growing companies were in engineering and food production.

Out of the ten companies used in the quantitative analysis one exhibited high growth as defined by the OECD, but a further two were identified as having significantly higher growth when compared to the others. (According to the OECD, 2007, high growth firms are those with more than 10 employees who experience turnover or employment growth of 20 per cent or more for three consecutive years.)

5. **Qualitative Findings**

Most of the EOBs in the sample had previously had conventional company structures. The motivations for the transition to employee ownership in the participating businesses varied, relating to retaining the independence of the organisation, maintaining local employment and securing future growth.

Employee representation was cited by many of the participants as key to ensuring business success with employees working towards a common goal and an increased awareness about why decisions are made, with resulting greater employee engagement. As company size grows, the form of employee representation generally changes: the ability of individual employees to feed directly into decision-making processes declines, with staff viewpoints conveyed to the Board by (elected) employee representatives.

It is difficult to explore economic growth in employee owned versus traditionally owned companies over a long period of time because: many of the businesses had only been
The major growth bottlenecks reported by EOBs in this study are recruitment and access to finance. There is no evidence to suggest that the recruitment issues identified by participating EOBs are a result of their EOB status. Rather, this may be an issue in their respective commercial sector. Some EOBs had experienced a decline in business, but this was not necessarily because of their ownership structure. Access to finance has been identified in the literature as a barrier to the growth of EOBs as well as to high growth firms (Barringer et al., 2005; BERR 2008; Lampel et al., 2010, 2012; Levy et al., 2011).

Findings regarding the role of ownership structure in enabling or restricting growth are mixed. Limited access to finance, such as through a lack of understanding of EOBs by banks, were claimed be a major constraint to growth. While decision-making could be slow, employee involvement in the process results in greater employee engagement, and more considered decisions. As one EOB director said:

“You see higher levels of engagement. We see problems being solved at source rather than being passed up through the management line to arrive on the desks of the frazzled few. So first responder to solutions, meaning that cost of production fall and productivity rises”

Links can be made between staff wellbeing and employee ownership. In one business there had been increases in staff satisfaction despite a deteriorating economic climate. ACAS (2010) cite that one indicator of a healthy workplace is that employees feel valued and involved in the organisation. In the participating businesses staff engagement and commitment was seen as high as they now had more invested in the company, felt more involved and had greater recognition of the need to work together. In addition staff were cited as being more proactive, enthusiastic and creative as they had a direct interest in the company doing well.

6. Conclusions and policy recommendations

The report’s conclusions are structured in terms of the original project objectives. These are followed by a set of policy recommendations.

- How do EOBs perform before, during and after they become employee owned in terms of their growth in employment and turnover;

From the review of company financials it appears that those EOBs who took part in this research on average outperformed their peers. Those who became an EOB within the study time range improved their turnover after becoming an EOB. In general EOBs performed at
least as well as their peers and in a few cases their performance was substantially better than their peers.

It was found that EOBs had significantly higher turnover, number of employees and return on capital than their peers. EOBs also had significantly lower salaries than the peer groups (reasons for this could be the market sectors that participated in the research, and also EOBs are more likely than non-EOBs to have profit-related bonuses in addition to their basic salary levels). Regarding profit before tax, profit margin and the value added index (our crude measure of the contribution to the Scottish Economy) the EOBs performed much the same as their non-EOB peers, and certainly did not perform worse.

However, it is important to remember that some of the participating companies had only recently transitioned to employee ownership or were still undergoing transition. Other companies had only been established for a short number of years. Therefore patterns of growth cannot be studied over a long period of time. In addition, in the qualitative element of this research the views of non-EOBs were not elicited.

- **What is the nature of growth within the overall population of Scottish EOBs?**

Considering growth performance the annual growth rates of turnover and number of employees was significantly higher for EOBs than their peers. There were no significant differences between EOBs and their peers for any of the other growth variables.

- **How many Scottish EOBs meet the OECD classification of high growth?**

Only one of the EOBs that participated in the study met the OECD (2007) classification of high growth as based on turnover. In addition the OECD definition had been set during more buoyant economic times and over the period of this study economic growth was much lower. It is more appropriate to use a lower measure of growth. Indeed three of the EOBs participating in the research emerged as having higher growth than their peers and other EOBs.

- **What was the main motivation to become employee owned and how much of a priority was the future growth of the business?**

A range of motivations were uncovered in the qualitative element of this current research which explains the decision to become employee owned. It should be noted that employees were not necessarily involved in the decision to become employee owned. In
two cases, owners made the choice to transition to employee ownership so that the business could keep its identity and secure the future of the business. Owners felt that the business would have been at risk of being broken up or sold-off if there was not employee ownership. In four cases, employee ownership came about as a result of business succession with previous owners looking to withdraw from the business. In another four cases, the ethos and philosophy of the employee ownership model motivated the transition to employee ownership. Furthermore, the model was seen to give the business a competitive edge that would attract good workers and ensure that the firm remained independent. In another two EOBs, employee ownership was seen as a way to ensure future performance and protect the company from takeover.

- **What is the nature of growth within EOBs and what role does their ownership structure play in enabling or restricting growth;**

Ownership structure of the EOBs was explored to investigate if these factors might explain differentials in growth of the EOBs. The situation is however mixed. Overall combined ownership is associated with higher turnover, profits before tax salaries and value added index.

Findings from the qualitative research regarding the role of ownership structure in enabling or restricting growth are mixed. While decision-making can be slow, employee involvement in the process means that decisions are more considered. Some also felt that it can take time for employees to fully understand their role in employee ownership. This had implications for the way in which employees had to learn to act as owners. Employee ownership was perceived as attractive to customers (who wanted to engage with businesses that they could trust) as well as to potential employees. Employees were increasingly engaged, committed, proactive, enthusiastic and creative as they now had more invested in the company. Evidence from the literature suggests that these factors are linked to higher productivity and employee wellbeing.

- **How does employee involvement in decision making help to foster the growth of the businesses;**

As discussed in Chapters 1 and 2, businesses with a high level of employee involvement in their ownership structure appear to outperform those with more traditional ownership structures (Lampel et al., 2010; Field Fisher Waterhouse LLP 2012a). EOBs that participated in the qualitative element of this current research specified that employee involvement in decision making helped foster growth in the following ways: by ensuring that decisions relating to organisational strategy and goals were subject to employee engagement and
common consent; by creating a sense of common purpose and sense of belonging; linking economic success of the business to employee remuneration through shares.

- **What factors distinguish successful or high growth EOBs from the less successful ones;**

There were no clear conclusions to this question. Some small EOBs did well while others did not and similarly for large companies. No firm conclusions were reached when EOBs in different business sectors were compared other than the fast growing companies were in engineering and food production.

- **What are the main growth bottlenecks faced by EOBs, such as access to funding, customer engagement, internationalisation and recruitment;**

Most of the growth bottlenecks cited by EOBs during interviews did not appear to be specific to EOBs. Rather, they were issues that were also likely to be experienced by businesses without employee ownership. Growth bottlenecks cited by businesses owners included: the difficulty of recruiting skilled staff; skills gaps in the existing workforce; workforce capacity. Other businesses cited sector specific issues such as the effects of shrinking markets, specifically deficit reduction programmes in the public sector that were having a knock-on effect on their business. However, in a small number of cases business owners perceived that there had been occasions when access to finance had been more difficult because potential investors were uncertain about the implications of investing in an Employee Owned Business.

- **What types of support could help grow these businesses in Scotland; and what steps could be taken to help increase the levels of EOBs in Scotland.**

It is clear from the research conducted for this report and from previous research (All Party Parliamentary Group on Employee Ownership, 2008) that low levels of understanding of employee ownership among financial institutions continue to act as a barrier to economic growth. At a time when financial institutions are seeking to minimise their lending risks in the aftermath of the 2008-09 economic crisis, a lack of understanding of EOBs may be actively undermining their willingness to lend to this important business sector. There is no evidence to suggest that EOBs represent a higher credit risk than other businesses whose ownership structure may be more familiar to lenders. By improving understanding of employee ownership among financial institutions, EOBs may have better access to finance which in turn may fund further business growth. More generally, there was felt to be a lack of awareness of EOBs in the wider business community and in the education sector. It
should be noted that directors within EOBs were not arguing for preferential or ‘soft’ treatment rather that they were given access to finance on the same footing as non-EOBs.

A second issue raised by directors of EOBs was the complexity of the process of becoming employee owned. The approval required from HMRC and the establishment of a Trust was felt to be complex and to take a lot of time. However, it was recognised that this was to ensure that EOBs were not being set up for non-legitimate purposes.

Thirdly, the qualitative interviews identified that more support could be provided and would be of use to existing EOBs. For example, a lack of understanding of the employee ownership model by those working in EOBs (e.g. responsibilities as employee owners) was also seen as an issue that government or economic development partners could address.

6.1 Policy Implications
The report sets out a series of evidence based policy recommendations to policy makers.

1. Raising understanding and awareness of EOBs and of high growth EOBs

The research has shown that the routes into EOB status are varied. There is insufficient understanding of models of employee ownership among employees, businesses, political arenas and economic development agencies. This means that opportunities for a wide variety of EOBs (both as new start-ups but also as conversions from other forms of business), and greater consideration of EOBs as a possibility for business succession, may not be given sufficient consideration when opportunities arise.

This reinforces the Nuttall Review (Nuttall 2012) that underscored that a lack of understanding of the EOB sector within the private sector ‘underpinned all other barriers to employee ownership’. More generally, around half of the Nuttall review recommendations were concerned with this and all have legitimacy according to our research. It is important that Co-operative Development Scotland (CDS) and Scottish Enterprise (SE) or Highlands and Islands Enterprise (HIE) continue to work with, and seek to influence, colleagues in the UK government (Department for Business, Innovation and Skills) and their time limited implementation group, the Scottish government and other agencies to support the implementation of the Nuttall Review recommendations in Scotland and not simply duplicate work already underway.

One area where greater awareness of EOBs would be useful is in Business Schools of universities and colleges. Little is taught here and greater information, and even modules or
part modules, on EOBs could be disseminated across such institutions. Efforts could also be made to influence new start-ups from universities to consider employee-ownership.

2. Reducing barriers to becoming an EOB

The process by which a business can become an EOB appears to be expensive, complex and time consuming. HMRC regulations, although clearly, and correctly, intended to ensure that businesses are using employee ownership for legitimate reasons, may also be a barrier to the greater uptake of employee ownership form of the organisational governance. Findings on the complexity of becoming an EOB are consistent with recommendations set out in chapter 5 of the Nuttall Review of Employee Ownership. Responses to the consultation on de-regulation of company law so as to reduce the regulatory burden faced by employee owned companies are important.

3. Better Resources for EOBs

Several of the EOBs that participated in this study outlined the importance of access to expertise in employee ownership. The Baxi Partnership was cited as a valuable source of advice in this respect. However the cost of receiving such advice will for many smaller businesses be prohibitive. Better access to information and guidance in an ‘off the shelf’ manner, as described by one interviewee, would reduce costs associated with specialist advisory services. Business support agencies could provide clarification on the legal, tax and financial information required to become an EOB. While high growth potential EOBs should already have ready access to the full support of Scottish Enterprise/ HIE, it is important that both the unique factors related to EOBs are fully incorporated in the support but that those who support ‘standard’ businesses recognise the potential advantages (and disadvantages) of EOB structures as a potential way forward. In the qualitative interviews, there was a low level of discussion about account managers from SE or HIE and the level of support received. EOBs perception of this should be investigated.

There remains scope for EOBs to learn (and trade) with one another and support should be provided for networks and links between EOBs (in UK and elsewhere) to be developed. This should involve opportunities for non-EOBs to learn from, and perhaps become involved with EOBs.

4. Financing for EOBs

The lack of understanding on EOBs in the wider business and enterprise support community may be impeding access to sources of investment for EOBs and thereby constraining growth opportunities. The absence of external shareholders in EOBs from which to raise capital underscores the importance of ensuring that financial institutions and other lenders are
given access to more information on the way in which EOBs operate. This may help reduce existing reluctance of some financial institutions to lend to EOBs. There is considerable discussion in the UK government, the Employee Ownership Association, the John Lewis Partnership and elsewhere on the creation of an institute to facilitate and promote EOBs. This is potentially important and would be beneficial if located in Scotland.

5. Geographical aspects of support

EOBs are present throughout Scotland, from the Western Isles to Fife to the Highlands and Ayrshire. While fast growth ones may be located mainly near the major cities, in terms of importance to local economies, those in more remote rural areas may have a high relative impact. The full range of support for EOBs should be available throughout Scotland through the main development agencies (SE and HIE). In developing support services for EOBs as suggested in recommendations 1 and 2, consideration needs to be given to the impact of rurality and the peripheral location of some of the EOBs interviewed as part of this research. Although comprehensive, the Nuttall Review did not give specific consideration to the impact of location on the development of EOBs. In Scotland, this is particularly relevant and would affect the way in which support for EOBs was delivered. The time and expense of travel from remote locations for participation in EOB events would need to be considered in any broader support strategy for EOBs.

6. Identifying and disseminating lessons from EOBs

The advantages of EOBs appear to revolve crucially around greater employee engagement and involvement, leading to increased productivity, innovation (in some cases) and employee wellbeing. These advantages are not always present in all EOBs but also are not restricted to EOBs. Where EOBs had created share offerings that were widely taken up by employees across the business, there was felt to be a link between employee motivation in terms of productivity and financial reward. Crucially, employees also felt that by owning shares in the business and exercising control over its strategic direction, they had greater influence over job security. Greater research and business support into how to improve engagement and bring about these advantages in different circumstances is needed. For instance to improve innovation, workers at all levels of the organisation need to feel that they are asked their opinions and that these are taken seriously.

7. Data Collection

There remains limited detailed information on EOBs across Scotland, although the current report provides information on some EOBs and can provide a baseline for future updating and development of information on EOBs in Scotland. It is important that a system is
created for the collection of rigorous, comparable data on EOBs and relevant comparators is set up and implemented either on a continuous basis or a regular basis (such as every three years). Information on the full range of EOBs in Scotland would be useful, but especially that on relatively high growth EOBs, both through account managers at SE/HIE but using available databases and information from the companies themselves.
ACKNOWLEDGEMENTS

We would like to thank the Employee Owned Businesses that participated in this study for their invaluable time and assistance. We are very grateful for all the valuable information provided. We would like to thank Glen Dott and Sarah Deas at Co-operative Development Scotland; Dr Ross Brown at Scottish Enterprise; and Duncan Whitehead from the Office of the Chief Economic Advisor of the Scottish Government. Finally, our thanks go to Alec Richard, Employment Research Institute, Edinburgh Napier University who helped conduct and transcribe some of the interviews.
THE GROWTH OF EMPLOYEE OWNED BUSINESSES IN SCOTLAND

1. INTRODUCTION

This report presents the findings of research into the growth performance and growth dynamics of Employee Owned Businesses (EOBs) in Scotland. The report was commissioned by Scottish Enterprise and conducted by the Employment Research Institute (ERI), Edinburgh Napier University. Two research questions were investigated:

1. What is the growth performance and growth dynamics of Employee Owned Businesses?
2. How does the growth performance of Employee Owned Business compare to Non-Employee Owned Businesses?

