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it's our business

newspad of the Employee Share Ownership Centre

New thinking urgently needed, Paris summit told

All-employee share ownership is at the cross-roads and badly in need of fresh ideas from share plan sponsor companies and their advisers, if it is to progress, **Malcolm Hurlston CBE** told the second *newspad* employee equity summit in Paris.

"Plan sponsors and their advisers need to come up with fresh ideas. All the schemes they know and love date back to an era when the Financial Conduct Authority wasn't even a twinkle in a chancellor's eye. They may provide the basis for an industry, but as a mission they reek of yesterday,'' Mr Hurlston told 40 delegates on the opening day of the summit, held at global law firm **Linklaters**' splendid offices in **Rue de Marignan.**

"Is employee share ownership even reaching most of the people? – We seem to have no answer to that,'' he said. It was clear however, that in both France and the UK, many SME companies did not know how to make full use of employee ownership. "Even private equity, like KKR and others, is now going beyond the world of quoted companies by giving equity to employees in the businesses they own, or partially own.''

The chairman praised the Centre's French colleagues in FONDACT/IAFP (the International Association for Financial Participation) for their help in producing a balanced and informative programme: "We are the true believers who want to make the world a better place in which workers own shares in their businesses,'' he told Jean-Michel Content, secretary-general of IAFP.

Mr Hurlston revealed that the Centre is lobbying the UK government to bring about changes in the structure of the Employee Ownership Trust to make it more user-friendly. In addition, he is writing to the EU institutions, urging Brussels to adopt a common set of guidelines or rules, applicable across member states, which would simplify international administration and, at best, encourage the widening and spreading of Eso/EFP (Employee Financial Participation). He wrote: "Companies promoting the plans can be based outside the EU, perhaps in China or the US, and simplified administration will ensure the continued attractiveness of including EU citizens. As a matter of importance to millions of citizens and major employers and perhaps relatively easy to resolve, I hope it might command your early attention.''

The summit delegates included major companies with global plans: **Airbus**, **Saint-Gobain, Société Générale,** and **Thales.** International share plan administrators were represented by: **Computershare, Equiniti, Global Shares** and **Solium**.

From the chairman

Paris was an international esop event of the highest quality, with fresh insights and new thinking. Case history highlights from Saint-Gobain and Airbus were both topical and revealing for their insights into how French multinationals see the world and the role of their employees within it. French and English alike could learn from Index Ventures: how much more likely US high-tech starts were to reward all employees not just the initial movers and shakers. Across the two days there were crystal clear tutorials on most of the esop world's latest issues. Thanks to Linklaters ...and to Fred Hackworth and Juliet Wigzell.

Malcolm Hurlston CBE

Rasmus Berglund, counsel at **Linklaters**, examined how two recent major regulatory developments, GDPR (the *General Data Protection Regulation*) and Mifid II (*Markets in Financial Instruments Directive 2*) had affected Eso plans. GDPR was the most comprehensive piece of regulatory law, which included 173 pages of preliminary guidance, to emerge from the EU in the last decade, Ras told delegates. Its overarching aim – to give individuals more control over their personal data – had been given resonance by the Cambridge Analytica data abuse scandal. However, critics claimed it was too intrusive – for example, by raising questions about the status of data used when employees take work home for the weekend. Closer to home, the Esop Centre could no longer keep the delegate list for such a conference indefinitely, said Ras. In the share plan world, it was '*the end of consent as we know it.*' Linklaters had seen that 90 percent plus of its clients had done what they needed to in order to comply with GDPR and less than ten percent had fallen short, he said. Companies had had to send out data policy notes to all employees, explaining why employers were holding personal info, how much of it there was and who had access to it.

The gestation of Mifid II had arisen from the need for new market trading rules in the light of technological change. Transaction reporting had become a lot more time-consuming than previously, as 85 instead of 21 data points had to be recorded, said Ras. It had slowed things down because brokers would not do trades until they had all the info. "Mifid II has caused huge problems for companies to get to grips with, but in the next two years, we are going to see more regulatory changes'' warned Ras.

David Craddock, director of his eponymously named share schemes consultancy, told delegates how to optimise employee take-up levels of share schemes and how to better explain their benefits for sponsor companies. The key aspect of equity plan communications was technology, he said. As the trend towards globalisation was the backcloth, there was a growing need for corporate unity and to encourage this, we needed a global Eso strategy. Plan advisers had to ensure compatibility between company and country culture and to this end it was worth remembering Leonardo da Vinci's inter-connected world. So there was a 'science' to preparing a coherent global equity plan, involving the quantum of employee reward offers, which had to be combined with the 'artistic sensibility' of communicating it to employees, said David. "Eso plans are at their best when the employees participate in decision-making, while there are sensitive communications management at the same time." He warned that employees expected far more than they used to when participative projects were waved at them. Yes, keep basic plan structures as similar as possible worldwide, but sensitise them in countries like Japan, where employee-employer culture was different. He recommended that companies should develop a cultural profile of each country into which they intended to install equity plans. The indicators which they should mark were: emotional distance between management and workers; individualism v collectivism; gender index measuring whether the traditional role of women still prevailed; the risk index – whether locals shied away from risk - and the timescale – whether they usually exhibited long or short-term thinking.

Damian Carnell, director and remuneration adviser at **Willis Towers Watson,** examined the role of equity in the executive package and the executive personal portfolio. On the one hand, everyone agreed that executives holding shares was a 'good thing,' but was there too much of a good thing – when they were perceived as receiving 'excessive' equity reward, asked Damian? For 20 years, Long-Term Incentive Plans (LTIPs) were very popular, but latest thinking emphasised the short term: vesting of rewards after only two years and a demand, growing in popularity, for executives to hang on to incentive shareholdings even after they had changed jobs. The 2018 reporting season had shown that quantum in executive salaries was 'under control' - 40 percent of FTSE100 companies had not given their ceos a basic salary rise. "The direction of travel in executive reward is towards increased equity, but things are not joined up and there is a need for simplification in reward strategies," he said. Institutional investors, like the pension funds, had become very powerful in influencing reward levels and had 'moved the market,' added Damian. Total Shareholder Return was still the *gold standard* criterion for triggering pay-out levels, but Earnings Per Share was in the frame too. Executive pensions were still a problem. The median company executive pension contribution was between ten and 15 percent of base salary, but a number of companies were still awarding their top executives far higher contributions to their top executives.

A lively debate on **corporate governance reform** then ensued. The government's new requirement – that quoted companies with more than 250 employees had to publish annually the ratio between ceo and median shop-floor/office earnings – attracted critical comment. Once employees discovered that they were earning below the median figure, they would be angry, it was claimed.

The chairman said that much more should be done to encourage employee shareholders to vote at company agms. Not all employee shareholders whose shares were held in broker accounts were even informed about the date and agenda for the agm. When one delegate said it was 'deceitful' to claim that employee shareholders could collectively influence voting results at agms, another suggested that the way employees had voted should be recorded separately, so that directors could see how they felt. Centre international director **Fred Hackworth** said that the government had failed to make majority adverse agms votes against remuneration reports binding, so companies could still ignore them. The government's demand that companies 'engage with their employees' was a nice phrase, but there was still no requirement to seat an employee representative on company boards and only one FTSE100 company– **First Group** did so. Yet why was it that in Germany – the most successful EU economy by far – it had been obligatory for large companies to install worker reps on boards for decades?

