



## **Employee Ownership North - Meeting Notes, 26<sup>th</sup> May 2016**

Hosted by Catalyst Choices CIC, Gorse Covert Day Centre, 22 Adlington Court Warrington, WA3 6PL

Notes made by Rory Ridley-Duff.

### **Introduction**

This was the fifth meeting of the EOA North network and the second to be facilitated by academic staff from Sheffield Business School. The following agenda was agreed beforehand and circulated to attendees. Notes are provided against each agenda item.

#### **1.30 Welcome by EOA and David Osborne and a presentation from Catalyst Choices**

Participants were welcomed by Dr Rory Ridley-Duff, Sheffield Business School. Hannah Welch spoke on behalf of the EOA to alert people to the EOA conference on 20<sup>th</sup>/21<sup>st</sup> November and EOA Day on 1<sup>st</sup> July.

The meeting was then addressed by **David Osborne**, the Managing Director of Catalyst Choices on their transition to an employee-owned social enterprise. ([www.catalystchoices.co.uk](http://www.catalystchoices.co.uk)). Catalyst Choices, which span out of Warrington Council, employs over 300 people to deliver community based services to adults with learning disabilities and elderly people. The transition took 3 years, after which they formed a new company with a staff council and elected staff director.

David described each of the services offered (community support, day care, living support and facilities management). It is structured as a Community Interest Company limited by Shares with an employee benefit trust owning the company. There is also a subsidiary management services company Catalyst Solutions responsible for managing the buildings. David described Year 1 (just completed) as a year of consolidating changes. Year 2 will see the company action its full business plan. It has a 5 year contract with the council (3 years, plus 2 extension years) to diversify its offer to achieve sustainability.

As it was not possible to do a tour of facilities, carers and cared-for put on a delightful performance of Thriller to show delegates the work undertaken at Catalyst Choices.



## 2.00 Attendee introductions

The meeting had 18 attendees from:

3BM Ltd, Parfett & Sons Ltd, Locala, Carole-Vincent Wright, Catalyst Choices CIC, EOA, Leisureplex Ltd, MyCSP, Sheffield Business School, Wales Cooperative Centre, Wrigleys Solicitors, Gripple, Rowlinson Knitwear.

Five people attended for the first time. Members from BE Group and ESP Projects Ltd also booked, but did not attend.

## 2.15 **Malcolm Lynch, Wrigley's Solicitors** spoke on the topic of:

*"Issues in the short and long-term transition to employee ownership"*

Malcolm's talk started by identifying the stakeholders in an employee-owned business (managers, employees, professional advisers, public authorities), and the ownership options available. He illustrated the breadth of approaches using members of EOA North as examples. Both direct and trust-owned employee owned businesses were represented with shares owned by employee owners varying from 25% - 100% of ownership. These arrangements could apply to both private and community interest companies.

The talk was interspersed with periods of discussion and questions on the journey into employee ownership, clarifying the ownership structures in use amongst members and the operations of a staff (partnership) council. Malcolm distinguished the legal and cultural changes and emphasised areas that needed careful discussion (such as the policy in place for setting wage rates). This prompted a dialogue in which it surfaced that wage policies varied from market-based pay to equal-pay in different types of employee owned companies.

Malcolm distinguished the roles of the partnership council and employee trust and the power that the latter holds as a majority shareholder. He left more detailed discussion of the role of the trust to the roundtable discussions. He identified 'easy wins' such as using new tax laws to benefit both company and staff.

## 2.45 **Andy Davies**

*"Reflections of a retiring EOB manager"*

This item was carried forward to a future meeting as Andy was unable to attend the meeting.

## 3.00 **Break**

Refreshments and cakes were provided by Catalyst Choices.

## 3.15 **Roundtable Discussions**

Discussion questions were decided in advance of the meeting by asking members to select from a topic list generated by the steering group from reviews of previous Open Space sessions at EOA meetings. The four top choices (in order) were:

1. How much should employees tell managers and managers tell employees in an employee owned business?
2. How can innovation be generated in a low-staff turnover environment?
3. What power relations between employees, partnership council and executives works best?
4. What is the role / purpose of a trust in the transition to employee owned business?

