Robust Growth Champions

How employee owned businesses are building a resilient growth economy

Ownership at Work

THINCATS

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Forewords

At a time when businesses are facing greater financial insecurities and unprecedented challenges, the findings presented in this report provide more evidence to the growing body of sector research that employee ownership isn't only a viable alternative to traditional business models, but one vital for sustainable growth.

This collaborative effort with Ownership at Work (OAW) and ThinCats emphasises how employee owned businesses (EOBs) not only thrive but also outperform their non-EOB counterparts in key metrics such as profitability, employment growth, and financial resilience. The evidence is clear: EOBs are more likely to be "robust growth champions", demonstrating consistent growth and stability.

At the eoa, we're committed to championing employee ownership as a pathway to greater economic prosperity, not just for businesses but for communities as well. I hope this report serves as a valuable resource for stakeholders across the spectrum: business leaders, policymakers, and advocates - who are eager to explore and harness the transformative potential employee ownership presents.

James de le Vingne
Chief Executive
eoa

At ThinCats, we are proud to support innovative business models that drive sustainable growth and economic resilience. Employee ownership (EO) is one such model, which can offer not only stability but, as we explore in this paper, the potential for enhanced productivity and profitability.

In partnership with Ownership at Work (OAW) and the eoa, we have built on the 2023 EO Knowledge Programme research, which highlighted numerous benefits of employee ownership.

Our extensive experience in data analytics for mid-sized businesses (10-250 employees) allows us to dive deeper into the performance of these firms, utilising ThinCats' proprietary data modelling tool, PRISM, which focuses on more than 500,000 companies.

The analysis shows that EOBs are over 50% more likely to be 'robust growth champions' - businesses that consistently deliver growth in sales, profits, and headcount, all while maintaining strong balance sheets. Their advantage held true across different sizes, regions, and sectors, reinforcing the economic case for expanding employee ownership (EO) in the UK.

We hope this report provides valuable insights for businesses, stakeholders, and policymakers interested in exploring the benefits and potential of employee ownership.

Finally, we extend our sincere thanks to OAW and the eoa for their partnership and contributions in making this research possible.

Gareth Rumsey
Head of Data Analytics
ThinCats

Executive Summary

Rebuilding a thriving UK economy is the overriding priority of the new Labour Government and our findings underline why it is so important to understand the economic potential of employee and worker ownership (EO).

This latest research set out to test and explore whether or not broad-based employee ownership of a business is linked to its financial performance and resilience. Our approach built on work published in 2023 (the EO Knowledge Programme) that identified what appeared to be a strong positive correlation between the ownership model and financially successful businesses. That study found employee owners are 8-12% more productive than peers in non-employee owned firms and employee owned businesses (EOBs) tend to make more money, create more jobs and invest more in continuously improving products and services.

To test those earlier findings, independent think tank Ownership at Work (OAW) and the Employee Ownership Association (eoa) have partnered with leading specialist funding provider ThinCats to dig into a much larger dataset on the financial performance of EOBs over recent years and compare that to a significantly larger matched group of non-EOBs.

We have used publicly available Companies House data to examine commercial success for a wider cohort of companies than considered by the original research, and combined that with data drawn from Experian and ThinCats' expert analytics on company resilience, to confirm whether there is a financial performance advantage displayed by EOBs.

The results are an unprecedented scale of comparison for the UK, with over 300 EOBs compared to over 15,000 matched non-EOBs.

These latest findings tell us that EOBs are over 50% more likely to be what we've called 'robust growth champions': businesses that consistently delivered growth in sales, profits and headcount and held strong balance sheets over the last five years. Importantly, this finding was consistent when breaking down to compare EOBs and non-EOBs of the same size, geography and sector (though inevitably based on smaller datasets).

The headline from this analysis is significant: **The closer we look, the data shows employee ownership drives stronger economic growth by helping businesses be more successful and resilient.**

The findings in this report super-charge the case to grow the size of the worker and employee owned section of the UK economy. EOBs are more likely to be dependable all-rounders, delivering solid, consistent growth over time and to be more financially resilient businesses. No one can argue our economy needs more highly investible, growing businesses that also (as evidenced by the EO Knowledge Programme) do much more to reinvest in their employees and their local communities.