Pan-European plane manufacturer **Airbus,** which employs 129,000 people in 35 countries, delivered an all-employee plans case history. This slot was led by **Jennifer Rudman,** strategic development manager at **Equiniti**, helped by Equiniti relationship manager **Graham Avinou**, together with Toulouse and Munich based **Angelina Lederle,** group compensation & benefits group specialist at Airbus. They described both the Airbus Esop and its Share Incentive Plan (SIP). The Airbus Esop, installed in 2000 and offered worldwide – in five different packages for all employee levels- in 34 countries, has a 33 percent employee participation rate. Jennifer explained that Airbus thought it most important to have a plan structure which gave every employee shareholder the right to speak up. Its plans have to take into account frequent job and location changes among the workforce. "It's a very diverse workforce with differing levels of knowledge about Eso," said Angelina. "We use emails, fact sheets, worldwide intranet, Airbus TV, posters and local HR networks to communicate with employees." Graham said that overall, Equiniti held 70m shareholder records and sent 90bn in payments every year, as it looked after

1.2m share plan investors and interacted with 27m shareholders and pensioners. It had had a six-year relationship with the Airbus SIP and had taken over the Esop administration in 2015. During this time, the employee SIP participation rate had risen from 17 to 28 percent. In the Airbus Esop, employees could invest up to €8000, with a matching award and a holding period of one year. There were more than 1,000 UK Airbus esop participants in Equiniti nominee accounts. In the SIP, employees could invest up to £300 per month for six months (a maximum £1800 a year) with matching shares awards. The SIP had attracted 4,300 UK participants.

The French EFP/Eso session was led by **Nicolas Dumas**, of **FONDACT** and **Jean-Michel Content,** secretary-general of the **International Association for Financial Participation**. They explained recent developments in French profit-sharing and all-employee equity plans. Jean-Michel said there was a tradition of employee participation in the EU, either via profit-sharing or share ownership, the award of free shares, share purchase plans or stock options. In 2014, the Brussels internal market directorate (then headed by Barnier) to promote Eso/EFP and create a model plan. "But I don't know of any country which wants to apply such a model plan,'' said Mr Content. It was sad that the European Commission appeared to have downgraded Eso/EFP because it no longer had any designated senior official in charge of policy making in our sector, he added.

Mr Dumas said that in France financial participation plans were mandatory in companies employing more than 50 people, however *l'interessement*, which linked employee saving scheme incentives with performance and applied only to the private sector, was not mandatory. Profit-sharing had been stalling, largely because of social tax charges imposed on those who used it. Basically, there were three different types of French EFP equity plans in use, said Mr Dumas; free shares; stock options and employee stock purchase plans (ESPPs) but the penetration of EFP in the French SME sector was poor and new employee equity plans were seldom implemented in privately-held companies. The trouble with the various French employee savings plans (e.g. the five-year *Plan Épargne Entreprise*) was that they were complex, with numerous thresholds. FONDACT's wish list sounded a bit like that of the Esop Centre for the SME sector – more employee ownership in the small business sector, less complexity in the rules and the elimination of tax charges for participants.

Next up was another all-employee share plan history, presented by the 'largest unknown company in the world,'' according to **Jorgen Pedersen**, a director of French global manufacturing giant **Saint-Gobain**, which employs 180,000 people. He explained how the company had been created by Louis XIV and his finance minister Colbert to compete with the Venetian glass foundries over supplying and building the *Hall of Mirrors* at Versailles. Now Saint-Gobain was clocking up €41bn+ sales of home and work living materials annually from 4,100 sales outlets in 67 countries, said Jorgen. The backbone of its Eso/EFP involvement was its employee share purchase plan (ESPP), which it offered to employees in 43 countries. It was a five year plan, with nine early release criteria and there was a 25 percent rebate on all employee share purchases, up to a limit of 25 percent of annual salary. There were matching contributions by the company, up to a maximum of €2,100 per year. The Saint-Gobain ESPP was set up to include two FCPEs (*Fonds Communs de Placement D'Entreprise),* one French and one international, plus direct shareholding in seven of the countries. FCPEs allow employee shareholdings to be diversified in broader portfolios, including bonds and other companies' shares. Communications were still paper based because only one third of its employees had corporate e-mail accounts, explained Jorgen.

Since 2016, the company had pushed hard to increase its EFP penetration and take-up rates. For its group savings plan, Saint-Gobain had introduced a new logo and slogan – *Invest, Act as an Entrepreneur, Share*' - devised a new brochure, an animated video, a quiz for employees, a communications kit for managers and HR, a dedicated social network, a network of correspondents and simulators for investment and incentives, said Mr Pedersen. As a result, 44,600 employees now constitute the largest shareholder bloc, collectively holding more than **13 percent** of the total company equity. Eso/EFP participation had increased by 40 percent within Saint-Gobain during the past three years, he added.

Géric Clomes from Linklaters' Paris-based employment and incentives division, presented President Macron's financial and labour market reforms, including new tax reliefs for profit-sharing companies employing fewer than 250 people. Companies in France no longer had to give economic reasons for redundancies and employees could be sacked for refusing changes in their work contracts. Collective bargaining agreements could vary from industry wide agreements, provided the local workforce agreed. By January 2020, the current plethora of staff representative bodies at work would be merged into a single *Social & Economic Committee* in each company. However, clawing back bonuses from French executives who had misled the company was currently unenforceable due to legal uncertainties, explained Géric, but the French government was pushing for claw-back/malus provisions to apply to risk takers in financial institutions, post the Jerome Kerviel trader scandal, which cost Société Générale €4.9bn in 2008. Géric had hoped to say more about the proposed reform of employee profit-sharing, especially the plan to extend the obligation of installing it in companies with fewer than 50 employees, but the issue was still being discussed and no announcement had yet been made by the French ministry of the economy & finance. Another 'hot potato' element in the plan was to reduce the social tax charges on the distributed profit-sharing amounts.

Marco Cilento, adviser to the **European Trade Union Confederation**, said that European trade unions relied on the 20 principles of the *European Pillar of Social Rights* and employee financial participation was part of this framework. The unions had picked up on what Marco termed as 'aggressive tax planning by multinationals, which was costing EU member states between €50bn-€70bn annually and so they had to do something to curb it soon. Europe needed a pay rise, not least to stimulate member economics, he said. Wage-setting mechanisms however needed to be revised to include profit-sharing, more occupational welfare and more employee participation.

"Effective and sustainable shareholder engagement is one of the cornerstones of the corporate governance model of listed companies, which depends on checks and balances between the different organs and different stakeholders," said Marco. However, companies could get round such principles of employee participation when moving production and jobs across borders, he warned. Although employee participation within the EU was an 'unsolved problem,' there were positive features, such as the EU directive on protecting the rights of minority shareholders, coupled with a move to strengthen the 2007 directive encouraging long-term shareholder engagement in their companies, largely through corporate governance mechanisms, so there was a convergence between employee participation and the protection of shareholders, he added. Marco is talking to the Centre about an educational programme for unions to help them understand how their members can benefit.

