

Welcome to
Employee Ownership Association
Annual Conference 2018

Where employee ownership meets

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Are we ready for employee ownership?

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What we will cover

- Company background – context for the deal
- The Deal – aims and objectives / hard and soft
- Preparing the ground and the team
- The process – launching and running
- After completion (later)

- Learnings (and advice?)

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Novograf – Company context

- We make places and things look new and pretty.
- Founded in '86, run by charismatic entrepreneur, 30 years 'in charge'.
- Variable turnover, circa £8m average, circa 75 employees.
- Complex project driven customised supply operations, supplying thousands of client unique specifications and services to high street retailers, banks, hotels, fast food outlets.

Objectives of transition

- Financial objectives
 - Money now? Later? Mixture? Level of certainty? Tax implications?
 - How to fund?
- Soft factors
 - Staying with the ‘ethos’?
 - Restrictions – to locality / scope of business activity
 - Charitable benefit?

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Our deal

- Trading company maintained as the same legal entity throughout, minimising external disruption
- 100% of Trading company shares sold to and nearly all owned by a new Trust
- Our EO transition legally, but not culturally, is a journey,
 - all parties same journey, albeit on separate paths, for quite a few years to come.

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Why transition decision

- ‘Age related’ - need for senior managerial/ownership change/succession, absence of ‘owning family’ succession or involvement.
- Risk of break-up, and asset dissolution if sold to management or trade sale.
- EO a financially efficient, long term mutually beneficial, stable, politically supported solution – good hard and soft outcomes
- Low proprietor engagement with marketplace or suppliers helped smooth withdrawal - rather than ‘hand over to credible new’.
- Plenty of external change comms – with operational focus on ‘internals’

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Novograf's transition timeframe

- Transition announcement made to company winter 2015/2016
- Transition planning, transitional structures, legals, and learning and educational activity planned for 12 months all through 2016
- EO 'emergence' start of 2017
- Novograf has been EO now for almost 2 years.
- We are now a very different company to then!
 - Structurally, culturally, strategically.

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Employees view (in the run-up)

- What is employee ownership? And how will it impact me?
- Is it the best option for us? No other options offered!
- The start of the emotional journey to understand the ‘vision’ for the Company – confusion, fear, excitement and boredom.
- Coming to terms with the change in structure, biggest fear was the succession related change in Managing Director.

Preparing...

Background

- Valuation / affordability
- Ballot of employees?
- Employee information - FAQs / booklet / presentation
- Need to inform customers/suppliers/bank?
- Negotiation, or done deal?

Team

- Internal buyout team
 - Management team
 - Employees
- External
 - Legal? Accountant? Organisational development?
- How is process communicated to wider employee base?

Our management and ownership

- Long service, locally based team
 - Hierarchical management culture, inexperienced in corporate change and/or financial management/control, broader governance etc.
- Employee and management engagement stable
 - But largely limited to operational requirements and 'need to know' good practise.
- All challenging start points for transition/post transition processes.

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Our state of readiness?

- Management structure, skills and strategic direction all needed overhauling for post transition environment
 - Senior succession needed planning, organising and delivering
- Emotional, cultural bonds needed to be broken, and the vacuum filled with new practise to suit a new environment.
 - Historical cultural norms and values needed significant shifting – ‘good to do’, but..
- We launched an Organisational Development Review, with the help of consultants
- Employee Directors, Operating and Trust, needed training for new roles

The transition plan

- ‘Pre-packaged’ transition journey
 - Milestones and route facilitated by expert consultants.
- Almost everyone except the consultants unclear on detail or significance of any of the parts of the journey ahead.
- Hard for anyone involved to envision the journey, or the situation post-journey
 - So much of the process is apparently dry legal detail.
- We created an internal Project team, for involvement, and progress dissemination
 - But they were neither corporate management or PR experts!