It has been estimated that the UK employee owned sector is worth £25-30 billion annually, representing 2% of GDP (Lampel et al., 2010; EOA, 2012). Employee ownership can take different forms and covers a wide range of business types and sectors, ranging from large retailers such as the John Lewis Partnership to consulting and engineering firms including ARUP and many smaller businesses. Businesses which have greater levels of employee involvement in their ownership models appear to outperform businesses which have more traditional and concentrated forms of ownership, with EOBs posting returns considerably above the average FTSE share index over the long- and short-terms (e.g. Field Fisher Waterhouse LLP 2012a). EOBs also have higher employee engagement and wellbeing (Lampel et al., 2010; McQuaid et al., 2012). In Scotland EOBs have been found among the high growth firms (Mason and Brown 2010) but until now there has been no specific study of this sub-set of Scottish high growth firms in terms of their growth performance and growth dynamics. This report therefore provides a timely contribution to the role of EOBs as a source of economic and employment growth in the Scottish economy.²

1.1 Defining Employee Owned Businesses

Financial Structure
In the UK there are no formal rules concerning the percentage of issued share capital to be owned by employees, or the percentage of employees owning share capital, needed for a business to be classified as an EOB. Nuttall (2012) notes that company law defines a

² It is also timely as 2012 was declared as the International Year of Cooperatives by the United Nations General Assembly, see http://www.un.org/en/events/coopsyear/ and http://social.un.org/coopsyear/
substantial stake as over 25 per cent, this may vary between listed companies and private companies. The Employee Owned Index (UK) includes UK-quoted companies that are over 10 per cent owned by employees (excluding main board directors) or employee trusts. In this report, however, we use the Co-operative Development Scotland Definition that “an Employee Owned Business is one in which the employees, rather than external shareholders, hold the majority of the shares either directly or through an employee benefits trust which buys the business on their behalf. In addition, employees have a heightened level of voice within the business.” (Co-operative Development Scotland 2012)

Based upon whether the shares are owned directly by employees and/or on their behalf through a trust, EOBs broadly fall into one of three categories: direct, indirect and combined direct and indirect ownership. These three principal methods for creating an Employee Owned Business are discussed by Postlethwaite (2009):

(1) **Individual share ownership:** Employees become direct shareholders either through buying shares, being given shares or through share options. Tax incentives and a relaxed regulatory framework encourage employee share ownership and thereby greater employee ownership. For example companies are able to claim most kinds of employee share-based rewards as a corporation-tax deductible expense.

(2) **Employee trusts:** Transferring shares to employees may be a long and complex process. Therefore a solution is to put shares in a trust so that they can either be transferred to employees over a long period or held in trust for the long-term benefit of employees. There are two main types of trusts: (a) general employee trusts where shares are held for employees (these trusts are discretionary, often called Employee Benefit Trusts); (b) trusts used to hold shares under a Share Incentive Plan which allocates shares to individual employees and holds them in their name for a certain period before they are released, which may provide relief from income tax and national insurance contributions.

(3) **Combined trust and share ownership:** Through this model at first employees may not be direct shareholders but over time shares are transferred to them through a trust (although a minimum percentage of shares may be retained within the trust).
Table 1.1: Models of Employee Ownership

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Employee ownership usually happens as a result of business succession or ownership succession, professional partnerships, insolvency or closure threat, independence, privatisation or owner vision (Employee Ownership Association 2010), although increasingly it is seen as a potential model for possibly contracting public sector services such as in healthcare.

**Governance and employee involvement**

In addition to the financial ownership structure, key characteristics of EOBs include the ways in which employees are involved in decision-making and the wider governance of the organisation. Employees of EOBs should have a meaningful voice in the operation of the organisation through employee engagement structures (Nuttall, 2012). Without improved management and governance, including greater employee engagement and voice, then financial employee ownership in itself is unlikely to lead to improved productivity and performance (Logue and Yates, 2006). Benefits to organisations from employee ownership have been categorised as being both instrumental and extrinsic (Matrix Evidence 2010). Instrumental benefits may be when an employee ownership scheme increases employee influence in organisational decision-making. Extrinsic benefits occur when an employee benefits financially from the business they share ownership of.

Evidence suggests that people who work in Employee Owned Businesses are generally more satisfied with their employment than those who do not work in EOBs because: they have a closer involvement in the management and decision-making of the company; being an owner can offer greater rewards; owners generally have a greater sense of commitment to the business (McQuaid et al., 2012). Further outcomes associated with employee ownership include a greater sense of wellbeing derived from having more control over how the business is run and a greater sense of commitment to the organisation. These benefits are not, however, an automatic outcome of EOBs but appear to be dependent on employee attitudes concerning their influence on a company’s decision-making. Being an owner within the business can improve employee commitment with associated benefits flowing to the company.
1.2 Report structure

The report uses data from twelve identified Scottish Employee Owned Businesses to investigate: the structure of employee ownership; the experience of employee ownership for staff; key business issues associated with being an Employee Owned Business; and the financial performance of EOBs. Financial data supplied by participating EOBs was compared to that of comparable non-EOBs. Qualitative interviews with employees, senior managers and business owners within the EOBs were used in conjunction with an analysis of data on their financial performance over the previous 5 years.

The report is structured as follows:
Chapter 2 provides a concise review of the current literature on employee owned businesses and growth dynamics, including high growth firms;
Chapter 3 provides an overview of the methodological approach used in the report;
Chapter 4 presents the quantitative findings;
Chapter 5 presents the qualitative findings;
Chapter 6 sets out conclusions and recommendations for policy.
2. LITERATURE REVIEW

Several high profile examples of successful EOB models have given momentum to the belief that EOBs have superior growth performance when contrasted to Non-EOBs. However, at present there is little evidence on the growth performance of EOBs in Scotland. This chapter briefly reviews literature on growth in Employee Owned Businesses and the barriers to, or enablers of, growth. It then considers specifically high growth firms (HGFs), as these have been identified as a key factor driving economic growth, with a strong role in employment creation (Henrekson and Johansson, 2010).

2.1 Growth and financial returns in Employee Owned Businesses

The diverse employee owned sector has been seen to have greater levels of employee involvement and appear to outperform businesses which have more traditional and concentrated forms of ownership in terms of turnover, productivity and employee engagement and wellbeing (e.g. Logue and Yates, 2006; Lampel et al., 2010; Field Fisher Waterhouse LLP 2012a). It should be noted, however, that a variety of definitions and levels of employee ownership are used in different studies.

An examination of more than 70 studies of employee ownership, mainly undertaken in the USA, found that employee ownership is linked to 4-5 per cent higher productivity levels. In addition employee ownership was linked to greater firm stability, growth and survival (Kruse, 2002). A study of 550 French producer cooperatives between 1978 and 1979 found a significant relationship between output and worker participation (Defourney et al., 1985). Anecdotal evidence suggests that employee growth has also been found to be significantly faster within EOBs than in other types of firm, and they have even managed to weather the effects of the recession more effectively\(^3\). UK EOBs reported stronger employment growth prior to the 2008 recession and during the recession the rate at which EOBs were reporting employment growth was increasing (Lampel et al., 2010). In the period 2005-08, UK EOBs experienced a 7.4 per cent increase in employee numbers compared with 3.8 per cent for non-EOBs. In addition the performance gap between EOBs and non-EOBs increased during the recession. From 2008 to 2009 UK EOBs achieved a 12.9 per cent increase in employee numbers while their non-EOB counterparts increased by 2.7 per cent, possibly as EOBs took advantage of the poor labour market conditions to recruit highly skilled individuals (Lampel

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\(^3\) It has been recently reported in the media that the Basque co-operative Mondragon has defied the Spain ‘slump’. See: Basque co-operative Mondragon defies Spain slump (Tom Burridge, 14 August 2012) [http://www.bbc.co.uk/news/world-europe-19213425](http://www.bbc.co.uk/news/world-europe-19213425)
Research suggests several advantages to businesses from employee ownership (Morris et al., 2006). Firstly, employee share ownership leads to more favourable attitudes to the company. This may be realised through lower levels of staff turnover and absenteeism, more commitment to remain working for the organisation, the acceptance of the need for performance rewards and a higher acceptance of change (Somers, 1995; Iverson, 1996; Iverson and Buttigieg, 1999; Morris et al., 2006). Employee grievances may also be reduced (Morris et al., 2006). Frohlich et al. (1998) argue from experimental evidence that employees in EOBs had more positive evaluations of their supervisors and had a greater propensity to interact with and give help to their co-workers than employees of non-EOBs. However, a study in the Norwegian furniture industry Kuvaas (2003) found that this commitment is dependent on employees perception of fairness and their preference for company shares over cash.

Greater employee involvement in decision-making may improve decisions, although it may also delay them and unpopular decisions may be avoided (Burns, 2006). A greater emphasis on maintaining stable employment in EOBs can have a variety of financial effects, including potentially more flexible working and pay during downturns in business, although there may be higher costs due to keeping staff on (Blair et al., 2000). It is suggested that an outcome of these and related benefits are improvements in organisational productivity and profitability (Morris et al., 2006). However, other studies (albeit covering the 1990s) suggest that evidence linking financial participation with firm productivity is less clear-cut (Marchington et al., 1994; Pendleton et al., 1998).

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4 The EO Index information, published by Field Fisher Waterhouse LLP, “is an index of the share prices of UK public companies quoted on the London Stock Exchange and AIM which have 10% or more of their issued share capital held by or on behalf of employees other than main board directors”. There are currently around 20 companies in the 10 per cent index (see: http://www.ffw.com/practices/employment-pensions-incentives/equity-incentives/uk-employee-ownership-index.aspx for more information)
Nickel (1990), Kruse (1993) and Tseo et al. (2004) found that employee ownership was positively linked to firms’ performance, principally through a reduction on agency costs\(^5\). Choi et al. (2011) proposed that EOBs take a longer term view which emphasises long term R&D and investment projects that will increase the probability of a firm’s long term success rather than focusing on short term profit maximisation. However, from a study into how the nature of ownership related to innovation Choi et al. (2011) found that insider ownership, a term that includes employee ownership, led to lower innovation performance. Alternatively Garret (2010) showed that employee ownership increases motivation and commitment to innovation, finding a positive correlation with employee stock ownership and R&D intensity and innovative output. Taking an experimental approach Frohlich et al. (1998) were able to demonstrate that EOBs exhibited higher productivity and employees had higher involvement in their assigned tasks. A report by the Employee Ownership Association based on four case studies (Leadbeater, 2008) illustrates that co-ownership can produce innovation in the public sector by cutting through bureaucracy, avoiding silo working, being more mission driven and more being more prepared to engage in risk taking.

Research on UK EOBs by Lampel et al. (2010) also shows that:

- Smaller EOBs in particular do better than non-EOBs in terms of Profit Before Tax and Profit Before Tax per employee
- EOBs have more stable performance over the business cycle
- EOBs and non-EOBs are on a par for profitability, measured by Profit Before Interest and Taxes
- Profit per employee can be higher in EOBs (specifically EOBs with average wage costs of more than £40,000 per employee)

International studies have also addressed growth and financial returns in EOBs. In the USA, the National Centre for Employee Ownership (no date) has identified key studies on employee ownership and corporate performance. The studies cover the period 1980-2007 and use a variety of performance measures (e.g. annual growth post-ESOP\(^6\) relative to pre-ESOP; salaries and retirement benefits compared to comparable employees in comparable companies; and before-and-after performance of public companies with broad-based option plans). The studies cite increases in productivity and returns on assets, as well as employment growth, sales growth, productivity growth (National Centre for Employee

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\(^5\) Agency costs are those between the principal (the business) and the agents (e.g. staff) and in EOBs the interests of these two groups are more closely aligned to each other and the costs of transactions between them are lower as they have high levels of information about each other

\(^6\) For example, Annual growth post-ESOP (Employee stock ownership plan) relative to pre-ESOP; salaries and retirement benefits compared to comparable employees in comparable companies; and before-and-after performance of public companies with broad-based option plans
Ownership, no date). Furthermore a team from Rutgers University, looking at the period 1988 to 1994, identified that companies grew by 2.3 to 2.4 per cent faster per year after adopting an ESOP (National Centre for Employee Ownership, no date). More recently research using a panel of over 300 majority employee owned US firms and a panel of matched non-employee owned firms found that sales per employee are much greater in EOBs (Kramer, 2010). In addition Kramer (2010) found that the ‘employee owned advantage’ was significantly greater among smaller firms, and (holding firm size constant) rose as the average employee’s ownership stake in firm stock increased. Increased production–worker influence (e.g. an increase in responses from ‘Workers may make suggestions’ to ‘Workers are asked their opinions and these are taken seriously’) resulted in a significant increase in innovation (in work processes, products and marketing). So the level of employee engagement and consultation is critical.

Similar positive returns to employee ownership have been identified in Europe. Arando et al. (2011) carried out an econometric study of efficiency in two types of hypermarket in the Eroski retail distribution chain (cooperatives with significant employee ownership versus GESPA stores with modest employee ownership and limited involvement of employees). These stores with cooperative ownership had faster sales growth than the GESPA stores. However, worker satisfaction was lower in the cooperative stores (the authors note that this was perhaps due to high worker expectation). The study suggests that the co-operative performs better due to the employee involvement and the incentives associated with workers having a financial stake in the firms.

In contrast to these examples of positive returns to employee ownership in terms of growth and performance, other studies have also reported only small or no differences between EOBs and non-EOBs. An older study, using 1990/91 data on 562 public companies in the USA, compared those with more than 5 per cent of stock owned by employees (mean percentage: 13.2%; median percentage: 10.0%; maximum percentage: 73.4%) with companies having less employee share and showed that employee ownership is associated with no different or only slightly better performance (Blasi et al., 1996). For example, EOBs generally had similar levels of profitability to other businesses of the same size in the same sector, but the strongest positive relationship between employee ownership and profitability growth was among the smallest companies (Blasi et al., 1996). In addition research assessing the antecedents and the performance consequences of the allocation of ownership rights (external versus internal/partnerships) in professional service firms of USA, German, UK and French origin firms, did not find ownership allocation to be a significant driver of performance (Richter and Schröder, 2008).