To round up the first day, **Robert Scallon**, a former career international banker who represents shareholders, including employees, at **Thales,** the French multinational that designs and builds electrical systems and provides services for the aerospace, defence, transport and security industries, described how inactive share accounts can trap employee shareholders. The French *Loi Eckert* was designed to stop banks from milking dormant accounts, but sadly it had caught share accounts, safe deposit boxes and insurance policies too. The nub of it was that after 15 years, banks were required to sell dormant shares to the *Caisse des Dépots et des Consignations* (CDC), a state-owned institution, and thence to the French Treasury, explained Robert. If delegates thought this was small beer, the ***€3.7bn*** of dormant balances transferred to the CDC in 2016 might shock them. However, where shares were held outside France for non-French employees such as within a trust structure, the law did not apply. If shares were held directly in the employee's name with the company's custodian, it seemed that the Loi Eckert did not apply either, but FCPE employee shareholder funds – and others – could be caught. French employees tended to make savings for their retirement via tax-efficient accounts which may hold cash, diversified shares or company shares. In addition they received annual profit-sharing, which could be switched into shares. The Loi Eckert specified that any movement on any of these accounts would re-activate all accounts and therefore stave off dormancy. Non-French employees did not enjoy the French statutory profit-sharing (*Participation and intéressement*) nor could they invest in such share schemes in their retirement, which French pensioners could do. Robert said it seemed harsh to force the banks to sell off dormant share accounts, particularly if their value had risen considerably. Yes, the investor was primarily responsible for falling out of touch with their share accounts, but companies which promoted Eso/EFP plans - and the banks which held such accounts - should make greater efforts to trace account holders who had moved out of touch, he added. In response, Graham Avinou said that Equiniti provided a people tracing service, which could help in such circumstances.

The second day of the summit kicked off with a joint presentation by Spanish team **Joel Regué** and **Anna Sanz** of senior Centre member **Solium.** Both are global compliance lawyers, Anna assisting clients with their international share plans, while Joel focuses on international taxation. They looked at global equity plans compliance, securities laws filings, exchange control registrations and gave insights from a recent survey of 120 global companies. So what type of equity awards were global companies currently favouring? – Their survey results suggested that two were way ahead of the field in a near dead-heat: restricted stock unit plans and stock option plans (both around 35 percent each of the total surveyed). Far behind in third place, with 16.5 percent, was the employee share purchase plan, followed by the restricted stock plan and the matching share plan (both under 10 percent in the popularity stakes).

Securities laws filings in some international offers were highly complex: companies and advisers had to know the detailed exemptions, whether there were exchange controls, how to transfer funds in withholding and reporting obligations and so on. Tax was a fundamental issue, said Joel. For example, the cost of equity compensation awards granted to non-US employees was not deductible in the US under the US tax laws and so offered no tax benefit to the US parent. However, it could be tax advantageous to push down the cost to a foreign subsidiary where a deduction could be claimed. This result could be achieved through a stock recharge agreement whereby a foreign subsidiary agreed to reimburse the parent corporation for the costs associated with equity-based employee compensation, but the tax implications for the parent company, the subsidiary and the employees had to be looked at closely, he said.

On the vexed issue of **Brexit, Nicholas Greenacre** of **White & Case** discussed the implication for international equity plans of the UK's exit from the EU, scheduled for March 29, next year. The so-called Great Repeal Bill (the European Union Withdrawal Bill), which would replace the European Communities Act of 1972, by converting EU law into UK law, now awaited Royal Assent after its rocky progress through Parliament. Its main aims were to maximise legal certainty and preserve the status quo, said Nicholas. So a key question for the share schemes industry was whether all current regulations – including the effects of the GDPR, as earlier discussed by Ras Berglund - would continue to apply in the UK post Brexit. However, what had been most talked about in the employee equity industry was under the Securities Law head – the Prospectus Directive. Nicholas said that this had been over-played because (a) many companies would get round the prospectus requirement by using the exemption of confining the new offer to fewer than 150 employees (b) it did not apply for certain types of equity offerings (c) prospectus 'passporting' could still happen and (d) prospectus filings were rare, even for ESPPs. He surprised delegates by saying that the UK was the '*most hated market in the world*' as a result of the continuing uncertainty about the consequences of Brexit. The UK economy was already about two percent smaller than forecasted before the Brexit referendum, a productivity gap with the EU was developing and UK households were about £900 worse off after the vote. Airbus had overnight announced that Brexit would threaten its 110,000 UK jobs supporting supply chain, as well as 14,000 direct UK jobs, without a transition period. Fewer UK jobs would mean fewer UK share scheme participants. Despite this, he did not believe that Brexit itself would cause major problems for the UK employee equity industry. An argument arose during questions over whether foreign based multinationals would be deterred from launching new plans in the UK post Brexit. David Craddock thought not, but Mr Greenacre said there was a risk that any US company uncertain about its investment commitment to the UK might decide not to spend any more money on installing or extending UK Eso plans.

Garry Karch, managing partner at **RM2,** discussed

how Employee Ownership Trusts (EOTs) were creating new choices for retiring entrepreneurs in UK SMEs. He brings 25 years employee ownership advisory and investment banking experience to RM2 Corporate Finance, which he co-founded.

Created by the 2014 Finance Act, the EOT encouraged retiring business owners to sell more than 50 percent of the equity to the employees because they would not have to pay CGT on the proceeds. An EOT avoided a trade sale in which certain factories could be cherry-picked, while others were closed with job losses, said Garry, who estimated that between 175 and 200 EOTs had been carried out so far in the UK. They could be concluded quickly – typically in under 12 weeks. Hitherto, the main problem had been that UK banks and other finance houses, unlike their US counterparts, had been very reluctant to provide the finance which would allow the employees to buy the business in stages from their employer. Finally, that was changing and there were now about eight UK finance houses which would and did help finance EOT transactions, he said. Such sales helped the employees in several ways; they could qualify for tax-free bonuses worth up to £3,600 per year and could share the sale proceeds if ever the company were resold in the future. There was no reason why the EOT model could not be exported to the EU mainland, said Garry, though tax incentives would help and the EU tax authorities would have to be convinced that EOT did not involve state aid – to avoid any repetition of the recent debacle over the Enterprise Management Incentive scheme, which ground to a halt for six weeks until Brussels renewed its state aid exemption status. The trade unions were a wildcard because some might not play ball over seeing it introduced in certain companies. As to how EOT could be improved, Garry pointed to the US where only a 30 percent sale of the equity to employees was required to secure CGT relief. EOT businesses could be treated as tax-exempt entities, as under the US 'S-Corporation' structure, these companies were exempt from all Federal taxes. In addition, contributions to the EOT used to repay debt could be deductible against Corporation Tax. Direct employee share ownership could be counted towards the 50 percent hurdle, added Mr Karch.

Next, **William Franklin**, founding partner at Birmingham based employee share scheme lawyers **Pett Franklin,** examined the Spanish co-operative, Mondragon; EOTs and owner exits within the EU. Mondragon – a collection of hundreds of Basque businesses under a protective umbrella - was very different from the now struggling UK John Lewis Partnership retail chain. Though the latter had what was probably the UK's first employee benefit trust (EBT), its employee 'partners' only had a symbolic single share each and were paid their bonuses in cash, not shares. Mondragon, a €12bn a year corporation employing 74,000 people, had emerged from the shadows of the Spanish civil war and the subsequent Francoist regime. The extra powers possessed by the autonomous Basque region had been used to support Mondragon, which relied on 'patient capital,' said William. Mondragon co-operatives were united by humanist concepts, a philosophy of participation and solidarity, and a shared business culture, he explained. However, this had not prevented the bankruptcy of its then biggest company, Fagor Electrodomesticos, putting 5,600 jobs at risk, though some were saved when a Catalan company bought part of the business to keep the brand names Fagor and Edesa alive. Mondragon has agreed wage ratios between the best and worst paid employees – from 3:1 to a maximum 9:1 – and its four main corporate values are: co-operation (where all act as owners), participation, social responsibility (distribution of wealth based on solidarity) and innovation. However, only half the Mondragon employees are owners, potentially creating tensions within some of the businesses. Mr Franklin looked briefly too at the German SME Mittelstand companies which could be summarised as enlightened family capitalism.

