



Bunker's take on KKR in Wall Street Journal

Ted Bunker devoted his “take” in the WSJ on December 2 to KKR’s new vision of a share in the business for all employees. With its record-setting buyout of RJR Nabisco some 30 years ago KKR helped build a popular private equity narrative that still resonates on the hustings today, from the “corporate raiders” and “Barbarians at the Gate” of the 1980s to the more recent “vultures” and “vampires”.

But in its industrial portfolio under Pete Stavros KKR has changed the game. Instead of job cuts at the industrial companies it buys, its focus has shifted to [empowering workers](#). For many workers at Gardner Denver for example it has meant a reward of 70 percent of annual salary as the wages of capital.

ESOP STAR PROFILE

Brian Basham



Brian Basham is chairman of corporate research company Equity Development and famed City campaigner. Former Times journalist and “still a journalist at heart” Brian was one of the leading players in the great era of contested takeovers and is now also a leading campaigner for corporate and other good causes.

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

Encourage employees to think like an owner, especially when transitioning exiting owners.

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

Through educating managements about the many advantages of Esops.

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

Would depend on the company but their highly advantageous use in acquisitions, including the tax and cash flow benefits, the reduced risk profile, the corporate tax savings and the increase in employee motivation.

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

A Labour Government might have introduced some sort of shelter legislation to inhibit worker owned companies from hostile acquisition.

*Which change to employee share plans/
employee financial participation legislation
would you most like to see?*

Much greater flexibility for trustees to distribute benefits, a relaxation of the rules so that shares could easily be passed out of a Statutory Esop through a Revenue approved savings related share options scheme, the extension of Esops to part-time employees.

What is your idea of perfect happiness?

Tea with The Queen

What is your most marked characteristic?

Patriotism

*What do you consider your greatest
achievement?*

Bringing back Remembrance

What historical figure do you most identify with?

Churchill

Which living person do you most admire?

Nigel Farage

Who are your heroes in real life?

Nigel Farage and Donald Trump

Which word or phrases do you most overuse?

Nonsense

What is your most treasured possession?

A signed copy of Charles Moore's biography of Margaret Thatcher

EVENTS

Deloitte incentives & reward legal seminar

2020: Culture, risk and reward

Tuesday February 11 2020

Pay is increasingly seen as a tool to influence the behaviour of executives and employees, as highlighted by recent changes to the UK Corporate Governance Code and shareholder guidelines. Remuneration committees need now to recognise risk when making reward decisions, executive directors are required to hold shares following termination of

employment, and shareholders remain focused on the exercise of discretion.

The seminar's interactive sessions will include guest speakers as well as experts from the Deloitte team discussing:

Longer and longer-term incentive plans

Carrots and sticks: changing attitudes to risk through reward

Discretion – is it really discretionary?

[Registration](#) is by invitation. Write to Liz Pierson crosales@deloitte.co.uk

More new speakers for Centre symposium on March 26

Willis Towers Watson director Damian Carnell, executive compensation expert and adviser to the International Accounting Standards Board, has joined the all-star speaker line-up for the Centre's fourth British Isles share plans symposium on Thursday March 26 in London next year.

Damian, who has 25 years' experience advising leading companies on all aspects of executive compensation and in particular performance pay, will speak in the *Executive Reward* segment of the programme on: *Top pay, incentives and the pressing environmental, social and corporate governance (ESG) agenda.*

A major employee share plan case study, promoted by Centre member plan administrator Computershare will be another highlight of this all day event. This slot will be introduced by experienced Centre speaker Stuart Bailey. Also joining the line-up is Claire Prentice of Travers Smith's incentives and remuneration team. She will examine *which elements contribute most to effective global equity plans.*

The symposium is being hosted by Linklaters at its Silk Street, London EC2 headquarters and Harry Meek will descry *The changing landscape of investor and corporate governance expectations* for executive equity reward. Harry will focus on three key issues: *Regulatory developments impacting remuneration in the financial services sector - challenges to the way banks and firms in the sector have been operating their incentive arrangements *Listed company investors and corporate governance

expectations are catching up, as concepts the sector has been dealing with come to the fore, such as: Operating malus and clawback in practice; Use of discretion in determining vesting outcomes; and Measuring non-financial risk and culture as part of incentive plans *Finally, what listed companies can learn from the challenges and developments faced by the sector in share plan design and operation.

