

newsbrief

December 2018



newspad awards 2018

The judges met at Centre HQ on December 3 and awarded *newspad stars* to plans from BAE Systems, BP, easyJet, FirstGroup, Investigo, Landsec, Micro Focus, Non-Standard Finance, Paddy Power Betfair, Rolls-Royce, Smiths Group, Unilever and Xtrac. The category winners and commendations will be announced in *newspad* in January. In line with the international reach of *newspad* there was a growing trend towards self nomination by major world companies.

Malcolm Hurlston thanked the judges Damian Carnell, Robert Head and Anna Watch for their preliminary conclusions, to be confirmed in the new year.

EVENTS

Guernsey 2018

The 2018 Guernsey seminar, produced by the Esop Institute with STEP Guernsey, was strongly attended and well received.

Paul Malin of Haines Watts' talk on "Information overload - now what?" covered the OECD's quest for transparency, HMRC's plans to narrow the 'tax gap' and how it plans to use our information to do this.

Alison MacKrill covered recent legal cases affecting trustees' day-to-day decisions and introduced delegates to the new draft [*Handbook on Countering Financial Crime and Terrorist Financing*](#), published by Guernsey Financial Services Commission. It is likely to be little changed before it becomes effective from March 31. It affects the customer due diligence requirements of beneficiaries (section 7.12.2 page 9).

Copies of the full Guernsey presentation deck are available to members at £100 + VAT from esop@esopcentre.com. Meanwhile, the presentation version of David Craddock's new paper on the general economic environment

with a focus on the Channel Islands has been published on the Centre website. You can download it at www.esopcentre.com/library.

British Isles Symposium 2019

A case history featuring online bank Coconut, which is using EMI to help motivate its employees, is the latest highlight to be announced of the Centre's third [*British Isles share schemes Symposium*](#)

(London, Thursday March 7 2019). This case history

will be led by Coconut's founder & ceo, Sam O'Connor and Nigel Mason of Centre member RM2 Partnership during the full-day event, hosted by Travers Smith at its London EC1 offices. There will be an end of day reception with invited guests.

You can see a timed programme in the [*event brochure*](#), which has been sponsored by Zedra Guernsey and Estera.

Featured in the expert line-up are:

Colin Kendon of Bird & Bird; David Craddock of his eponymously named consultancy; Martin MacLeod of Deloitte; Jennifer Rudman of Equiniti; William Franklin and Eva Simpson-Fryer of Pett Franklin; Sue Wilson and Elizabeth Bowdler of PwC; Nigel Mason and Robin Hartley of RM2; Nicholas Greenacre of White & Case; Damian Carnell of Willis Towers Watson; Elaine Graham of Zedra; and Elissavet Grout of Travers Smith.

Ticket prices:

practitioner members: £395 + vat

practitioner non-members: £595 + vat

Admission is **free** for delegates from plan issuer companies.

To reserve your place at the symposium contact events@esopcentre.com or call +44 (0)207 239 4971



WEBINAR

Global incentive plan webinar

Tuesday 15 January 2019, 10.30–11.30am
Deloitte hosts its first 2019 [Global Incentive Plan Webinar](#). Experts from France and Belgium will talk about the recent changes relating to the operation of withholding on equity awards and what this means in practice. Plus a whistle-stop tour of other recent legislative changes from around the world.

CENTRE AND MEMBER NEWS

Share schemes update from Pett Franklin

In the light of Brexit and its implication for the political and economic future of the UK, Pett Franklin has prepared a [share scheme update](#) covering their effects, allied to other developments. .

Fieldfisher transfers law firm to full employee ownership

Social justice-focused firm Hodge Jones & Allen has become the first of its kind to be [entirely owned by its employees](#) after its founder and other equity partners agreed to sell the business to an Employee Ownership Trust (EOT). European law firm and Centre member Fieldfisher advised London-headquartered Hodge Jones & Allen on the conversion of the firm's equity partnership model to an EOT. The successful transfer of ownership was the eleventh in a series of employee-ownership mandates on which Fieldfisher has advised in 2018, led by partner Graeme Nuttall OBE. The aim is to secure Hodge Jones & Allen's long-term future by meeting the challenge of the impending retirement of senior partner Patrick Allen.

"We've been thinking about succession for a long time," managing partner Vidisha Josh told *Legal Business*. "We considered options like a merger or an injection of capital but after doing due diligence it didn't really appeal to us. We just couldn't bear the thought of the firm being broken up and sold for parts."

ESOP Association Canada becomes Centre member

The Centre has agreed reciprocal membership with ESOP Association Canada. Save the day for the next annual Canadian employee ownership conference in Toronto on June 3-5 2019. EAC members are being invited to the British Isles symposium in London.