These companies co-operate among themselves in many business sectors, including marketing, IT, purchasing etc.

Finally, **Dominic Jacquesson,** of Centre member **Index Ventures,** delivered a slot entitled *Rewarding Talent – A guide to stock options for European Entrepreneurs*- based on a book he has written. Dominic explained that Index Ventures, a venture capital firm, based in San Francisco and London, already had 160 companies in its portfolio, half in the US and the rest in the UK. It invests in technology-enabled start-up companies, focusing on e-commerce, fintech, gaming, enterprise software, productivity, and security. His main watchwords in deciding strategy were: Attract, Retain, Motivate and Align, but a key ingredient was employee ownership, delivered by means of generous stock option packages for *all* employees. "In Silicon Valley, employee stock option grants have helped attract the world's best talent to small start-ups with limited cash, but near limitless potential," he told delegates. "In Europe, employee ownership is less common and there's no clear playbook for start-ups to follow. For late stage EU start-ups, employees owned only around ten percent of the equity, compared to an average 20 percent in the US and in Europe, stock option awards tended to be executive biased, he said. US employees joining a young tech start-up were usually awarded stock options straight away, often without any performance conditions attached. In much of Europe by contrast, employees paid a high strike price for their share options and were taxed heavily upon exercise and sale. Leavers often got nothing, as they were forced to return unvested options if deemed a 'bad leaver' – but what was the point of that, he asked? "Your leavers are your future ambassadors for your talent brand. Leavers losing their options degrades their perceived value by the rest of the team.''

Dominic added: "Celebrate your option scheme, but don't hype it. Make everyone an owner.'' His book explains why Europe's entrepreneurs will need to increase all-employee ownership in their businesses if they are to have any hope of creating their own type of *Google* or *Facebook* world-beating business.

The *newspad* summit was co-sponsored by **Linklaters** and by **Zedra,** an independent, global specialist in trust, corporate, employer solutions and fund services which are based in the Channel Islands and 14 key jurisdictions worldwide. The Zedra Employer Solutions team provides specialist trustee and administration services to a wide variety of employee share ownership plans. Its clients include FTSE 100 and internationally listed companies, as well as private companies and private equity-backed companies. Zedra was represented in Paris by **Nicola Brown**. Director **Elaine Graham** is head of employer solutions at ZEDRA Guernsey. *Her direct line is: +44 1481 881409 email: elaine.graham@zedra.com.*

The event was preceded by a convivial delegates' pre-conference dinner in the art deco restaurant *Boeuf sur le Toit*. The guest of honour at the cocktail party was **Pierre Valentin**, ceo of **Ecofi asset management groupe Credit Coopératif.**

MOVERS AND SHAKERS

***Chelo Lora** has left **Estera Trust (Jersey),** where she was senior marketing & business development executive, to join **VG** (formerly the Volaw Group) as its new business development manager. Her erstwhile colleague **Eleana Miller** is the Centre's new contact at **Estera** for marketing matters.

*__Graeme Nuttall OBE__, partner at Centre member employee ownership lawyers **Fieldfisher,** is now a trustee at ***The Future of Work (IFOW)***. He explained: "Our mission is to equip Britain for the Future of Work. We're establishing an institute to help people, organisations and government create practical solutions to make work better and fairer. It's a mission rooted in the Future of Work Commission, launched by Tom Watson MP in September 2016."

Shervin's appointment in detail: Centre member **Intertrust** in Jersey appointed a new client director in its performance & reward management (PRM) team. Shervin Binesh will lead the strategy to evolve the team's provision of trustee and administration services for share plans, deferred compensation plans and pensions and savings plans to large corporates. Mr Binesh will co-ordinate the management of the PRM team's system capabilities and strategic development of solutions affecting the commercial success of PRM.

He assumes overall responsibility to lead collaboration with key business partners and engagement with clients. Mr Binesh, who has 15 years' experience in the financial services industry, most recently worked at **Link Asset Services** as account director for some of its largest clients. Shane Hugill, director of PRM at Intertrust in Jersey, said: "I am pleased to welcome Shervin to Intertrust. He brings a huge amount of experience in working with large listed companies and understands their needs and requirements. He's commercially minded and has a strong industry network with corporates and business partners in London."

****Employee Benefits'*** *Share Scheme of the Year* competition was won by **Valero Energy.** The magazine said: "For this award, the judges were looking for a successful strategy that had made HMRC-approved all-employee share schemes an effective benefit in an organisation. Valero Energy's Share Incentive Plan (SIP), which offers the same level of benefit to all UK employees regardless of seniority, is an integral part of its recruitment and retention strategy. Employees can contribute up to a maximum of £1,800 per annum, which is matched on a two-for-one basis by their employer. The SIP has been integrated into all stages of Valero's recruitment process, from briefing recruitment companies through to the first day of employment. Employees are eligible to join the plan from the first day of the month following their first day with the organisation, and are actively encouraged to participate. To maximise participation, Valero Energy overhauled its communications around the SIP and introduced an online portal that enables employees to sign up easily. As a result of its efforts, only one of Valero Energy's 734 UK employees is not a member of the SIP and staff turnover, outside of retirement, stands at less than one percent. **Stuart Bailey**, associate director, business development, at **Computershare,** representing Valero Energy, said: "It's great to get employees involved by actually owning shares in the company and they're able to do it in a really tax-effective way. Valero Energy will be delighted I'm sure. The type of plan they've got is used by lots of companies but it's the way Valero Energy really got behind it and really promoted it is what made the difference." **Lloyds Banking Group** was runner-up.

UK CORNER

Ceo pay ratios made public from January

For the first time from next year, listed UK companies will be required to publish and justify the pay difference – which can exceed 100:1 - between chief executives and their staff. In addition, directors of all large companies will have to set out how they are acting in the interests of employees and shareholders.

Big firms will have to justify their ceos' salaries and reveal the gap between their annual reward and that of their average UK employees, under new law introduced in parliament. Listed companies with more than 250 UK employees will have to disclose and explain their 'pay ratios' every year. This follows concerns that some ceos have been receiving salaries which are out-of-step with company performance. New regulations, announced by the **Department for Business, Energy & Industrial Strategy,** will hold big businesses to account for the salaries they pay, while giving employees a greater voice in the boardroom. **Business secretary Greg Clark** said: "One of Britain's biggest assets in competing in the global economy is our deserved reputation for being a dependable and confident place in which to do business. Most of the UK's largest companies get their business practices right but we understand the anger of workers and shareholders when bosses' pay is out of step with company performance. Requiring large companies to publish their pay gaps will build on that reputation by improving transparency and boosting accountability at the highest levels, while helping build a fairer economy that works for everyone. The new regulations form a core part of the government's modern Industrial Strategy, which aims to build on the UK's strong reputation and make sure our largest companies are more transparent and accountable to their employees and shareholders."

