



Welcome to Seminar F4

Forecast 2020 – a view of the key evidence to support the growth of employee ownership to 2020 including insight into the recent success of the Employee Ownership Trust (EOT) model and the findings of the MoralDNA study into Employee Owned Businesses.



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ANNUAL
CONFERENCE
2015





Facilitated by:

Chris Heald – Telos Partners Group Ltd

Panellists:

Andrew Pendleton – White Rose University Consortium

Richard Marr – The Eaga Trust

Nigel Mason – The R^m2 Partnership



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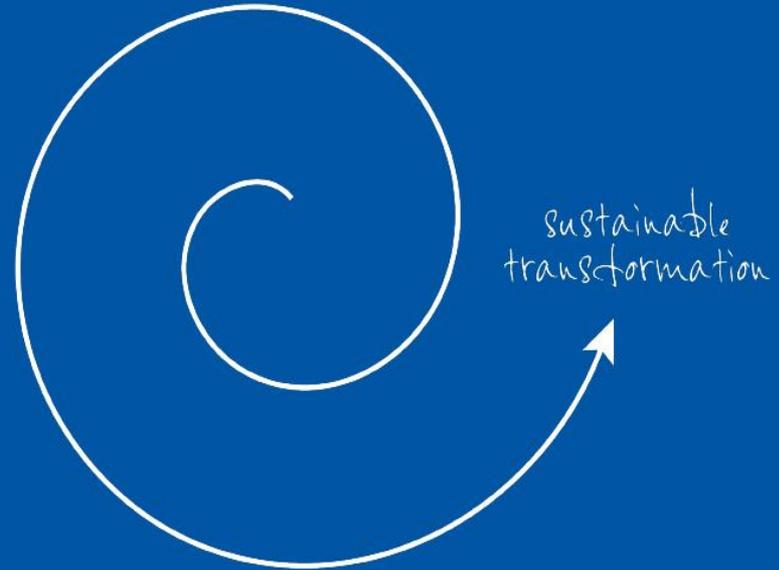


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FORECAST 2020

A VIEW OF THE ECONOMIC AND POLITICAL FORECAST TO 2020 AND ITS IMPACT ON THE GROWTH OF THE EMPLOYEE OWNERSHIP SECTOR



11:00 – 12:00 F4

TELOS
PARTNERS

Outcomes and agenda

Desired outcomes

Delegates will:

- Have enjoyed a stimulating session,
- Gain new insights and learning,
- Experience an overall good feeling that EO has more to offer to the UK economy and is moving in a positive direction, and
- Be more aware of the evidence base (and how to access it) supporting the case for EO

Outline agenda

- Introduction (5 mins) - Chris
- Employee Ownership Study (10 mins) - Andrew Pendleton - White Rose Centre
- MoralDNA Research (10 mins) - Richard Marr - Eaga Trust
- Employee Ownership Trusts Survey (10 mins) - Nigel Mason - RM2
- Buzz groups (5 mins) - reactions and questions to ask
- Panel Q&A (15 mins)
- Summary and close (5 mins) - Chris

WHITE ROSE EMPLOYEE OWNERSHIP CENTRE

WWW.WREOC.ORG

Employee Ownership in Britain: 2015 and 2020



Andrew Pendleton
University of Durham

Andrew Robinson
Leeds University Business School

ADVANCING KNOWLEDGE TOGETHER

Researchers Practitioners Policymakers

The White Rose Study of Employee Ownership

Currently undertaking the largest-scale study yet of employee ownership in Britain. Similar to earlier study in late 1980s/early 1990s. Will use survey to present key features and predict EO 2020

Collecting data on ownership and governance of all firms with substantial employee ownership in Britain.

Currently have data on 111 firms with 25%+ EO.

Estimate that full population is about 250-280 firms (40-45% response). Increase of x4 on mid-1990s peak.

Currently merging this with Companies House financial information (where available)

What does the sector currently look like?

Variation in circumstances and structures of EO

Average level of ownership 85% (median = 100)

Total employment in survey = 154,000

Estimated employment in EO sector = 240,000 (just under 1% of total employment in Britain)

28% with EBT/EOT only; 43% direct ownership only; 27% hybrid

Circumstances of EO creation

Privatisation

15%

Business
succession

32%

'Sharing
ownership'

24%

Business sectors

Sector	Proportion of sample (%)
Manufacturing	22
Construction	5
Wholesale and retail	7
Information and communications	7
Financial and insurance	8
Professional, technical and scientific	28
Administration and support activities	2
Education	7
Health and social services	12
Arts, entertainment, recreation	2

(based on top-level SIC code)

Employee ownership absent from transport and storage, and hotels and catering

Dates of employee ownership conversions

Decade	Proportion of sample (%)
1950s	4
1960s	2
1970s	5
1980s	8
1990s	12
2000s	28
2010s	42
Prediction 2020: total number of EO firms Projected employment	$250/280 + 100.$ 300,000

Development of employee ownership in Britain: longer-run contextual features

Key point **Conditions favouring employee ownership are here to stay**

Shift from manufacturing to services. Human capital as primary source of value. EO as 'lock-in'

Economic and employment insecurity. Hold-up problem: low commitment all round. EO to signal commitment

GFC shock. Heightened critique of short-termism and inequality. EO as 'better alternative' (though rarely used in rescues)

Development of employee ownership in Britain: cyclical influences

Key point and	Environment for employee ownership fluctuates over time. We have just had a very good period. Next 5 years: steady growth and consolidation
Business cycle	Economic recovery/growth favours EO conversions Few EO firms created in distress
Politics	Privatisation (but questions over sustainability)
	Regulatory framework and initiatives
	Signalling
	Political competition, providing windows of opportunity

Thank you for listening

Further results from the survey can be found in our latest report
Employee Ownership in Britain

Download it from www.wreoc.ac.uk

Please complete the survey (if your firm hasn't already done so).