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7 Part of the Basque Mondragon group
8 Note though that no tests of causality were able to be performed in this research
2.2 Drivers and barriers to growth in Employee Owned Businesses

While EOBs face issues in common with traditionally owned firms, there are also factors shaped by the company characteristics inherent to the employee ownership model. Several potential exploitations can be found as to the reasons why EOBs may perform better than non-EOBs. Long-term focus and stability appear to play important roles. EOBs have a stronger long-term focus than Non-EOBs and put more emphasis on forward growth planning (Lampel et al., 2012). Research in the USA on public companies between 1988 and 2001 found that employee ownership was associated with greater firm survival rate, explained by greater employment stability (Park et al., 2004). Issues beyond the employee ownership model also play a role. The performance of EOBs varies depending on the market sector (Jones and Svejnar, 1985; Thomas and Cornforth, 1989; Jones, 1993). This has been confirmed in more recent literature that highlighted particular preference in manufacturing and processing companies for internal over external growth (Lampel et al., 2012). There is only limited evidence that EOBs may have better customer relations, although a survey of 96 EOBs identified 71.2 per cent either agreed or strongly agreed that being an EOB made them more attractive to customers (Burns, 2006).

Research has also identified that smaller firms benefit more from the ‘employee owned advantage’, as well as the size of the employee ownership stake in the firm (Kramer 2010). One UK study (Lampel et al., 2010) found that EOBs with fewer than 75 employees have been found to perform better than non-EOBs on the same scale in terms of profits before interest and taxes per employee. These results did not apply for businesses with more than 75 employees, where the benefits of EOBs are not significantly different from similarly sized non-EOBs.

One of the most important advantages of EOBs appears to be the benefits due to greater employee engagement and participation (including through employees having an effective collective voice). EOB employees not only financially participate in the business, but also have a meaningful stake in terms of having structures in place to ensure employee engagement (Nuttall 2012). The literature identifies staff participation and involvement in decision-making as key to determining the performance of EOBs (Ellins and Ham, 2009). A questionnaire survey of 1037 staff in eight Employee Owned Businesses across the UK was compared to the Workplace Employee Relations Survey (a national survey of people at work) (McQuaid et al., 2012). It was found that 58.2 per cent of employees in EOBs were very satisfied or satisfied with their amount of involvement in decision-making within their

---

9 “Internal growth, often described as ‘organic’, involves firms developing their own new products, and extending their current base of operations to new markets, and external growth involving the acquisition of new products and new lines of business from other firms” (Lampel et al., 2012: 8-9)
workplace compared to only 39.9 per cent in the Workplace Employee Relations Survey. Rayton et al. (2012) presented compelling evidence that greater employee engagement is associated with higher performance and productivity, lower levels of absenteeism, greater innovativeness, and improved customer service. As the UK is ranked ninth for engagement amongst the world’s twelve largest economies Rayton et al. argued that lack of engagement helps to explain the UK’s comparatively poor productivity and performance.

It has been argued that “practices which promote active employee participation are vital, and indeed that, without this, employee share ownership may have no beneficial performance outcomes whatsoever” (Michie et al., 2002). Productivity benefit tends to be most noticeable when ownership is combined with participation in decision-making (Matrix Evidence, 2010) and by affecting the employees’ motivation and commitment EOBs can be more innovative (Garrett, 2010), although the evidence cited above suggests that not all EOBs support innovation. Others have found that profitability increases as employees have more autonomy in decision-making and in particular those that employ front line staff are more likely to sustain performance as the company grows (Lampel et al., 2010). A survey of Eircom, an Irish telecommunications firm which is 35 per cent employee owned, found that employee ownership had not had a strong impact on employee attitude and behaviour, in part because of a failure to create a sense of employee participation. For example the board of directors are appointed with little or no employee consultation (McCarthy et al., 2010). Performance can be improved by increasing employee representation at board level by at least 30 per cent (although increasing representation by 60 per cent has no effect) (Lampel et al., 2012). French research on mandated employee board representation\(^\text{10}\) found that “employee representation on corporate boards seems to be at least value-neutral, and may actually increase firm valuation and profitability when employee-shareholders elect company directors” (Ginglinger et al., 2011).

Access to finance and regulatory frameworks is a key barrier to the growth of EOBs. It is interesting to note that finance was also highlighted as a barrier faced by HGFs in general (see below). EOBs have to manage more regulatory and policy challenges and they may face difficulties finding financing from institutions (Lampel et al., 2010, 2012). The All Parliamentary Group on Employee Ownership (2008, p. 5) argues that:

\[
\text{“The level of knowledge and expertise among business owners, advisors, financial institutions, and public sector policy makers is at best patchy, and at worst non-existent”}
\]

\(^{10}\) In France privatised companies employee-shareholders with a minimum of 3 per cent of shares are entitled to elect a director and board seats are reserved for employee elected directors.
It has been suggested that to promote employee share ownership and employee ownership, government should remove barriers to such ownership and use technical measures to make it more attractive (Briône and Nicholson, 2012). The recent Nuttall (2012) review of employee ownership in the private sector addresses some of the barriers to employee ownership. It identified: the lack of awareness of the concept of employee ownership resulting in opportunities to adopt employee ownership being lost; a lack of resources available to support employee ownership (e.g. legal and tax advice); and legal, tax and other regulatory barriers.

2.3 High growth firms

“The concept of a high growth firm is simple; it is a firm which grows at a rate which is deemed to be high in comparison to the majority of firms, and as such, is notable” (BERR 2008, p. 7).

High Growth Firms have been identified as key factor in driving economic growth (Levy et al., 2011) and are an important part of the Scottish Enterprise strategy (Scottish Enterprise, 2011). As the BERR (2008) definition above highlights HGFs are characterised by their notable growth. The OECD sets a more precise and challenging definition. HGFs are firms with more than 10 employees who experience turnover or employment growth of 20 per cent or more for three consecutive years (OECD, 2007).

Using the OECD (2007) definition and data from the Business Structure Database it has been estimated that, over the period 2002-2005, 6 per cent of UK firms could be classified as high growth (Bishop et al., 2009). This figure rises if growth is measured in terms of annual sales (12 per cent) or turnover per employee (18 per cent). However, since the start of the economic crisis, these levels of growth are much less likely to be achieved, especially in countries currently most affected by it. Hence, this seems to be an unduly high measure for EOBs and non-EOBs in Scotland over recent years.

In terms of their geographical spread, HGFs may be attracted mainly to certain regions, e.g. those with high skills density, leading to the marginalisation of some areas of the UK (Bishop et al., 2009). The proportion of HGFs in Scotland is greater than the UK average and it has the second highest regional proportion after Greater London (Brown et al., 2012; Mason and Brown 2012).
Scottish Enterprise has previously commissioned research looking at HGFs, which gives insights into why some firms succeed. The characteristics of HGFs in Scotland, and more generally are shown in Table 2.1.

Table 2.1 Characteristics of High Growth Firms in Scotland

<table>
<thead>
<tr>
<th>Growth Dynamics</th>
<th>Sporadic, uneven and with key trigger points such as ownership changes, new product development, injection of capital etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Heterogeneous (genuine ‘gazelles’ are rare)</td>
</tr>
<tr>
<td>Ownership</td>
<td>A relatively large number are foreign-owned, and most are privately-owned</td>
</tr>
<tr>
<td>Origins</td>
<td>Varies and many are ‘pre-incubated’ in established organisations. Team-based starts in particular are more likely to grow</td>
</tr>
<tr>
<td>Age</td>
<td>Tend to be relatively older and larger. The majority are less than 25 years old, but few are less than 5 years old. There is sector variation as high tech HGFs are smaller and younger (although the proportion over 10 years old is higher than the proportion of high growth firms as a whole)</td>
</tr>
<tr>
<td>Sector</td>
<td>Not concentrated in a particular sector but most tend to be in the service sector</td>
</tr>
<tr>
<td>Geographic location</td>
<td>Most are based in and around the larger cities: Glasgow, Edinburgh, Dundee and Aberdeen</td>
</tr>
<tr>
<td>Markets</td>
<td>Most operate in the UK and/or global market, with their embeddedness within Scotland sometimes limited to only the location of their HQ</td>
</tr>
</tbody>
</table>

Source: Brown and Mason (2010); Mason and Brown (2010); Brown et al. (2012); Mason and Brown (2012)

Generally, it has been argued, high growth small firms have concentrated on quality, service levels or innovation. They identify new markets for existing or modified products and increase the proportion of higher value added product, although recognising that every firm has individual characteristics (Glancey and McQuaid, 2000; Smallbone et al., 1995). Other less rapidly expanding high growth small firms often concentrate upon price as a key competitive advantage (Smallbone et al., 1995). Growing firms may encounter more obstacles in terms of finance, skilled labour, exporting, premises etc. than other firms. Some argue that there is uncertainty about why some firms grow so understanding these growth obstacles is problematic (Mason and Brown, 2010).

Previous research, using a range of data sources, has highlighted the barriers to growth faced by HGFs. Studies using the 2010 Small Business Survey and the Annual Small Business Survey 2007/8 identified obstacles to growth for HGFs (Lee, 2012). Finance may be difficult
to obtain and is a more significant obstacle to HGFs compared to other firms. Cash flow may present a barrier as HGFs often require short-term liquidity. Recruiting staff is more of a barrier for HGFs when compared to other firms, as are skills shortages and managerial skills gaps. Finally the availability and cost of premises, especially on flexible terms to match their changing property needs, can create obstacles for HGFs.

“High growth firms are particularly likely to face obstacles in areas which are regarded as the ‘basics’ of economic development. These include recruitment, skills, the planning system and – importantly – obtaining the finance they need to grow” (Levy et al., 2011, p. 3)

Geography may present a barrier to growth in HGFs as firms outside London and the South East find it more difficult to access finance according to Annual Small Business Survey data (Levy et al., 2011). Distance from major markets may also present a particular challenge for HGFs based in Scotland (Brown et al., 2012; Mason and Brown, 2012). In addition, government support in terms of finance, creating and expanding markets is important (Brown and Mason, 2010; Mason and Brown, 2010).

Firm growth is influenced by investments in skills, knowledge, innovation, external relationships etc., but UK firms in general find it hard to accumulate this capital, which may be necessary to kick start rapid growth (Bishop et al., 2009). The founders of rapid growth firms often have better skills and more prior industry experience than founders of slower growth firms (Mason and Brown, 2012). A culture of serial entrepreneurship is also important, as well as a commitment to growth. Innovation has been found to be important in terms of HGFs’ ability to outperform slow growth rivals. Innovation can take many forms, often shaped by the age of the firm in question (Bishop et al., 2009). In terms of the employees, the degree of employee empowerment is important in growth (Brown and Mason, 2010; Mason and Brown, 2010). For HGFs in Scotland the quality of their employees, innovative products and services and technical, market and customer knowledge have been identified as key competencies (Brown and Mason, 2010; Mason and Brown, 2010).

2.4 Summary

Evidence suggests that EOBs provide higher financial returns, productivity, growth and stability of employment and better employee wellbeing. Major promoters of good performance for EOBs appear to be increased employee participation and engagement (financial employee ownership without greater employee participation appears not to be as beneficial to firms). EOBs appear to have lower absenteeism and in some cases higher
innovation. However, EOBs face barriers to growth (in addition to those shared by other firms) such as difficulties in finding financing from institutions and generally there may be a lack of awareness of the employee ownership model.

High Growth Firms have been identified as a key factor in driving economic growth and are an important part of the Scottish Enterprise strategy. However, HGFs face obstacles to growth including access to finance and recruitment of skilled staff. Distance from major markets may also present a particular challenge for HGFs based in Scotland. These apply to EOBs as well as other potential HGFs.

There are, of course, a number of caveats about any review of the literature on EOBs. While much of the research has been conducted by or for bodies with an interest in EOBs, generally the organisations carrying out the research are reputable as independent, unbiased and credible. There are sometimes concerns about the quality of the studies in terms of the sample sizes and it is difficult to make comparisons between studies using a range of data sources. Finally there are questions regarding the applicability of the international research to the Scottish and UK contexts.
3. METHODOLOGY

3.1 Aims and Objectives

The aim of the research was to highlight the growth performance and growth dynamics of EOBs in Scotland. The research had the following objectives:

1. How do EOBs perform before, during and after they become employee owned in terms of their growth in employment and turnover?
2. What is the nature of growth within the overall population of Scottish EOBs?
3. How many Scottish EOBs meet the OECD (2007) classification of high growth?
4. What was the main motivation to become employee owned and how much of a priority was the future growth of the business?
5. What is the nature of growth within EOBs and what role does their ownership structure play in enabling or restricting growth?
6. How does employee involvement in decision-making help to foster the growth of the businesses?
7. What factors distinguish successful or high growth EOBs from the less successful ones?
8. What are the main growth bottlenecks faced by EOBs, such as access to funding, customer engagement, internationalisation and recruitment?
9. What types of support could help grow these businesses in Scotland?
10. What steps could be taken to help increase the levels of EOBs in Scotland?

3.2 Methodology

Fifteen EOBs, who had their headquarters in Scotland, were contacted and asked to participate in the research. Three declined to participate - we note that these were smaller companies in niche areas and if included might alter our findings relating to growth. Of the twelve participating businesses two were still in the process of transition\(^\text{11}\) to become employee owned and five had been employee owned for less than three years. The three other businesses had been employee owned for 8 years, 18 years and 35 years. Only one of the participating businesses had been employee owned since its inception, the rest had transitioned to employee ownership from a different ownership structure.

Of these twelve firms 8 provided financial data and participated in the interviews, 2 only provided data and 2 only participated in the interviews (so in total 10 provided data and 10

\(^{11}\) It should be noted that the term ‘transition’ is used very broadly and covers different stages and levels of transition. Transitions can take a long time and encompass a series of phases.
participated in interviews). The companies who participated in the quantitative part employed 1674 people in 2011. The companies used are summarised in Table 3.1 and their EOB model (whether direct, indirect or combined ownership) is shown in Table 3.2.

