EOA Annual Conference

EMPLOYEE OWNERSHIP
BEST IN CLASS

#EOAConference
Effective Governance in New Employee Owned Businesses

Facilitator: Chris Heald, Telos Partners
Contributors: Graeme Nuttall OBE, Fieldfisher
Malcolm Lane-Ley, Anton Group
Jonathan Williams, East Coast Community Healthcare
Katrina Mackay, Scott and Fyfe
Desired outcomes

**General**

- Participants experience a stimulating and interactive session which models an EO ethos
- People learn
  - Practical tools and tips
- People establish contacts, which can be used in follow-up
- We have some fun!

**Specific**

- We transfer some learning which will save pain - help people avoid mistakes
- We help people to maximise the benefits they take from EO
- People appreciate and understand
  - The different elements which should be considered when establishing Governance structures for a new EO business – including Trust, Board, Council, Employee Trustees etc.
  - How to ensure that the roles and contributions made by those different elements (Trust, Board, Council etc.) are fully effective
  - That Effective Governance in EO isn’t just about structure and money – it’s also about; Culture, Making work more rewarding/fulfilling, Determining our own future etc.
  - How an Employee Director can contribute positively to the organisation
Flow

- 5 mins – Introductory remarks; outcomes for session; flow; introductions – Chris
- 5 mins – Introductions
- 20 mins – Graeme – expert input
- 5 mins – buzz groups – Chris
  - Reflect on inputs; develop questions – in 2’s & 3’s
- 20 mins – Q&A – Chris
- 5 mins – Closing remarks; thanks – Chris
“Traditional” governance

- A “traditional” Governance structure for a Companies Act company
  - The roles of directors and shareholders
  - The statutory duties of directors

- Act within powers
- Promote success of the company
- Exercise independent judgment
- Exercise reasonable skill, care and diligence
- Avoid conflicts of interest
- Not to accept benefits from third parties
- Declare interests in transactions and arrangements with the company
Duty to promote the success of the company

A director must act in good faith to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to –

• the likely consequences of any decision in the long term
• the interests of the company’s employees
• the need to foster the company's business relationships with suppliers, customers and others
• the impact of the company's operations on the community and the environment
• the desirability of the company maintaining a reputation for high standards of business conduct, and
• the need to act fairly as between members of the company.
“Traditional” governance

SHAREHOLDERS

TRADING GROUP LTD

Board of directors

Employees

Articles of association

Contracts of employment
The Employee Ownership differences

• Employees directly or indirectly as shareholders:
  o Employee share and share option plans
  o Employee ownership trusts

• Employees’ stake must underpin organisational structures that ensure employee voice and engagement:
  o Employee input to board level governance:
    • Employee Committees, and/or
    • Employee Directors
  o Employee input as shareholders

• Choice between “Custodian Model” and “Distributed Responsibility Model”

• There are other differences
The Employee Ownership differences, cont’d

• Employee trust board composition best practice according to the founder of the EOA, Robert Oakeshott – a “paritarian” composition of trustees/trustee directors:
  o a number of trustees/trustee directors that are from the board of directors of the trading company/senior management
  o the same number of trustees/trustee directors that are from or represent the employees as a whole, and
  o an independent chair

• Effective governance in Employee Owned businesses is obviously not just about the legal structures
• Sometimes the legal structures lag behind what a company does anyway!
• Where there are changes to make in governance it takes time and patience
The challenge

“Can we find a way of giving human capital a more constructive voice commensurate with the employees’ commitment to the corporation and how employees can play a role in stewardship, bringing detailed knowledge of the business to the task of holding managers to account?”

John Plender, Financial Times, at the Cass Business School 17 December 2015
(with thanks to Ruth Yeoman, Kellogg College, Oxford)
Employee Ownership governance examples

ANTON EMPLOYEE TRUSTEES LTD
(100% EOT shareholding)

ANTON GROUP LTD LTD
(limited by shares)

INSIGHT FORUM

Articles of association
Contracts of employment
Rules

Trustees
Beneficiaries

Board of directors
Employees

#EOAConference
**THE FORUM**

**EMPLOYEE BENEFIT TRUST**
- Trustees
- Beneficiaries
- (92% EBT shareholding)

**SHARE INCENTIVE PLAN**
- Trustees
- Beneficiaries
- (8% SIP shareholding)

**THE BOARD OF DIRECTORS**
- SCOTT & FYFE LTD (limited by shares)
- Employees

**THE TRUSTEES**
- Trustees
- Beneficiaries
- (92% EBT shareholding)
- Trustees
- Beneficiaries
- (8% SIP shareholding)

**THE SHAREHOLDERS**
- Employees
- Trustees
- Beneficiaries

- **Articles of association**
- **Contracts of employment**
- **Rules**
The Board of Directors
Employee Director, Chairman, Chief Executive, Nominated Director, Finance Director

<table>
<thead>
<tr>
<th>The Trust</th>
<th>Responsible for strategy and all company operations. The Employee Director is voted on by their colleagues and will take concerns to the board if necessary.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 x Employee Trustee, Independent Trustee, 2 x Family Trustee, 2 Board Trustees</td>
<td></td>
</tr>
<tr>
<td>The Forum</td>
<td>Responsible for the communication of the larger decisions, shares and voting on behalf of the shareholders. Also responsible for overseeing the company and board performance.</td>
</tr>
<tr>
<td>Employee volunteers from the office and the shop floor.</td>
<td></td>
</tr>
</tbody>
</table>

Description
Originally a family owned company for 150 years. Employees at the stage of transition were given 500 shares each and are all owners. New employees can buy shares after their 1st year of employment via a share incentive plan.
EAST COAST COMMUNITY HEALTHCARE CIC (limited by shares)

- Board of directors
- Employees
- SHAREHOLDERS COUNCIL
- Shareholders

Articles of association
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Questions and Discussion

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Thank you.
Now please make your way to the Queens Suite for the Keynote speech from Isobel Schofield and Andrew Lane from Union Industries.