<https://www.surveymonkey.com/r/employeeownership2015>

Forecast 2020

An outline of the Moral DNA of Employee
owned companies

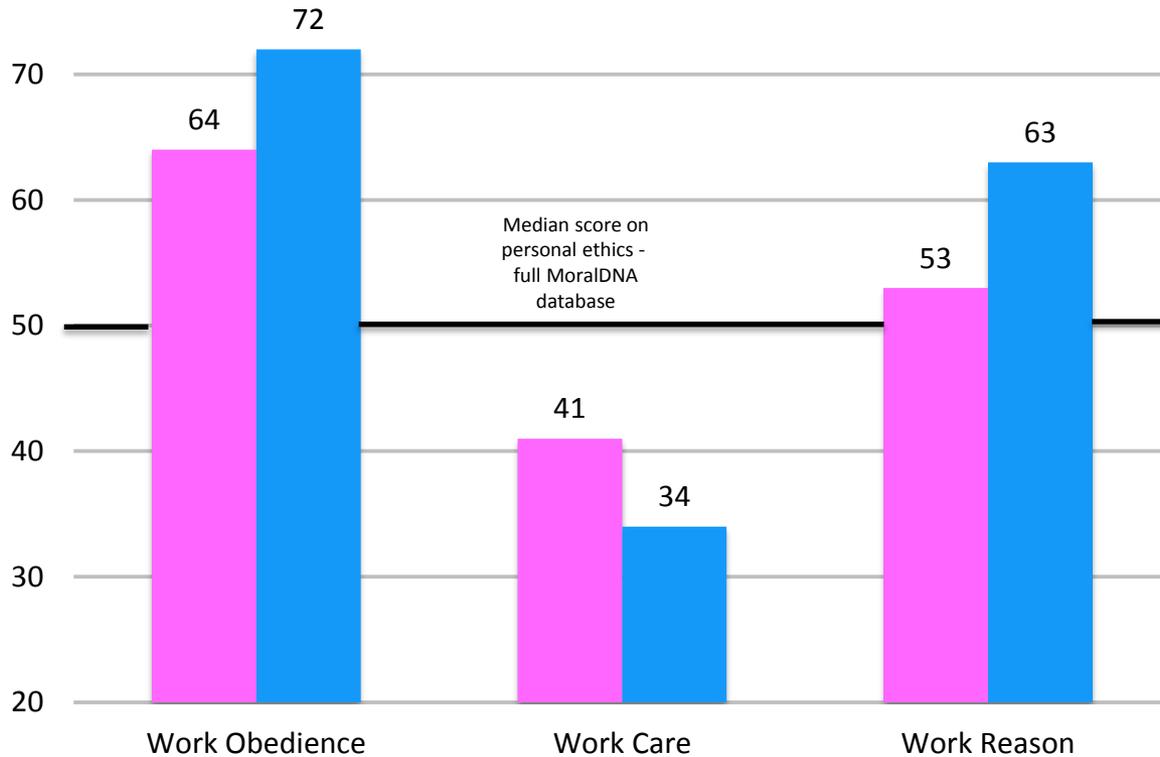
How far does the ownership of a firm shape
its culture and what can we learn from this?

Richard Marr
COO, the eaga Trust

Moral DNA of EO Businesses

- Research led by Prof. Roger Steare, Corporate Philosopher in Residence at Cass Business School, psychologist Pavlos Stampoulidis of Psycholoate and Peter Neville Lewis, visiting Fellow at Brunel University, London
- Supported by eaga Trust, Field Fisher and CMI
- EO is often associated with high levels of motivation, engagement and an impressive company longevity - this research sets out to explore whether EO is also connected to different ethical standards
- Data taken from a survey of over 1,000 employees, managers and non-managers alike – across 15 EO companies. It is unique in providing insights into companies owned through the employee trust model of ownership in particular
- The results are composed with employees in other sectors using the MoralDNA™ database