The event will be chaired and introduced by Centre founder, Malcolm Hurlston CBE. He will ask delegates: *How can all-employee share plans be reset to make them more popular with companies and employees?*

The speaker line up features:

Colin Kendon, employee incentives partner at Bird & Bird, will deliver a frank assessment of the popular *Executive Management Incentive* scheme, now operated by more than 10,000 UK SMEs. During his tour of its 'ins and outs', Colin will talk anecdotally about the use of 'Exit Only' EMI's.

David Craddock, who heads his eponymously named worldwide share schemes consultancy, will explain how SME companies are valued, so that employee shares can be issued. David is technical secretary to the ground-breaking *Worked Examples Group* which the Centre co-founded and has administered *pro bono* from its inception.

Martin MacLeod of Deloitte will ask *whether recent changes in the UK corporate governance code go far enough on the executive reward front.*

Jennifer Rudman of Equiniti will address: *How do you ensure that all employee plans (Sharesave and SIP) continue to be relevant and provide benefits for today's workforce?*

Garry Karch, the leading Esop banker in the UK, will explain *How Employee Ownership Trusts (EOTs) are structured and financed.*

Jane Jevon of Pett Franklin takes the dust covers off the *Company Share Option Plan (CSOP), the forgotten share scheme; unlocking its potential and avoiding its hidden pitfalls.*

Robin Hartley, a senior associate at RM2, will discuss how best to structure and install *growth shares* in companies. His controversial views led to a heated discussion last year.

Reserve your place by emailing events@esopcentre.com or calling the team on +44 (0)20 7239 4971. Delegates from practitioner members will pay £395 and trustee members will pay £330 for their seats. Plan issuer (non adviser) can attend *free of charge*. The programme brochure can be downloaded from the event's page of the Centre website at www.esopcentre.com.

“Extremely **relevant** and **interesting**.
A good opportunity to catch up with **contacts**; old and new!
A great success.”

WEBINAR

Post-termination restrictions in the UK: key principles and recent developments

January 14 16:00-16:55 GMT Lewis Silkin/ Lexology

Lewis Silkin and Lexology offer an introduction to the [basic principles of post-termination restrictions in the UK](#), including: The restraint of trade doctrine and its application in the UK courts; Different types of post-termination restriction and clarification of the protected interests (non-compete, non-deal, non-solicit for clients, prospects and staff); Severance and blue-pencilling, including *Tillman v Egon Zehnder Ltd*; An examination of scope, including potentially different treatment in the contexts of employment, limited liability partnerships and shares; Practical considerations, including regular reviews, affirmation, bonus/promotion considerations and TUPE.

CMS reports on Gibraltar's status within the EU

The opinion of Advocate General Hogan of the European Court of Justice was issued on October 24 2019 on the preliminary reference in GVC Services (Bulgaria) EOOD v Direktor na Direktsia Obzhalvane I danacha asiguriaina praktika - Sofia (Case C-458/18). The hearing took place on September 11 2019.

The preliminary reference concerned whether a Member State can impose withholding tax on the payment of dividends from a company within its territory to a parent company situated in Gibraltar. In particular, it concerned the interpretation and applicability of Directive 2011/96/EU (the "Directive") and also whether there was an impermissible restriction on freedom of establishment in the application of the Law on Corporation Tax in Bulgaria.

The Advocate General's opinion advocates [strict interpretation of EU directive](#) and confirms the discriminatory nature of Bulgarian legislation contrary to freedom of establishment. The European Court of Justice is free in the end to decide differently.

Could awarding shares to pub employees help the sector's recruitment and retention crisis?

Catherine Gannon, founder of Gannons Solicitors, [reviewed the option of share schemes as an employee incentive](#) for the trade publication, the Morning Advertiser.

Renationalisation warning

Centre speaker Len Shackleton has co-authored a report from the Institute of Economic Affairs warning that renationalisation would ["ignore the lessons of history"](#). Many foreign investors are involved and any attempt to expropriate them at below market rates would lead to retaliation against British overseas investment, Len warns.

Election: Tax avoidance under scrutiny

Every political party manifesto for the December 12 general election contained promises to [attack not only tax evasion but also tax avoidance](#).

