



MEMBER PROFILE



Pete Stavros

Member & Head of Industrials, KKR

In what ways does employee share ownership serve a useful purpose?

Broad-based employee share ownership aligns incentives, improves culture and ultimately enhances performance of the company. It shares the resulting higher profits with all employees, which is the way it should be because – as we all know – everyone contributes, not just those at the top.

How can we widen and deepen the adoption and use of employee share ownership?

We need serious study of the impact of employee share ownership on both the company and its employees. It needs to be objective and impartial and needs to be large enough in scale to have results that are meaningful.

What would you tell someone on the fence about introducing employee share ownership to their company?

I would tell them that while there are real benefits to the company and the employees, it will not magically solve a company's underlying problems or result in immediate

impact. It requires a huge amount of effort to 1) educate employees so they understand and value the equity; 2) explain how each employee can personally contribute to the key initiatives at the company; and 3) further explain how those initiatives will result in equity value creation, in which they will share. Many employees have never owned stock and do not have much knowledge of – or interest in – finance and accounting, which is why this is a significant undertaking. In the end, I think it is definitely worth it over the long-term. I would simply encourage someone who is on the fence to make sure they are willing and prepared to do more than hand out equity, and then hope the results pour in and that employees become more committed to their jobs overnight.

What has been rewarding about instituting employee ownership?

Over the past 7-8 years, we have instituted broad-based employee share ownership at a number of our US Industrial portfolio companies. It is extremely rewarding when we pay a dividend on the equity or ultimately sell a company and it becomes clear what a difference it has made in people's lives. It is

also very rewarding when you see specific examples of employees' changed behaviour and see them acting like owners.

What have been some of the challenges?

The biggest challenges we have faced relate to poor communication, which has resulted in people not understanding the equity plan and therefore not valuing it. In a few cases, frankly, some employees did not even know it existed. We have figured out ways of more effectively communicating the equity programme and explaining it in a way such that people truly grasp the value.

Where can people learn more about the broad-based employee ownership efforts you have introduced at KKR in the Industrials group?

I gave a talk at KKR's 2018 Investor Day entitled "Incentivizing Employees and Creating Value." A videotape of this can be found on the [KKR Industrials' YouTube page](#). We also have a [LinkedIn](#) where we have shared some additional information.

EVENTS

Guernsey: Share schemes and trustees seminar - book now to catch the early-bird

On November 30, the Esop Institute, in partnership with STEP Guernsey, will host this year's [Guernsey share schemes](#) and trustees seminar at the Old Government House Hotel St Peter Port, Guernsey.



Presentations under the heading of **Leading the way – the Channel Islands as a global hub of ESOT specialism**, will include: Taking the ESOT to emerging markets – challenges and opportunities; JSOPs – the role of the Trustee: An outline of current issues and the future of JSOPs; "Information overload – now what?" focusing on tax avoidance/evasion; The

application of the 'disguised remuneration' and 'outstanding loan' legislation to employees' trusts; General economic environment: analytical position with Channel Islands in mind + current state of LTIPs.

Given recent developments, such as the introduction of the UK Trusts Register and the growth in the establishment of employee ownership trusts (not to mention Brexit), it has never been more important for those interested in employee share schemes and trusteeship to stay informed with expert views and enjoy the continuing education which our Institute seminars offer.

Topranking speakers include: Elaine Graham, Zedra; Graham Muir, CMS; David Pett, Temple Tax Chambers; Paul Malin, Haines Watts; Charlotte Fleck, Pett Franklin; David Craddock, David Craddock Consultancy Services; and Alison MacKrill, STEP/Appleby. The seminar will be chaired by Malcolm Hurlston CBE.

Tickets: STEP/Centre members: £375 non-members: £480

Book and pay before **October 19** to receive for one of the following early-bird discounts for this unique half-day event:

- ◇ 50 percent off a third delegate
- ◇ 10 percent off total

Only one early bird offer can be used for each organisation, whichever gives you the larger discount.

