
newsbrief

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STAR PROFILE

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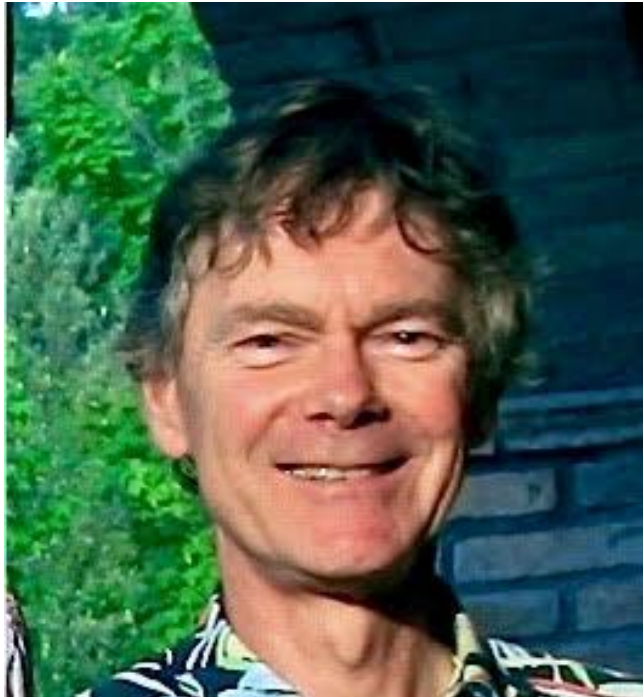
In what ways does employee share ownership serve a useful purpose?

Inclusion. People who have a tangible stake in their employer feel not only that they are more valued, but also that they belong more in the organisation. It helps employee engagement and encourages greater conscientiousness, which also helps to increase productivity. I'd also say that sooner or later, share owners start asking what causes the share price to move, and that in turn leads to a greater interest in the company strategy and a greater awareness of the part they play in achieving it.

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

Through all-employee share plans, which really are the Cinderella of employee benefits. In my view, they are second only to the company pension scheme in terms of the value to employees.

Within an organisation, it's really important for senior executives both to support the plans and to participate. That gets management on board. Next, a marketing budget – the plans need to be promoted like any other product. I used to lean on the administrators for help with this – we simplified our plan documentation to make it as accessible as possible. What you want is to spread the message by word-of-mouth, or social media, so something that grabs the attention really helps.



One problem is that at first sight, a share plan invitation seems complicated, so there's a hurdle to overcome. Make sure that employee share plans feature in company induction courses. And finally, ask yourself what's holding some employees back from participating. And seek to address those issues.

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

Making a tangible business case is difficult. Share plans come at a cost and take up management time. Their intangible benefits outweigh these costs but they are hard to measure, so I'd aim to show how it's in executives' interests to introduce employee ownership and to encourage employees to participate in the company employee share plans.

Employee share plans effectively say “we value you, that’s why we’re offering you this share plan” and the sense of being valued and involved improves attitudes and commitment. The fact that they offer something extra for everyone, wherever they are in the organisation, and on the same basis, intensifies the sense of inclusion. All-employee share plans – and employee share ownership – are a powerful form of corporate glue.

I’d go further and ask how the organisation measures other intangibles. Most companies aim to improve employee engagement, for example, and in trying to measure it, companies spend small fortunes on what are little more than sophisticated opinion surveys. You could argue that participation levels in voluntary share plans are a much more tangible measure of employee commitment (and arguably a more reliable measure too.) But above all, involved employees will champion their company to friends and others, and so act like unpaid ambassadors. So you get informal public relations thrown in as well.

It also improves internal communications. Executives are often unaware of issues further down the organisation. Employees with more of a stake in the business are more likely to be forthcoming. And when success does come, never forget the optics: executive pay is leveraged on rising share prices. With the rise in populism, it’s in executives’ interests to enable employees to have the opportunity of sharing in that as well. By including employees, share plans (participation as well as ownership) defuse resentment.

What do you think will change about employee share ownership over the next five years?

I expect increased publicity about the gap between executive reward and employee pay to encourage companies to promote their all-employee share plans more.

What has been the most important development in employee share ownership during your career?