In addition to the reporting of pay ratios, the news laws will:

- require all large companies to report on how their directors take employee and other stakeholder interests into account
- require large private companies to report on their responsible business arrangements
- require listed companies to show what effect an increase in share prices will have on executive pay to inform shareholders when voting on long-term incentive plans

The **Investment Association's (IA)** ceo, Chris Cummings, said: "We welcome the reforms, as they focus on the long-term interest of all company stakeholders, including shareholders and employees. Investors are demanding greater director accountability and transparency on executive remuneration. Pay ratios will expose what executives are being paid compared to their workforce and investors will expect boards to articulate why the ratio is right for the company and how directors are fulfilling their duties. Through the IA's *Public Register*, we are seeing investors hold business to account. The IA wants to ensure UK listed companies are run in a way that delivers long-term returns for savers and pensioners." Subject to parliamentary approval, the regulations will apply from January 1 next year, so companies will start reporting their pay ratios in 2020. The minister said that the government had already:

- supported the IA's world-first public register of FTSE-listed companies where more than one fifth of shareholders have opposed resolutions on executive pay packages, directors' re-appointments and other issues
- had set up a coalition of industry and wider society bodies in drawing up the UK's first-ever set of corporate governance principles for large private companies
- launched research into the use of share buy-back schemes to see if they are being used to inflate executive pay
- asked the **Financial Reporting Council (FRC)** to revise its Corporate Governance Code to strengthen the voice of employees and other stakeholders in the boardroom
- proposed reforms to ensure that directors dissolving companies - to dodge debts and avoid facing accusations of misconduct - would face investigation for the first time

However, as expected, the final text of the regulations stopped short of forcing quoted companies to have at least one representative of the workforce co-opted onto their boards. Nor did ministers end the practice of boards ignoring adverse agm shareholder votes on annual pay reports.

Support for the reforms is far from unanimous: International headhunter **MWM** was scathing about corporate governance reform. Its report – *Renaissance Directors: Reinvigorating Public Companies* – looked at the challenges, including governance, faced by quoted companies. Though in the US, the number of businesses listed on the main markets rose from 3,000 in 1975 to 8,000 in 1996 and in EU from 6,000 in 1975 to more than 10,000 in 2001 – the listed company is now being threatened on all sides, it said. The total of quoted companies in the US and the UK had fallen by 38 percent and 48 percent respectively since 1997. **The number of quoted companies in London dropped from 3,141 in 2006 to 2,590 in 2016**. Not only are the major high tech stars like **Airbnb** and **Uber** not bothering to list their shares, in the last tech bubble, in 1999, there were more than 250 floats a year: but this year, the rate has been running at ***a tenth*** of that. MWM's survey found quoted company directors were ground down by their responsibilities. "*Board directors and senior executives have become increasingly frustrated by many elements of how the model has come to work – in particular, the increasing impact of unproductive governance requirements, the difficulty of engaging constructively with investors and the short-termism endemic in the markets,*" it argued. Since 1992, there had been **13** corporate governance codes and reforms. Every time there was a corporate collapse or a scandal, there was clamour to bolt on another layer of regulation. The result had been a wave of rules that have crushed commercial instincts, sapped energy, and stifled initiative. Many such regulations should be scrapped, wrote Matthew Lynn in the *Telegraph.*

Share incentive taps gush for water company ceos

The ceos of England's privatised water companies are under fire for collectively banking £58m in pay and benefits over the last five years, while customers have faced above-inflation rises in their water bills. The **GMB** trade union said the ceos of England's nine water and sewage companies were 'fat cats' earning 'staggering sums' from the management of a natural resource. Tim Roache, GMB's general secretary, said the pay awarded to water bosses was a national scandal and launched a campaign to return the industry to public ownership. Household water bills have risen by 40 percent above inflation since the industry was privatised in 1989, according to a **National Audit Office** report. The average bill this year will be £405, a two percent increase on last year, according to Water UK, the body which represents water and sewerage companies. "It's a national scandal that over the last five years England's hard-pressed water customers have been forced to splash out £58m through their bills to go into the pockets of just nine individuals," Roache said. "Privatisation of the water industry has been a costly mistake and these eye-watering sums are further proof the water industry must be returned to public hands. The GMB is urging people and politicians to *Take Back the Tap* and make our water services work for the many and not the few." Rebecca Long Bailey, shadow business secretary, said: "The only people privatised water companies work for are the big bosses who are cleaning up at the expense of bill payers. Labour will end their failed ideological experiment and bring water companies back into public ownership, saving households £100 per year on their bills.''

Even environment secretary, **Michael Gove,** joined in by attacking water companies for paying their bosses large salaries and huge dividends to shareholders while contributing little or no tax: "One might hope that companies making such massive profits, paying out such big dividends and supporting such generous executive salaries, would be big contributors to the exchequer through their tax bill," Gove said in a speech to industry executives. "[But instead we have had] ten years of shareholders getting millions, the ceo getting hundreds of thousands, and the public purse getting nothing." He said **Anglian Water** and **Southern Water** had paid no corporation tax last year, while Thames Water "has paid no corporation tax for a decade." In a **Policy Exchange** think tank group speech Gove then attacked '*crony capitalism*.' He said: "*What capitalism has brought in both growth and progress in so many fields in the past, I fear it is not delivering now. As our PM put it, our economy should work for everyone. But if your pay has stagnated for several years in a row and fixed items of* *spending keep going up, it doesn't feel like it's working for you*." The Cabinet minister said problems resulted from the rise of '***crony capitalism***' which was causing power and wealth to become increasingly concentrated in the hands of the rich. He blamed "*bosses who earn a fortune but don't look after their staff, international companies that treat tax laws as an optional extra," and "directors who take out massive dividends while knowing that the company pension is about to go bust."* Mr Gove urged the government to press ahead with plans set out by Theresa May to hold to account "irresponsible bosses, who reward themselves excessive pay rises."

Ofwat, the industry regulator, said that it had repeatedly told water companies that they must do more to make sure executive pay better reflects customer service. "We have been very clear that we want to see water company executives rewarded for delivering for customers – not just shareholders," an Ofwat spokesman said.

Liv Garfield, ceo of Severn Trent, was paid **£2.45m** last year, making her the UK's best-paid water company boss**.** *Garfield had a base salary of £674,000; a £615,000 bonus; long-term incentive shares worth £975,000; a pension contribution of £168,000 and other benefits worth £18,000.* Garfield's total pay was down slightly from £2.49m in 2016, as her bonus decreased by £86,000. Following public and political pressure, Severn Trent included "*customer experience"* in its bonus calculations last year, but this new metric only accounts for eight percent of the total bonus compared to 47 percent for meeting profit targets. Over the past five years, Severn Trent has paid Garfield and her predecessor, Tony Wray, £10.5m in total. The company, which serves 4.5m across the Midlands, said: "Our priority is to perform for our customers and our performance on those measures that matter most to our customers, such as preventing sewer flooding, has been strong. Executive pay is based on a range of challenging performance targets and is in line with pay at companies of a similar size." The second-highest paid water company boss, according to GMB's research, is the **United Utilities** ceo Steve Mogford, who collected £2.3m last year. His pay has increased by 49 percent since 2013. A company spokesperson said: "The vast majority of Steve Mogford's remuneration is linked to the delivery of stretching targets aimed at further improving customer service, operation delivery and environmental performance. In 2017, his total remuneration was roughly half the average for a FTSE 100 ceo."

Ceo reward on the rise again, survey reveals

Ceos of the UK's largest quoted businesses enjoyed an average pay rise of almost **one fifth** last year, according to new research that reignites concerns that executive remuneration is becoming unwieldy. The study by **Minerva Analytics**, the company behind stewardship service **Manifest**, found that average pay for the ceos of the UK's 100 largest companies fell 15 percent in 2016, but jumped **18 percent** in 2017 to take remuneration back to 2015 levels, said the *Financial Times.* The rise came despite increased public discontent over corporate remuneration and income inequality. The jump in 2017 pay, which is based on the *single figure* of total remuneration, which includes base salary to long-term bonus, comes after big pay-outs at companies such as house-builder **Persimmon** and turnaround specialist **Melrose**. Persimmon ceo Jeff Fairburn's 2017 total reward was £47m, thanks to the vesting of a long-term incentive plan that dated from 2012. After public protests, his award was drastically scaled back from £100m+. A majority then approved the reduced award. A spokesman at **ShareAction**, a non-profit focused on driving up governance standards, described the Minerva figures on ceo pay rises as "shocking", adding that it raised the question about whether shareholder attempts to tackle high pay were working. *"It's the merry-go-round of pay protests. Either the protests are falling on deaf ears, or shareholder engagement is stopped short at the voting ballot. Votes on pay must be followed up by rigorous engagement afterwards*," he added.