To confuse matters, the Conservative manifesto quoted the relatively common figure for the tax gap of £35bn. Some commentators believe the actual figure should be closer to £100bn and, in reality, is probably somewhere in between. According to Accounting Web there seems every chance that the new government will also take things several steps further. "Whether we like it or not, those in positions of influence appear to have decided that certain types of tax avoidance are unacceptable and should be outlawed."

Accountants' broader duty should include employees as stakeholders in "Capitalism reset"

There was a time when it was easy to decide [to whom an accountant reported](#): the law said it was the shareholders, said Prof Richard Murphy of City University. The audit report (if there was one) was addressed to them. And in practice, the accountant liaised with the directors and/or owners of the entity that they were working for, and pretty much delivered what they wanted.

Then along came the Companies Act 2006, in which section 172 introduced what might be called 'enlightened shareholder value'.

The directors of a company were now meant to have regard to employees, customers, society at large, the environment, reputation and other issues. But the truth was that nothing really changed.

But, the world beyond accountancy is now suggesting that reporting to shareholders alone is no longer sufficient.

'[The Corporate Report](#)' issued by the then-new UK based Accounting Standards Steering Committee in 1975, the start of the era of UK accounting standard-setting, considered to

whom accounts should be addressed and suggested that there were many stakeholders groups, including employees, with an interest in the accounts of a company, all of whose needs should be met.

Who better to take over the business than the staff

The Times reports that the choice of a John Lewis inspired enterprise structure by entrepreneur [Philip Marsden who decided he could not sell his firm to a rival](#) and walk away.

A sale to a rival group, such as Russell Reynolds or Heidrick & Struggles, would have been “extraordinary hypocrisy”, given that he had spent the past two decades extolling the value of “small and perfectly formed” people businesses. “From the day I started — and I’ve got colleagues who will vouch for me on this — my dream was always to pass it on to staff. I never wanted to do what others always do in people businesses and sell just for the shilling”.

Buyout boost for Parcel2Go

According to the Bolton Evening News a management buyout has taken place, with private equity backing, at leading Bolton firm Parcel2Go. Bosses at the delivery firm teamed up with Mayfair Equity Partners to make the deal: Mayfair will take a majority shareholding and work alongside the current management team.

No changes are envisaged in the current set-up, with executive chairman James Greenbury remaining in place.

Existing [employee shareholdings will not be affected](#), as part of their Enterprise Management Incentive scheme.

Mr Greenbury said: “We are delighted to be able to deliver an early Christmas present to lots of our employees that are part of the share scheme.

It’s testament to the family that we created that they have chosen to continue the journey with us.”

WORLD NEWS

USA: NCEO Insights: Research on Esops and business owners

The NCEO has just completed the [first phase of a long-term project to gather data](#) designed to help develop strategies to increase the reach of employee ownership.

Everyone in the Esop community has heard common themes from business owners trying to decide who should own their companies after they retire, but the field has lacked research testing different messages, prioritising the various channels through which business owners can be reached or determining what life events trigger the decision to begin exploring a sale.

The top three concerns about Esops are ongoing costs, setup costs, and complexity.

USA: What does the sale of New Belgium Brewing mean for employee ownership?

Employees have approved [the sale of New Belgium Brewing](#), the largest Esop-owned craft brewery, to a subsidiary of the Japanese beverage giant Kirin.

New Belgium was the first craft brewer to become an Esop, and its success has been part of why at least 15 other craft brewers have become Esop companies as well. Collectively (counting New Belgium), they account for over 15 percent of the total volume of craft beer. Craft brewing, in fact, has among the highest densities of Esops of any industry.

So given this, what are we to make of its sale, asks our sister organisation NCEO in its blog? Obviously, losing a well-known and widely admired company like New Belgium as part of the Esop community is painful. But Esop companies face the same kinds of pressures and opportunities all companies do. The craft brewing industry has been undergoing rapid consolidation for several years, with multiple major acquisitions announced every year. Large brewers can add marketing, capital, and distribution advantages that even major players like New Belgium find hard to match. Because of that, they are often willing to pay

substantial premiums for the stock. That doesn't mean that a sale is inevitable for any successful craft brewer, but in any growing industry consolidation is to be expected.

In market economies companies are created, companies fail, and companies change ownership. Esop companies outperform other companies on average, and this competitive advantage makes it less likely that they will experience a sale, but it cannot ensure that any particular Esop company will last forever. The question is not whether companies will be sold, but what will happen to the stakeholders of companies that are sold. Employees are often the losers when the ownership of their employers changes hands. They almost never benefit from a transaction . . . unless the company has broad-based ownership by its employees. The existence of an Esop means that the sale price is divided among many people, rather than a single person taking the entire profit from the sale.