Initiatives intended to recognise that managing employee share plans is a profession in its own right. But at the same time, this still has a long way to go. The profession is a hybrid of other professions – HR, pay, corporate tax, personal tax, company law, finance. Within organisations, these disciplines exist in silos within which, too often, share plans are seen as peripheral.

Which change to employee share plans legislation, in the UK or elsewhere, would you most like to see?

The standard measure of executive pay is the Single Figure of Total Remuneration, which summarises what the executive actually receives. I’m not convinced that the equivalent figure for average employee pay (that’s used in the ratio that compares the two) is compiled in the same way. If not, legislation to ensure a level playing field would need to include the gains from employee share ownership would be needed. Since this ratio now has to be published, this change would encourage companies to focus more on employee share plans.

Apart from that, it’s also important to defend what we have. As personnel changes within HMRC, new people see the tax structure of plans as “subsidies”. Having to explain why they’re not seems to be a recurring issue.

Why do you think employee share ownership has enjoyed cross-party support in the UK?

There are few other issues that do enjoy such cross-party support – I believe that all parties see employee ownership as helping towards more efficient organisations. More efficient organisations lead to greater GDP growth. And

if ownership and share plans enable people to increase their wealth, the bill for future social welfare benefits will reduce.

Liberal Democrats: belief in employee share ownership along the lines of the John Lewis model as a way of increasing employee involvement through ownership, encouraging responsible management and higher morale in general. Plus enabling individuals to manage their financial affairs more effectively.

Labour: belief in greater participation by workers in the company that employs them, adding weight to unions in discussions with management and fostering greater responsiveness, plus a way of redistributing company profits (via dividends) more widely.

Conservatives: initially part of their share-owning democracy philosophy. More recently, a way of encouraging employee participation as an alternative to unions. Plus a means of giving people a stake in their employer and in so doing, broadening the appeal of shares in general.

Which aspect of the Esop Centre do you most value?

Very informative monthly newsletter (Newspad) and useful meetings and symposiums.

Which aspect of the Esop Centre would you most like to change?

It would be great to have more company involvement.

What is your idea of perfect happiness?

Good company and a lingering lunch. A hot summer's day and a gutsy red wine, slightly warmer than room temperature.

What is your most marked characteristic?

Persistence and, when it matters, an attention to detail. Both can be a positive, but I'm

conscious that if overdone, they can be a negative too.

What do you consider your greatest achievement?

Family, friends and a stable home life – it's too easy to take them all for granted.

What historical figure do you most identify with?

Personally, it would be my grandfather. That generation had years of worry and uncertainty leading up to, and then during, two devastating wars, each of which went on for years. When people complain about Brexit, I think of him – and how our current problems are minor compared to what previous generations had to endure.

Which living person do you most admire?

Barack Obama. How he became President of the USA was inspiring, as was his demeanour and judgement during his tenure. We could all do with him back on the world stage.

Who are your heroes in real life?

"Hero" is perhaps putting it too strongly, but I have the greatest respect for anyone who fights against the odds and triumphs against adversity. History is real to me so I'd plump for someone from the past - someone like Thomas Clarkson who risked his life to campaign to publicise the horrors of the middle passage in the days of slavery, and campaigned to end slavery altogether, despite it being part of the fabric of the British economy during the eighteenth century. Or Millicent Garrett Fawcett who, by working within the establishment, gained influence and eventually (through her efforts and those of others, plus the social impact of a world war) saw her goal achieved of extending votes to women. Both campaigns took about fifty years.

Which word or phrases do you most overuse?

Why? I went to a school that encouraged me to question everything. I still do. But I recognise that sometimes it's best not to articulate "why?" and work things out inside my head.

What is your most treasured possession?

It would have to be something sentimental. Whenever I visited my parents, they'd give me coffee in a mug with my name on it, which I think they originally bought as a bit of a joke. They died a few years ago, but I still have the mug and it reminds me of them every time I use it.

EVENTS

Jersey share schemes and trustees seminar

The next share schemes and trustees seminar will take place in Jersey on Friday, May 17. The joint Esop Institute/Society of Trust & Estate Practitioners (STEP) event will be at the Pomme d'Or hotel in St Helier.

