Transcript of the Annual Jack Fitzpatrick Memorial Lecture Delivered by Employee Ownership Association Chief Executive Iain Hasdell in Dublin on 4th December 2014

Thank you for such a kind reception.

It is a privilege to be here this evening to give the 2014 Jack Fitzpatrick Memorial Lecture.

And it is an honour to now find myself amongst the number of eminent individuals who have previously delivered this talk.

Including the great Corey Rosen who to this day remains the world's leading authority on employee ownership.

I am also thrilled to be back in Dublin, the city in which I started my career.

It was in the Dail, working as a policy advisor on Anglo Irish relations and social welfare reform, that I cut my teeth in the world of work.

At that time the corridors of Leinster House were dominated by Garret FitzGerald and Charlie Haughey and their entourages, and I had the great fortune to work across the two main front benches they led.

The things I learned then about Government, politics and financial markets have helped me enormously since. And of course I picked up more than a few tips on how to have a good time too!

So, for a number of reasons I am absolutely delighted to have the opportunity this evening to share a few thoughts on employee ownership with you.

In the time I have this evening I am going to cover just one theme: insights from the UK.

Insights into how the UK has, over recent years, become an international leader on employee ownership; what has driven this progress and what might Ireland possibly take from this experience.

And before I go any further let me just clarify what those words 'employee ownership' mean in this context.

They mean significant employee financial participation in a business in whatever form that participation takes, ranging from 100% ownership by employees through to gain sharing and profit sharing schemes and everything in between.

So, what has been going on in the UK?

How has it made such recent progress?

Let me start with some very brief background.

Employee ownership in the UK has traditionally been a Cinderella subject – not attracting much interest amongst politicians, journalists or even the business community.

And it was almost always seen as only and mainly a tax topic.

A part of corporate business life that occasionally needed attention to ensure the tax system could accommodate it.

I call this the Humphrey Bogart paradigm.

Bogart, he of Casablanca fame, had a habit of complaining that the biggest problem with the world was that everyone was always three drinks behind him.

And historically that is where the UK was on employee ownership, a long way behind many others in its thinking and action.

The pain created by the 2008/9 global financial crash created the opportunity to change this.

In the aftermath of the crash those interested in long term UK economic growth started to get interested in the need to achieve greater diversification of business ownership.

Many realised that a disproportionately large number of businesses in the UK were operating with a dominant goal of driving near term financial value for shareholders.

There was also a growing recognition that too many businesses were constantly looking to create opportunities to sell the business for profit.

These and other short term behaviours helped in part to create the 2008/9 crash and to compound its impact.

So there was a raging debate about balance.

But this was not an idealistic yearning for a non-market economy.

Short termism has an invaluable catalytic role to play in key parts of any economy as do mergers, acquisitions and business failures.

But economies that are structurally obsessed with short termism will crash again within a generation.

A significant number of people were coming to that conclusion.

And that fledgling consensus was set out in the report of the Ownership Commission in early 2012.

The Commission acknowledged that economic recovery was within reach.

But it counselled us to make sure we did not lose the moment of reality that the crash created.

It encouraged us all to stay focused on what type of recovery we were attempting to achieve.

And so for those of us in the business community it pushed the door slightly open.

It gave us a glimmer of a chance to ensure the UK recovery was one in which employee ownership plays a significant role in the structural reform and rebuilding of our economy.

To take this chance we at the Employee Ownership Association developed and implemented a five point plan.

And it is the story of that plan – a plan that has so far brought great success – that offers rich insights for those who want to see more employee ownership in the Irish economy.

So, what did we do?

The first part of the UK plan was to shift the debate about employee ownership from ideology to the business case for more employee ownership.

It stands to reason that if you make an argument designed to appeal only to people of a particular ideological or political persuasion then you are always going to limit the audience – in this case to a decreasing minority of people who hold such views.

And this is where employee ownership was previously at risk of heading.

Far too many people involved in employee ownership circles were arguing in favour of employee ownership because it was a "nicer" or "fairer" way of doing business or that it was "morally better". I do not want to belittle those sentiments but that is not a compelling argument for anything at all.

So we have shifted the ground.