NCEO concludes "All of us in the Esop community should be grateful to all the people at New Belgium, especially its long-time leader and cofounder Kim Jordan, for creating a model Esop company that has helped spread the concept of employee ownership in its very best sense."

USA: Massachusetts steps towards state fiduciary standard

Baker McKenzie reports that Secretary of the Commonwealth [Galvin has proposed a rule](#) for fiduciary duty conduct standard for broker-dealers, agents, investment advisers and investment adviser representatives. The Massachusetts Proposal (comments due by Jan 7 2020) is an updated version of a pre-proposal originally circulated on June 14 2019 and issued in the wake of the SEC's Regulation Best Interest ("Reg BI") rule. As a result, the pre-proposal immediately became part of the ongoing debate surrounding Reg BI's sufficiency. The Massachusetts Proposal joins two other state fiduciary regulatory proposals: Nevada (proposal issued on January 22 2019) and New Jersey (proposal issued on April 15 2019). All three proposals lead to questions about federal preemption.

France: Regulating high yield debt

Linklaters answers questions on: Disclosure requirements; Use of proceeds; Restrictions on investment; and closing mechanics applicable to [high-yield debt securities](#) financings.

Australia: StartupAus urges for policy changes to help local tech sector

[StartupAus has called for](#) specific policy amendments to improve the maturity of the local tech sector.

In the sixth annual [Crossroads report](#), StartupAus propose 10 policy amendments.

"The political headwinds facing technology in general -- and particularly large global tech firms -- are now having very real ramifications for Australia's burgeoning domestic tech sector," StartupAus ceo Alex McCauley said in the report.

Australia: Proposals to boost Australian work harmony

Performance bonuses, [employee share schemes and worker voices](#) in decision-making processes have been floated as ways to boost workplace harmony.

The Morrison government has included these suggestions in its latest workplace laws discussion paper, calling for submissions to help reduce industrial conflicts, grow wages and boost productivity.

Attorney-General Christian Porter, who is also in charge of industrial relations, said research showed bosses and employees working together led to shared benefits.

Employee engagement levels in Australia were low compared to countries like the US and Canada. "Workplaces where engagement levels are low have also been shown to suffer from higher levels of conflict and industrial unrest," Mr Porter said.

EOT NEWS

Engineering firm moves to EOT

Engineering consultancy Otto Simon Holdings, which provides services to global customers in the steel, petrochemical and renewable energy sectors, has become employee owned.

Founded in 2004 and turning over £20m, it has operations in Stalybridge, Rotherham and Forfar.



According to Insider Media, co-founder and chairman Steve Haywood acquired full control of the company in 2008. Since then, it has grown organically by expanding its customer base and diversifying into new sectors, as well as making two acquisitions.

Haywood has now transferred his [shares to an employee ownership trust](#).

The day-to-day running of the Otto Simon group of companies will now be led by the directors of its four divisions; Chris Bridgland, Nick Shaw, Richard Buckley and Gary McCombie.

"My view has been that employee ownership would be the best way of preserving our culture and ethos when the time came for me to step down," said Haywood. "We have created a great team to ensure that the business has strong foundations for future growth and I know it is in safe hands."

Bluefruit turns to EOT

Bluefruit Software has become the first tech company in Cornwall to adopt an employee ownership model, according to Business Cornwall.

The Redruth-based business has formed an Employee Ownership Trust (EOT) and through the trust employees are now the principal shareholders, with a 51 percent stake [and a say in governance](#) with two employee members who are not directors of the company sitting as trustees.



Founder and director, Paul Massey, said: "We've found time and time again, that by empowering our people to make the right decisions for themselves and their work we get a better result for our clients than if we didn't.

"It was important that we found a way to preserve this and ensure the business would be around ten, 20 or even 30 years from now. Something that your typical Silicon Valley or London-based tech start-up doesn't care about."

Director Caitlin Gould added: "We're offering a place of work that's unique in not just Cornwall but tech companies worldwide.

"There's a real problem with businesses saying that they're empowering their people, but they're not. And that leads to high turnover in a sector that's hurting for lack of talent. We have an employee turnover rate of four percent—the tech industry average is 23 percent.