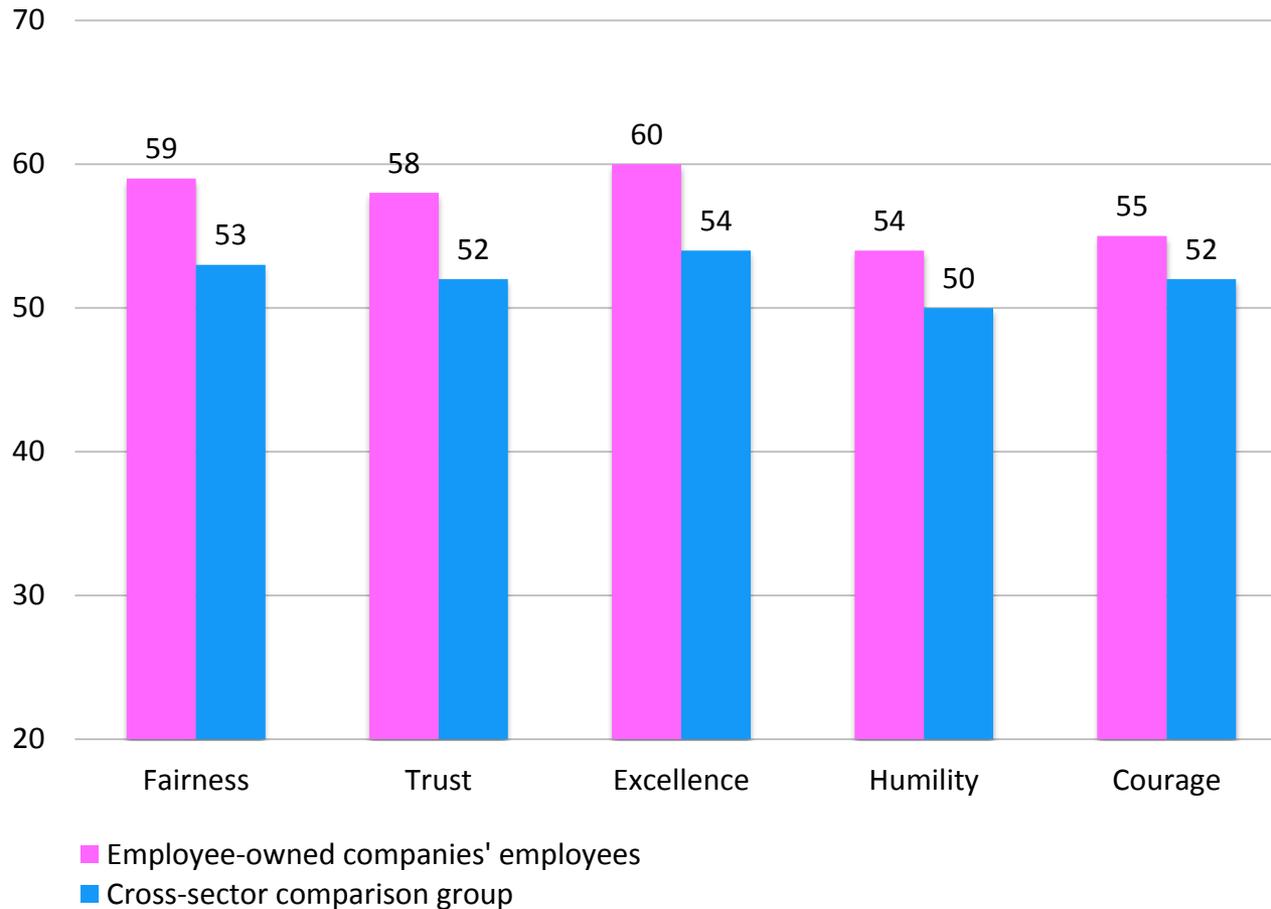
Ethics at Work



- Employee-owned companies' employees
- Cross-sector comparison group

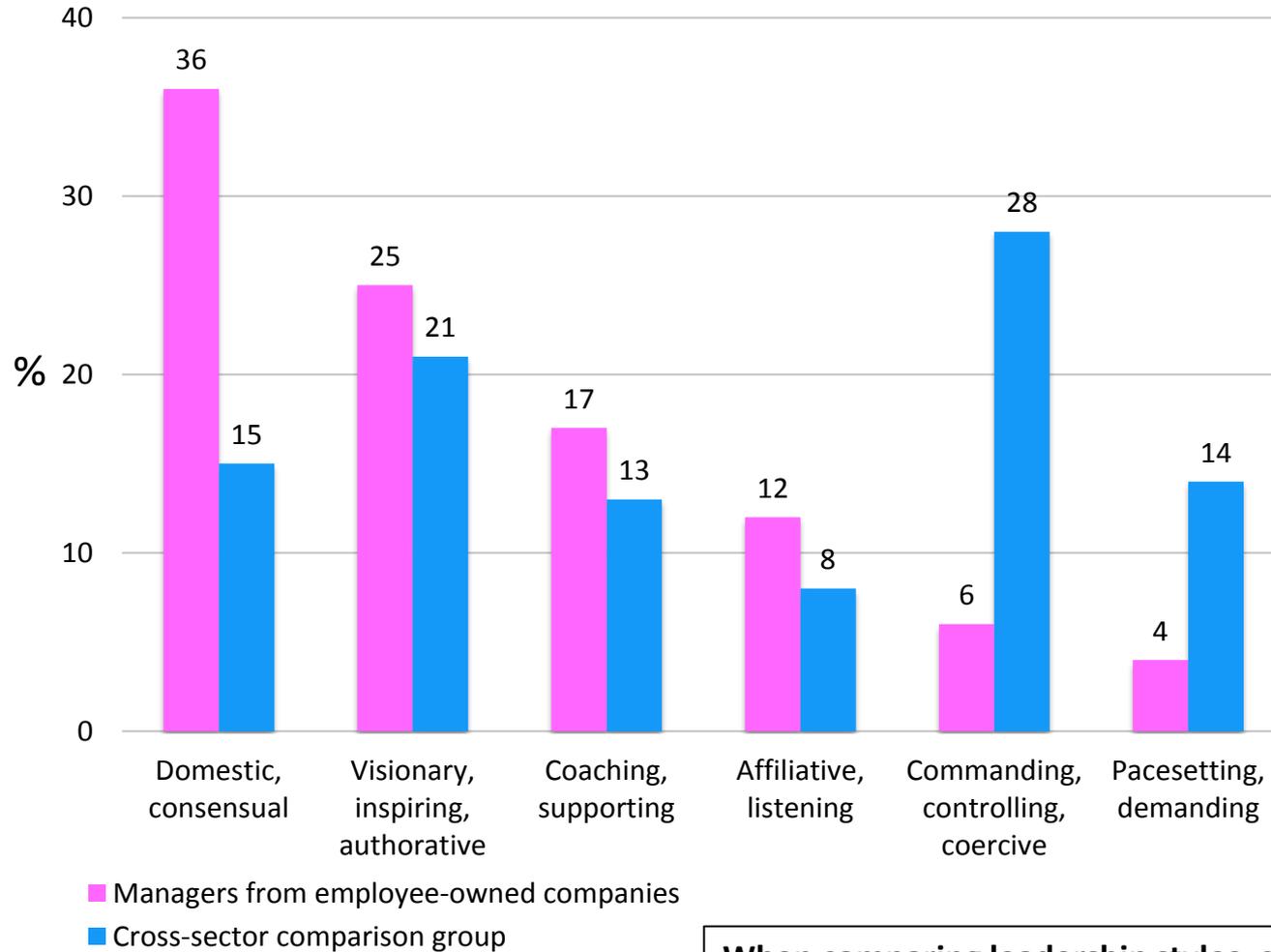
The ethics of obedience and reason are stronger at work than in people's personal lives, while the ethics of care are generally weaker