We have created a business case that responds to the problems in the UK economy that were discussed in the Ownership Commission report.

A powerful business case for why there should be more employee ownership based on the facts that:

- **employee owned businesses deeply engage their workforces;**
- **employee owners feel uniquely fulfilled in their work;**
- **as a direct result of this engagement and fulfilment employee owned businesses achieve higher productivity and innovation and they tend also to be more profitable;**
- **they therefore have a fantastic role to play in addressing the UK productivity deficit;**
- **and because employee owned businesses think and act for the long term;**
- **they provide an antidote to the short termism that still dominates business behaviours in our economy.**

So there is now for the first time a very strong and impeccably clear business case for why we need more employee ownership, framed in the language of the audiences we must influence, particularly business people.

This switch to having a proper business case has contributed massively to our progress since the start of 2012.

The second challenge has been to get the messages within this business case out to the right people at the right times.

To design, finance and deliver a winning communications campaign.

To dramatically increase the amount of conventional and social media coverage of employee ownership.

To put in place fixed points in the calendar that provide excuses to celebrate and raise awareness about employee ownership.

We have made stunning progress on this.

We started by deliberately injecting some "noise" into business and policy networks by securing from the Department for Business Innovation and Skills a commitment to publish an independent report on employee ownership in the UK economy.

The brief was to look at the history and current state of employee ownership.

The main aim was to use the profile that a Government brand brings with it to influence audiences outside of Government.

We also asked that Graeme Nuttall should oversee the report and were delighted with how Graeme carried out that work with such distinction.

The report played a vital, fantastic role in helping us to kick start a compelling campaign to raise awareness of employee ownership.

The report lit a fuse and since then we have built an effective annual programme of events across the UK to raise awareness and to help people make the transition into employee ownership.

And we have adopted the language of being an economic 'sector' – something that has helped enormously with credibility and in our advocacy work.

Media coverage of employee ownership ranging from feature articles to blogs and from videos to interviews has been at its highest level ever over the last two years.

And at the heart of this campaigning approach the EOA's creation of UK Employee Ownership Day each July has, a tactic, yielded remarkable results.

EO Day 2014 for instance was the most successful single event ever staged in the history of promoting employee ownership in the UK.

Its central messages reached more than a quarter of a million business people via 100 events across Great Britain.

And fundamental to the success of this campaign have been the partnerships forged with other business organisations to enable them to be part of the awareness raising programme.

We are all, all of us, now part of an effective campaign for the growth of employee ownership and long may that continue.

Alongside all this, as a third part of the plan, we needed to develop better data.

Better data to evidence the structural flaws in the economy we want to help to address.

Better data to evidence the benefits of employee ownership.

And so we have been carefully distilling existing information and commissioning new research so that we have an even more robust story to tell about the sector.

As a result we now for the first time ever have a collection of meaningful data to illustrate the business case.

We are now able to set out in detail, for instance, how productivity in non employee owned businesses across the UK economy is 20% behind that in all of our major competitor countries.

Able to discuss the data illustrating that low levels of productivity in the UK are deeply ingrained and structural and how this locks people into low pay.

Able to describe how employee ownership can add £144bn to UK GDP by increasing productivity levels in key industries to those achieved in the US equivalents.

And in terms of the benefits of our sector we can say with real authority now that:

- **The employee ownership sector's contribution to UK GDP is beyond 4% - almost half way to the target I set in 2012, that has now been so widely endorsed, of 10% by 2020;**
- **Productivity in employee owned businesses is growing at an annual rate of 4.5% at a time when it is flat in all other types of businesses;**
- **Employee owned businesses are growing the size of their teams by nearly 3.5% each year and:**
- **Operating profits of the top 50 employee owned companies are growing at an annual rate of more than 25%.**

And we can bring to life the positive impact inside companies that practice financial participation and employee ownership. Our latest data published two weeks ago shows for example that:

- **70% of such companies have significantly improved the quality of their products and services as a direct result of moving into various forms of employee ownership; and**
- **55% of companies have seen their financial results significantly improve because they have moved into a form of employee ownership**

And let me just take a moment to emphasise this data drive covers public services too.