Table 3.1: Summary of participating company information

<table>
<thead>
<tr>
<th>Employee Owned Business</th>
<th>Data Type</th>
<th>Director interviewed</th>
<th>Employee interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Quali. and Quant.</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>B</td>
<td>Quali. and Quant.</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>C</td>
<td>Quali. and Quant.</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>D</td>
<td>Quali. and Quant.</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>E</td>
<td>Quali. and Quant.</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>F</td>
<td>Quali. and Quant.</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>G</td>
<td>Quali. and Quant.</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>H</td>
<td>Only quantitative</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>I</td>
<td>Only quantitative</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>J</td>
<td>Only qualitative</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>K</td>
<td>Only qualitative</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>L</td>
<td>Only qualitative</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

* Figures from 2011
Table 3.2 Employee ownership model in participating EOBs

<table>
<thead>
<tr>
<th>Companies</th>
<th>Type of ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Combined</td>
</tr>
<tr>
<td>B</td>
<td>Combined</td>
</tr>
<tr>
<td>C</td>
<td>Combined</td>
</tr>
<tr>
<td>D</td>
<td>Combined</td>
</tr>
<tr>
<td>E</td>
<td>Direct</td>
</tr>
<tr>
<td>F</td>
<td>Combined</td>
</tr>
<tr>
<td>G</td>
<td>Indirect</td>
</tr>
<tr>
<td>H</td>
<td>Indirect</td>
</tr>
<tr>
<td>I</td>
<td>Combined</td>
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<tr>
<td>J</td>
<td>Combined</td>
</tr>
<tr>
<td>K</td>
<td>Combined</td>
</tr>
<tr>
<td>L</td>
<td>Combined</td>
</tr>
</tbody>
</table>

Source: Interview data and the Employee Ownership Association

The methodology had two phases of data gathering:

**Phase 1: Quantitative Analysis**

This phase used financial data to compare the performance of ten participating EOBs against their peers. Participating EOBs were asked to supply data for each year since at least 2008 (and preferably over a longer period) on: turnover; number of employees; salary costs, pre-tax profit; percentage profit margin; and return on capital employed. To facilitate this, companies were emailed a data collection sheet, (see Appendix 1). Using the FAME (Financial Analysis Made Easy) database12, that provides financial information on major public and private U.K. and Irish companies, a peer group of non-EOB firms was then identified from which a comparison of financial performance could be made (see below for details of the selection of the peer group). Our aim was to use as much data as possible in order to smooth out annual fluctuations. This meant comparing over different reporting periods. These periods for each EOB are documented in Appendix 2. If we used only the lowest common reporting base then too much information would be lost and meaningful comparisons would be unreliable. One should also heed a note of caution in interpreting the analysis in this section as the sample size is very small.

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The analysis on the compiled data followed the approach taken by Lampel et al. (2010) and in addition to the collected data and growth rates the value added index (VAI) was also computed. The VAI is taken as the ratio for profit before taxes and the total annual salary bill to the number of employees (it does not include other impacts on the Scottish economy such as effects on suppliers etc.).

The individual data collected from each company is compared to peer groups as generated in the FAME database. The peers are chosen to be broadly of the same size and in the same business sector (as the literature indicated that size and sector were important controls when comparing EOBs and non-EOBs). The peers were formed by comparisons of size in 2011. We would have preferred to have used 2003 or 2006 as the base to form the peer groups but we were unable to form consistent groups. For each EOB ten peers were selected, although sometimes the exact number of peers varied because it was difficult to follow peers over the full period as the sectors are dynamic and the nature of competition in the market continuously changes and also some companies fell out of the database over time (see Appendix 2 for peer group details). In the data collection stage participating EOBs were asked to list peers for comparison, but very few gave peers and for those who did they tended to be inappropriate either as they were much larger companies or other EOBs but in different business sectors. Also the FAME database allowed for a consistent comparator set. Paired ‘t’ tests and analysis of variance tests were used to explore for statistically significant differences between EOBs, between EOBs and peers and for differences over time.

Variations in performance and growth amongst the three types of EOB ownership and business sector or operation were investigated using analysis of variance. These comparisons are reported in tabular form.

To ascertain how many Scottish EOBs meet the OECD (2007) classification of high growth the criterion used is: turnover growth of 20 per cent or more for three consecutive years. Hierarchical cluster analysis was applied to the growth rates in the variables turnover growth and employee growth to determine if any groupings of companies emerged. In this approach “distances” between EOBs were established by computing the Euclidean distance of growth rates for each EOB and the others with the Wald’s method\(^\text{13}\) was used to identify groups.

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\(^{13}\) See Sharma (1995)
Phase 2: Qualitative interviews

Qualitative interviews were conducted with the managing directors and one employee (all the employees were, or had been, employee representatives). The questions asked are displayed in Appendix 3.

Interviews were mainly conducted face-to-face between the researchers and the EOB at the place of work. Where participating EOBs were based in remote areas, or where the participants requested, a telephone interview was conducted. Interviews lasted between 20 and 60 minutes and were audio recorded with the interviewees’ permission. All interviews were transcribed verbatim. The resulting transcriptions of interviews were analysed using Framework Analysis (Lewis, 2007). This method allowed for the identification of several key themes informed by the research objectives. These themes were entered into a matrix, which then allowed for comparability of issues across interviews.
4. QUANTITATIVE FINDINGS

In this chapter a summary of the quantitative findings are presented. Ten EOBs were used in this analysis and the summary information for these companies appears in Appendix 2.

Summaries of the annual growth rates of turnover, numbers employed, annual salary, profit margin, value added index\(^{14}\) and turnover per employee are presented in Table 4.1. This shows that the overall average\(^{15}\) growth rates of the sample of EOBs are positive over the period in question (each year since at least 2008). The average growth rates of the EOB sample as a whole is greater than that of their peers, for all of these variables. A small exception is that the growth in the median salary is slightly below that of the peers although the mean is slightly higher – the salary growth is almost the same for EOBs and their peers.

However, one must caution that the sample was self-selected; perhaps the three EOBs who did not take part were very different from those that did. We have not investigated if EOBs went out of business over the period nor considered companies that contemplated becoming EOB but chose to accept a merger or to go into liquidation. Only occasionally did an EOB exhibit negative growth. The EOBs provided data for different years, so the growth rates between one EOB and another are not necessarily for comparable periods, however, the figures for the peers of each EOB are for the same years as the EOB and so we can compare EOBs with the peers.

Figure 4.1 presents a comparison of the mean annual growth rates of turnover, employee numbers and average salary presented for all the EOBs in the sample and their peers. In this figure the overall higher growth rates of EOBs in terms of turnover and number of employees relative to their peers is clear. When tested statistically, the average (mean) turnover growth rates of the EOBs were greater than that of their peers (the 5% level, \(P = 0.032\))\(^{16}\) lower for EOBs than their peers, was not statistically so (\(P = 0.103\)) and annual salaries of the EOBs was almost the same as for their peers (and 0.331)\(^{17}\).

---

\(^{14}\) The VAI is taken as the ratio for profit before taxes and the total annual salary bill to the number of employees.

\(^{15}\) The median measures the average as: half of the results being above and half below the median figure. Hence it is less influenced by one or two very large scores.

\(^{16}\) Paired t tests were used to ascertain if the differences between the mean growth rates of the EOBs was significantly higher than their peers (at the 5% level, i.e. there is only a 5% chance that the differences we found were by chance, so we are 95% sure that the averages really are different).

\(^{17}\) Similar conclusions were found by using the non-parametric Wilcoxon signed rank test to compare median growth rates.
Paired ‘t’ tests were used to ascertain if the differences between the mean growth rates of the EOBs was significantly higher than their peers at the 5% level. Using this test growth in turnover was found to be significantly higher for EOBs at the 5% level (P = 0.032). Growth in numbers of employees and annual salaries of the EOBs was not found to be significantly different from their peers (P = 0.103 and 0.331 respectively).18

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18 Similar conclusions were found by using the non-parametric Wilcoxon signed rank test to compare median growth rates.
Table 4.1: The mean and median Annual Growth Rates of the EOBs

<table>
<thead>
<tr>
<th>Employee Owned Business</th>
<th>Turnover</th>
<th>Numbers Employed</th>
<th>Average Salary</th>
<th>Turnover per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Median</td>
<td>Mean</td>
<td>Median</td>
</tr>
<tr>
<td>A</td>
<td>-0.33%</td>
<td>0.20%</td>
<td>-4.57%</td>
<td>0.00%</td>
</tr>
<tr>
<td>B</td>
<td>23.10%</td>
<td>23.70%</td>
<td>6.20%</td>
<td>4.30%</td>
</tr>
<tr>
<td>C</td>
<td>9.07%</td>
<td>7.65%</td>
<td>15.00%</td>
<td>9.68%</td>
</tr>
<tr>
<td>D</td>
<td>3.50%</td>
<td>3.08%</td>
<td>-2.34%</td>
<td>-2.95%</td>
</tr>
<tr>
<td>E</td>
<td>11.30%</td>
<td>9.02%</td>
<td>9.81%</td>
<td>8.34%</td>
</tr>
<tr>
<td>F</td>
<td>5.00%</td>
<td>7.20%</td>
<td>-1.00%</td>
<td>-0.70%</td>
</tr>
<tr>
<td>G</td>
<td>36.06%</td>
<td>9.90%</td>
<td>5.56%</td>
<td>5.63%</td>
</tr>
<tr>
<td>H</td>
<td>2.20%</td>
<td>2.20%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>I</td>
<td>35.78%</td>
<td>34.94%</td>
<td>17.48%</td>
<td>15.96%</td>
</tr>
<tr>
<td>J</td>
<td>9.35%</td>
<td>11.41%</td>
<td>1.83%</td>
<td>4.22%</td>
</tr>
<tr>
<td>Peer Group Mean</td>
<td>5.99%</td>
<td>5.55%</td>
<td>1.66%</td>
<td>0.37%</td>
</tr>
<tr>
<td>Group Mean</td>
<td>13.50%</td>
<td>10.93%</td>
<td>4.80%</td>
<td>4.45%</td>
</tr>
<tr>
<td>Group Mean without HHC</td>
<td>14.00%</td>
<td>11.29%</td>
<td>3.66%</td>
<td>3.87%</td>
</tr>
</tbody>
</table>

Note: The data ranges vary between EOBs, however, the ranges are common for comparisons between EOBs and their peers, please see Appendix 2.
In Figure 4.2 the turnover per employee is compared to its peer group for each EOB and one can observe that overall EOB’s outperform their peers and it is only in two companies where EOB’s significantly underperform their peers.

Figure 4.2: Turnover per employee in £’000.

From the data obtained there is a suggestion that on the whole EOBs employ more people but pay staff slightly less than their peers as illustrated by Figures 4.3 and 4.4. However it is basic salary that is reported here and many employees in EOBs receive a dividend/ other benefits as part of their remuneration?

Figure 4.3: Number of Employees
Five out of nine (one EOB did not report its profit margin) EOBs reported less profit margin than their peers, the other EOBs reported a much higher profit margin than their peers, (see Figure 4.5).

Regarding return on capital from Figure 4.6 it is clear that the situation is mixed and again some EOBs have a much higher percentage return on capital than their peers.
Table 4.2 shows the performance in terms of profit or loss before tax, profit margin and return on capital employed. In general from this table the superior profit performance of EOB over their peers is illustrated and this is highlighted by the percentage difference column where generally EOBs have higher performance than their peers.\footnote{Percentage difference = (EOB – Peer Group)/(Absolute value of Peer Group)*100}

Table 4.2: The Profit Performance of EOBs and their Peers

<table>
<thead>
<tr>
<th>Company</th>
<th>Profit (Loss) before Tax £ '000</th>
<th>Profit Margin</th>
<th>Return on Capital %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EOB</td>
<td>Peer Group</td>
<td>% difference</td>
</tr>
<tr>
<td>A</td>
<td>26</td>
<td>53</td>
<td>-51.06</td>
</tr>
<tr>
<td>B</td>
<td>1254</td>
<td>495</td>
<td>153.42</td>
</tr>
<tr>
<td>C</td>
<td>184</td>
<td>-1599</td>
<td>111.51</td>
</tr>
<tr>
<td>D</td>
<td>1590</td>
<td>3369</td>
<td>-52.8</td>
</tr>
<tr>
<td>E</td>
<td>327</td>
<td>504</td>
<td>-35.08</td>
</tr>
<tr>
<td>F</td>
<td>374</td>
<td>361</td>
<td>3.68</td>
</tr>
<tr>
<td>G</td>
<td>1226</td>
<td>480</td>
<td>155.74</td>
</tr>
<tr>
<td>H</td>
<td>218</td>
<td>42</td>
<td>421.79</td>
</tr>
<tr>
<td>I</td>
<td>458</td>
<td>422</td>
<td>8.41</td>
</tr>
<tr>
<td>J</td>
<td>602</td>
<td>271</td>
<td>121.91</td>
</tr>
<tr>
<td>Overall</td>
<td>626</td>
<td>450</td>
<td>39.2</td>
</tr>
</tbody>
</table>

From combining profit before taxes and annual salary one can obtain an index of the value added to the Scottish Economy and this is illustrated in Figure 4.7. Once again EOBs perform better than their peers.
The mean differences between the EOBs and their peers were computed and the paired ‘t’ test used to assess the significance of that difference. A one tailed test was used as the hypotheses tested were of the form:

$H_0$: There is no significant difference in the mean of the variable of the EOB and its peer.

$H_a$: The mean of the variable of the EOB is significantly different from its peer

The results are summarised in Table 4.3

Table 4.3: Mean difference between EOB and Peers

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean Difference</th>
<th>P value*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Turnover £ '000</td>
<td>7269.59</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>40.48</td>
<td>0.003</td>
</tr>
<tr>
<td>Average salary £ '000</td>
<td>-3.64</td>
<td>0.006</td>
</tr>
<tr>
<td>Profit Before Tax £ '000</td>
<td>190.37</td>
<td>0.231</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>2.10%</td>
<td>0.046</td>
</tr>
<tr>
<td>Return on capital Employed</td>
<td>13.77%</td>
<td>0.007</td>
</tr>
<tr>
<td>Value Added Index</td>
<td>4.70</td>
<td>0.211</td>
</tr>
</tbody>
</table>

* Values less than 0.05 are considered to be significant

EOBs appear to have, on the whole, significantly higher turnover, number of employees, profit margin and return on capital than their peers. For average salaries EOBs seem to pay
on average £3,640 less than their peers, and this is a statistically significant result (at the 5% level) (reasons for this could be the market sectors that participated in the research, and also EOBs are more likely than non-EOBs to have profit-related bonuses which complete their basic salary levels). There was no statistically significant difference between EOBs and their peers for profit before tax and value added index.

Analysis of variance was used to investigate if there were statistically significant differences between EOBs and their peers with EOB ownership structure and over time. The variables tested were turnover, number of employees, average salary, profit before tax, profit margin, return on capital and the value added index. The measure used to test was the ratio of the difference between the EOB and its peer to the absolute value of the peer. No statistically significant differences were found on the year to year variation however, there were variations in the relative performances of EOB and their peers but only for turnover, number of employees and average salary. This yielded no clear interpretation and is most likely reflective of the different markets the EOBs operate in.

The differences between EOB turnover and number of employees and their peers was not found to vary significantly with ownership structure, (P value <0.354). For number of employees the difference between EOBs and their peers was significantly higher (P value <0.001) for directly and indirectly owned EOBs than those EOBs who had combined ownership, (there was no significant difference between directly owned and indirectly owned EOBs). There were no significant differences at the 5% level in regards to ownership structure for the other variables associated with comparing EOBs to their peers.