US thoughts on Labour Party proposals

Corey Rosen, founder of the National Center for Employee Ownership, shared his views with the Centre on John McDonnell's employee ownership proposal. Rosen welcomed the acknowledgement of the benefits of employee ownership but was critical of the mandatory aspect of the proposal and the low cap on dividends available to workers.

"The research shows that companies that continue with a top-down approach actually perform worse after an Esop because they have raised but not met employee expectations about being an owner" Rosen said.

"Our concern with the Labour proposal is that because it is mandatory, many companies would set up minimally compliant plans with little or no effort to create an ownership culture. But even if they did, the limited benefit employees can garner from being owners makes it highly unlikely that employees would respond to efforts to encourage and structure ownership behaviour. If the result is at best lacklustre, the entire concept of employee ownership will be damaged."

Rosen offers a number of recommendations to improve the proposal, such as providing tax deferrals or exclusions for employee sales of shares and possibly, as in the US, a provision that 100 percent ESOP companies do not pay income tax.

Rosen also suggests that Parliament could encourage the formation of Employee Ownership Investment Companies (EOICs) to help provide equity capital for purchases where employee trusts lack the necessary capital. The full comment can be read [here](#).

In response Malcolm Hurlston, whose creation of the Esop Centre was inspired by Corey's NCEO, noted that Alaska had an oil wealth fund which made annual distributions to state residents. The Centre is aiming to arrange a round table with Corey and Labour protagonists.

UK AND WORLD NEWS

2Excel launches EOT

Aviation organisation [2Excel Aviation has launched an Employee Ownership Trust](#) (EOT) to boost reward and retention among its 160 employees, who operate across eight business units, including T2 Aviation, 2Excel Engineering, Scimitar, Sabre, Broadsword, Leading Edge, GeoSpacial and The Blades.

Louise Campbell, HR manager at 2Excel Aviation, said: "Employee ownership is a model we are fully embracing. Employee-owned businesses benefit from higher staff engagement and better employee retention. Our employees are empowered to think and act like owners and they are already benefiting."

According to Andy Offer OBE, director at 2Excel Aviation: "The employees really care about the business, its success and the future, and the EOT aims to retain our people, incentivise and reward them. Ultimately, the EOT and its employees will project the organisation's values and reputation."

North East MP backs employee ownership

Guy Opperman, MP for Hexham in Northumberland whose ministerial brief includes pensions and financial inclusion, is [backing proposals](#) for employers to give long-serving employees a share in the company. It comes after Labour shadow chancellor John McDonnell announced a Labour government would force firms to put 10 percent of their shares into a fund controlled by employees. Opperman said: "McDonnell's model of

collective employee ownership is a double rip-off – punishing those who have set up their own companies by confiscating large chunks of them, and punishing workers by minimising their ownership stake so that government can pocket the rest."

The MP set out his proposals in a [paper](#) for think tank the Centre for Policy Studies, written jointly with London-based employment lawyer Laura Farris.

Highland hotel becomes second in Scotland to move into employee hands

The Priory Hotel in Beaulieu, near Inverness, is [now majority-owned by its 46 staff](#) after founder Stuart Hutton decided its future would be best served in their hands.

Stuart Hutton, who formed the now 39-bedroom hotel in 1972, had considered a trade sale. However, Mr Hutton's son Kenneth explained that his father did not "feel that the prospective buyers were the right fit for the hotel."

He added: "A staff member had once mentioned employee ownership as a potential solution to this – it meant the business would be sold to those who know it best, and it wouldn't be taken over by a large chain. The option stuck with my dad and when he felt like he had the correct management team in place, the time was right to begin progressing the buyout."

Outgoing Unilever boss asks shareholders to trust his successor

Unilever boss Paul Polman announced his resignation months after investors shot down plans to combine the company's London headquarters with that in the Netherlands.

Polman, 62, said investors will have to [trust his successor Alan Jope](#). He advised Jope to "find the few [shareholders], like I have, that you trust and that you can talk to" and "really listen to them".

He called on shareholders to make their views more clear. "It would also be good if some of you spoke up more, because you are all very

supportive to us, so that we don't get this negative perception being created by some papers who want to sell more the next day," he said. The Centre joined its member UK Shareholders Association and ShareSoc in opposing the Polman plan to ditch London.

Labour proposals for executive remuneration

As reported in this month's *newspad*, proposals for executive remuneration have been set out in a report commissioned by John McDonnell and shadow business secretary Rebecca Long-Bailey. Though they are not official Labour Party policy, the proposals were warmly welcomed. The report is available for download [here](#).

The report proposes radical changes to curb "undeserved remuneration" and deal with a "policy failure to check executive pay and secure an equitable distribution of income". Company law would be changed to require employee and customer stakeholders to be involved in the process of setting top pay, not just the directors and shareholders. The law would also be changed to provide for legislation to claw back executive remuneration.