Despite the large rise in executive reward last year, Minerva said its research suggested that pay was now more closely aligned with shareholders' interests than before the introduction of pay reforms in 2013. "*The combination of the binding vote and focus on engagement is having a positive effect*," said Sarah Wilson, ceo of Minerva. "Contrary to initial concerns about damaging returns, the binding vote has created a much stronger connection between boards and shareholders, which can only be good." She added that there were limitations with the single figure of total remuneration. Ms Wilson said that by looking at the median figure, as well as annual total remuneration, there were signs that pay "*may be increasing again*." The Minerva research found that the median figure for ceo pay rises in 2017 stood at six percent. Tom Gosling, remuneration expert at Centre member **PwC,** said executive pay outcomes were often volatile because of the impact of share price movements, which form the basis for many bonuses. "It's premature to be talking about a return to executive pay inflation," he said. "I'd expect payouts to remain broadly flat in the coming years, as indeed they've been since the financial crisis."

*The **Chartered Management Institute**'s **(CMI)** latest research revealed a substantial drop in basic salaries and bonuses for middle, senior and executive **managers**, with inflation surpassing real wage increases for the first time in five years. Supported by employment intelligence service **XpertHR**, the analysis of 128,582 professionals found the average UK manager experienced a sluggish 2.4 percent pay rise in 2017 to £34,526, lower than the latest Consumer Price Index (CPI) rate of three percent for the same period. Furthermore, the average bonus payment to directors has diminished by 16 percent since last year – from an average of £53,504 to £44,987. Over the past five years, senior managers and directors have averaged 3.9 percent annual pay increases – equating to 2.3 percent in real terms, post annual price inflation.

*Top executives must repay their bonuses after crises or collapses to rebuild trust in British businesses and stop rewards for failure, major investor institutions demanded. Top executives have seen their pay cut back in recent years in response to pressure from investors and the public, but investors, business groups and pay consultants told MPs this is only the first step towards a more sustainable system of rewards. "In the wake of the Carillion collapse, we believe that the UK Corporate Governance Code should be more explicit about the circumstances in which claw-back of executive bonuses should occur," said the **Institute of Directors** in its submission to the Commons *business, energy and industrial strategy* committee. "*As a minimum, claw-back should be required in cases of gross misconduct, material accounting restatements and corporate insolvency. Furthermore, boards should ensure that any wording about the claw-back of bonuses in their remuneration report is in line with that found in director's service contracts.*"

The **IA** agreed: "We are concerned that companies do not have the right processes in place to legally enforce claw-back where necessary. The common trigger events for claw-back need to be expanded and the documentation, systems and processes that support the enforcement of claw-back need to be more robust in order to ensure that claw-back can be implemented effectively," it said. When construction group Carillion collapsed earlier this year, it emerged that in 2016 it had relaxed its criteria under which it could claw-back executive bonuses. Its severance deals with former executives, including Richard Howson, who quit as ceo after a profit warning in 2017, but who was still being paid at the time of the collapse, attracted scrutiny. Andrew Ninian at the IA said that while progress was being made on excessive pay the industry body would be clamping down on the "striking number of repeat offenders" who have had high investor revolts two years in a row. These include ***AstraZeneca, Safestore, Inmarsat*** *and* ***Playtech.*** The IA had more than 200 meetings about pay with FTSE 350 companies last year as a string of businesses revised their three-year remuneration policies. While investor engagement led to some companies reducing their pay packages, the IA said that others failed to address concerns and "received a high level of dissent at their agms."

Aberdeen Standard Investments, the asset manager, said companies were paying attention to unhappy investors: "When undertaking remuneration consultations, companies have generally been more willing to listen and amend policies that are not receiving shareholder support." It wants long-term incentive plans (LTIPs), which pay out over several years, to be reformed and simplified. "Better alignment of executive decisions with long-term consequences could be achieved through the creation of a mechanism – possibly through significant personal equity holdings in the company – where executives have their wealth at risk from the decisions they make rather than their annual income." **Hermes Investment Management** said executive reward should be based on: "strategic goals, not solely total shareholder return. Pay should be aligned to long-term success and the desired corporate culture. Executives should be incentivised to deliver strategic goals, not just total shareholder return, and be mindful of the company's impact on key stakeholders."

"Investors have made it clear that salary increases for executive directors in excess either of inflation, *or those given to the wider employee population*, are unacceptable except in very limited circumstances," said Centre member **PwC**, which advises boards on executive pay. "Investors are placing pressure on directors' pension contributions or allowances that are higher than those provided to employees more generally."

*Shareholder support for executive pay reports has fallen so far this year, with average support of 92.6 percent, down from 94.5 percent in 2016, according to **Proxy Insight**, the data provider. A quarter of FTSE 100 companies had suffered more than a 20 percent vote opposed to a pay resolution — three times as many as in 2017 — by late May.

SIP scrapped in favour of SAYE

Property business **Countrywide** axed its employee Share Incentive Plan (SIP) and replaced it with a new Sharesave scheme (SAYE) for 8,300 eligible UK employees, who are increasingly seeking more secure savings vehicles. Countrywide now offers eligible employees a three-year Sharesave plan enabling them to buy company shares, at a 20 percent discount to its current share price, at the end of the contracted three-year savings period, reported *Employee Benefits*. Participating employees have to be full-timers and to have completed six months of service. About 75 percent of its 11,000 staff are eligible to participate in the scheme. Countrywide introduced the Sharesave scheme in order to counteract a decrease in its SIP renewal rates. The SIP was introduced in 2013 and then improved in 2016 by offering employees more matching shares. However, from April last year, Countrywide saw that SIP renewal rates were falling from the membership peak of 25 percent of eligible employees in 2016. It then launched a bespoke benefits survey of its employees to understand the reasons behind the drop in SIP renewals. *It found that they wanted an employee share scheme that provided more security for their savings.* Neil Goodwin, reward director, HR, at Countrywide, said: "Our survey showed that SIP take-up was falling, mainly because people wanted more security for the money they were putting in each month. With a Sharesave scheme, whatever happens to the share price, employees can still take the money back that they have paid in at the end of the three years whereas with a SIP, if the share price goes down, that could potentially reduce employees' investments, so that was the main driver behind the changing plans." To launch the new Sharesave scheme, Countrywide stepped up internal communications, including writing to employees' homes; putting up posters in offices, information on the staff intranet, online blogs and emails. The company engaged managers as *champions* and used employee representatives, called *Agents of Change*, to help further promote the new plan locally across Countrywide's 1,300 branches. After all that, 1,520 employees out of the 8300 – equivalent to 18.3 percent - took up the Sharesave scheme in its initial three-week launch window. The next window for joining the SAYE savings scheme will be next year.