In Table 4.4 each EOB is compared to its peer group in terms of the ratio of its results compared to its peer group, using the equation (EOB – Mean of peer)/absolute value of the peer mean. (These comparisons are displayed graphically using radar plots in Appendix 4). In this ratio numbers greater than zero represent superior performance of the EOB relative to the mean of the peers and numbers less than zero are where the EOB’s performance is poorer than their peer group. Again the EOBs generally perform well compared to their peers, particularly for numbers employed. Profit margin and turnover are also higher for EOBs while value added seems broadly similar to peers. However, one company (C) as a consequence of an acquisition, greatly expanded in one year and salaries are still to be reported, this has made the value added index for this company unreliable, therefore means are recomputed with company C removed. The superior performance of EOBs is clear, although the value added index is not that strong. The marginal improvement of the EOB in regard to the value added index is due to them employing relatively more staff than their peers.
Table 4.4: The Performance of EOBs compared to their Peers

Comparisons to Peer Groups

<table>
<thead>
<tr>
<th>Employee Owned Business</th>
<th>Turnover</th>
<th>Number of Employees</th>
<th>Average Salary</th>
<th>Profit Margin</th>
<th>Value Added Index</th>
<th>Turnover per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0.58</td>
<td>-6.11</td>
<td>0.16</td>
<td>-0.24</td>
<td>0.07</td>
<td>74.16</td>
</tr>
<tr>
<td>B</td>
<td>2.25</td>
<td>-0.40</td>
<td>4.74</td>
<td>2.11</td>
<td>1.69</td>
<td>30.91</td>
</tr>
<tr>
<td>C</td>
<td>0.10</td>
<td>30.97</td>
<td>-1.26</td>
<td>6.97</td>
<td>0.13</td>
<td>-1.22</td>
</tr>
<tr>
<td>D</td>
<td>0.75</td>
<td>0.25</td>
<td>-0.03</td>
<td>-0.65</td>
<td>-0.21</td>
<td>0.12</td>
</tr>
<tr>
<td>E</td>
<td>2.86</td>
<td>6.87</td>
<td>2.28</td>
<td>-0.46</td>
<td>-0.44</td>
<td>0.11</td>
</tr>
<tr>
<td>F</td>
<td>0.25</td>
<td>0.47</td>
<td>-0.12</td>
<td>-0.20</td>
<td>-0.42</td>
<td>-0.01</td>
</tr>
<tr>
<td>G</td>
<td>0.86</td>
<td>-0.13</td>
<td>0.51</td>
<td>1.17</td>
<td>0.00</td>
<td>1.72</td>
</tr>
<tr>
<td>H</td>
<td>1.62</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td>23.78</td>
</tr>
<tr>
<td>I</td>
<td>2.05</td>
<td>3.04</td>
<td>-14.89</td>
<td></td>
<td>0.44</td>
<td>1.22</td>
</tr>
<tr>
<td>J</td>
<td>0.06</td>
<td>-0.29</td>
<td>1.43</td>
<td>-0.71</td>
<td>0.08</td>
<td>0.16</td>
</tr>
</tbody>
</table>

| Group Mean             | 1.14     | 3.57                | -0.80          | 1.16          | 0.24              | 13.10                 |
| Group Mean without C   | 1.25     | 0.52                | -0.74          | 0.43          | 0.25              | 14.69                 |

How EOBs perform under different ownership structures is displayed in Table 4.5. The situation appears rather mixed, indirect ownership does seem to have highest turnover growth, the highest profit before taxes, and value added index. However, combined ownership displays the average salary. No test for statistically significant differences was undertaken due to the low sub group sizes.

The average salary for indirect ownership was not significantly different from the other forms of ownership. Profit before taxes for those EOBs who were indirectly owned were significantly higher than direct ownership and again combined ownership was not significantly different from the other forms of ownership.
Table 4.5: Ownership type and EOB performance

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Sample Number</th>
<th>Turnover per Employee</th>
<th>Average* Salary</th>
<th>Profit Before Taxes</th>
<th>Profit Margin</th>
<th>Return on Capital Growth Rates*</th>
<th>Value Added Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>1</td>
<td>£63,252</td>
<td>£12,346</td>
<td>£326,848</td>
<td>3.00%</td>
<td>23.25%</td>
<td>13.29%</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>£146,632</td>
<td>£24,976</td>
<td>£722,213</td>
<td>10.57%</td>
<td>32.90%</td>
<td>18.06%</td>
</tr>
<tr>
<td>Indirect</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined</td>
<td>7</td>
<td>£134,807</td>
<td>£26,037</td>
<td>£574,154</td>
<td>5.90%</td>
<td>21.73%</td>
<td>10.32%</td>
</tr>
<tr>
<td>Overall Mean</td>
<td>10</td>
<td>£127,193</td>
<td>£24,018</td>
<td>£625,931</td>
<td>6.64%</td>
<td>25.14%</td>
<td>11.47%</td>
</tr>
</tbody>
</table>

*Figures differ slightly for those reported comparing to peer groups because more data was used to compute the means.
In terms of the OECD’s criteria for high growth in our sample only one EOB, company B, (a company in the metal and metal products sector) qualified by exhibiting sustained turnover growth of more than 20 per cent for three consecutive years. It actually sustained turnover growth at more than 20 per cent between 2005 and 2008. In 2009 and 2010 growth in turnover fell, however, turnover rose substantially for company B in 2011.

However, applying hierarchical cluster analysis to the growth rates reveals that the sample of EOBs can be clustered into low, medium and high growth companies. This is illustrated in the dendrogram displayed in Figure 4.6 which shows how companies group together on an axis composed of the squared Euclidean distances between their growth rates of turnover and number of employees.

Figure 4.8: Clustering of EOBs according to growth rates

The companies and their growth rates for the selected variables are displayed in Table 4.6.

Table 4.6: Cluster performance of EOBs
<table>
<thead>
<tr>
<th>Cluster</th>
<th>Companies</th>
<th>Growth Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Turnover</td>
</tr>
<tr>
<td>Low Growth</td>
<td>A, D, F, H &amp; J</td>
<td>4.0%</td>
</tr>
<tr>
<td>Medium Growth</td>
<td>C &amp; E</td>
<td>10.0%</td>
</tr>
<tr>
<td>High Growth</td>
<td>B, G &amp; I</td>
<td>31.7%</td>
</tr>
<tr>
<td>EOB Average</td>
<td></td>
<td>13.5%</td>
</tr>
</tbody>
</table>

Of the three high growth companies all had combined ownership. Most of the low growth companies are combined ownership types and the medium growth companies are combined and direct ownership. Thus there is no clear evidence that type of EOB ownership influences annual growth.

The clusters identified are not explained by business sector as there is a mixture of sectors in each cluster. However, the three fast growing EOBs, although from different sectors, are all producers of materials.
5. QUALITATIVE FINDINGS

This chapter presents findings from qualitative interviews with owners and employees of EOBs. The findings are structured in a way that addresses the research objectives outlined in the methodology chapter (Chapter 3) and help illustrate the dynamic nature of change in the EOBs.

Of the ten businesses that participated in the qualitative phase, two were still in the process of transition\(^20\) to become employee owned and five had been employee owned for less than three years. The three other businesses had been employee owned for 8 years, 18 years and 35 years. Only one of the participating businesses had been employee owned since inception, the rest had transitioned to employee ownership from a different ownership structure.

5.1 What was the main motivation to become employee owned and how much of a priority was the future growth of the business?

In terms of motivations to become employee owned, in four cases employee ownership came about as a result of business succession with previous owners looking to withdraw from the business. In two cases, owners made the choice to transition to employee ownership so that the business could keep its identity and to secure the future of the business. Owners felt that the business would have been at risk of being broken up or sold-off if there was not employee ownership.

“If we had sold to a trade sale [we] would either have been purchased by competition who would have most likely asset stripped or we would have been taken abroad...[the previous owner’s] two main interests were to keep the jobs here where they had [been] created...and to reward” (Director)

“[The previous owner] had a very strong commitment to the people who he had employed that had helped him to grow the business and so when he heard about the employee owned model he pursued that quite vigorously...He didn’t want to sell the company to one of the big corporate...companies who would have basically destroyed it” (Director)

“...our chairman...had really been a pioneer of the employee ownership movement and ... he thought that it was the perfect way to preserve the ethos and the credo of [the business]...So it was a way to try and ensure that the business stayed independent and benefited the key stakeholders, the biggest group of which would be the employees” (Director)

\(^20\) It should be noted that the term ‘transition’ is used very broadly.
In four cases the ethos and philosophy of the employee ownership model motivated the transition to employee ownership. Furthermore, the model was seen to give the business a competitive edge that would attract good workers and ensure that the firm remained independent. One director stated that they expected employee ownership to help them attract high calibre employees which would differentiate the company from competitors and in doing so help growth.

“Our expectations were that [employee ownership] would be a mechanism for attracting good people. It would differentiate us from our competitors and that it would stimulate growth of the company” (Director)

In the two other businesses employee ownership was seen as a way to ensure future performance and protect the company from takeover.

“We considered it the most likely way to maximise long term value creation for all the participants in growing the business to its current size” (Director)

“We have good people, young, dynamic and it was a way of securing their future. Not a romantic view, based on hard evidence of performance” (Director)

For one director employee ownership secured the future of family businesses, as there was no longer the need to find a successor from within the family.

“Well I think it takes away the burden of every generation in a family business to find a successor from within the family that could control the shares and keep everybody happy” (Director)

Where shareholders were co-founders of the businesses there was a mixture of resistance and acceptance to the proposition that the firm becomes employee owned. In the case of one firm, the founding shareholders were positive about the transition to employee ownership status:

“The outgoing owners...they were quite amenable that the staff take the business over. Now from their point of view they were not too fussed as to how that method of transaction happened, whether it be a management buyout, whether it be an EOB, what they were looking for was a fair price for what they felt their shares were worth and they were looking to retire. But what we did have amenable owners who gave us the time and space to put an EOB package together and that in the end suited all parties quite well. They got a fair price for the shares and they then got a legacy that they could talk about the company still privately owned” (Director)
A business owner described how his proposal to make the business employee owned was met with resistance from the co-founders who were majority shareholders. Their resistance to making the business employee owned arose from concerns that their investment in the business would not be recognised under employee ownership.

“There were 3 shareholders and...the other 2 weren’t terribly interested in employee ownership at all, their argument was we have had the risk for the previous, 10, 12 years and we don’t feel like helping others benefit...what I then really saw then was that they weren’t interested in passing on to the employees because they felt that they had borne the risk with their own money, with houses on the line, for the previous long period. So I actually began then a process of buying them out so I could do this” (Director)

In most cases, non-managerial employees were not significantly involved in the transition to employee ownership.

“They were involved in discussions towards the end of that process once the shareholders had established what their chosen course of action would be in terms of dispersal” (Director)

The move to employee ownership appears to have been one made by owners and senior managers without much input from employees. The low level of employee involvement at this stage may be attributable to the way in which businesses were structured prior to becoming an EOB. In one case some of the founding partners had resisted the move to employee ownership, so they were bought out by another founding partner who wanted to pursue the employee ownership model.

However, in some cases employees drove the process. This was seen to be the exception rather than the norm.

“The employees were involved from day one. We would be one of the few employee owned companies, where the employees drove the process from the outset. So it wasn’t the business owners who said this is what we want to do...it was the employees who presented that as an option to the owners” (Director)

In summary, the main motivation for the transition to employee ownership in the participating businesses was to retain the independence of the organisation and to secure future growth. This could be in relation to the risk that the businesses would be broken up if sold or to attract good workers. While employees were not necessarily involved in the decision to become employee owned, it is interesting to note that some of the outgoing owners had a commitment to their
workforce, and therefore a transition to employee ownership was a way to ensure the sustainability of the employees’ jobs.

5.2 How does employee involvement in decision-making help to foster the growth of the businesses?

Each company had mechanisms for employees to express their views to management. One director commented that the transition to employee ownership had highlighted the limited openness in traditionally owned companies, even when management perceived the company as an open one.

“Previously I thought I was managing an open company but with hindsight it was more me talking at them than with them” (Director)

For another director, the lack of openness and the distinction between management and employees with regard to knowledge about the performance of the company and involvement in decision-making could lead to an ‘us and them’ culture. This could lead to mistrust and could take time to address following the transition to employee ownership.

“One of the biggest problems we have, had certainly, still have but hope to cure is the ‘us and them’ one. And I can understand that because the previous owner gave out no news. He never gave out bad news; he never gave out good news. He made his decisions... that always builds up a mistrust, so we have a job of changing that” (Director)

Listening to employees was cited by one employee as key to company success, as it meant that workers all had a common goal to work towards.

“By not listening to the employees, that’s when things start to have a bit of a conflict and it prevents people from all having one focused goal and all working towards one goal” (Employee)

In terms of formal mechanisms employee representatives were elected for a term (e.g. of three years) to sit on the Board and feed employee views into these meetings. In some cases these employee representatives represented a constituency of employees. Only in one case did the Board only contain senior managers and directors.

For the employees sitting on the Board discussing issues directly affecting their colleagues and being open to senior staff members could be daunting at first.
“The first time you go up it’s really quite a daunting thing to talk to the head of the company but after 5 or 6 meetings it becomes a lot easier and a lot more open and honest because you can ask a question without a fear of losing your job I suppose” (Employee)

However, the directors cited the value of the contributions made by employee representatives at these meetings.

“The biggest change for me as a decision-maker is the significant contributions I get from the other groups and it’s just so much better to have six opinions than two” (Director)

Other methods of involving employees were through annual general meetings, ballots, newsletters etc. Directors from two companies also cited that they had an open door policy where there was a culture where all employees could speak to directors about the business.

“Well we’re a very flat organisation I think it is fair to say and we don’t differentiate between different levels within the company so it is not even an open door policy, there are no doors. People can come and speak to myself, or one of the other directors, about any aspect of the business. That is encouraged” (Director)

Regular general meetings were also held in some of the companies where employees were enabled to ask questions of management and have open discussions, and performance figures etc. were presented: “they don’t hold back about money situations, everything is talked about” (Employee). These sessions were perceived positively and the communication of performance etc. key to the process of employee ownership, and employees were seen as participative.

“The sessions are good and highly participative...[the employees are] pretty interested in the numbers” (Director)

One employee did question though the extent of openness in these meetings, feeling that sometimes it was easier to be open in informal settings. They felt that there was a desire to avoid conflict in more formal meetings (although it should be noted that these tensions had been present prior to the transition to employee ownership).

“Informally yes [people are open in putting their views across] but when it comes to staff meetings or something like that... they don’t really want to put their points forward in a formal staff meeting...I think it’s things like personality clashes and differences of opinions. Sometimes it’s easier not to say something rather than cause some sort of conflict or argument” (Employee)
Another employee in a different business did feel able to talk to people at all levels of the business and that they were valued as employees.