The closer we look, the data shows employee ownership drives stronger economic growth by helping businesses be more successful and resilient.

Methodology

ThinCats started with the same UK-wide population of EOBs identified in the census work done for 2023's EO Knowledge Programme.

To enable comparison with the companies already in ThinCats' Experian dataset, they then refined the group down to firms which met the following criteria:

- Reporting between £0.5m and £40m in assets
- Profit and loss statement available
- Balance sheet available
- Reported data available for the last five financial years

Finally, ThinCats ensured that they could apply their unique PRISM risk scoring approach to all the EOBs and non-EOBs considered to enable a meaningful comparison of financial resilience.

What is an employee owned business (EOB)?

A business is considered employee owned if at least 25% of the ownership is held by or on behalf of the employees and channels are in place for them to exercise influence on the running of the firm. As of October 2024, the Employee Ownership Association estimates the UK EOB population consists of approximately 2,000 businesses.

What is a PRISM risk score?

PRISM (Propensity and Risk Model) is ThinCats' proprietary rating system to calculate the risk of future insolvencies within mid-sized businesses. Trained on 4m+ data points over 15 years, it uses machine learning to combine financial metrics, company demographics and filing behaviour into a highly predictive risk score from 1–5, with 1 being the most at risk of insolvency and 5 being the least at risk of insolvency.

This left 320 companies, 20.4% of the original dataset. A matched comparison population was then identified. To do that, ThinCats established four revenue bands/categories, and each category was broken down by sector. For every one EOB in each sector in each revenue category, 50 non-EOBs in the same sector and revenue category were randomly selected from the businesses in ThinCats' wider business database, where possible. In some categories non-EOB businesses were slightly under-sampled, as there was not 50 times the EOB population within that particular combination of sector and turnover size. This method resulted in a comparison sample of 15,758 non-EOBs.

Both the EOB and non-EOB populations excluded:

- Dead, non-trading and dormant companies
- Companies where a SIC code is not known

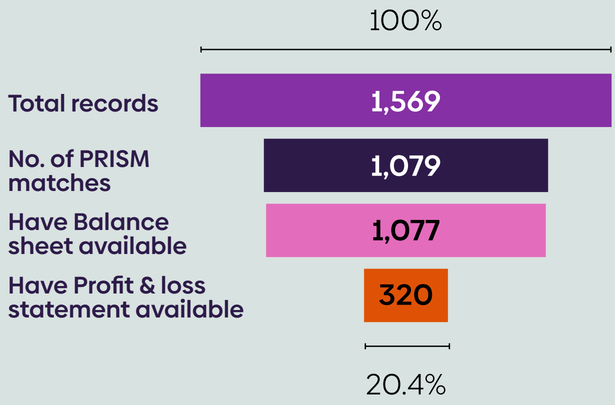
The two populations were compared based on their latest accounts filed as of Jan 2018 and their latest accounts as of Jan 2023. In practice therefore, the financials will be either 2017 year end compared to 2022 year-end, or 2016 compared to 2021, depending on when businesses year-ends are and when they file their accounts.

The two populations were compared across the following metrics:

- Level of sales growth
- Level of profit growth
- Level of employment growth
- Risk of insolvency
  (as measured by ThinCats' PRISM risk rating)

These metrics were then combined to identify an overall measure of growth robustness, with businesses defined as a robust growth champion if they met all four of the metrics above.