"When you look at the growth we've had from being people first, it makes sense to protect that. This is not only great for our people; it also provides stability to our customers."

Exmos employees take ownership

DIGIT reports that Grangemouth-based IT support firm, Exmos, has [become employee-owned](#), with nine members of staff given a stake in the business.

Established in 1991 by Gordon Coulter, Exmos provides a range of IT support services to more

than 100 businesses in the UK and internationally., Coulter said “A trade sale just didn’t appeal to me. We’ve still got things to do at Exmos in terms of developing the business and expanding our offering. I didn’t want to sell to a larger competitor that was more interested in our Intellectual Property and customer base than the growth of the business and the security of the sta□.



“Many sta□ have been with us for years and I felt it would be selfish of me to put them in a position where they were potentially going to have the rug pulled from under their feet, or be pulled into a big corporation with a different culture from the one they had chosen at Exmos.”

An Employee Ownership Trust has been formed and holds 60 percent of shares on behalf of the employees. The transition to employee ownership was supported by Co-operative Development Scotland (CDS).

Coulter added: “It was never about making a complete exit for me, and I’ll still be very involved in the business for several years to come as we continue to evolve. The reaction from the sta□ has been very positive, and they have expressed gratitude over the move to EO, which has ensured their jobs remain in the local area and gives them more of a say in how the company is run.”

Strength and Conditioning Education adopts EOT

Strength and Conditioning Education, which delivers education and development for fitness professionals from 20 locations across the UK, has [set up an employee ownership trust](#), the Yorkshire Post reports.

Leeds-based Strength and Conditioning Education has undergone a seven figure buy-out, supported by a loan from asset manager Mercia.

The deal gives the sta□ control of the business with founder and ceo Brendan Chaplin retaining a minority share.

Mr Chaplin said: “We are very much a people business. Our sta□, led by managing director Paul Dorkings and operations director Dave Christophi, are at the heart of our success and in recent years they have been playing an increasing role in driving the business forward.

“I wanted to empower them further and allow them to benefit directly from its success.”

The business trains around 1,000 students each year, ranging from independent coaches to sta□ from gym chains such as David Lloyd.

Mr Chaplin, who has worked with clients such as UFC fighters, rugby league team Huddersfield Giants, British Tennis and England Golf, set up the firm in 2011 and was instrumental in the decision to go down the employee ownership route



The employee ownership sector in Britain grew by 18.5 percent last year, continuing the trend set by legislation brought in 2014 to provide tax benefits to business bosses who choose this as the preferred option of succession.

Yorkshire accounts for 7.6 percent of the country’s employee owned businesses. Leeds-based industrial door supplier Union

Industries, which is employee owned through a trust, earlier this year announced a £3,500 bonus for its staff.

Building Technology Systems shifts to employee ownership

A Warrington based building control system designer and installer has been acquired by an Employee Ownership Trust. With the support of a seven-figure funding package from HSBC UK and retaining all jobs, the newly formed EOT has made a 100 percent purchase of Building Technology Systems from current owners Graham Spark and Dean Brookes.

The existing owners were keen to adopt this route as it allows them to stay in operational control of the company until their eventual future retirement, with a smooth transition of management over a number of years for their customers and staff.



Building Technology Systems

Mr Spark said: "We're incredibly proud to have built an innovative business that has stood the test of time for over 20 years.

"The time was right to ensure the future of this company so when the opportunity came to pass ownership to our employees, we were confident that this would put the business in the right hands.

"This buyout will guarantee that the business can continue to provide reliable control system solutions for our customers as well as job security for our employees."

GPW Recruitment becomes EOT owned

GPW Recruitment has announced that it became an employee-owned business on November 7. The firm, based in rugby league capital St Helens, is now majority-owned by an employee ownership trust, holding 74 percent of the business.



"The EOT offers a business model that recognises and rewards all staff whilst providing continuity for clients, suppliers and employees, and crucially, can be an important tool for attracting and retaining talent," chairman Graham Worsley said.

Traditional mergers and acquisitions can carry disruption and uncertainty, according to Worsley.

GPW was founded more than 45 years ago and provides recruitment in manufacturing, engineering, energy and construction. It has turnover of approximately £20 million and a staff of 40.

The decision to transfer the majority of shareholding to the EOT was made by Worsley, who joined the company in 1989, and his wife, Carole.

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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