Don't miss this great opportunity to update your knowledge on the key issues. Talks will cover EBTs and the Common Reporting Standard; Share scheme and EBT issues on transactions; Entrepreneurs' Relief – a review following the introduction of the economic ownership test; an update on developments in UK employment taxes and much else. The presentations will run from 9:00 am to 1:00 pm (approx.) followed by lunch for delegates and speakers. Ticket prices: Esop Centre/STEP members: £375; Non-members: £480. Reserve your place by emailing events@esopcentre.com or call the Centre on +44 (0)20 7239 4971.

EOT and share scheme update

Thursday May 16 18:15 - 20:15 [Chartered Institute of Taxation, Birmingham](#)

Speaker William Franklin, Pett Franklin.

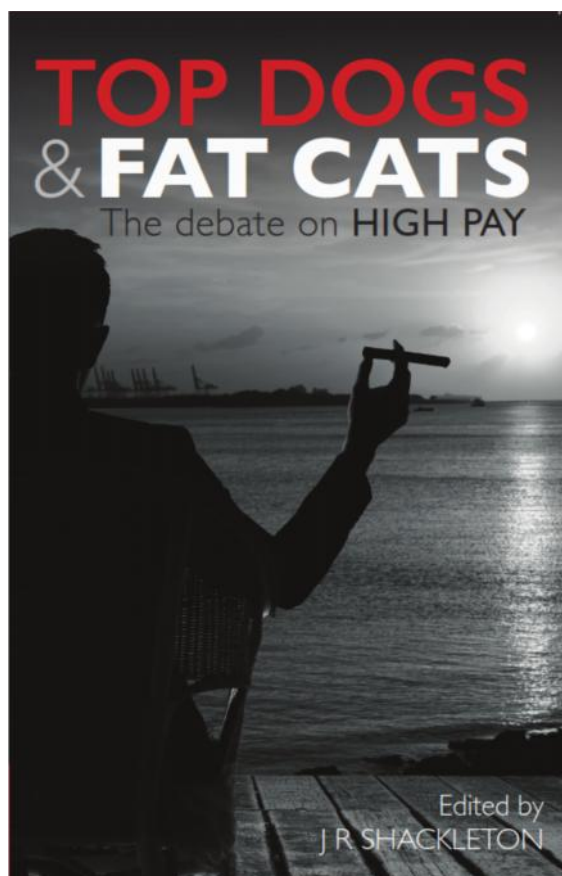
CENTRE AND MEMBER NEWS

Top pay book launch

A new book on top pay **Top Dogs and Fat Cats**, edited by Len Shackleton, is to be launched by the Institute of Economic Affairs on May 8. Damien Knight of **MM&K**, who spoke with Prof Shackleton and Damian Carnell at the Centre's 2017 event on the topic, is one of the contributors.

It looks at the role of shareholders in awarding executive pay, examines how pay data are produced and used and asks whether LTIPs have contributed to excess. It also looks at high pay in the public sector and in areas where public funding plays a major role - such as universities and charities. Len Shackleton notes that people are more forgiving of entrepreneurs, entertainers and sports stars.

Some places are available at the launch - with panel discussion and drinks - which takes place at 6.30 pm in Lord North Street. Enquire of Juliet Wigzell jwigzell@esopcentre.com who will be representing the Centre.



UKSA links strengthened

UK Shareholders Association reported on progress on links with ShareSoc at its agm last week. Chairman to chairman discussions are planned for June and meantime policy co-ordination will be stepped up with policy chief Peter Parry.

HMRC updates

Pett Franklin offers its useful [round up](#) of HMRC updates regarding all things share schemes.

WEG progress

A new worked example is close to agreement between HMRC and the Worked Examples Group (chairman William Franklin, secretariat Esop Centre.) The example will be published first in the *Understandings* section of the Centre.

Capdesk £1m backing

Private equity management platform and Centre member [Capdesk has received backing](#) from London-based VC fund Fuel Ventures.

The fund has invested £1m into Capdesk which has been designed to digitise and provide liquidity for the billions of pounds worth of employee shares in unlisted European companies. The funding is said to allow the company to expand its team and develop its technology.

Christian Gabriel, Capdesk's ceo, said: "Private companies are not equipped to handle employee share plans with hundreds of participants - the administrative burden is simply enormous.

"More importantly however, these employee shares are worthless without a liquid market. Capdesk helps companies manage option plans and liquidity events, saving time, money and hassle by compiling all the necessary data on one easy-to-use platform.