Moral Value



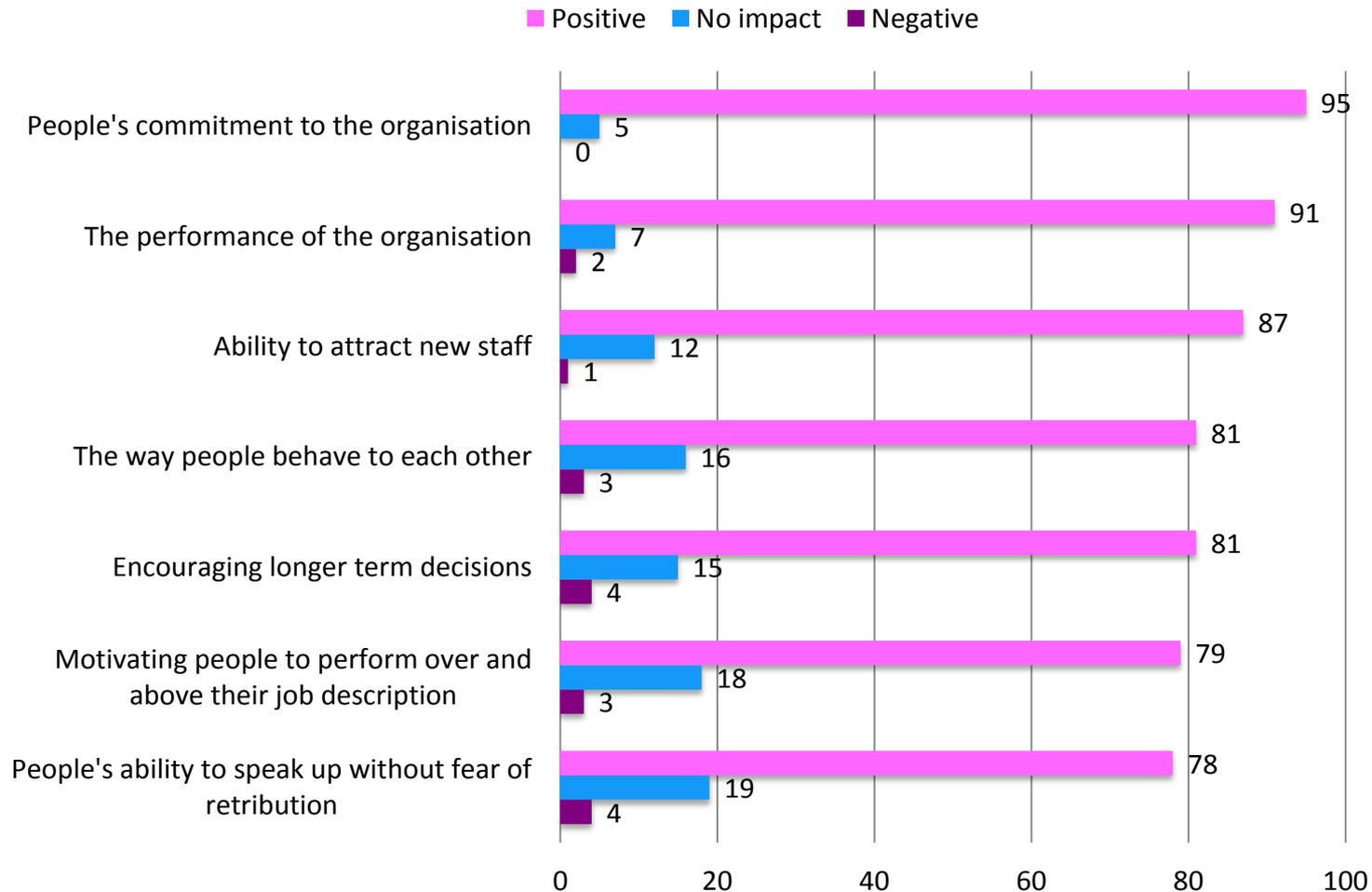
People working in EO businesses demonstrated significantly higher scores in the values of fairness, trust, excellent, humility and courage

Leadership Styles



When comparing leadership styles, consensus scores higher than control in EO business

The impact of EO



Conclusions and Challenges

- Overall, the research endorses the core ethos & impact of EO business as both higher performing and more ethical
- There are clear opportunities for improvements, particularly in avoiding robotic compliance, bureaucracy and more controlling leadership styles of direct competitors with other forms of ownership
- More democratic management styles should go hand in hand with a culture that is open, with extended information flows and encouragement for constructive dissent and challenge
- What implications does this research have for non EO business...
 - an immediate change in model be impossible in the short term – think about shaping culture where people are able to think, decide and act like owners to the benefit of all
- Research highlights the need for an EO “toolkit” – to reflect best practice across the sector & allow EO companies to accelerate the EO benefits of this business model

Take Action

- Take the moral DNA profile yourself at www.moraldna.org
- The full report is available on the CMI's website www.managers.org.uk/campaigns/moraldna
- If your company is owned by an employee trust and are interested in participating in the 2016 online survey please contact Peter Neville-Lewis: peter@principalconsulting.biz or Graeme Nutall OBE: graeme.nutall@fieldfisher.com
- For more information or if you would like to discuss any aspect of the eaga Trust and potentially working together please contact richard.marr@eagatrust.com



The Employee Ownership Trust 2015 Survey

Presented by



Employee Ownership Trusts

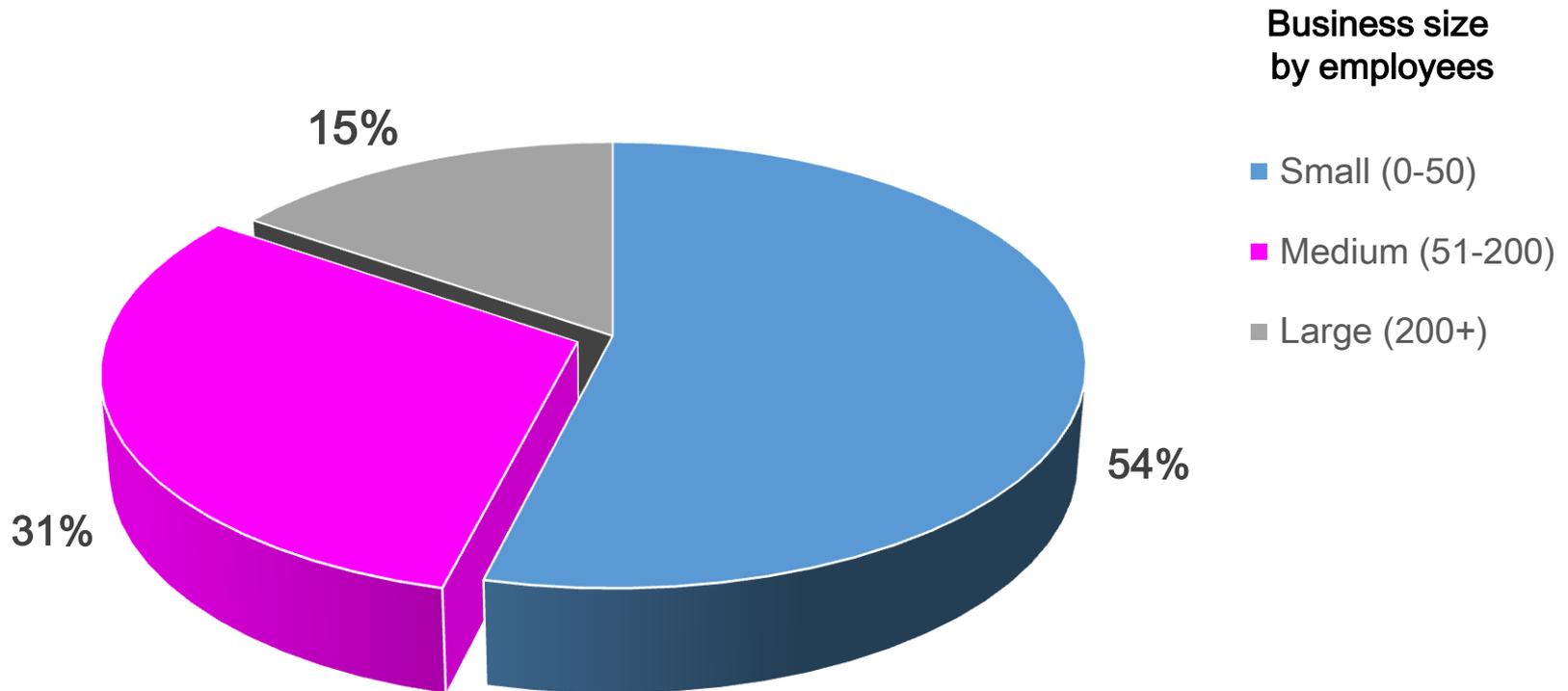
- Finance Act 2014
- Encourage transitions to majority employee trust ownership
- CGT relief for vendors (April 2014)
- Income tax free bonuses for employees (October 2014)