Because we have been constantly shining a light on the way employee owned organisations that have spun out from the state, deliver public services. These employee owned public service spin outs always provide better services, better outcomes and improved value for money for the public sector funders of those services.

And their growth, their arrival as private sector businesses, helps with the balance of business ownership in the economy in a country in which the public sector is, unsustainably, the largest single part of the economy in many regions and sub-regions,

So, as well as a business case and a campaign plan we have now built a growing body of robust evidence with which we can influence and persuade.

The fourth part of the plan has been to get the employee ownership message into the Treasury.

We needed the Treasury to fix some unfairness in the tax system and in doing so create new exciting employee ownership tax incentives.

And so once the dust had settled on the Nuttall report – which did not really cover taxation in any depth - we set about a major push in 2013 to secure a Treasury review into the taxation treatment of employee ownership.

And there are a couple of keys to success we stuck to throughout this push that I want to pause to reflect on for a moment.

First of all we made sure that our Member companies were the advocates voicing the need for a review – not ourselves as lobbyists – we were the enablers – creating the opportunities.

Secondly we kept the lawyers, accountants, intermediaries and other advisors out of the entire push.

We were determined to stick to our arguments about the bigger economic picture and our business case for change.

Thirdly and perhaps most importantly we drove for a review rather than demanding in advance individual technical legislative changes.

We wanted the outcome of the review to be shaped jointly and worked on in partnership between ourselves, civil servants and Ministers. Our only condition was that its work would last less than 6 months.

After securing the agreement of Treasury Ministers to holding a time limited review we were then determined to make the most of this once in a generation opportunity.

So we worked remarkably hard to present one voice to Government by producing a single set of tax reforms that we wanted the review to deliver on and presenting those as THE view of the sector endorsed in writing by every employee owned business in the country.

This discipline was vital. Yes in an ideal world we would have wanted the Treasury to legislate to consolidate the seemingly endless and confusing array of existing share scheme guidelines, regulations and laws.

Yes in an ideal world we would have wanted the Treasury to put better incentives in the system for the treatment of employee share ownership in business start up situations to help indigenous entrepreneurs battle more effectively with overseas companies to attract human talent.

And yes we would have liked Government to address the difficulties employee owners have integrating their share ownership with their pension arrangements.

Some or all of these issues may resonate with you here in Ireland!

But we made a decision to only ask for a small package of things we believe will make the greatest positive difference.

So we developed proposals to reverse the unfair tax treatment of employee benefit trusts which in turn created a new tax exemption for vendors in business succession deals.

Plus the unreasonable tax treatment of one approved employee share scheme.

And then we set about the grinding process of hanging around the Treasury and other parts of Whitehall pressing our case and stressing urgency.

The rest is history really.

All of the measures, these new tax measures to encourage the creation of employee owned businesses, that we called for, were put into the Budget and then the Finance Bill 2014 and are now live in the market place.

Not only that but the Treasury even increased the long term funding for these measures beyond the cash levels we requested.

These measures will attract the interest of business owners in succession or other business selling or business start up situations.

They also oblige lawyers and accountants more than ever before to inform their clients about employee ownership as now being a highly tax efficient option.

This is exactly how to grow a market – by provoking the demand and the supply sides.

The number of new EO businesses is growing at annual rate of around 9% at the moment with more transactions in this market than ever before.

These tax measures will help to sustain the current growth of the sector.

I am confident that these measures will become the most important fiscal changes relating to employee ownership ever created in the UK.

The fifth part of the five point plan was to overhaul the Employee Ownership Association.

We owed to it ourselves and to our Members to further professionalise the organisation and to make sure the Association plays the role it should.

However good a business case or campaign plan you might have – unless the organisation that is leading the charge and co-ordinating effort is credible and influential – not much happens.

Some of this has been about scale. As recently as early 2012 the EOA only had a little over 50 Members.

We now have 250 Member companies and it is continuing to grow. This scale legitimises our voice as we now can genuinely speak for the sector.

But some of the progress has involved a painful transition. The EOA used to be regularly dominated by technicians.

Lawyers and accountants mainly.

Advocating – in a perfectly reasonable and enthusiastic way – technical solutions.

Arguing that more employee ownership was a good thing but constantly berating Government to do things.