Share bonus bonanza prospect at Sky

About 700 senior managers at **Sky** look set to gain bonuses worth an average *£500,000 each* after expectations of a bidding war for control of the UK broadcaster drove up the value of its shares. The executives, thought to include on-screen stars, are expected to receive a combined 28m shares later this year through a bonus scheme tied to the company's performance targets, *The Sunday Times* reported. These shares would be worth £350m should a £12.50 per share bid by US media giant Comcast be accepted by shareholders later this year. They could rise significantly higher should a bidding war break out with Rupert Murdoch's **21st Century Fox,** as investors expect. Fox's plan was approved by culture secretary Matt Hancock after Fox agreed to spin out Sky News in order to assuage concerns about media plurality because of Mr Murdoch's ownership of *The Sun* and *The Times*. A bidding war would bolster the value of an all-employee share scheme in which half of Sky's staff participate. Fox agreed to sell the bulk of its assets, including its Sky stake, to Disney in a £39bn deal. Comcast tabled its own $65bn offer for the same assets.

COMPANIES

*Tim O'Toole, the departing ceo of **FirstGroup** is on gardening leave and will be paid nearly £700,000 in lieu of sums owed to him during his notice period. FirstGroup posted pre-tax losses of £326m for the year to March 31 and delivered a warning on profits for 2018-19. The group said Mr O'Toole's employment would end on September 30 and that he would continue to receive his current salary, benefits and pension until then. A maximum payment of £699,000 in lieu of his salary, pension, car allowance and medical insurance for the unexpired period of his notice will be paid – subject to "mitigation" – in eight monthly instalments, starting in October. Mr O'Toole, who received a £1.26m pay package in 2016-17, will receive up to £9,000 a year for expenses regarding taxation advice for 2017-18 and 2018-19, as well as a capped contribution towards "reasonable" legal fees linked to his exit. Payment of his deferred bonus from 2017 depends on investigations into the 2016 Croydon tram crash, when a FirstGroup derailment left seven people dead and more than 60 injured.

*A shareholder revolt over executive reward at the **Ladbrokes** owner, **GVC**, forced a director to step down from its remuneration committee. Peter Isola, an expert in gaming law and regulation, resigned after the gambling operator came under pressure from shareholders at its agm in Gibraltar. Almost 44 percent of shareholders voted against the firm's remuneration report for 2017 and 42.6 percent opposed the re-election of Isola as a director. However, all resolutions were passed. Shareholders objected to the large payouts the company awarded its ceo, Kenneth Alexander, and the non-executive chairman, Lee Feldman. Alexander has received £45m in share options since 2016, while Feldman has picked up share options worth £22.5m, thanks to a scheme linked to the firm's share price, which recently hit an all-time high. GVC recently took over Ladbrokes Coral to form a £5bn gambling company, the second biggest in the UK after Paddy Power Betfair. **Jane Anscombe** chair of GVC's remuneration committee, said they were "disappointed" by the vote on the remuneration report: "*We acknowledge this feedback and thank those shareholders who have already spoken to us and explained their reasons for not being able to support this resolution. We have sought to balance the views we have heard from shareholders with the clear need to appropriately reward and retain our successful management team and we are committed to continuing this dialogue with our shareholders.*"

***Marks & Spencer** blocked annual bonuses for its top executives after the chain's plunge in annual profits meant shop-floor staff would not qualify for bonus payouts. Vindi Banga, the senior non-executive director who chairs the M&S remuneration committee, said the decision had been taken in the interests of fairness. Banga said: "*Pre-tax profit was below the threshold required to pay bonuses to colleagues elsewhere in the business, and in the interests of fairness it would not be appropriate to pay a bonus to directors.*" The decision was intended to head off criticism of the retailer's board members as it embarked on its latest turnaround programme, which will close 100 shops over the next four years, triggering thousands of job losses. However, M&S ceo, Steve Rowe, will still be handed shares worth £2m this month under the company's long-term share bonus scheme. He was paid £1.1m this year, according to the annual report. The package was made up of a basic salary of £810,000, an additional £203,000 in cash towards a pension and a £76,000 share-award from a previous incentive. In 2017 he got a £600,000 cash bonus and was paid a total of £1.6m. Rowe's cash bonus is decided by a formula: 70 percent is pegged to the company's financial performance and the remainder tied to hitting other targets. It was in the latter category that the remuneration committee decided to axe payouts.

*Trade magazine *Insurance Post* reported that **RSA** senior ceo Steve Lewis emailed UK staff in February saying the company could not justify paying performance-based bonuses in the light of its financial performance. This caused an outcry among staff, angry that ceo **Stephen Hester** had received a bonus of £1m. In response, RSA backtracked, agreeing to pay discretionary bonuses of £600-£800 per head. Hester received a £5m pay packet from RSA last year which, despite poor UK performance, achieved strong financial results overall. On top of his salary of £987,000, the former **Royal Bank of Scotland (RBS**) boss received a £1m bonus, £2.6m as part of an LTIP and almost £300,000 in pension related benefits. His bonus *did* fall from £1.5m to £1m, but his overall reward package grew *11 percent* from £4.5m last year. In 2010 when Hester was at RBS he waived a £1.6m bonus amid political pressure and a wave of anger over pay in the banking sector after the financial crisis.

*Mike Coupe, ceo of **Sainsbury's,** is "*in the money,"* having earned nearly £3.4m in the past year – up 45 percent on the previous year – as a result of a big cash bonus and incentive scheme payouts. Coupe was widely mocked in April when he was filmed singing one of the best known songs from the musical *42nd Street*. An accomplished musician, he was caught off-guard singing while waiting to be interviewed about a planned merger with **Asda.** The grocer's latest annual report shows Coupe was correct – his annual pay rocketed by more than £1m last year, including a £427,000 annual bonus. His fellow directors cfo Kevin O'Byrne and Argos boss John Rogers, earned annual bonuses worth more than £400,000, taking their pay to £1.45m and £2.21m respectively. Details of the boardroom payouts at Sainsbury's have emerged as the retailer faced criticism about changes to pay and conditions for its shop workers that will leave 9,000 staff worse off. Coupe received the cash bonus despite reporting a near 19 percent fall in profits, because he hit targets linked to the supermarket's takeover of **Argos** and the Nectar loyalty card scheme and met a minimum profit target. He received a £1m long-term share bonus relating to performance over the three previous years, and a £758,000 deferred share bonus, up from £716,000 a year before. The Sainsbury's boss, who hopes the competition watchdog will approve the planned takeover of Asda within the next 18 months, was paid £943,428 in basic salary. He has recently had a two percent pay rise to £962,297.

*Digital transformation leader **Sopra Steria** announced the launch of its *We Share* employee share ownership plan, in which an increased number of employees took part. The third edition of *We Share,* which aims to associate employees more closely with the group's development and performance, was oversubscribed at 153 percent. Open to group employees in 15 countries, more than 1 in 3 employees – rising to nearly 1 in 2 in France – participated in *We Share 2018*. Shareholdings managed on behalf of employees total around eight percent of the group's share capital, making Sopra Steria employees the group's second largest shareholder. Sopra Steria is the number-one IT services company for employee shareholding in France. It provides a portfolio of services spanning consulting, systems integration, industry-specific solutions, infrastructure management and business process services.

WPP** chairman, Roberto Quarta, said the advertising group had received "very clear" legal advice that WPP's founder and former ceo, **Sir Martin Sorrell**, was entitled to retain **£20m** worth of future share awards, despite allegations of personal misconduct. Disgruntled shareholders, frustrated by the company's repeated failure to explain why Sorrell had left suddenly, used their annual vote to make clear their dissatisfaction. Including abstentions, almost ***30 percent opposed WPP's pay report and 16.6 percent voted against Quarta's re-election as chairman. Quarta said Sorrell would only have lost the share entitlement if 'gross misconduct' could be established, and the board was advised that it could not. The company could not say more about the reasons for Sorrell's departure because it had received "unequivocal legal advice that data protection law prohibits us from doing so".