Issues in the journey to transition

- Project team was a small group acting as employee representatives, and also on a ‘personal’ journey of ‘enlightenment’.
 - rather than being expert employee ‘representatives’ driving a new visionary culture, or deploying expertise in due diligence.
- During the transition year, our management team was also occupied in managerial restructuring and development to meet future business strategy requirements (ODR), rather than being active partners in ‘deal’-making as preparation for subsequent ‘deal’ delivery. – raises the issue of –
 - Who actually delivers the exit deal for the exiting owners?

Engaging with employees

- Project team appointed by election:
 - What was the Project teams remit and how will it engage?
 - Educating the Project team, enhance their understanding of EO.
 - Communication!
- Building a relationship between the stakeholders.
 - Expectations from each stakeholder group
- Impact of managerial restructuring (ODR)
 - Who is boss? Employee owners vs Managerial structure.

Launching the process

- General outline of deal
- Governance structures
- Reward
- Management
- Role of owner

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By what process did transition happen?

1. Initially 'private'
 - Due diligence on 'options and issues' for the sellers/exiting owners.
2. Communication
 - Launched by a 'big' announcement to all employees
3. A real years' work to deliver the transition to EO.
4. 'Re-birth' effective emergence of the company into a new cultural and managerial and financial environment, exactly one year on from the original announcement

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Readiness for the transition

- Management – needed significant work to get to understanding and subsequently competence/ownership of the deal – that starts from process launch date at latest!
- Project team – ‘babes in arms’, their involvement brings complexity/acceptance/communications - not expertise in deal diligence issues.
 - Delegates or Representatives? – brand new issue for most employees!
- Exiting owners/managers – preparation to let go? – not easy to manage!
- Employees – didn’t need to actually do anything to get ready!!!!, except slowly awaken to a new perspective and responsibility, which is still a work in progress.

Engaging with employees

- Employee representation
 - Employee Directors and their role within the business.
 - How long do they serve and what training is available.
 - Does the Project team continue? If so what position does it take in the structure.
 - How to sustain engagement and enthusiasm.
- Setting up and understanding the SIP

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After completion

- Rights and responsibilities?
- Training for elected representatives?
- Guidelines on operating as a board of directors (trading company)?
- Guidelines on operating as a board of directors (trustee company)?
- Relationship between Trading company and Trustee company.

Readiness to manage post transition

- Effective succession/exit for Chairman and Chief Executive anticipated
 - management team had to be ready for exit.
- One years Organisational Development review/restructure
 - with external consultants – lots to do to get fit!
- Role of new successor MD a vital element:
 - cultural empathy to the changed environment,
 - Implementing new and effective management structure

Issues we weren't ready for

- Management challenged to deliver the future responsibilities contained in the final transition
 - Involvement and understanding of managers in the 'deal' terms and conditions, new/different restraints on managerial flexibility.
 - 'buy-in' and agreement to the 'deal' deliverables from everyone
- Post deal - who drives the new culture and approach, responding to new EO vision, or changes of circumstance, or issues from succession?
- How does the 'new management' consider/address these future issues?

Year One (and beyond)

- Deployment of Employee Directors and creation of Engagement Team.
- Battle for information ‘**I need**’ and ‘**I want**’
- ODR structure started to take shape. More changes but one everyone could relate too.
- The cultural change starts to flow through the workforce.
- Employees started to see where they could make a difference.
- Employees more vocal on direction of company and activation of SIP.
- Still on a learning curve for all involved.

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Outcomes

- We believe Novograf has come out pretty well!
- But – key questions, going onto transition, how much of that is down to...
 - Approach, attitude, and expectations of ‘Exiting owners’
 - Ability and capacity of ongoing/new Management to rise the challenge
 - Legal structure and communications/options/diligence path from Consultants
 - Employees have probably been the group least able to influence the situation up to this point – future role?.

Questions and Discussions

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Thank you. Please make your way to the
Exhibition Hall for Lunch & Networking

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