Relevant Records Breakdown



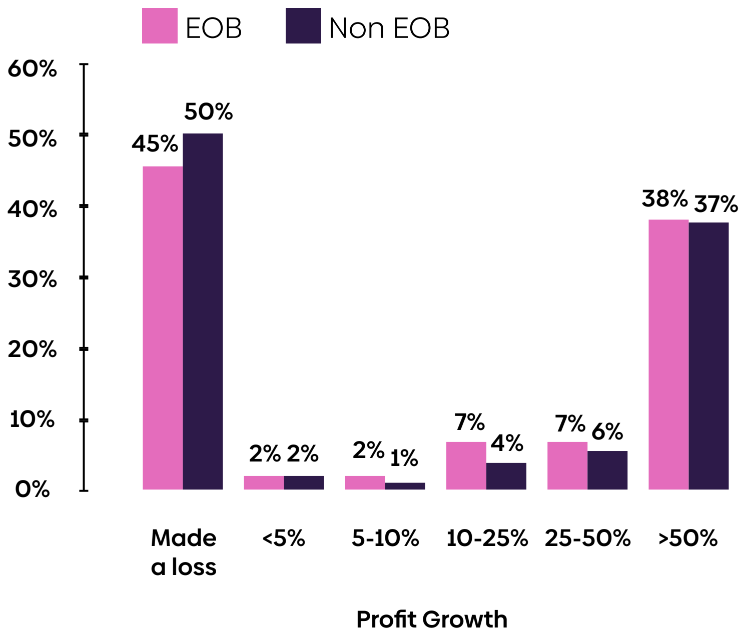
Correlation Vs Causation

The analysis in this report suggests a correlation between being an EOB and likelihood of being a robust growth champion. A methodology that simply analyses and contrasts historic financial datasets cannot go as far as to prove causation. Nonetheless, the strength of that correlation is reinforced by the findings here aligning strongly with the findings from the 2023 EO Knowledge Programme. It is worth noting that the research methodology for that study (surveys and interviews) allowed for mechanisms by which contributors were required to confirm the strength of attribution of outcomes to the employee ownership model of their business.

Primary Findings

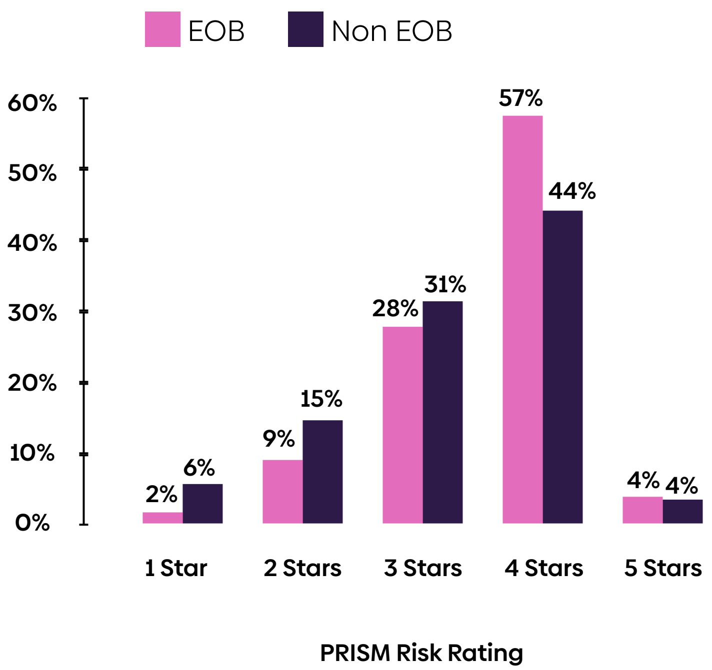
Profits: EOBs are more likely to generate profit

EOBs outperform non-EOBs in all percentage bands for profit growth, although other than the 10-25% growth band, the difference is not significant. Non-EOBs are more likely to have reported negative profit growth than EOBs.



Financial resilience: EOBs are at lower risk of insolvency than non-EOBs

EOBs are significantly more likely to achieve a 4 star or above PRISM risk rating than non-EOBs, indicating a lower risk of insolvency. Non-EOBs are more likely to achieve a 1, 2 or 3 star rating.