“If only”seemed to be the rallying call.

If only Government would do more.

But the technicians were often spokespeople about the small rather than the big picture.

And many of them were regularly perceived as mainly being interested in the EO growth agenda because it offered a future stream of client revenues for them.

All that has gone.

But as I say not without some discomfort as an old guard doing things their way has gradually departed.

The language of the EOA is now about domestic and international markets and the creation of powerful businesses.

We still have brilliant partnerships with accountants and lawyers. Their enthusiasm for employee ownership and active interest in employee ownership as a market for their services is a massive part of our strength.

But, critically, our public face is no longer accountants and lawyers.

The resulting change in our impact has been enormous.

The EOA is now a strong industry and sector voice led by employee owned businesses, not advisors, outperforming their competitors because of their ownership structure.

So, as a result of this five point plan we have created in the UK what I have been calling for some time now the decade of employee ownership.

Employee ownership is now a sector of the economy on a par with the aerospace industry and several times bigger than agriculture.

And it is starting to be dealt with in the same high profile way that other value added sectors of the economy such as pharmaceuticals and the automotive industry are.

So what is it in this UK story that might be most insightful for Ireland?

Here are a few brief thoughts ………………

It has been pivotal to our success for us to link everything we do to a big picture analysis.

We made ourselves part of the big picture post crash debates on what was structurally wrong with the UK economy.

That gave us the insight and external credibility to advocate more employee ownership not as an end in itself – not even because it is helpful to individual businesses – but because it offers a solution to some of the deep seated issues in the economy like productivity and innovation.

And the portrayal of ourselves as an economic sector has allowed those very many in positions of influence who believe in the economic sector model of growth, to engage with us.

It has also been fundamental for us to have a vision for progress – 10% of GDP delivered by businesses with significant employee ownership by 2020. A vision that allows others to join in. To get on board. To empathise and support.

In addition it has been essential for us to gear up the EOA to lead the drive towards this ambition. To reinvent the EOA as a business not advisor led body. Every piece of recent progress since 2011 has been led by the EOA and so this really has been central.

The removal of ideology and the politics has also been invaluable.

Employee ownership now has bipartisan political support.

It is absolutely not the pastime of ideological zealots.

And the credibility we gained from producing the business case and the data behind it mean that we are 'believed' and respected far more when propose policy interventions.

This links back to the big picture approach – win the big picture argument and the tactical discussions get so much easier.

It has also been essential to keep financing and running an impactful unrelenting awareness raising campaign.

This campaign to increase the profile of employee ownership reinforces all of our other work – just like any good advertising campaign does.

And finally we have also been careful as a business led campaign not to rely on or ask or expect Government to do very much other than fix one or two tax anomalies and in the process of doing so to create new tax incentives.

We have taken an almost dogmatic view that it is not for Government to build our sector for us.

Instead our progress has been and will continue to be based on businesses and entrepreneurs out there in the real economy – private and public sector – growing employee ownership.

So let me conclude ……….

This is a brilliant, unprecedented, time for employee ownership in the UK.

We are all on a mission in the UK to bring about a revolution in how our economy is structured.

Employee ownership is a movement for change. For a better way of doing business.

As the EOA logo says it is about Better Business Together.

It is a chance to enrich our economy and society with the value that even more employee ownership will bring.

We are starting the surge to our 10% of GDP target.

It would be fantastic if Ireland, after the recent progress there has been on employee ownership in Japan, Italy, Australia and Southern Africa could become the next country to take a leap forward.

Nearly two thirds of larger companies here offer broad based employee share schemes for instance.

And there is even a trend of different Governments at least trying to do things to assist when they can.

Overall this is a better platform for the future than many countries have.

I hope that sharing my thoughts with you this evening may have helped you in some small way.

By giving you some ideas, some food for thought, for making that further progress on employee ownership in the Irish economy.

Yes you are starting from a long way back but so did we – very recently.

Anything is achievable……….

…………………..where there is a will.

I leave you with that great quote from Constance Baker Motley before she became the first black woman to be appointed a US Federal Judge: Motley said:

"Something that might seem to some impossible now is not impossible by the next decade".

Thank you very much.