The who



- The Employee Ownership Association and RM2 identified early adopters of the EOT and asked them to complete a questionnaire.
- This was supplemented with public domain information.
- The response rate was **60%** from EOA member companies and **20%** from non-members.

The who



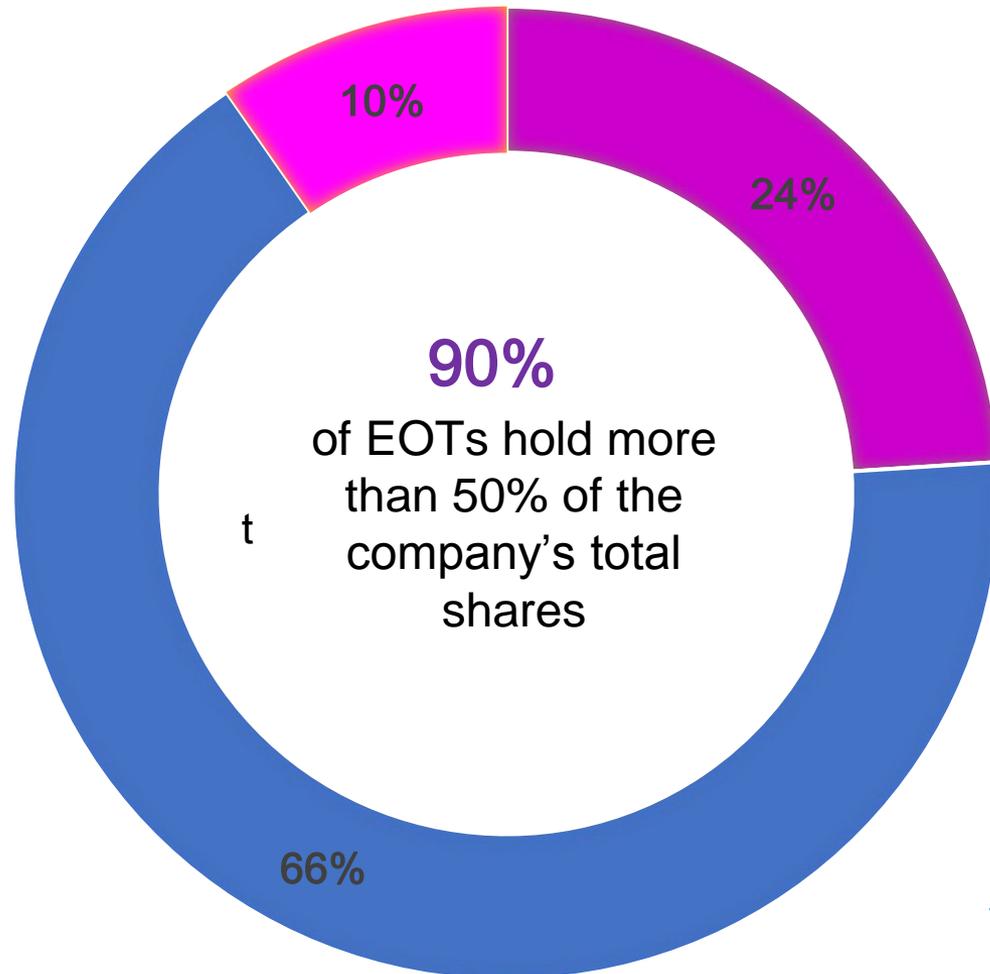
Over half of all EOT companies are **small** businesses.

EOT companies have **5,300** employees in total.
The largest EOT company has turnover of £144m.

The who

■ 100% ■ Greater than 50% ■ Less than 50%

Of those not currently 100% EOT owned, over **50%** have definite plans to increase the EOT shareholding

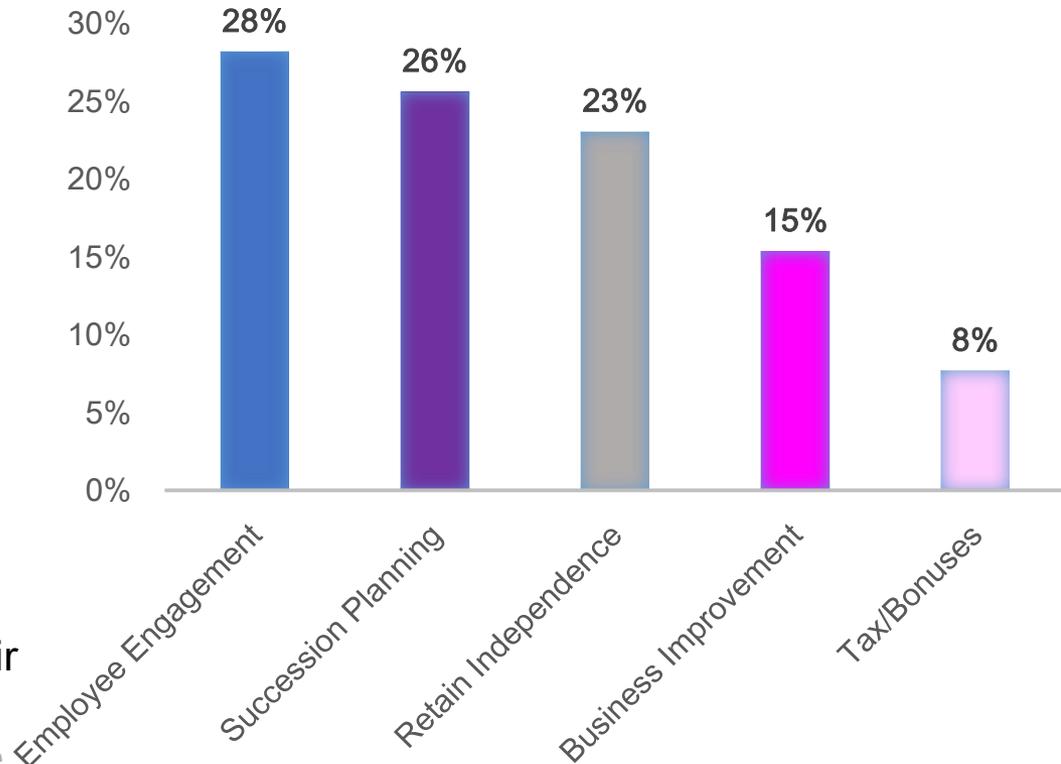


The who

28% said that improving **employee engagement** was a fundamental reason for introducing the EOT