The use of company shares to remunerate executives is seen as contributing to "undeserved remuneration" and a lack of transparency and understandability prevents its control. Therefore, in order for the total executive remuneration cap to operate, it is proposed that all executive remuneration should normally only be paid in cash, and that company equity should only exceptionally be available for executive remuneration if the share schemes are also offered on the same terms to all employees.

New paper on board representation

Sarah Wilson of Minerva Analytics (formerly Manifest) has produced a *paper* on [board representation](#).

Ireland: Call for Irish government to step up employee ownership

At the launch of the Future Jobs summit last month in Dublin, minister for business

Heather Humphries said: "We need to ask ourselves hard questions about areas where we need to improve. This includes looking at how we can increase productivity levels among our indigenous SMEs."

A [response](#) in the Irish Independent criticises the government's failure to promote employee ownership among SMEs.

"In Ireland more than 99 percent of the economy is driven by the SME sector, yet foreign direct investment gets all the headlines" notes Gill Brennan, chief executive of the Irish ProShare Association.

"Hundreds of employee-owned businesses are experiencing the benefits on a daily basis in the UK. Yes, there are some things that the UK gets right, and employee ownership is right up there at the top of the list. In the UK, employee-owned businesses contribute approximately four percent of GDP annually - the equivalent of more than £30bn - and the employee-owned sector is growing by about 10 percent every year. Minister Humphries says she wants to support the SME sector, yet her department is overlooking a model that will increase productivity and employee participation."

Europe: EU employee ownership rules too tight for tech

A group of thirty European tech start-ups has warned that the European Union's "inconsistent and often punitive" [employee ownership rules are hindering their businesses](#).

The entrepreneurs, which include the founders and chief executives of iZettle, TransferWise and Delivery Hero, stated that laws across the continent make it costly for employers to give out stock options to employees. The result is "a brain drain of Europe's best and brightest", they said.

The warning to EU policymakers, in [an open letter](#), comes as research by venture capitalists Index Ventures finds that employees own only 10 percent of late-stage start-ups in Europe, because of limitations brought about by regulations. However in the US it is 20 percent.

The letter by the tech founders claims the regulations make it hard for talented workers to give up their current careers, usually at big tech companies, to join new start-ups.

“The next Google, Amazon or Netflix could well come from Europe, but for that to happen, reforming the rules of employee ownership is definitely not optional” the letter concluded.

US: Employee ownership preserving the legacy of Black Wall Street

Durham, North Carolina, was once known nationally for its “Black Wall Street,” a cluster of flourishing [black-owned financial institutions and businesses](#), including some iconic insurance and finance firms such as North Carolina Mutual Life.

Now, propelled by the national [Shared Equity in Economic Development](#) (SEED) fellowship, the city is building a plan to help preserve black-owned businesses through employee ownership.

Many of the city’s black-owned companies are 30 or more years old, with uncertain futures, according to Andre Pettigrew, director of Durham’s office of economic and workforce development. “The owners are ready to transfer. [But] in their families, many of the kids have gone on to college and middle-class professional lives. They’re not interested in running the businesses. So succession planning is a big part of what we’re talking about”, says Pettigrew.

“[Collective ownership] is one way to mitigate the fact that there aren’t a lot of individuals with enough assets to [purchase a business],” Pettigrew says. “For one person, it’s highly risky. You need partners. So in this case, you know the others and you know the business. In some ways, it’s the most-informed choice of starting a business. You already know its strengths.”

The SEED fellowship comes at a time of growing interest by cities and advocates in employee ownership as a means of increasing access to

business ownership, especially for groups often shut out of the economy, such as immigrants and people of colour. Growing income and wealth inequality has shone a light on the need to build and retain wealth — businesses owned by baby-boomers at or nearing retirement age are valued at an estimated \$10 trillion, according to the Exit Planning Institute. Responding to these forces, the recent bipartisan federal [Main Street Employee Ownership Act](#) aims to improve assistance and outreach for employee ownership.

“After the recession, a lot of individual wealth was wiped out, especially in the African American community, where most of the wealth was in our homes,” says Pettigrew. “They say the first path to increasing wealth is home ownership — and right after that is being a business owner. So to put employees on the path to business ownership is an important part of this model.”

US: Colorado governor-elect appoints employee ownership advocate to transition team

Jared Polis, recently elected to be governor of Colorado, has begun to name his transition team. The economic development and labor committee includes Halisi Vinson, the executive director of [the Rocky Mountain Employee Ownership Center](#).

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:

T:+44 (0)20 7239 4971

E: jwigzell@esopcentre.com



Esop Centre Ltd, 65 King’s Cross Road, London WC1X 9LW

+44 (0)20 7239 4971 | esop@esopcentre.com www.esopcentre.com