“I definitely feel valued yes. I do feel listened to and it’s definitely an environment where you can talk to all levels of people throughout the business” (Employee)

One employee highlighted that increased employee awareness of the position of the business could potentially increase anxiety among the workforce, where previously they may not have fully grasped the negative effects of the recession etc. However, increased feelings of togetherness because of employee ownership could help counter these feelings.

“Well it is actually because especially at the moment when the economy is quite bad and you do see the sales going down. So yes it is quite stressful because it is hard to know how to pull that back round...But it is nice to know that there are [all] of us in it together, it’s not just on a few shoulders, it’s on us all. So that is good” (Employee)

Company size appears to shape the approach taken to employee representation and engagement. Those in smaller companies mentioned that there was often a lot of informality in interactions and the provision of feedback; such as when all the employees worked together in the one office.

“We all work in the same office. We’re open plan so we have quite a lot of interaction in the first place” (Director)

However as companies grew in size in terms of staff numbers the ability of individual employees to feed directly into decision-making processes (as opposed to through employee representatives) became limited and so the communications methods may change. One director who had seen a period of growth in their business reflected on the changes in size and employee involvement since he joined the company.

“Originally when I first joined... it was all done by basically everyone sitting round a table making decisions. And that got more and more challenging the bigger the group got... it just got unworkable” (Director)

Questions were asked as to whether employees were involved in the strategic direction of the company. For some directors the employee representatives who sat on the Board were involved in the strategic direction, and by default those who they were representing (it should be noted though that the responses from the employees regarding their involvement in the strategic direction varied with some feeling involved and others less so). More generally the
Board is responsible to the shareholders who are the employees. It was not possible, especially in the case for larger companies, for all employees to individually feed into the strategic direction of the company, so other methods of communication and involvement are developed.

“So we have lots of channels for communication but in terms of formulating strategic sort of ideas and decisions we generally have to do it as a smaller group” (Director)

However, one Director did stress that despite being more open and responsive someone did eventually have to take overall responsibility for decision-making.

“At the end of the day somebody has to be the one who has to carry the can for making a decision whether there is a deadlock or gridlock, but I think we are quite responsive and inclusive in the way that is operated. So people know the buck stops somewhere. Sometimes then they’re quite comfortable with that as long as it has been explained to them, as long as there is a rationale there they can understand” (Director)

In summary employees are involved in decision-making to a high degree. Employee representation is seen as key to ensuring business success as employees now work to a common goal and there is increased awareness about why decisions are made. Company size affects how employee representation operates in practice. Employee engagement is not just about representation it is also a cultural issue: employees need to feel able to voice their opinions and be open. While there was openness in some companies, it was not necessarily felt to occur in all forums. The culture of staff involvement and engagement is important in driving growth and productivity, as well as helping employee wellbeing.

5.3 How do EOBs perform before, during and after they become employee owned in terms of their growth in employment and turnover?

When exploring business growth it is important to remember that some of the participating companies had only recently transitioned to employee ownership or were indeed still undergoing transition and some companies had only been established for a number of years. It is therefore difficult to explore economic growth in employee owned versus traditionally owned companies over a long period of time.

“I would say that there has been little change because primarily there are so many external factors” (Director)
However some participants did comment on economic growth in employee owned versus traditionally owned companies. One director felt that had the company not become employee owned they would not have grown so quickly but this was difficult to quantify.

“I don’t think it would have grown as quickly as we have if we hadn’t gone down the employee ownership route” (Director)

Another director attributed their company growth as having been a result of being able to maintain a consistency and quality because of employee ownership. They had also got new business because employee ownership set them apart from their competitors. The importance of customer perceptions was cited by another director, who felt that customers perceived the company to be more accessible and responsive.

For one director the company had never focused on profits, but rather on turnover and protecting jobs. This strategy was seen to have protected the company successfully.

“We have never made huge profits because up until recently we’ve very much focused on turnover and protecting jobs and that has to be said, there’s always been a focus protecting jobs and that often has been at the detriment of a profit but the company always made enough money” (Director)

In summary it is difficult to explore economic growth in employee owned versus traditionally owned companies over a long period of time because many of the businesses had only been employee owned for a short while. The economic recession also makes comparisons difficult. It should also be noted that in this current research the views of non-EOBs were not elicited so it cannot make direct comparisons.

5.4 What are the main growth bottlenecks faced by EOBs, such as access to funding, customer engagement, internationalisation and recruitment?

The majority of the directors when asked about the main barriers to business growth cited the difficulty in recruiting skilled staff, the skills of their current workforce and workforce capacity. It is not clear whether these issues relate directly to their EOB status or whether these are dynamics affecting all businesses in their sector/ geography.

“Finding people is the biggest challenge we have. We have to maintain pretty high standards” (Director)
“I would say the capacity of the team...how quickly we can move forward as a leadership team and do what we do well and to recruit the key skills as we need them and to open up on new fronts” (Director)

“I think top...is staff quality. That is a big challenge. We are spending a lot of time training and we do not think that what the schools are producing is of quality. And it is not about academic ability, it is about attitude” (Director)

Some also faced sector specific barriers. For example, one company provided services for the statutory sector so had been affected by recent public sector cuts.

The economic recession was referred to by some as a barrier to growth but it was seen that “it’s not a good time to be in business no matter who you are” (Director) rather than being particularly challenging for Employee Owned Businesses. However, an employee felt that the employee ownership status had affected the way in which the company managed the effect of the recession with the focus being on cost saving rather than redundancies. As employees now had a stake in the business they were perceived to care a lot more about the future of the company and wanted to help weather the effects of the recession. Management now also had to think more about how to ensure the sustainability of the business as they could not sell it off if things got bad.

“It has been a struggle but we haven’t just turned around and laid people off, we’ve tried to get through any problems that we have got, not by losing staff, but by cost saving across the business” (Employee)

It should however be stressed that for most of the participating companies the recession had not had a significant impact (although their customers may have been affected, which arguably could have knock on effects) because of the sector they were in or the markets they operated within.

“[The recession] hasn’t been that significant. What’s happened is some of the sectors that we have worked in they have really tailed off... and others have increased and the net effect has been fairly negligible to be honest...we’ve probably had slightly stronger financial performance than we’ve had in the years before the recession so it’s a slightly strange situation” (Director)
Another barrier to business growth was finance. Access to finance was an issue for some of the companies in terms of business growth, but not for all. Companies had to rely on their own profits to finance developments.

“Banks don’t know about it, financial advisor certainly don’t know about it. Yeah there are huge issues there. But we’re lucky enough that we have got enough profits to fund our growth” (Director)

While some did have enough profits to fund their growth for others the difficulties in accessing finance could mean that flexibility and the ability to develop the business could be compromised as there was not the capacity to absorb any mistakes such as entering a new market. This meant that the businesses had to be sure that planned developments would be a success before they could go ahead with them, and capital investments had to be put on hold because funding could not be gained from the bank. It must be noted that more generally many businesses are finding it difficult to access bank finance, not just EOBs.

“For us finance is a big, big challenge. We don’t have investors; we don’t have huge amounts of capital. You know we don’t have millions of pounds sitting in the bank waiting to absorb some sort of mistake that we might make... we don’t have any flexibility or movement to make mistakes so we have to move carefully, we have to move slowly, we have to expand our business within the confines of what we can finance ourselves or we can get small amounts of lending from the bank” (Director)

“If we could have borrowed money more easily from banks and so forth we could potentially have developed into other areas which we haven’t done because we have been very cautious and we have not been able to borrow money” (Director)

It was felt by some that there was a lack of knowledge in the banking sector about employee ownership and therefore it was difficult to access finance this way. In one instance a bank ‘pulled the plug’ following the change of ownership, despite the company having banked with them for many years previously without any problems.

“We had no overdraft at all, they pulled the plug. They wouldn’t support the change of ownership. So huge barriers” (Director)

It should be noted though that some companies borrowed from banks and employee ownership had not been a barrier in this.

“We have got quite a good relationship with our bank and have done for a long time and it’s not been a major issue...there is nothing to be scared of” (Employee)
Approval did have to be sought from employee owners though when borrowing large amounts of money. One director commented that they had had no problems borrowing from banks because they were “cash strong”.

“We’ve experienced no barriers – we have raised finance, albeit hire purchase finance...the banks are all too keen to deal with us...because we’re borrowing more than £50,000 we had to put it out for approval for employee owners” (Director)

Additionally, two companies had or were engaging with alternative sources of finances, working with lenders who were amenable to the prospect of the employee ownership (e.g. Big Issue Invest and cooperative finance organisations). So sources of finance are available out with the company itself because of the socially driven nature of employee ownership.

“It may be that traditional routes of finance are not available to us, others may be prepared to lend us some money, and that’s again because we’re employee owned and we are seen as a sort of social enterprise type model” (Director)

In summary the main growth bottlenecks faced by the participating businesses are recruitment and access to finance. It should be noted that these issues were not faced by all participating businesses. In addition, for some the recession had not necessarily had a negative effect, partly due to the sector they are in. For those who had experienced a decline in business, this was not necessarily because of their ownership structure.

5.5 What role does ownership structure play in enabling or restricting growth?

Participants were asked about the disadvantages to employee ownership. Those referred to included understanding the mechanisms of employee ownership e.g. how an employee benefits trust will operate. Decision-making can be a long process and even when “people have a bright idea...it can be very slow” (Employee). However, it was recognised that this could “guard [the company] against doing rash things” (Employee) and arguably contribute to ensure the future business success. For some dealings with HMRC and other authorities could be difficult and take time.

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21 Providers of finance to social enterprises, charities and businesses that are socially-driven:
http://www.bigissueinvest.com/home.aspx
Some also felt that it can take time for employees to fully understand their role in employee ownership e.g. in terms of levels of engagement, responsibilities and how decision-making works in practice.

“Some guys will maybe make some comments about we’re employee owned and they think they should do more decision-making than they actually do. And then it explained to them that the company managers have got to manage and make decisions on a daily basis as any company” (Employee)

It should be noted though that the participants did not want to overplay these issues and that the benefits outweighed the disadvantages.

“To be honest I think employee ownership and getting greater engagement from employee in the business is beneficial rather than detrimental, I’ve not really come across any downsides to it” (Director)

A range of benefits to employee ownership (arguably linked to business growth) was mentioned. Some felt that they could “attract good people” (Director) to work for the business. Companies could now be more responsive as they did not have to rely on the decisions of external shareholders. However, a lack of external shareholders did at the same time make access to finance problematic.

“We don’t have external shareholders to plough money into the business. I suppose in the way of investing there isn’t that, we don’t just sell the shares off to get more money in. But then I think that is also a benefit at the same time as we’re not having that control from external people” (Employee)

“There’s always that conflict between external shareholders, management and staff who all have competing needs in the capital resources of a company. It makes us an awful lot more responsive because we are able to make decisions on the spot without…waiting for external shareholders to decide what they are going to do” (Director)

In addition, it should be remembered that the length of the decision-making process because of having to consult with employee owners was also cited as a disadvantage to employee ownership. However, for one Director while decision-making could be slow the business was still powerful.

“I liken our business to a glacier, we are very powerful when we do move but we move incredibly slowly because we have always got to be checking and making sure that what
we’re doing is the right thing for our membership. I would say that that can be a good thing in most cases, but can also be a bit of a challenge” (Director)

In the context of the current economic climate employee ownership could be seen as attractive to customers who wanted to engage with businesses that they could trust. For another company the distinctiveness of employee ownership gave them a good local profile and also gave them a standing on a national stage that they would not necessarily have had, had they been traditionally owned. Another director cited that employee ownership offered stability to customers:

“Customers like dealing with employee owned companies because I think there’s a stability about employee owned companies, which customers like and the commitment from everybody at the organisation and so we’re looking to exploit that as an employee owned company” (Director)

Links can be made between staff wellbeing and employee ownership. In one business there had been increases in staff satisfaction despite the wider economic climate.

“We do an annual engagement survey and you know we have certainly seen a significant increase in both engagement and the level of satisfaction over the last 3 or 4 years despite the economic conditions. So I think that is hugely encouraging for us and again I think it is a testament to our employee ownership” (Director)

ACAS (2010) cite that one indicator of a healthy workplace is that employees feel valued and involved in the organisation. In the participating businesses staff engagement and commitment was seen as high as they now had more invested in the company, felt more involved and needed to work together.

“I think we do try quite a bit harder to make sure that what we do during the course of the day is important and I think we’re all working much, much harder. Yeah because we do feel a responsibility” (Employee)

“I think because you feel more of a family of people because we’re all trying to work together. I think we are very committed and I think we are more committed that most companies” (Employee)

“I think the benefit is that it has created a fertile ground to achieve full engagement with employees. Getting employees feeling part of the business, involved with the business” (Director)
Employees could now see the clear link to the company and themselves as shareholders if they worked harder. In traditionally owned companies this was not seen to be the case.

“I think it comes back to leadership and motivation. If you have got an employee owner and you say to them look we need to double our output, then they know it benefits the company and it benefits them because as a shareholder they enjoy the growth in capital....You know for me that is at the heart of employee ownership because it really means that everyone is in it together and everyone’s will share in the success of that” (Director)

For one director increased engagement meant that problems were solved at source, rather than the ‘frazzled few’ having to deal with them.

“You see higher levels of engagement. We see problems being solved at source rather than being passed up through the management line to arrive on the desks of the frazzled few. So first responder to solutions, meaning that cost of production fall and productivity rises” (Director)

In addition staff were cited as being more proactive, enthusiastic and creative as they had a direct interest in the company doing well.

“There doesn’t seem to be as many barriers for ideas of improvements and everybody seems to be a lot more proactive and everyone is a lot more enthusiastic and wants the company to do well. They’re not just coming into work and just doing the job and going home, everyone is trying to do the best job they can” (Employee)

“For the people who own shares, since we started doing this we have seen quite a difference in terms of peoples creativity and innovation etcetera and also seeming to want to go that little bit further” (Director)

For example there could be increased interest in engaging with workplace learning, and employees would be less likely to leave the organisations

“So we see a growing appetite for training and development, we see people not leaving and we see interesting applicants wanting to join the organisation” (Director)

While the financial rewards of employee ownership to employee owners may be clear, the added job security was also cited.
“It’s just not about the financial rewards. It’s good but it’s more about the job security. From that point of view...all the guys understand that the efforts they put in, not just a financial gain but also a long term employment gain and the success of the company...It’s securing your future” (Employee)

For some participants though, because they had only recently become employee owned, it was too early for them to make concrete conclusions about the effects of employee ownership on staff behaviour and commitment. In addition, the type of sector and the staff sometimes meant that issues such as absenteeism and commitment were not really issues prior to employee ownership, although commitment could rise even more.