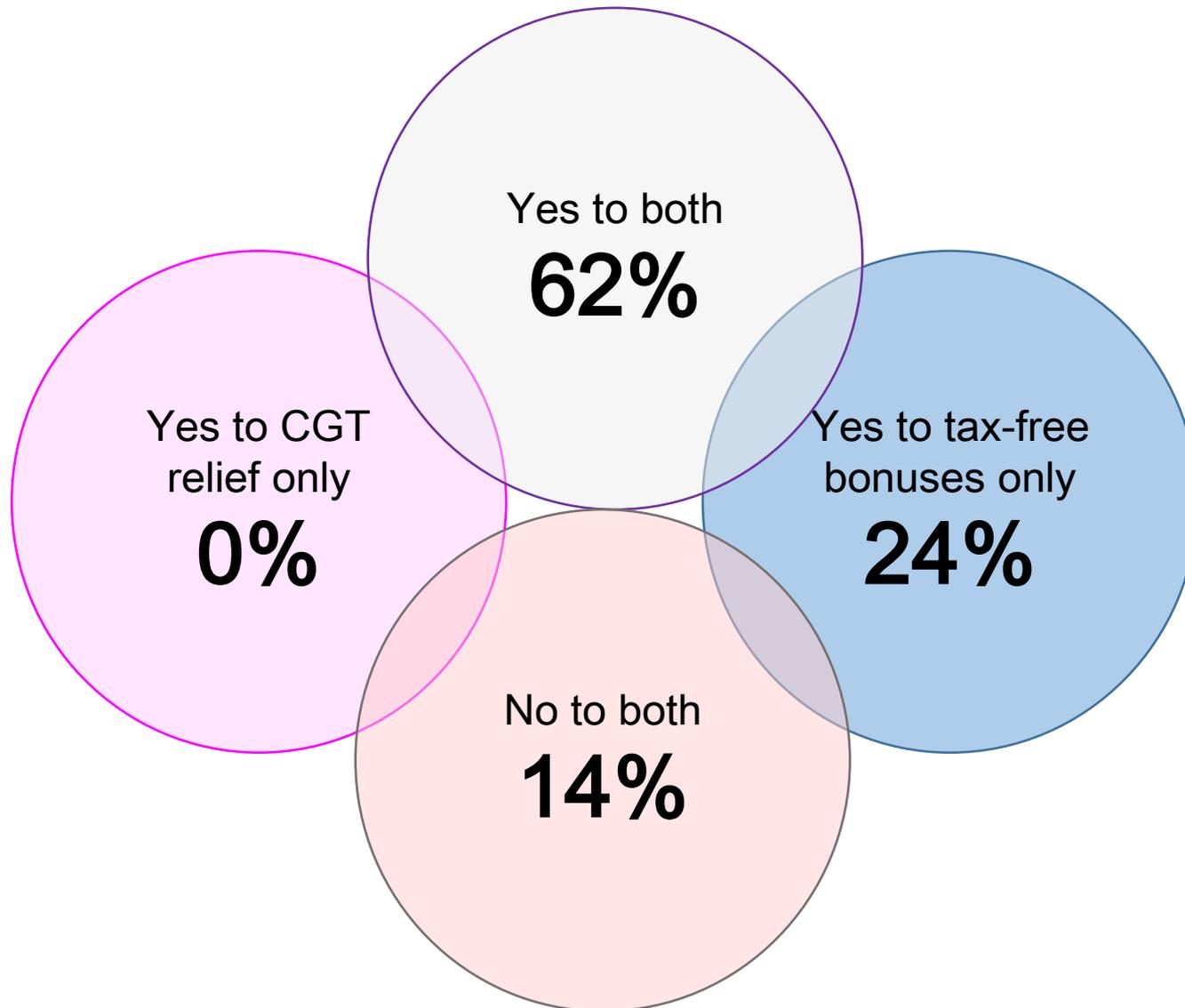
Over 25% said that their EOT was implemented as part of their plans for **succession**

Almost 25% said that their EOT helped them to retain their **independence**



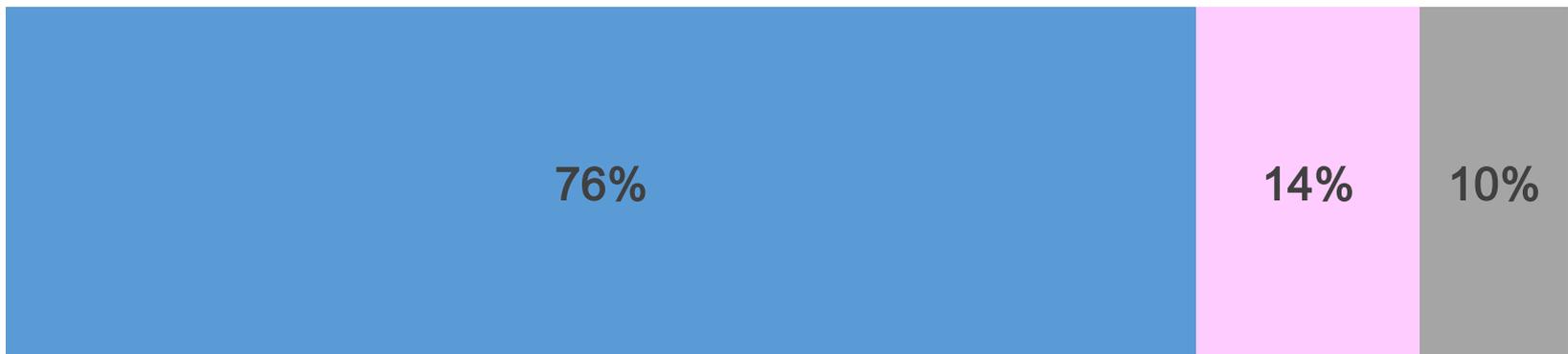
NB: Companies were able to provide multiple answers