"We are on a mission to democratise wealth in private companies by empowering companies to share ownership with employees."

RM2 EOT

On the occasion of its [25th birthday](#), RM2 has taken its own medicine and converted to employee ownership. The owners transferred their entire shareholding to an Employee Ownership Trust. Sarah Anderson emerges as the new leader.

UK firms lax on AI

According to Deloitte's latest [Digital Disruption Index](#), four in five of the UK's most influential businesses and public sector organisations will have invested in AI by the end of next year. However, despite the rising adoption, less than half of the organisations surveyed have a policy for its safe and ethical development.

There is a risk that AI systems may reproduce and amplify unconscious bias. AI solutions used in recruitment may discriminate against candidates with certain backgrounds, and AI models used in mortgage assessment show bias against residents of certain neighbourhoods.

UK business exposed

Only 24 percent of UK businesses have [undertaken a risk assessment](#) to assess their exposure to the corporate criminal offences of failing to prevent the facilitation of tax evasion, according to research commissioned by HM Revenue & Customs.

Tax expert Penny Simmons of Pinsent Masons, the law firm behind Out-law.com, said it was concerning that only eight percent of businesses have trained staff on tax evasion risks over the past 12 months.

From September 30 2017 companies can be held criminally liable if their employees, agents

or third parties facilitate tax evasion. But companies will not be liable if they can prove that they had reasonable prevention procedures in place or that it was not reasonable in the circumstances to expect there to be procedures in place.

Successful prosecution under the offences could result in unlimited financial penalties, ancillary orders such as confiscation orders or serious crime prevention orders, and reputational damage. A successful criminal prosecution may prevent a company from bidding for public sector contracts.

UK AND WORLD NEWS

Generation why

There are clues to gaining the interest of millennials in [recent brief](#) from CB Insights. They prioritise health, convenience and sustainability and these are factors to deploy in employee plans. They have more debt and will need easier steps to get on the ladder. Canned tuna sales aren't down because tin openers are too much trouble - dolphin-safe brands are flourishing.

College grads sell stakes in themselves to Wall Street

A very American graduate tax is taking off, according to Bloomberg. Every month, for eight-and-a-half years, [this millennial graduate](#) must turn over a set percentage of her salary to investors. If the 23-year-old becomes a star in her field, she could pay twice as much. If she loses her job, she won't have to pay anything, and investors will be out of luck until she finds work.

Amy Wroblewski struck this unusual deal as an undergraduate. To fund her degree she sidestepped the common source of money, a student loan. Instead, she agreed to hand over part of her future earnings through a new kind of financial instrument called an income-

sharing agreement, or ISA. In a sense, financiers are transforming student debtors into stock investments, with much of the same risk and, ideally, return.

The Capitalist Manifesto

Louis Kelso invented the esop and was the inspiration behind the Esop Centre, together with John Menke and his widow. [This Harvard article](#) tells how he invented the American Esop and fought in Washington to share the wages of capital: "no one should have to live on labour income alone".

Coconut joins RBS bail out queue

Recent Centre symposium speaker Sam O'Connor with his app Coconut is the latest fintech startup to apply for a slice of the RBS bail out fund, eyeing up a £25 million prize from Pool D of the Competition Remedies Fund.

Coconut's [bid for funding](#) comes as the firm moves to add integrated accounting services to its offering in April, ready for the tax authority's mandatory switch to digital-only submissions for VAT-registered businesses.

EU whitelists crown dependencies

UK crown dependencies Guernsey, Jersey and the Isle of Man are among the 21 jurisdictions which the EU has removed from its grey list

But it has added 10 countries to its [blacklist of "non-cooperative" tax jurisdictions](#), bringing the number now on the list to 15. The countries on the list have failed to meet EU requirements on tax transparency, and have not implemented commitments made to the EU by an agreed deadline.

In a speech at the Economic and Financial Affairs Council last month European Commission vice-president Valdis Dombrovskis called the list "a valuable policy tool, because it impacts and changes global tax practices for the better".

Trades unions move towards employee share ownership

A new [policy brief](#) from think-tank European Trade Union Institution endorses employee financial participation in member states. The paper, written by friend of the Centre, Professor Andrew Pendleton, concludes that after decades of trade union ambivalence towards employee share ownership, unions must support all-employee plans and encourage workers to get involved in the governance and safeguarding of their plans.