To book, email events@esopcentre.com or call the Centre team on 020 7239 4971

newspad awards 2018

The Centre is receiving early nominations for the [newspad 2018 Awards](#), for the best employee equity plans, either already operating or about to launch. This annual competition presents an opportunity for member share plan advisers and their clients to show off their best all-employee equity plans to the worldwide readership of newspad. Award certificates, kudos and publicity await the winners, *so do ensure that you, and/or colleagues, submit at least one entry for a newspad award this year.*

This year's categories for which you can submit entries are:

- ◇ Best all-employee international share plan (companies with more than 5,000 employees)
- ◇ Best UK centred all-employee share plan

(companies with fewer than 5,000 employees)

- ◇ Best employee financial education programme
- ◇ Best share plan communications
- ◇ Best use of video communication
- ◇ Best use of technology in employee share plans
- ◇ The most creative solutions to employee cultural, jurisdictional or social diversity issues when launching international all-employee share plans
- ◇ Laurie Brennan award for astounding achievement

You can enter share plans in more than one category.

Entries involving employee share plans in non-member companies will be accepted directly or through advisers, but advisers must be Esop Centre members in order to submit entries.

Entries involving executive/managerial equity reward schemes will be accepted at the editor's discretion, provided at least 250 executives/managers participate.

For details how to enter see:

www.esopcentre.com/awards. The process is simple.



The judges of the 2018 *newspad* awards will be: **Damian Carnell**, director at Willis Towers Watson, specialist in executive reward and employee share plans; **Anna Watch**, head of executive share plans (governance & compliance) at member firm BT, **Robert Head**, director of Neo Reward and formerly head of global share plans at Pearson with **Malcolm Hurlston** chairing.

Winners and commentary will be published in a special edition of *newspad* and the awards will be presented in the new year.

Sponsorship opportunities: The *newspad* awards will be published in the paper, which has an influential audience worldwide. In addition, members are encouraged to propose a celebratory event to host the awards, in association with the Centre; contact Juliet Wigzell at Centre HQ. Email: jwigzell@esopcentre.com telephone: +44 (0) 20 7239 4906.

British Isles symposium - More speakers announced

A first-rate line-up of speaker expertise is already in place for the Esop Centre's third [British Isles share schemes symposium](#), which will be hosted by Travers Smith at its London offices on Thursday March 7 2019.

The full-day event will include a dozen talks and debates on employee equity plans in both UK based public quoted companies and in SMEs, plus a buffet lunch and conclude with an informal drinks reception.

Speaker commitments have been received from: Bird & Bird; David Craddock Consultancy Services; Deloitte; Pett Franklin; PwC; the RM2 Partnership; White & Case; Willis Towers Watson and from sponsor Travers Smith. Centre chairman Malcolm Hurlston will give the opening address.

The symposium is a highlight of the Centre's calendar for next year and we hope you will join our expert panel by taking one of the remaining speaker slots. Your 30 minute presentation could cover technical issues which have confronted your company while operating either an all-employee share/option plan or a major executive equity plan, or it could be an issuer + adviser case study of the plan(s) your company has recently put in – as an example of whether or not corporate objectives have been achieved by your share plan experience to date.

Speaker fees are modest: member practitioners (service providers) pay £240 + vat for each speaker, while plan issuers speak free



of charge. The topics covered in the reserved speaker slots so far are:

- ◇ Going Global - expanding your share plan offshore. **Travers Smith**
- ◇ A case study of a tech company that used EMI share options creatively at the same time as attracting external investment. **RM2 Partnership**
- ◇ Hybrid EOTs: the new way to structure MBOs & employee ownership. **Pett Franklin**
- ◇ Employee share plans in volatile markets. **David Craddock**
- ◇ Managing Expectations—the EMI risk and reward rollercoaster. **PwC**
- ◇ Alternatives to EMI. **Bird & Bird**
- ◇ Impacts of Brexit on employee share schemes. **White & Case**
- ◇ Discretion and judgement in executive share plans: issues arising from the 2018 UK Corporate Governance Code. **Deloitte**
- ◇ Expanding the Remco Remit - engaging with employees. **Willis Towers Watson**

You can adapt one of suggested topics listed in the [speaker's brochure](#) to better suit your own speaker objectives, or suggest an entirely different theme. Contact us with your speaker bids now to avoid disappointment. Email Fred Hackworth at fhackworth@esopcentre.com or call the team on +44 (0)207 239 4971.