“There was no lack of purpose and commitment before but its greater now and I think people think it is a more logical setting because they’re more directly involved and benefit” (Director)

Positive comparisons could be made though in companies who were in sectors that had traditionally low levels of staff commitment and high levels of staff turnover.

“I think we have a pretty loyal staff base here. We don’t tend to turnover staff that much which is unusual for [the sector]. [The sector] tend[s] to turnover people pretty quickly. We don’t, it’s a sort of kind of a joke in our business that people come here for a few months and then stay here for...years” (Director)

Findings regarding the role of ownership structure in enabling or restricting growth are mixed. Employees were increasingly engaged but access to finance could be an issue. While decision-making could be slow, employee involvement in the process means that rash decisions are more difficult to make. It should be noted though that in the main the benefits to employee ownership outweighed the disadvantages.

5.6 What steps could be taken to help increase the levels of EOBs in Scotland? What types of support could help grow these businesses in Scotland?

Participants were asked about the steps that government or economic development partners could take to encourage growth in the number of EOBs in Scotland. A key issue was the lack of awareness of the employee ownership model in the business community (including university business courses).
“There is not a general awareness in the business community of how employee ownership works. So I think you either have to have published material which guides you through the process or you have to go to a specialist consultancy” (Director)

“For instance in university business courses and so forth it should be given equal status with other business models so that the people who are studying business think about it as an option” (Director)

It was felt by one Director that the focus was on a few large EOBs and greater awareness needed to be raised of smaller, but still successful, businesses.

Some also felt that the process in establishing themselves as an EOB, in terms of the approval required from HMRC and the establishment of a Trust, took a lot of time. It was, however, recognised that this was to ensure that EOBs were not being set up for non-legitimate purposes.

“I think the establishment of Trusts is still too complicated and people looking to operate on a genuine basis are being caught up with people who are using it for tax evasion. And so some, that was unduly complex” (Director)

The difficulties in accessing funding were highlighted by some as a barrier to business growth and providing funding only available to Employee Owned Businesses was mentioned as a way to address this.

“There can be pots of money for funding which only businesses that guarantee to be or continue as employee owned can dip into and that’s biasing towards this kind of business but maybe that would fly and that would also alleviate the weakness we certainly have as a model with banks” (Director)

In the USA tax incentives were seen as important, but sometimes this had led to ‘bogus’ EOBs primarily created for tax reasons (see chapter 2), and in our interviews there seemed some general support against such tax benefits. Opinions regarding tax breaks were mixed with those opposed to them citing that tax incentives only for EOBs would be unfair. One director felt that ‘soft options’ were not the way to encourage growth as it needed to be ensured that EOBs were competitive in the marketplace.

“Employee ownership is...long term and if it is good enough it should work without having any soft incentives” (Director)

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22 Although it must be noted that employees from small and medium sized enterprises are generally less likely to engage in training because of a lack of company resources (Stone, 2010).
A lack of understanding of the employee ownership model in the workforce was also seen as an issue that government or economic development partners could address (It should be noted that Co-operative Development Scotland does undertake awareness raising activities). The change in mind-set, when workers became employee owners rather than simply employees, could be addressed through training programmes so that they were fully aware of their responsibilities.

“I think training programmes might be useful. I think a lot of people come into Employee Owned Businesses and don’t really understand what it is all about...Most people will see themselves just as employees and so they won’t understand what their responsibilities are as owners of the business” (Director)

However, as one director noted there may still be some for whom employee ownership “doesn’t mean a great deal because they’re just getting on doing their jobs”.

It should be noted that at present there is support available to EOBs, with many of the participants mentioning the valuable guidance received from the Baxi Partnership (although it should be noted that they are just one supplier in this field) when making the transition to employee ownership. The work of Co-operative Development Scotland was also cited as useful but ways in which it could be developed further were mentioned e.g. it was felt that often the support available was often focused on helping businesses in the process of transition to employee ownership rather than those who were established.

“If you are looking for growth targets then possibly focusing on businesses that are already established and how you can support them, rather than just thinking about conversion” (Director)

Also it was felt by some that funding more generally was focused on new businesses rather than those transitioning to employee ownership as a result of business succession issues for example. However, although this view can be challenged, as there is support for existing firms, some employees felt otherwise, as shown in the next quotation.

“If you are starting up a new company you get funds and grants and all this sort of thing, but if you are taking over an existing one, as we did, there isn’t anything out there to help really” (Employee)

In summary, while support is already provided to EOBs by a range of economic development partners, but the perception of some of our interviewees was that more could be done. For example, uptake of the model and the flourishing of existing EOBs could be encouraged through increased awareness of the employee ownership model, more funding to support EOBs and
training for employee owners. These perceptions are perhaps rather historical in nature as agencies such as Scottish Enterprise are actively developing all these areas.\(^{23}\)

### 5.7 Summary

The issues raised during the qualitative interviews mirrored much of the existing research. Motivations for the transition to employee ownership in the participating businesses varied, relating to retaining the independence of the organisation and securing future growth.

Employee representation and involvement were viewed as the key to ensuring business success with employees working towards a common goal and an increased awareness about why decisions are made. This resulted in greater employee engagement. As company size grows, the form of employee representation changes: the ability of individual employees to feed directly into decision-making processes declines, for example with staff viewpoints conveyed to the Board by (elected) employee representatives.

It was difficult to explore economic growth in employee owned versus traditionally owned companies over a long period of time because many of the businesses had only been employee owned for a short period and the economic recession also made comparisons difficult and interviews with comparator non-EOBs were not included in this research. Major growth bottlenecks cited by EOBs are recruitment and access to finance. For those who had experienced a decline in business, this was not necessarily because of their ownership structure.

Findings regarding the role of the ownership structure in enabling or restricting growth are mixed. Access to finance and a lack of understanding of EOBs by banks can be an issue for many of these types of businesses. While decision-making could be slow, employee involvement in the process results in greater employee engagement and means that better decisions are made and rash decisions are more difficult to make.

A range of economic development partners already support EOBs, but their growth could be encouraged through: increased awareness of the employee ownership model; more funding to support existing as well as new, EOBs; and training for employee owners.

6. CONCLUSIONS

The report’s conclusions are structured in terms of the original project objectives. These are followed by a set of policy recommendations.

6.1 Conclusions

- *How do EOBs perform before, during and after they become employee owned in terms of their growth in employment and turnover;*

From the review of company financials it appears that those EOBs who took part in this research on average outperformed their peers. Those who became an EOB within the study time range improved their turnover after becoming an EOB. In general EOBs performed at least as well as their peers and in a few cases their performance was substantially better than their peers.

It was found that EOBs had significantly higher turnover, number of employees and return on capital than their peers. EOBs also had significantly lower salaries than the peer groups (reasons for this could be the market sectors that participated in the research, and also EOBs are more likely than non-EOBs to have profit-related bonuses which complete their basic salary levels). Regarding profit before tax, profit margin and the value added index (our crude measure of the contribution to the Scottish Economy) the EOBs performed much the same as their non-EOB peers, and certainly did not perform worse.

However, it is important to remember that some of the participating companies had only recently transitioned to employee ownership or were still undergoing transition. Other companies had only been established for a short number of years. Therefore patterns of growth cannot be studied over a long period of time. In addition, in the qualitative element of this research the views of non EOBs were not elicited.

- *What is the nature of growth within the overall population of Scottish EOBs;*

Considering growth performance the annual growth rates of turnover and number of employees was significantly higher for EOBs than their peers. There were no significant differences between EOBs and their peers for any of the other growth variables.
• **How many Scottish EOBs meet the OECD classification of high growth;**

Only one of the EOBs that participated in the study met the OECD (2007) classification of high growth as based on turnover. In addition the OECD definition had been set during more buoyant economic times and over the period of this study economic growth was much lower. It is more appropriate to use a lower measure of growth. Indeed a three of the EOBs participating in the research emerged as having higher growth than their peers and other EOBs.

• **What was the main motivation to become employee owned and how much of a priority was the future growth of the business;**

A range of motivations were uncovered in the qualitative element of this current research which explains the decision to become employee owned. It should be noted that employees were not necessarily involved in the decision to become employee owned. In two cases, owners made the choice to transition to employee ownership so that the business could keep its identity and secure the future of the business. Owners felt that the business would have been at risk of being broken up or sold-off if there was not employee ownership. In four cases, employee ownership came about as a result of business succession with previous owners looking to withdraw from the business. In another four cases, the ethos and philosophy of the employee ownership model motivated the transition to employee ownership. Furthermore, the model was seen to give the business a competitive edge that would attract good workers and ensure that the firm remained independent. In another two EOBs, employee ownership was seen as a way to ensure future performance and protect the company from takeover.

• **What is the nature of growth within EOBs and what role does their ownership structure play in enabling or restricting growth;**

Ownership structure of the EOBs was explored to investigate whether these factors might explain differentials in growth of the EOBs. The situation is however mixed. Overall combined ownership, which is the majority of EOBs in this study, is associated with higher turnover, profits before tax salaries and value added index. However, the only directly owned EOB did exhibit higher turnover per employee.

Findings from the qualitative research regarding the role of ownership structure in enabling or restricting growth are mixed. While decision-making can be slow, employee involvement in the process means that decisions are more considered. Some also felt that it can take time for employees to fully understand their role in employee ownership. This had implications for the way in which employees had to learn to act as owners. Employee ownership was perceived as
attractive to customers (who wanted to engage with businesses that they could trust) as well as to potential employees. Employees were increasingly engaged, committed, proactive, enthusiastic and creative as they now had more invested in the company. Evidence from the literature suggests that these factors are linked to higher productivity and employee wellbeing.

- **How does employee involvement in decision making help to foster the growth of the businesses;**

As discussed in Chapters 1 and 2, businesses with a high level of employee involvement in their ownership structure appear to outperform those with more traditional ownership structures (Lampel et al., 2010; Field Fisher Waterhouse LLP 2012a). EOBs that participated in the qualitative element of this current research specified that employee involvement in decision making helped foster growth in the following ways: by ensuring that decisions relating to organisational strategy and goals were subject to employee engagement and common consent; by creating a sense of common purpose and sense of belonging; linking economic success of the business to employee remuneration through shares.

- **What factors distinguish successful or high growth EOBs from the less successful ones;**

There were no clear conclusions to this question. Some small EOBs did well while others did not and similarly for large companies. No firm conclusions were reached when EOBs in different business sectors were compared, except that the fast growing companies were in engineering and food production.

- **What are the main growth bottlenecks faced by EOBs, such as access to funding, customer engagement, internationalisation and recruitment;**

Most of the growth bottlenecks cited by EOBs during interviews did not appear to be specific to EOBs. Rather, they were issues that were also likely to be experienced by businesses without employee ownership. Growth bottlenecks cited by businesses owners included: the difficulty of recruiting skilled staff; skills gaps in the existing workforce; workforce capacity. Other businesses cited sector specific issues such as the effects of shrinking markets, specifically deficit reduction programmes in the public sector that were having a knock-on effect on their business. However, in a small number of cases business owners perceived that there had been occasions when access to finance had been more difficult because potential investors were uncertain about the implications of investing in an Employee Owned Business.

- **What types of support could help grow these businesses in Scotland; and what steps could be taken to help increase the levels of EOBs in Scotland.**
It is clear from the research conducted for this report and from previous research (All Party Parliamentary Group on Employee Ownership, 2008) that low levels of understanding of employee ownership among financial institutions continues to act as a barrier to economic growth. At a time when financial institutions are seeking to minimise their lending risks in the aftermath of the 2008-09 economic crisis, a lack of understanding of EOBs may be actively undermining their willingness to lend to this important business sector. There is no evidence to suggest that EOBs represent a higher credit risk than other businesses whose ownership structure may be more familiar to lenders. By improving understanding of employee ownership among financial institutions, EOBs may have a more access to finance which in turn may fund further business growth. More generally, there was felt to be a lack of awareness of EOBs in the wider business community and in the education sector. It should be noted that directors within EOBs were not arguing for preferential or ‘soft’ treatment rather that they were given access to finance on the same footing as non-EOBs.

A second issue raised by directors of EOBs was the complexity of the process of becoming employee owned. The approval required from HMRC and the establishment of a Trust was felt to be complex and to take a lot of time. However, it was recognised that this was to ensure that EOBs were not being set up for non-legitimate purposes.

Thirdly, the qualitative interviews identified that more support could be provided and would be of use to existing EOBs. For example, a lack of understanding of the employee ownership model by those working in EOBs (e.g. responsibilities as employee owners) was also seen as an issue that government or economic development partners could address.

6.2 Policy Implications

The report sets out a series of evidence based policy recommendations to policy makers.

1. Raising understanding and awareness of EOBs and of high growth EOBs

The research has shown that the routes into EOB status are varied. There is insufficient understanding of models of employee ownership among employees, businesses, political arenas and economic development agencies. This means that opportunities for a wide variety of EOBs (both as new start-ups but also as conversions from other forms of business), and greater consideration of EOBs as a possibility for business succession, may not be given sufficient consideration when opportunities arise.
This reinforces the Nuttall Review which underscored that a lack of understanding of the EOB sector within the private sector ‘underpinned all other barriers to employee ownership’. More generally, around half of the Nuttall Review recommendations were concerned with this and all have legitimacy according to our research. It is important that Co-operative Development Scotland (CDS) and Scottish Enterprise (SE) or Highland and Islands Enterprise (HIE) continue to work with, and seek to influence, colleagues in the UK government (BIS) and their time limited implementation group, the Scottish Government and other agencies to support the implementation of the Nuttall Review recommendations in Scotland and not simply duplicate work already underway. The UK Government response to the Nuttall Review, published in October 2012, accepts the majority of the 28 recommendations made (Department for Business, Innovation and Skills 2012).

One area where greater awareness of EOBs would be useful is in Business Schools of universities and colleges. Little is taught here and greater information, and even modules or part modules, on EOBs could be disseminated across such institutions. Efforts could also be made to influence new start-ups from universities to consider employee-ownership.

2. Reducing barriers to becoming an EOB

The process by which a business can become an EOB appears to be expensive, complex and time consuming. HMRC regulations, although clearly, and correctly, intended to ensure that businesses are using employee ownership for legitimate reasons, may also be a barrier to the greater uptake of the employee ownership form of organisational governance. Findings on the complexity of becoming an EOB are consistent with recommendations set out in chapter 5 of the Nuttall Review of Employee Ownership. Responses to the consultation on de-regulation of company law to reduce the regulatory burden faced by employee owned companies are important.