ALDE ‘coup’ on cards

Macronists want to [push the political boundaries](#) of the liberal ALDE group in the European Parliament after the May EU elections, going as far as suggesting a name change for the party: ‘Renaissance’ has been entertained.

ALDE is the home of the UK LibDems in the Parliament, where they currently have a single MEP. The European grouping is more towards the centre/right and Romanian member Renate Weber is pushing the Commission to be more active on employee shares.

Retirement village goes employee owned

A north-east [retirement village](#) has become the first in the UK to be owned by its staff. Middleton Hall Retirement Village, based in Middleton St George outside Darlington, is entirely owned by its 190 employees.

Managing director, Jeremy Walford, said “I have received offers to sell the business but I am aware that in selling a company you never know who you are really selling to in the long term and I have seen good companies in our sector ending up barely a shadow of the business they historically had been when run by a caring owner, after being bought out.

“In a business world where capitalism and especially social care businesses often have a bad name, an Employee Ownership Trust offers

a different model of how a truly caring company can operate, so my personal decision was easy.”

Cream for Kenary and staff

Boston based Mass Bay Brewing company was first [dreamed up in 1982](#) on a post-graduation beer tasting trip to Europe. Last July it became employee owned and today revenue is at \$60 million.

Co-founder Dan Kenary sees Mass Bay’s employee ownership and culture as giving the company its edge. “Millennials, to their credit, don’t want to have a disconnect between their values and those espoused by where they work,” he says. “There’s a tremendous sense that we’re in this together, and that didn’t exist before the Esop.”

Equity Bank Kenya sets up Esop

Equity Bank [plans to allocate](#) an additional 205 million shares worth 8.6 billion Kenyan shilling to its employees through its Esop. The bank’s workers already own 120 million shares currently valued at KSh5 billion.

IT consultancy Quorum opts for employee ownership

Edinburgh based IT consultancy and managed services firm, Quorum Network Resources, have [made the move to employee ownership](#).

As Quorum has continued to grow and thrive against a turbulent political and economic backdrop, the pair began to consider what the future of the company would look like. Employee ownership allowed them to initiate a succession plan well ahead of any actual exit.

Co-founder Charles Scott said: “If a company is acquired there is normally either a rationalisation of roles or a clash of cultures that directly impacts the employees and customers of that company which is something we never want to happen.”

Unique share ownership opportunity for black South Africans

Industrial conglomerate Barloworld has [launched its public offer](#) for Khula Sizwe Property Holdings, a black-owned property company, in a bid to enable black South Africans to own a stake in a significant property company.

Through this transaction Barloworld will sell a portfolio of its properties to Khula Sizwe and lease back the properties for a 10-year period. The black public, and approximately 14,000 of Barloworld's management and employees, will own shares in Khula Sizwe, with blue-chip Barloworld as the tenant.

Khula Sizwe will be providing the opportunity for black South Africans to own their share of a commercial property portfolio valued at R2.86 billion. Barloworld said the total value of the transaction was R3.5 billion.

Tantaswa Fubu, Barloworld spokesperson and executive for human capital, said the offer to give black South Africans the opportunity to participate in a property-based B-BBEE share scheme that is not related to a share price was a first of its kind in this country. "Through Khula Sizwe, shareholders have the opportunity to invest in a property company with less volatility than a share-based scheme," Fubu said.

China stock buy-backs

Investors and employee shareholders looking for evidence the rally in China's stock market will continue may draw comfort from the recent spate of [equity buybacks](#).

At least 146 firms bought back shares in the first week of April, according to Sinolink Securities,

with at least 17 others announcing plans to do so. Inner Mongolia Yili Industrial Group, China's biggest dairy producer, jumped 8.3 percent after saying it would spend 10.6 billion yuan (\$1.6 billion) repurchasing as much as five percent of its total shares.

For some companies, the goal is to reward employees through stock ownership programmes.

Tencent's Pony Ma famously gave employees shares from his personal holding .

"Some companies are copying what their Wall Street counterparts did by buying back shares to have them cancelled so it lifts earnings per share and stock prices," said Zhang Gang, a strategist for Central China Securities. "Others are using the repurchased shares for incentive programmes, which is another way to boost operations."

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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