If you would like to attend as a delegate, rather than as a speaker, book your seat now. Admission is £395 + vat for member practitioners (£595 for non-members).

WEBINARS

An Introduction to the Share Incentive Plan (SIP)

Wednesday October 24, 11:30am – 12:00pm.
Presented by Sarah Anderson RM2.

The Share Incentive Plan is probably the most tax efficient share plan in the UK, enabling zero tax rates for employee shareholders. Find out [all you need to know in a nutshell](#) about the SIP, its key benefits, how to establish a SIP plan, and how it worked in a real life case study.

CENTRE AND MEMBER NEWS

Are chief executives overpaid?

Cliff Weight of MM&K joined Debbie Hargreaves, ex-FT and founder of the High Pay Unit, at a lunchtime discussion arranged by the Centre for the Study of Financial Innovation on Monday October 15. Centre leader Andrew Hilton hoped to hear contrary views too.

As it happens the topic was addressed by Antonio Falato of the US Federal Reserve at the Centre's New York event in 2014. The Fed [took the view](#) that the growth in ceo pay was justified for three reasons: companies were bigger, tenure was shorter and there was a correlation with higher r&d spend.

The Centre is looking at further footprint events to follow New York, Dubai, Cape Town and Hong Kong.

There will be a report on the CSFI meeting in the next newsbrief with views on whether what may be sauce for the ceo is sauce for other inhabitants of the executive suite.

Intertrust survey on disruptive technology

You can take part in Intertrust's survey of how advanced technology and innovation is impacting employee benefits sector. The firm is eager to gain and share insight on the impact of Artificial Intelligence, perceptions of the new technologies and the role under threat.

The [survey takes 10 minutes to complete](#) and responses will remain anonymous. If you leave contact details at the end you can receive a copy of the research report.

Intertrust opens office in Abu Dhabi Global Market

Intertrust has opened a new office in the Abu Dhabi Global Market.

It's the second Intertrust office in the UAE, complementing its existing office in Dubai and consolidating its position as one of the leading corporate service providers in the region.

The firm has been active in the UAE for over 17 years, servicing a growing number of international and Gulf multinationals. The new Abu Dhabi office is led by Patricia 't Hart-van Rooijen, managing director UAE.

UK AND WORLD NEWS

Amazon workers urge boss to restore share schemes

Employees have been voicing unhappiness about stock-based bonuses being phased out at Amazon despite a rise in hourly pay rates. UK Amazon warehouse workers sent emails directly to CEO Jeff Bezos urging him to restore their employee share and incentive schemes, which have been cut in order to fund a promised pay rise. The signatories voted to send emails to Bezos, rather than taking the more confrontational step of delivering their petition to Amazon headquarters or passing it to the media.

In one email, a worker who has worked for seven years in Amazon's fulfilment centre at Doncaster, tells Mr Bezos: "It's great looking forward to receiving our shares/share on a yearly basis... It pays for a well-earned holiday which I wouldn't be able to pay for without."

The workers campaign is being coordinated through free website Organise. Lead campaigner Usman Mohammed said: "This issue affects a certain subset of loyal workers, who use a very different language and have very different feeling towards it than workers who are temporary."

"Amazon workers keep telling us that no-one at Amazon asked them about removing the shares, it's why they voted to take their message directly to Jeff Bezos."

On October 10, Amazon responded to the employees by adjusting compensation so all employees benefit from the wage increase. Amazon said in a statement shared across multiple outlets that workers who already earn \$15 an hour would see an increase of \$1.25 rather than \$1, effective November 1, which "more than compensates for the phase-out of incentive and pay and future stock grants."

Amazon pointed out that share prices didn't always go up but "For employees who want to invest in stock for the possibility of future growth, we will be rolling out a direct stock purchase plan in 2019."