3. Better Resources for EOBs

Several of the EOBs that participated in this study outlined the importance of access to expertise in employee ownership. The Baxi Partnership was cited as a valuable source of advice in this respect. However the cost of receiving such advice will for many smaller businesses be prohibitive. Better access to information and guidance in an ‘off the shelf’ manner, as described by one interviewee, would reduce costs associated with specialist advisory services. Business

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24 There are some exceptions. The module ‘Democratic Enterprise’ has recently been developed by the Co-operative Education Trust Scotland. See for more information: http://www.abdn.ac.uk/cets/resources/democratic-enterprise/

25 It must be noted though that of the two types of trusts used by EOBs, only a SIP (or other approved share schemes) is subject to HMRC approval.
support agencies could provide clarification on the legal, tax and financial information required to become an EOB. While high growth potential EOBs should already have ready access to the full support of Scottish Enterprise/ HIE, it is important that both the unique factors related to EOBs are fully incorporated in the support but that those who support ‘standard’ businesses recognise the potential advantages (and disadvantages) of EOB structures as a potential way forward. In the qualitative interviews, there was a low level of discussion about account managers from SE or HIE and the level of support received. EOBs perception of this should be investigated.

There remains scope for EOBs to learn (and trade) with one another and support should be provided for networks and links between EOBs (in UK and elsewhere) to be developed. This should involve opportunities for non-EOBs to learn from, and perhaps become involved with EOBs.

4. Financing for EOBs

The lack of understanding on EOBs in the wider business and enterprise support community may be impeding access to sources of investment for EOBs and thereby constraining growth opportunities. The absence of external shareholders in EOBs from which to raise capital underscores the importance of ensuring that financial institutions and other lenders are given access to more information on the way in which EOBs operate. This may help reduce existing reluctance of some financial institutions to lend to EOBs. There is considerable discussion in the UK government, the Employee Ownership Association, the John Lewis Partnership and elsewhere on the creation of an institute to improve funding for EOBs. This is potentially important and would be beneficial if located in Scotland.

5. Geographical aspects of support

EOBs are present throughout Scotland, from the Western Isles to Fife to the Highlands and Ayrshire. While fast growth ones may be located mainly near the major cities, in terms of importance to local economies, those in more remote rural areas may have a high relative impact. The full range of support for EOBs should be available throughout Scotland through the main development agencies (SE and HIE). In developing support services for EOBs as suggested in recommendations 1 and 2, consideration needs to be given to the impact of rurality and the peripheral location of some of the EOBs interviewed as part of this research. Although comprehensive, the Nuttall Review did not give specific consideration to the impact of location on the development of EOBs. In Scotland, this is particularly relevant and would affect the way in which support for EOBs was delivered. The time and expense of travel from remote locations for participation in EOB events would need to be considered in any broader support strategy for EOBs.
6. Identifying and disseminating lessons from EOBs

The advantages of EOBs appear to revolve crucially around greater employee engagement and involvement, leading to increased productivity, innovation (in some cases) and employee wellbeing. These advantages are not always present in all EOBs but also are not restricted to EOBs. Where EOBs had created share offerings that were widely taken up by employees across the business, there was felt to be a link between employee motivation in terms of productivity and financial reward. Crucially, employees also felt that by owning shares in the business and exercising control over its strategic direction, they had greater influence over job security. Greater research and business support into how to improve engagement and bring about these advantages in different circumstances is needed. For instance to improve innovation, workers at all levels of the organisation need to feel that they are asked their opinions and that these are taken seriously.

7. Data Collection

There remains limited detailed information on EOBs across Scotland, although the current report provides information on some EOBs and can provide a baseline for future updating and development of information on EOBs in Scotland. It is important that a system is created for the collection of rigorous, comparable data on EOBs and relevant comparators is set up and implemented either on a continuous basis on a regular basis (such as every three years). Information on the full range of EOBs in Scotland would be useful, but especially that on relatively high growth EOBs, both through account managers at SE/HIE but using available databases and information from the companies themselves.
7. **BIBLIOGRAPHY**


http://www.strath.ac.uk/media/departments/economics/fairse/Latest-Fraser-of-Allander-Economic-Commentary.pdf


Ellins, J. and Ham, C. (2009) NHS mutual engaging staff and aligning incentives to achieve higher levels of performance. (Nuffield Foundation: London).


Kramer, B (2010). Employee ownership and participation effects on outcomes in firms majority employee owned through employee stock ownership plans in the US. Economic and Industrial Democracy, 31: 449-476


APPENDIX 1: FINANCIAL DATA COLLECTION SHEET

Please provide Information on the following:

1. Company name

2. When was the EOB established?

3. Please complete the following table for the current year and the previous five years or as many as you can.

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover</th>
<th>Numbers employed</th>
<th>Total Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2010</td>
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<td></td>
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<td>2009</td>
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<td>2008</td>
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<td>2003</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Please complete, where possible, the table of the measures listed

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit(loss) before Tax</th>
<th>Profit margin %</th>
<th>Return on capital employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
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<td>2010</td>
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<td>2009</td>
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<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5. If you had to benchmark on other companies which ones would be in your peer group - please list up to five companies

<table>
<thead>
<tr>
<th>Company A</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Company B</td>
<td></td>
</tr>
<tr>
<td>Company C</td>
<td></td>
</tr>
<tr>
<td>Company D</td>
<td></td>
</tr>
<tr>
<td>Company E</td>
<td></td>
</tr>
</tbody>
</table>

End of Data Collection - Thank you
APPENDIX 2: SUMMARY INFORMATION OF COMPANIES USED IN THE QUANTITATIVE ANALYSIS

Data Ranges for comparisons with peer groups

<table>
<thead>
<tr>
<th>Employee Owned Business</th>
<th>Turnover</th>
<th>Number of Employees</th>
<th>Average Salary</th>
<th>Profit Margin</th>
<th>Value Added Index</th>
<th>Turnover per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOB</td>
<td>Peer Group Composition</td>
<td>Peer Group Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>------------------------</td>
<td>-----------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 1   | All active companies (not in receivership nor dormant)  
    UK SIC (2007): All codes: 82990 - Other business support service activities n.e.c.  
    Number of Employees: Last available year, min=175, max=300  
    Turnover (th GBP): Last available year, min=3,000, max=5,000 | 10 |
| 2   | All active companies (not in receivership nor dormant)  
    UK SIC (2007): All codes: 28950 - Manufacture of machinery for paper and paperboard production  
    Turnover (th GBP): Last available year, min=400, max=25,000 | 10 |
| 3   | Closest 9 companies according to the Turnover for 2003 amongst the standard peer group ( UK SIC: 0201 - (VL: Very Large Companies) - Forestry and logging ) | 9 |
| 4   | All active companies (not in receivership nor dormant)  
    UK SIC (2007): All codes: 17120 - Manufacture of paper and paperboard  
    Number of Employees: Last available year, min=300, max=1,000  
    Turnover (th GBP): Last available year, min=50,000, max=200,000 | 10 |
| 5   | Closest 10 companies according to the Turnover for the last available year amongst the standard peer group ( UK SIC: 3320 - (LA: Large Companies) - Manufacture of instruments and appliances for measuring, checking, testing, navigating and other purposes, except industrial process control equipment ) | 10 |
| 6   | All active companies (not in receivership nor dormant)  
    UK SIC (2007): All codes: 58130 - Publishing of newspapers  
    Number of Employees: Last available year, min=15, max=30  
    Turnover (th GBP): Last available year, min=500, max=1,000 | 10 |
| 7   | Closest 10 companies according to the Turnover for the last available year amongst the standard peer group ( UK SIC: 2811 - (VL: Very Large Companies) - Manufacture of metal structures and parts of structures ) | 10 |
| 8   | All active companies (not in receivership nor dormant)  
    UK SIC (2007): All codes: 17120 - Manufacture of paper and paperboard, 47640 - Retail sale of sporting equipment in specialised stores  
    Number of Employees: Last available year, min=60, max=200  
    Turnover (th GBP): Last available year, min=5,000, max=12,000 | 10 |
| 9   | All active companies (not in receivership nor dormant)  
    UK SIC (2007): All codes: 86900 - Other human health activities  
    Country: Prim. trading address, R/O address: Scotland  
    Number of Employees: Last available year, min=10, max=25  
    Turnover (th GBP): Last available year, min=560, max=2,000 | 10 |
| 10  | Closest 10 companies according to the Turnover for the last available year amongst the standard peer group ( UK SIC: 1520 - (LA: Large Companies) - Processing and preserving of fish and fish products ) | 10 |
Scottish Enterprise has commissioned the Employment Research Institute at Edinburgh Napier University to carry out research on the growth of employee owned businesses (EOBs) in Scotland.

It has been established that employee owned businesses can be more profitable and productive, and have higher levels of employee satisfaction. However, there is a lack of evidence in Scotland in terms of their growth performance and dynamics, and on growth constraints faced by EOBs. The aim of this research is to address this gap.

As part of the research interviews are being conducted with employee owned businesses in Scotland. These interviews will address aspects of growth and wider benefits of being an employee owned business (such as well-being of staff).

This interview will last approximately 40 minutes and would be conducted either face-to-face or by telephone at a time convenient for you.

With your permission we would like to audio record the interview.

| 1. | Name of Employer |
| 2. | Name of Interviewee |
| 3. | Interviewer |
| 4. | Location |
| 5. | Date of Interview |

| 1. | INTERVIEWEE DATA (all participants) |
| 1.1 | What is the title of your main job? |
| | - Establish if the interviewee has managerial duties |
| | - What does this job involve? |

| 2. | EOB CONSTITUTION (managers only) |
| 2.1 | When did the business become Employee Owned? |
| | Established as an EOB or did it transfer into employee ownership at a later date? |
| | (this may be a gradual process so get % EO for main time points) |
2.2 Please outline the structure of employee ownership in this business (see prompt questions below)
Do employees have shares in the business or are shares held by a trust for employees?
Does the company operate a Share Incentive Plan? If yes, please provide details of the plan.
If employees hold shares, please describe the arrangements of how shares are distributed? Are shares offered for purchase to employees or given away? Why was this option (share sale or give away) chosen?

2.3 Why did the business choose to changes its status to become an EOB?
Who was responsible for that decision?
What were the economic conditions at the time that decision was made?
What was the motivation to change status to become employee owned - market motivations or employee motivations/ sustainability or growth?
If it was a buyout, how was this financed?

2.4 To what extent were employees involved in the decision to become an EOB?
Describe the consultation process that took place

2.5 What has been the impact of employee ownership on staff commitment?
Is there a distinct company culture?

2.6 What were your expectations from employee ownership and are they showing signs of being met?

3. BUSINESS GROWTH (managers only)
For each question: What role has being an EOB played in all of this?

3.1 Please describe the growth of the business (turnover, employment and profit) - over the last 15-10 years of possible
What have been the main factors that have led to this growth (e.g. rising market for main products, products, product development, leadership of key staff, finance etc.)
May need to spilt up different components (markets/ subsidiaries etc.) of the business
Did the business have access to finance – if so, where and how was this finance accessed

3.2 Where are the main markets?
What role has internationalisation played in growth

3.3 What impact has the recession had on the growth of the business?

3.4 What are the main barriers to business growth? Ask specifically about:
Access to finance
Recruitment issues/recruiting good staff
Skills shortages
Management skills
Employee satisfaction and morale

3.5 How do you think staff productivity affects the survival and expansion of the firm?

3.6 If the business changed to become an EOB, how has this affected:
   - Employment growth
   - Turnover
   - Employee/customer satisfaction and morale

3.7 From a management perspective, how (if at all) does economic growth in an EOB differ to non-EOBs?
   Does being an EOB allow the business to be more adaptable and responsive to change?

4. EMPLOYEE INVOLVEMENT (all participants)

4.1 Are there formal or informal mechanisms for employees to express their views on the management of the business to senior managers?
   How are decisions made at executive level?
   What are the mechanisms of accountability of management to staff?

4.2 Are employees represented at Board level within the business?

4.3 How involved are you in the decision-making processes in your organisation?
   Do you think the organisation being EOB has any impact on how involved you are in decision-making?

4.4 To what extent do employees have a role in the strategic direction of the company and does this differ significantly from non-EOBs in your experience?
   Describe the way in which the business engages with employees to ensure that they can influence the strategic direction of the business.

4.5 What impact has the involvement of employees in the strategic direction of the business made to the business?

4.6 How informed do you feel you are about business decisions and how effective is communication in general in your organisation?
   Is there anything you would like to change?

4.7 Generally, do you feel you have a ‘stake’ in the business?

5. WORKING FOR AN EOB (all participants)
   For each question: What role has being an EOB played in all of this?

5.1 Does working for an EOB have any impact on people’s behaviour at work (including your own) in terms of:
   - Being less likely to leave the organisation
   - Increased productivity
   - Reduced absenteeism
   Is there a typical staff member profile?
5.2 How do you think staff turnover affects survival and expansion of the firm?

5.3 Do you feel valued by the organisation?
   - not at all
   - a little
   - somewhat
   - a fair amount
   - very much

5.4 How much control do you feel you have over your job? In what ways?
   - not at all
   - a little
   - somewhat
   - a fair amount
   - very much

5.5 Do you think that any of the below make a difference to the wellbeing of yourself and your colleagues? e.g.
   - Feeling valued (or not)
   - Having more control
   - Good communication
   - Being involved in decision-making
   - Having a stake in the organisation

5.6 For those employees who have previously worked in a non EOB, what have been the most significant differences between working in an EOB and a non-EOB?
   - What brought you to work for an EOB?

5.7 Do you enjoy working for an EOB? If so, why?
   - not at all
   - a little
   - somewhat
   - a fair amount
   - very much

5.8 Do you find working in an EOB stressful? If so, why?
   - not at all
   - a little
   - somewhat
   - a fair amount
   - very much

6. BUSINESS ISSUES (all participants) (in the case of managers this is really to sum up key points made earlier)

6.1 What have been the business benefits of being an EOB?
<table>
<thead>
<tr>
<th>Employment growth</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td></td>
</tr>
<tr>
<td>Employee/customer satisfaction and morale</td>
<td></td>
</tr>
</tbody>
</table>

**6.2** From a business perspective, what are the advantages to being an EOB?

Does being an EOB allow the business to be more adaptable and more responsive to change?

Does being an EOB make the business feel more secure/sustainable

Is the business able to better address environmental issues as a result of being an EOB?

Has corporate social responsibility grown?

**6.3** From a business perspective, are there any disadvantages to being an EOB?

**6.4** What are the main barriers to growth faced by EOBs?

Have you experienced any difficulty in accessing finance due to your status as an EOB?

Have you experienced any difficulty in recruiting staff due to your status as an EOB?

**6.5** What steps could Government or other economic development partners take to encourage growth in the number of EOBs in Scotland?

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_Do you have any other comments that you feel may be relevant_
APPENDIX 4: COMPARISONS OF EOB AND THEIR PEER GROWTH RATES

Turnover Growth Rate

Numbers Employed Growth Rate