EOBs are more likely to be **'robust growth champions'**

Combining the several metrics allows us to identify robust growth champions, which we are defining as firms achieving all four of the following:

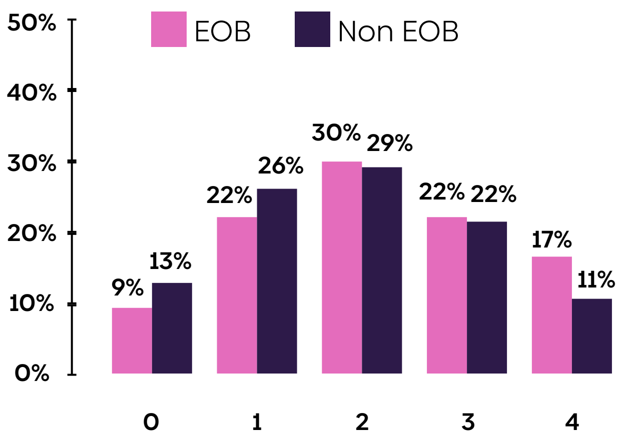
- Growth in sales over five years
- Growth in employment over five years
- Growth in profit over five years
- PRISM risk rating

This compound view of growth is particularly powerful as it analyses and combines all four growth dimensions within each individual firm. It is extremely tricky when looking solely at reported data on a single dimension (e.g. turnover) to get a true sense of whether an individual business is thriving in a sustainable way or not. To overcome that, we've not only looked across five years of data but also across multiple dimensions of individual company performance at once. This allows a compelling like-for-like comparison and enabled us to identify 'robust growth champions'.

EOBs are significantly more likely to be robust growth champions and achieve all four of these metrics. They are also more likely to achieve two or three of these metrics than non-EOBs.

When we measure all four growth elements together the evidence clearly demonstrates that overall EOBs are typically stronger businesses – not just at the very top (with 17% achieving all four metrics compared to 11% of non-EOBs) but also when looking at those that achieve any two or more growth metrics (92% of EOBs vs 69% of non-EOBs) or even any growth metrics at all (91% of EOBs vs 87% of non-EOBs).

Robust Growth Champion Criteria



No. of 'robust growth champion' metrics achieved

Larger Cohort Findings

Although there were only 320 EOBs that met all of the criteria for our original sample, if we removed the requirement to have a profit and loss statement available, there was a significantly larger group of 1,077 EOBs remaining. On that basis we opted to carry out a 'secondary check' of growth robustness for the larger cohort.

Supplementary methodology: Growth robustness 'secondary check'

Whilst we cannot retrieve sales growth and profit growth data for this cohort without a profit and loss statement, we can still analyse employment growth and PRISM scores, using balance sheet and PRISM risk match data. Consequently, we were able to carry out a 'secondary check of growth robustness for the larger cohort, examining how many businesses achieved one or both of the following metrics:

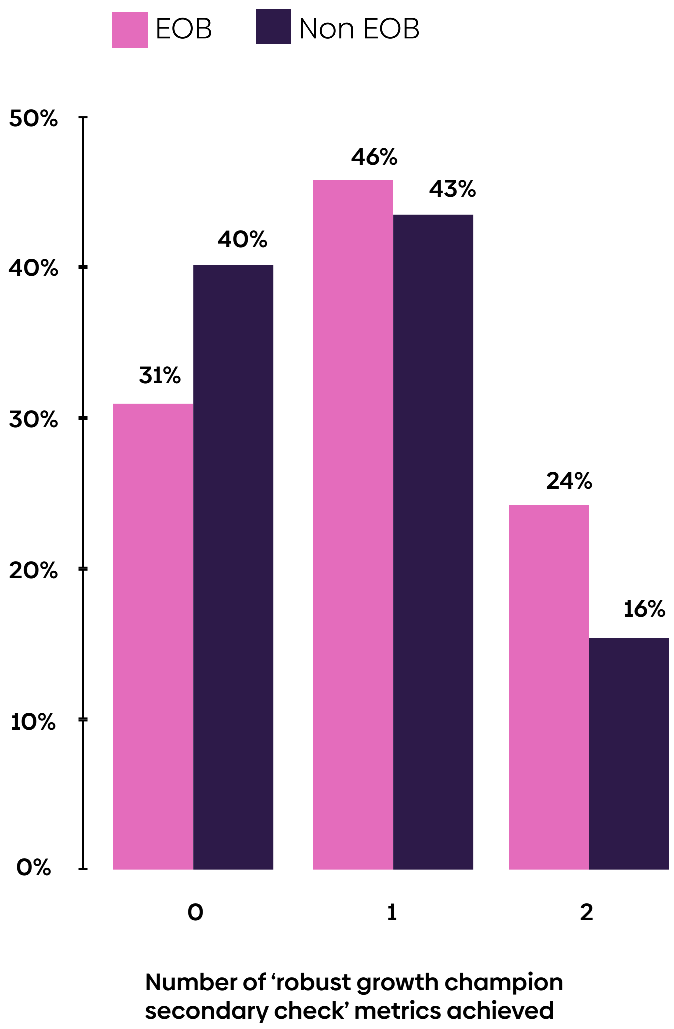
- 10%+ growth in employment over five years
- A PRISM risk rating of 4 or 5 stars.