Malcolm Hurlston CBE, chairman of the Centre, welcomed the activism of employees, the emergence of Organise and the support it received from the GMB Union. "It is important that employees become active in shared rewards, not just passive recipients. Jeff Bezos contrasts unfavourably with Pete Stavros of KKR, profiled in this edition of newsbrief".

Labour emulates international schemes with workers share plan

John McDonnell's share plan has stimulated fury and opportunism since it is not really an ownership scheme: employees will not be able to buy or sell the shares that are notionally theirs. Nor is it a profit sharing scheme. With the payment to each worker capped at an annual £500, it is chiefly a new tax that could channel billions in revenue to the Treasury.

However the FT notes an international precedent. In the 1980s, Sweden introduced a new tax on corporate profits, to build up "employee funds" that would be used to buy shares in listed companies and gradually transfer them into collective employee ownership. The experiment failed. "It ended with . . . the largest political protest ever to take place in Sweden and eventually the demise of the Social Democrats' half century grip on Swedish politics," said Dag Detter, a former president of Statum, the Swedish government holding company.

Merryn Somerset Webb took the opportunity to warn readers of Money week of the risks of share ownership using the example of the recent share price fall for Royal Mail workers. "If we extend employee share ownership we have to combine its rise with education on how equity markets behave."

Three reasons some countries are far more unequal than others

Why do the richest one percent of Americans take 20 percent of national income, but the richest one percent of Danes only six percent? Why have affluent British people seen their share of national income double since 1980, while over the same period, the income share of wealthy Dutch hasn't budged?

Technological change and globalisation act as powerful forces for income distribution, but these market processes cannot alone account for the continued range in top income inequality in different countries. After all, some of the most technologically advanced and globalised countries, such as Denmark and the Netherlands, are the ones that are the most equal.

To explain why some advanced capitalist countries are more unequal than others, we need to look beyond the market and explore the role of politics and power in shaping distributive outcomes.

Mind Gym launches SIP

[Mind Gym \(AIM: MIND\)](#), the behavioural science business that focuses on human capital, has launched the Mind Gym plc Share Incentive Plan (“SIP”), as anticipated in its AIM admission document. The purpose of the SIP is to incentivise eligible employees (other than the CEO) of the Group by the award of free ordinary shares. Shares issued under this plan will not exceed 1.5 percent of the company’s current issued share capital without the prior approval of shareholders.

CEO Octavius Black said: “We have always been keen for colleagues who commit to Mind Gym to have a direct stake in the business and we’re delighted that all employees will now have that opportunity.”

Toiletries maker Reabrook is sold to its staff

Tony and Mary Brealey and Malcolm and Sue Watkins, the owners of Reabrook Ltd, have made the decision to move it to an EOT to [give staff a greater voice in its expansion](#).

Reabrook makes private label chemical products, employs 200 people and had a turnover of more than £23 million in 2016.

Mr Brealey said: “We firmly believe that empowered and engaged employees, who care deeply about the products they make, are vital to a company’s ongoing success.”

Welsh TV firm becomes employee owned

The owner of one of Wales’ leading independent television production firms is [giving his company away to staff](#).

Dylan Huws, managing director of Caernarfon-based Cwmni Da, is turning the £5m revenue business into an employee ownership trust. The move is believed to be a first in the UK broadcast industry and is being project-managed by the Wales Co-operative Centre.

Huws commented, “the employee ownership trust is a new model for the television industry in the UK and it’s a structure that shows a real commitment to the workforce. It places a value on the wider significance of Cwmni Da to the Caernarfon area and will ensure the company remains in the control of local Welsh people.”

Moo eyes £100m turnover landmark

Moo, the London-headquartered [online print specialist](#), posted a [£15.2m, or 20.2 percent, increase](#) in sales to £90.25m in the year to December 31 2017. The firm also posted its first operating profit in six years, reversing 2016’s £2m operating loss to file an operating profit of £1.8m.

Moo also launched a new all-employee share scheme, with full-timers receiving options. Chief executive Richard Moross explained “Ownership is a powerful motivator. Giving everyone their own share in the business will help us attract and retain great people as we scale. It’s something we had at Moo in the beginning and we’ve brought it back to engender a greater sense of empowerment and engagement as the business continues to grow.”