The why



The why

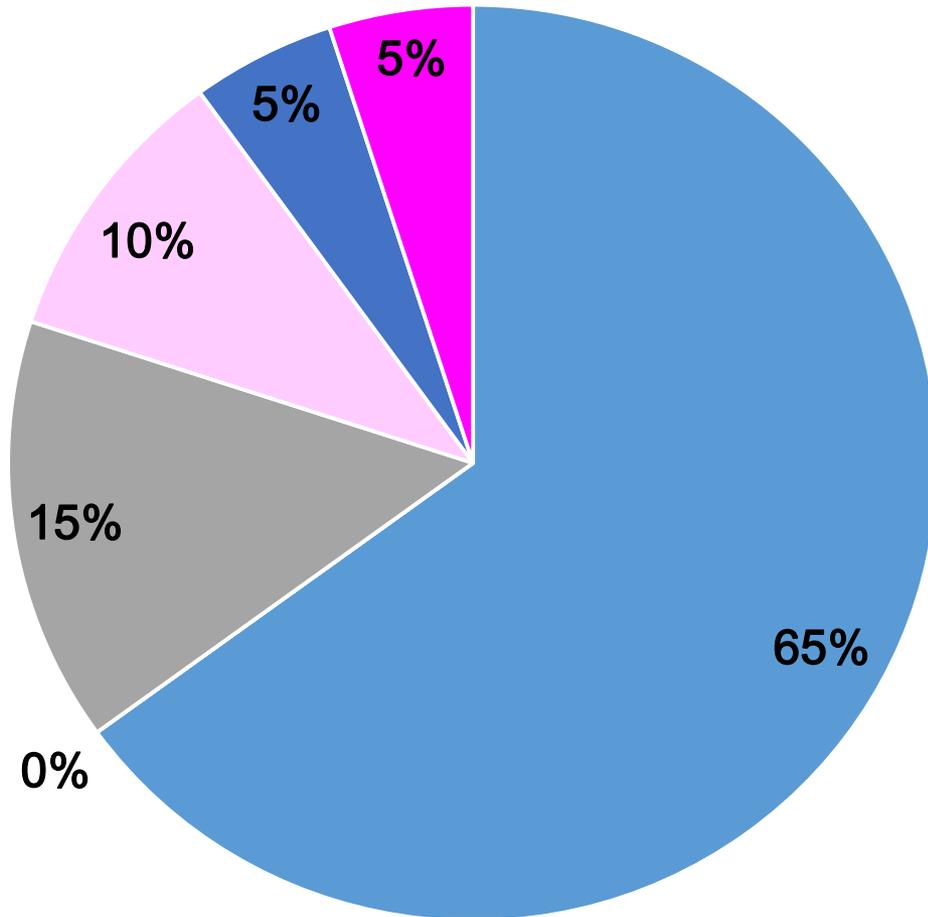
So we asked, were companies committed to employee-ownership before the tax reliefs were announced? **76%** said YES



■ Yes ■ No ■ N/A

The how

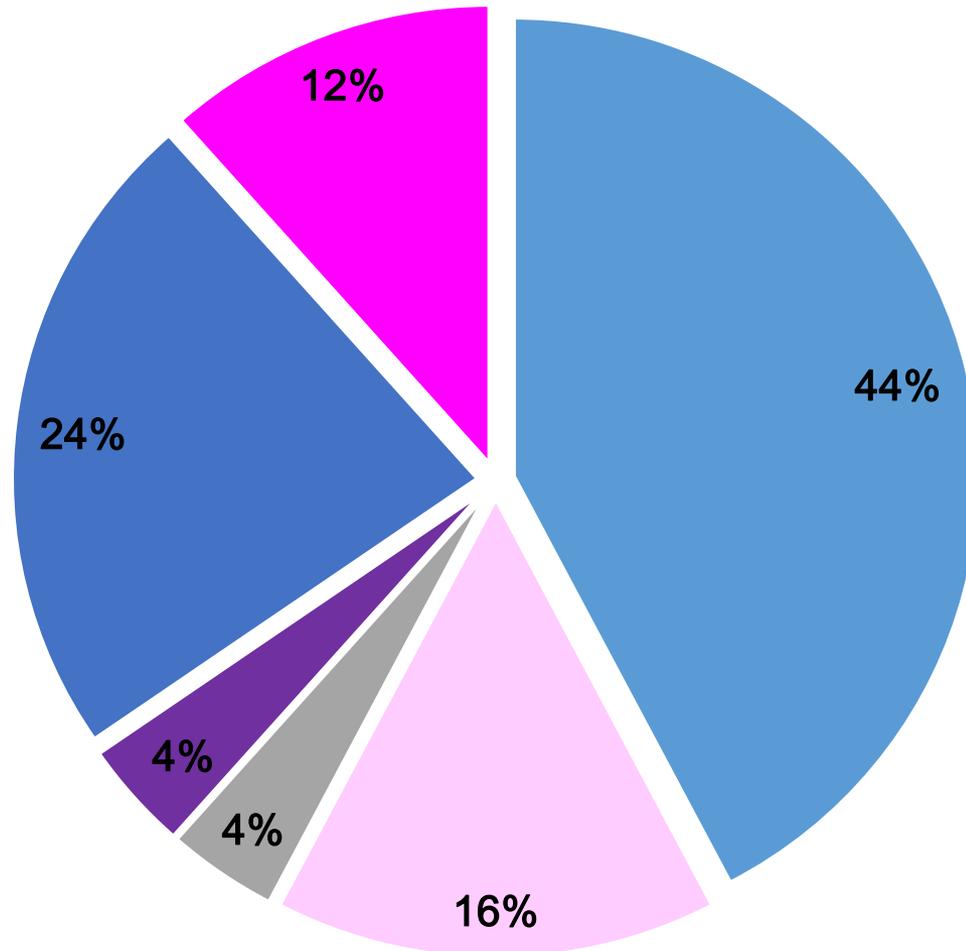
We asked at what value the EOT acquired its shares:
only **10%** received them as a gift from the vendor.