As this secondary check utilised a larger sample size, we were also able to segment this growth robustness analysis by region and sector. Whilst less statistically significantly than the analysis carried out on the entire EO population, due to the smaller sample size for each region/sector, this analysis does nonetheless offer some insight into performance viewed through these two lenses.

Growth and financial resilience: EOBs out-perform non-EOBs when sample size is tripled

When we analysed data for this larger group, it confirmed EOBs are significantly more likely to have achieved one or both of the following metrics:

- 10%+ growth in employment over five years
- A PRISM risk rating of 4 or 5 stars



EOBs are more robust growth champions in all parts of the country

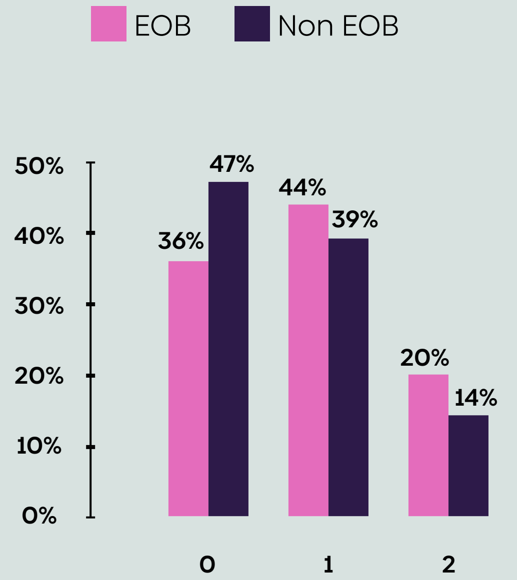
The larger cohort dataset also allowed for analysis across geography and sector breakdowns. That identified that EOBs are more robust growth champions in every part of the country, with EOBs in every region more likely to achieve one or both of the following metrics:

- 10%+ employment growth
- A PRISM risk rating of 4 or 5 stars

The difference in growth robustness between EOBs and non-EOBs is most significant in Wales.

It's important to note that the strength of the findings decreases when we split out our analysis by region (due to the sample size for each region being smaller than our overall EOB population). This is why the regional view of growth robustness only utilises the growth robustness 'secondary check' analysis, as the initial growth robustness measure relies on a smaller total EOB population, which divides into statistically insignificant regional sample sizes.

Greater London

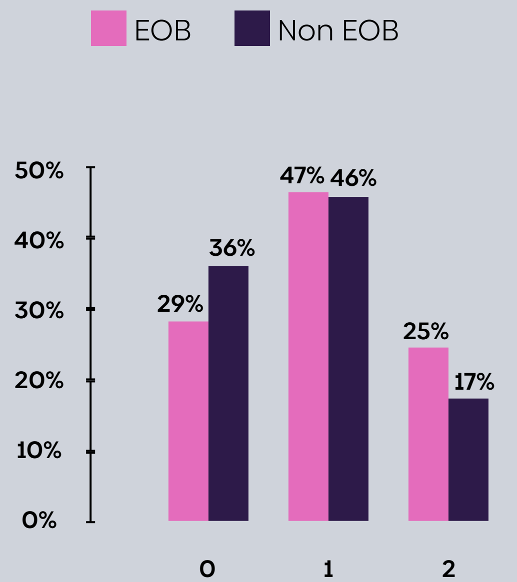


Number of 'robust growth champion secondary check' metrics achieved

EOBs are more likely to achieve one or both of the following metrics:

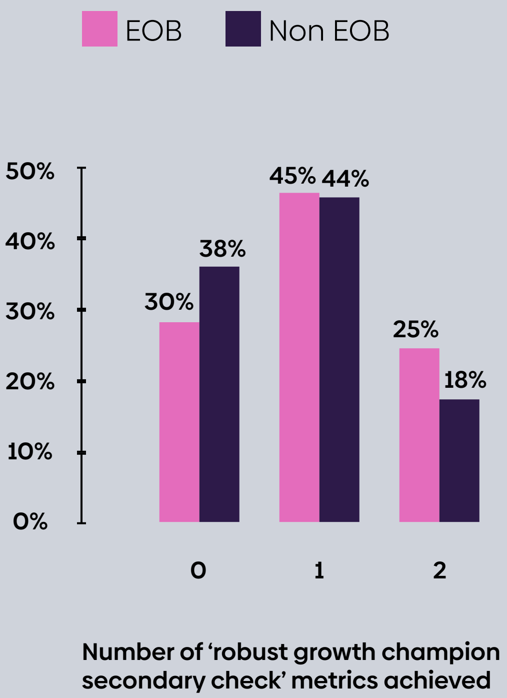
- *10%+ employment growth*
- *A PRISM risk rating of 4 or 5 stars*