Australia: Quickstep recognises role of employees with a share plan

Australian independent manufacturer of advanced carbon fibre composite components Quickstep Holdings has introduced an [Employee Exempt Share Plan](#) to recognise the contribution employees make to the business.

All eligible employees will be offered free shares to the value of \$750 each in year one.

Chief executive Mark Burgess said, “In August 2017, I outlined a new strategic direction for the company; the OneQuickstep initiative. This was implemented to accelerate profitability and growth for the company through six key segments. A principal component of this programme is focused on building a positive culture that drives our business.”

South Africa: Why do people work?

Research on unemployment mostly focuses on getting wages right. But there are also many [non-monetary reasons that motivate South Africans’ work-related decisions](#).

A case study has found that while pay and profit are not irrelevant in employees’ decisions about work, over-emphasising monetary factors hid important motivators. Relationships were often a more significant factor than wages for decisions to accept, keep, or quit jobs.

India: Listed ESOP shares tax cut to 10 percent

Employees who were allotted listed shares under an employee share ownership plan (Esop) will be [eligible for a tax rate of 10 percent](#) with grandfathering benefits, when these shares are sold on a recognised stock exchange after a 12-month holding period. The Central Board of Direct Taxes issued this clarification in its final notification on October 1. The notification applies to the current financial year onwards.

India: Wages of capital for Flipkart employees

Flipkart employees are in for a [rich harvest from their stock options](#) weeks after Walmart completed its \$16-billion investment in the ecommerce company. Flipkart has announced in a letter to current employees that they will be allowed to liquidate their employee stock ownership plans (ESOPs) at \$126-128 a unit.

Walmart is obliged to buy 6,242,271 shares from Flipkart's ESOP pool of 11,947,026 shares, according to a recent filing by the global retail giant with the US Securities and Exchange Commission.

In effect, Walmart will purchase from Flipkart employees ESOPs worth nearly \$800 million. The worth of Flipkart's total Esop is about \$1.5 billion based on the per-share purchase price. "The ESOP repurchase programme, a yardstick for the industry, is part of our continuing efforts to thank and reward our employees for their service," a spokesperson for Flipkart said in an emailed statement.

France: Bouygues Confiance n°10 employee share ownership plan

Bouygues has decided to [launch a new leveraged employee share ownership plan](#), "Bouygues Confiance n°10". The plan involves a capital increase of a maximum of €150 million reserved for employees of French companies belonging to the Group, to be effected via a dedicated mutual fund ("FCPE"), the units in which are subject to a lock-up period of five years except where early release is allowed

under the law. The effect will be the issuance of a maximum of 5,116,659 new Bouygues shares at a subscription price of €29.316. The FCPE will exercise the voting rights attached to the newly issued shares.

This plan gives Bouygues employees a further stake in the Group's development and performance over the long term.

Japan: Nikko chief Takumi Shibata faces claim of fiddling share scheme

Seven former executives at Nikko Asset Management have [accused the Japanese fund management group and its chief executive of fiddling an incentive plan](#) and submitted a claim for more than \$100m in damages.

The plaintiffs, all American citizens, were among hundreds of employees who were given stock acquisition rights under schemes rolled out after the 2009 acquisition of Nikko from Citigroup by Sumitomo Mitsui Trust Bank. They were issued to allow holders to benefit from any increase in the value of Nikko if the privately held company did not carry out an initial public offering over the next 10 years.

Now, in a lawsuit filed in the Southern District of New York, the executives allege that the company's chief, Takumi Shibata, engineered a scheme to make the instruments practically worthless by valuing Nikko at less than the strike price. He then told the executives in 2015 that they must either sell their rights back to the company for virtually nothing or forfeit them altogether.

ABOUT NEWSBRIEF

newsbrief is the Employee Share Ownership Centre's members-only mid-month publication.

To submit a story for the next issue of *newsbrief*, sponsor the publication, or to propose someone for a member profile, contact Juliet Wigzell:

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