- At fair market value
- At a discount to fair market value of < 25%
- At a discount to fair market value of > 25%
- As a gift from the vendor
- A combination of the above for different vendors
- Unknown

NB: Companies were able to provide multiple answers

The how

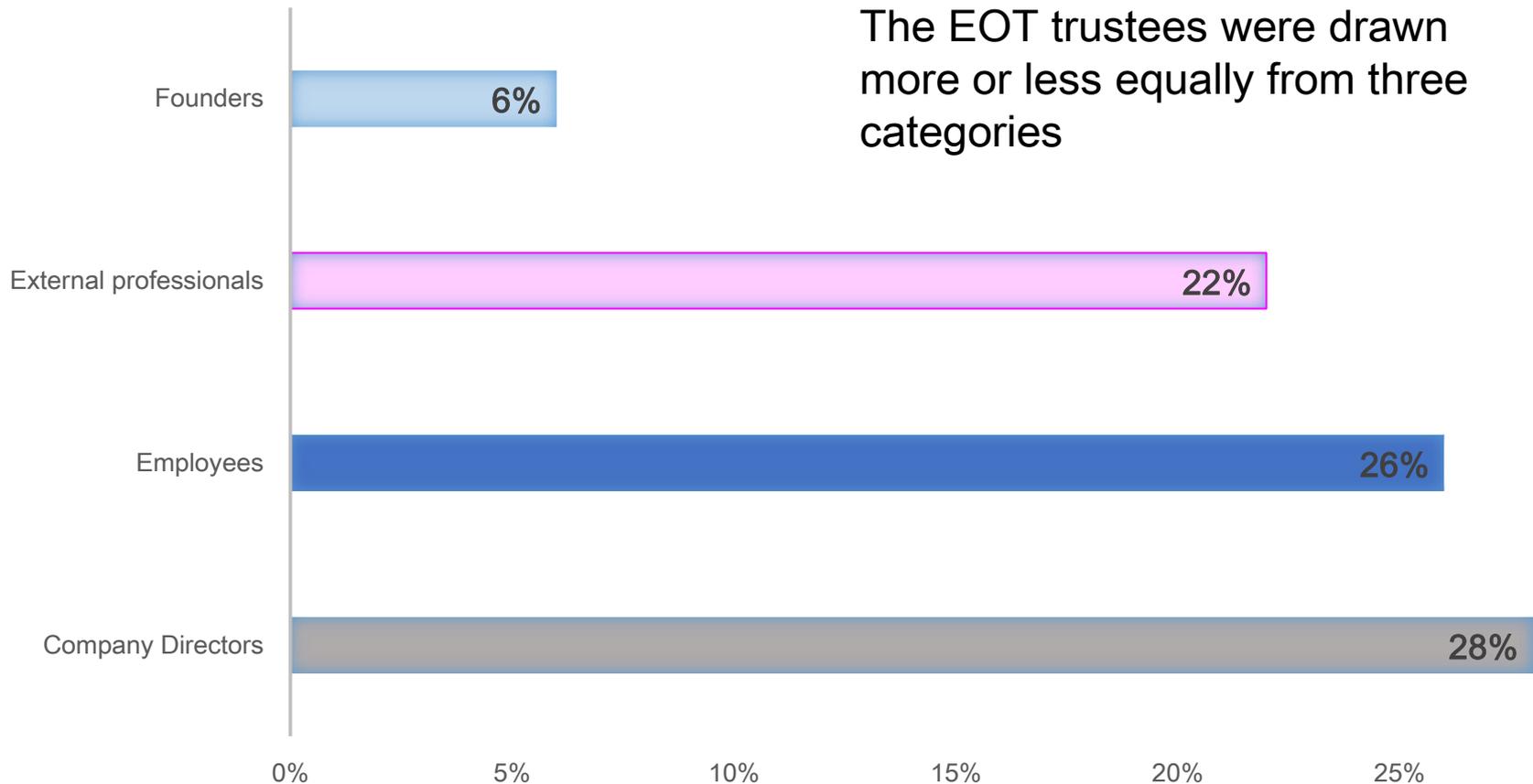


- By the vendor accepting deferred payment terms (effectively a vendor loan)
- By external bank loan to the EOT or the company
- By external finance from a source other than a bank (e.g. private equity)
- By loan from the company to the EOT
- By a gift from the company to the EOT

Of the **80%** which involved some payment to the vendor, almost half were provided by a vendor loan agreement

71% obtained a s701 tax clearance

The how



All but one company have corporate trustees for their EOT and only one company used an offshore trust option.

Room for improvement?

- Loans to participators
- Tax exemptions for the EOT itself
- Some flexibility on “equal treatment” rule
- Standardised process and documentation
- Reduce threshold for tax reliefs to below 50%



The Employee Ownership Trust 2015 Survey

Presented by



Buzz group and panel questions

- In your groups, take 5 minutes to:
 - Share what you have heard
 - Consider what you expect to see on 2020
 - Generate 1 or 2 questions to ask the panel

- Our panel consists of:
 - Andrew Pendleton - White Rose Centre
 - Richard Marr - Eaga Trust
 - Nigel Mason - RM2

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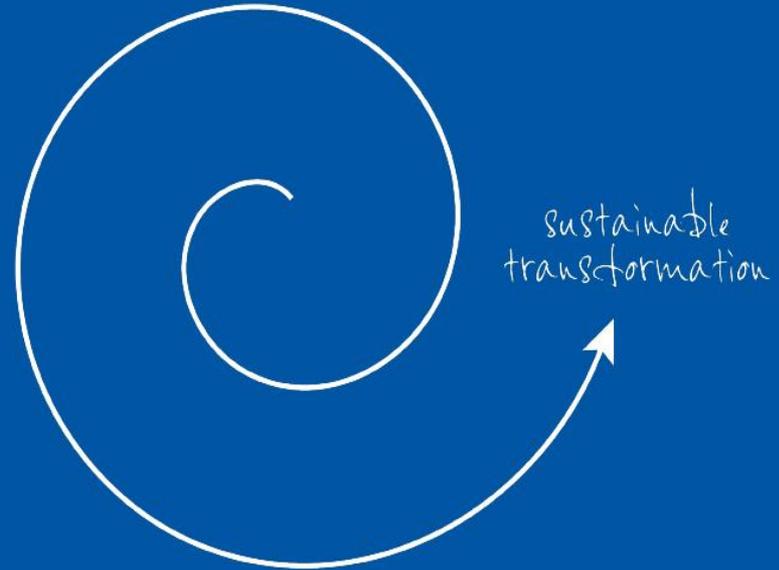


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Questions and Discussion

#EOAConference

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Capital
for
Colleagues 
Advice Investment Growth



Thank you

Please make your way to the Kings Suite for
Trevor Phillips OBE's Keynote Address



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