Midlands

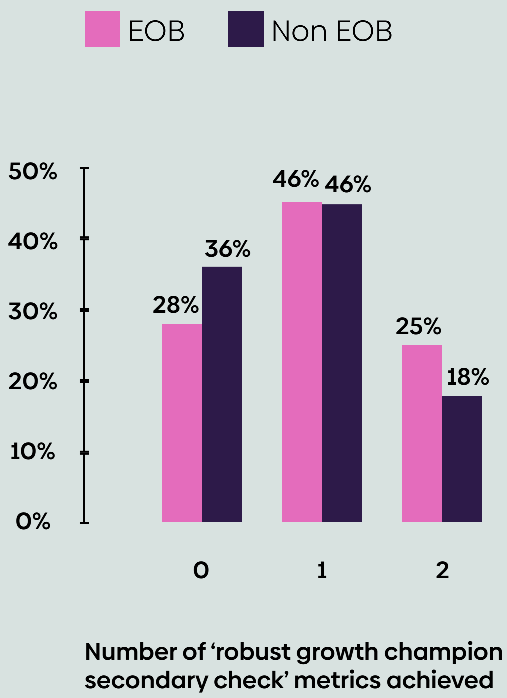


Number of 'robust growth champion secondary check' metrics achieved

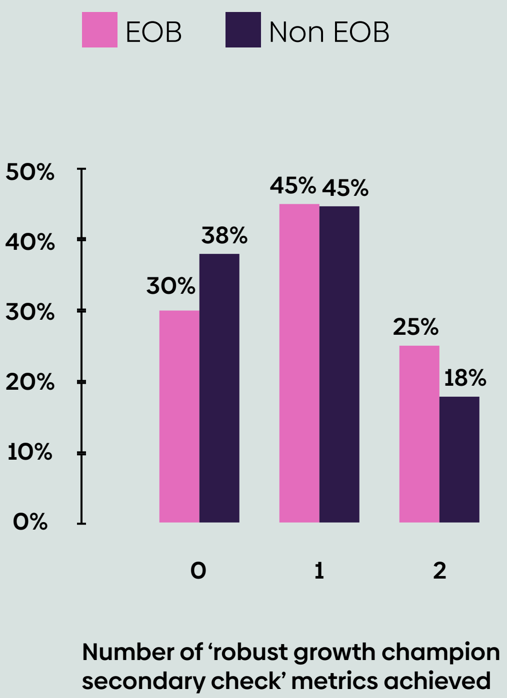
South



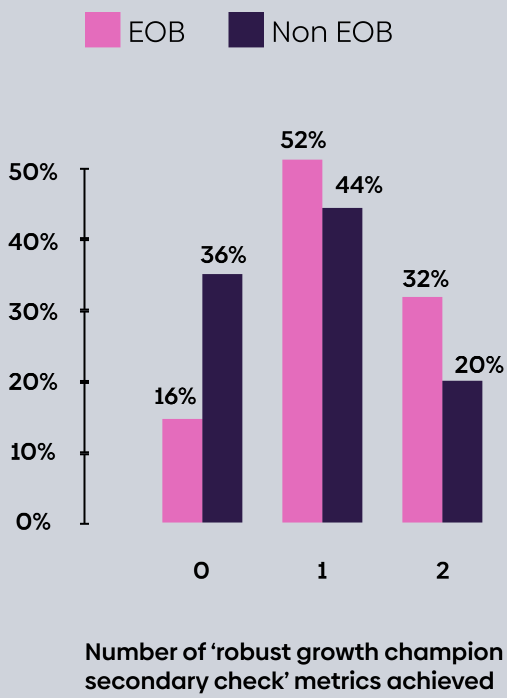
Scotland



North



Wales



EOBs outperform non-EOBs by sector but with higher levels of variation

Retail and Wholesale is the only sector where non-EOBs are more likely to achieve both metrics than EOBs.

As with the regional view, it is important to caveat that the sector view findings have smaller sample sizes which could skew the findings. They consequently also required analysis using the secondary growth robustness check.

IT / Computing

Number of 'robust growth champion secondary check' metrics achieved

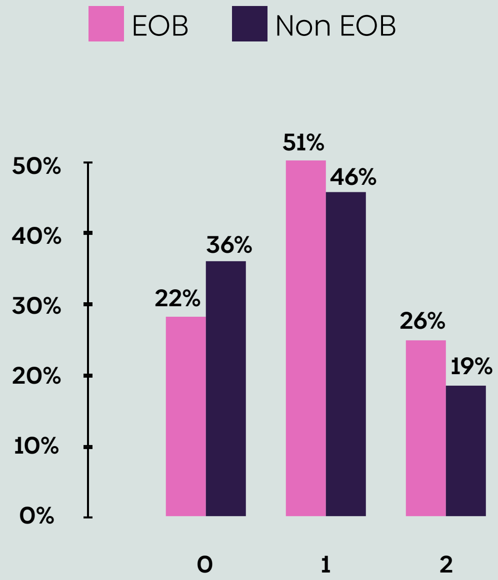
Manufacturing

Number of 'robust growth champion secondary check' metrics achieved

EOBs are more likely to achieve one or both of the following metrics:

- *10%+ employment growth*
- *A PRISM risk rating of 4 or 5 stars*

Technical Services

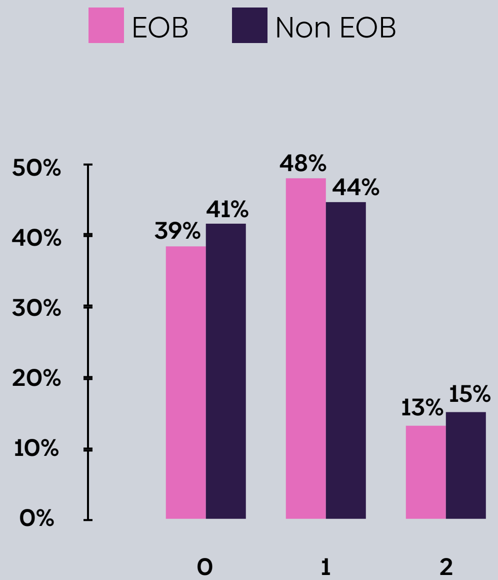


Number of 'robust growth champion secondary check' metrics achieved

Professional Services

Number of 'robust growth champion secondary check' metrics achieved

Retail and Wholesale



Number of 'robust growth champion secondary check' metrics achieved

Contact information:

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To talk to ThinCats about how they can support your business please visit **thincats.com**

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