Based on notes made in each roundtable, the following points were noted.

**1. How much should employees tell managers and managers tell employees in an EOB?**

Group 1

- Communicating is not the same as involvement in decision-making.
- A wide range of media can facilitate communications
- Timing is important in employee-manager communications.

Group 2

- Executives may have unrealistic expectations that members can understand issues in minutes that executives have discussed for hours / days.
- Members may have unrealistic expectations that decision-making will be based on the achievement of a complete consensus.
- It is possible to give too much information to members.
- How the information is delivered is often more important than the message itself.
- It helps to find something that members / governing council can each lead on and own.

**2. How can innovation be generated in a low-staff turnover environment?**

Group 1

(Executive and staff turnover in an employee owned business is low. To illustrate, Lance Gardiner (from CarePlus, now at Locala) explained that he was only the second CEO to move jobs out of 59 public sector spin outs in the last 6 years.

The following approaches to stimulating innovation were discussed.

- Engagement in industry / EOA networks
- Internal organisation that promote cross-selling / internal communications (for example 3BM has a specific team looking for innovations linked to its marketing efforts).
- A commitment to diversification
- A commitment to job rotation
- External or market pressure to innovate
- Making the means of (your own) production (e.g. Gripple decided to start making their own manufacturing equipment and now sell their expertise).
- Continuing Education – involvement in university courses / knowledge transfer projects.

## Group 2

- Using external consultants / professional / legal advisors
- Introducing apprenticeships
- Improving the work environment (creative use of colour / music)
- Using the employee ownership brand / flexible working to attract higher quality staff
- Developing ambitions / visions
- Being open to change

### 3. What power relations between employees, partnership council and executives work best?

- Local engagement in decisions at local level
- Inviting employees (as guests) to councils and board meetings.
- Managers leading from the front, and MDs leading managers (using a 'servant leadership' style).
- A commitment to treating everyone as you wish to be treated.
- Recognising that the partnership council is more influential on practice than the trust.
- Rooting 'disciplinary' standards in the values of the business.

### 4. What is the role / purpose of a trust in the transition to EOB?

(Malcom Lynch prepared some slides to help this discussion).

- There are multiple forms that a trust can take (employee benefit trust (EBT), share incentive plan (SIP), employee ownership trust (EOT)). The EBT is a pre-2014 legal option for holding shares for the benefit of employees. Post-2014, it is more likely that an employee ownership trust will perform the same role.
- EBTs and EOTs typically have more power to influence decisions (i.e. strengthen employee voice), particularly when they hold a majority of the shares.

### Four key benefits / roles were identified

- 1) **Market maker** for internal share holdings. Employees can sell their shares to the trust (using profits from its own collective shareholding) and can then sell them on to other employees.
- 2) **Tax breaks.** Where a majority of shares are held in an EBT or EOT, up to £3560 per annum can be paid tax free to employees. Tax breaks has motivated abuses by some corporations. As a result, SIPs and EOTs must now cover all staff, not an executive or minority interest group.

It is currently tax inefficient for a company owned by trust to pay the trust dividends (40% tax rate applied). It is better to 'gift' profits to the trust.

- 3) **Protection.** The trust (if structured in a way that requires beneficiary approval before big decisions are taken) provides protection against both hostile takeovers and demutualisation. However, the argument was put forward that the golden shares (in the hands of a person or entity committed to employee-

ownership) provides better protection. Two examples were given: in the Gripple Group (with [Glide](#) at an overarching holding company) both Glide and each subsidiary company have a golden share so a decision to sell a company cannot take place without both golden shareholders in agreement. The application of the [FairShares Model](#) at [Dojo4Life Ltd](#) was also discussed. In this case, Founder shares are separated from Labour and Investor Shares. The unanimous agreement of Founders (as well as 75% support) is required to change clauses in the constitution that ensure employee ownership and shared control of decision-making.

- 4) **The power of ownership** (EBT / EOTs). As shareholders, EBTs and EOTs can exercise influence over the strategic management of the companies in which it holds shares. Where it has a majority holding, it has decisive power. If over 25%, it has the power to protect the constitution.