EMPLOYEE OWNERSHIP

When Peter Neumark decided to make a change at **Classic Motor Cars**, which he founded in 1993, instead of seeking a trade sale of his classic car restorer, he gave 61 percent of his shares to his 60 staff in 2016. He believed that the move would result in greater profitability, greater productivity, better staff retention and ultimately happier customers for the Shropshire-based business. His was one of 101 companies interviewed for a new study of employee-owned businesses that says the EO approach can bring about all those benefits and more, said an article in *The Times*. Eight years ago, the coalition government said that it wanted to radically increase employee share ownership in Britain by promoting a 'John Lewis economy.' The **Employee Ownership Association** (**EOA**) said there had been growth in the sector, but it remained a fringe option. The EOA reckons that in 2017 there were only 300 UK employee-owned businesses, with a collective workforce of 200,000 people. The report explored why relatively few UK companies are employee-owned, given that the approach can pay off at three levels: for employees, for businesses, and — most critically — for the wider economy. **Baroness Bowles** of **Berkhamsted**, who chaired a year-long inquiry into employee ownership, on which the new report is based, accepts that "there's been growth [in mutual ownership], but it's from a low base". The study, *The Ownership Dividend*, found that employee-owned businesses consistently achieve greater levels of productivity than those with other ownership models. Companies, where workers are given a say in the running of the operation and a share in its proceeds, have stronger staff retention and appear to benefit from increased resilience when threats surface. They are more likely, too, to retain strong links to their local communities. Yet, said Lady Bowles, few advisers inform business owners about how EO could give the company they built a better chance of survival long after they have handed over the reins. The report found that a *"lack of awareness, understanding and capability"* was impeding the growth of employee ownership.

A recent study by the **Enterprise Research Centre**, concluded that family-owned businesses, where a founder was still in charge, were ten percent less productive than those at which the founder had stepped aside, possibly due to owner-managers being less open to change. Family-owned businesses tend to have poor succession plans for leaders, often leaving such planning too late. "[The lack of succession planning] is shocking," said Lady Bowles. "If it's left right to the end, they go to their accountants, who know about MBOs and trade sales and push you down that line, and the business often goes out of the region or condenses because there are redundancies. *It is negligent if an accountant doesn't include employee ownership in their succession advice*." She said that that there was a lack of knowledge among financiers, for example when debt is needed to purchase a founders' shares on behalf of an employee trust, a feature of many employee-owned organisations. "If you say 'MBO', they understand that, but employee ownership is not the done thing. If nobody understands these things and the advisers don't advise it, that restricts the numbers."

Recently, Guy Watson, founder of **Riverford,** the organic foods business, transferred three quarters of the company he founded in 1986 to his 650 staff. "*It feels really good. There's a buzz around the place,"* he said. "*Already I'm seeing people solve problems that would have been kicked into the long grass before*." A loan from **Triodos Bank** to the trust that holds the staff's shares will pay Mr Watson for his shares over five years, but he could have earned far more if he'd sold the business and its £57m turnover to an investor, rival or via a management buyout. *"Some of it is philosophical," he said. "I feel it has been the staff, especially in recent years, who have made the business what it is, so they should share in the fruits of their labour."* Mr Watson hopes that the move will be good for customers and suppliers as well as staff - as decisions are made in the long-term interests of the company, rather than at the behest of an investor trying to maximise income. "*I think staff will be more productive and more innovative and will move the business forward through greater engagement. In turn, they grow in terms of their skills and responsibilities and take more pride in what they do."* Riverford is competing with a raft of loss-making venture capital-backed food companies, which Watson said had secured 'absurd' amounts of money. Having employees more involved in making decisions and generating ideas could help the company to hold its ground until these rivals "go away or go bust", he said. More business owners would be willing to transfer ownership to staff if there weren't such pressure from self-interested financiers and advisers to follow a more conventional route, he added. "*Running your own company is like raising a child, except it takes longer, so you care what happens to it. The primary motivation of most entrepreneurs is not solely maximising revenues. Most people who sell their business end up bitter and twisted. But it can be difficult to resist the pressure to follow the conventional route, you can be seduced."*

Tax incentives for setting up an **Employee Ownership Trust** allow an owner to get the money for his/her shares free of Capital Gains Tax and the employees can get a dividend or bonus of up £3,600 tax-free every year. Mr Watson said that the tax advantages helped, but added that this approach could be made more attractive through the creation of an off-the-shelf EOT structure to reduce the substantial legal costs involved. Lady Bowles wants the rest of the UK to follow the example of Scotland, where the number of employee-owned businesses has trebled over the past five years. This has been linked to the Scottish government investing in working with advisers to encourage greater awareness of mutual ownership.

The Ownership Dividend, a new report on the employee ownership sector, outlines numerous benefits of businesses being owned by staff, said *Times* writer *James Hurley.* It argues that mutual ownership can make companies more resilient and forward-thinking, can allow them to make a greater contribution to the nation's productivity and even can help with the redistribution of wealth. However, entrepreneurs will want to consider the potential downsides too. Just as staff in a successful company may feel more motivated if they own a stake, the reverse might be true if they see themselves as tied to a failing business as "*staff retention, productivity and morale will decrease, adversely impacting the company further*".

Businesses can choose between indirect employee ownership, where shares are held in trust on workers' behalf, or the direct approach. **Gripple**, a Sheffield-based maker of fence fasteners, is an example of the latter, requiring new employees to invest in acquiring a stake in the business. Either way, smaller companies may find the costs and administrative burden of setting up a scheme a turn-off, while there can be complications on how to handle shares owned by departing employees. Businesses can buy back the shares or face "having an increasing base of shareholders who are not connected to it," according to legal group *Gateley.* The report acknowledged that managing the transition from owner-managed company to mutual can be tricky. *"Managing staff who co-own the business with you is very different from the top-down management of people the organisation treats as subordinates. Managing* *employee shareholders and leading a co-owned business takes different skills."* Most of the 101 companies that participated in the study said they could demonstrate greater output and efficiency as a result of being owned by staff.

EOT buy-out

A Peterborough-based management consulting services and control software company is set to be fully acquired by its employees. An offer for an initial £7.5m for **Business Control Solutions Group (BCS Group)** by **Business Control Solutions Group Employee Ownership Trust** has been recommended to shareholders. BCS provides management consulting services to financial institutions including programme management, operating model implementation, process management and design, technology change and regulatory change management. It delisted from AIM in December 2009 and said its subsequent commercial success had been underpinned by growth in its consulting business, which has increased over the last eight years from 22 to 156 full-time consultants by January 2018. The board of BCS believes that attracting and retaining high quality consulting staff had been central to BCS' commercial success over the past eight years. Employee share ownership has increased from a low point of three percent of BCS' issued capital in March 2010 to 55 percent of BCS' issued capital in January 2018. Part of this increase in employee share ownership was achieved through implementing an HMRC approved **Share Incentive Plan** in January 2015, which has enabled all employees of the BCS Group prior to January to become shareholders. *The BCS board believes that increased employee share ownership has contributed to the successful growth of BCS through alignment of employee and company objectives and through fostering high levels of employee engagement*. Stephen Russell, BCS chairman, said: "EO has been a critical factor in BCS' success over the past eight years, with 55 percent of the current issued ordinary shares being owned today by employees or held in trust for their benefit. The proposed acquisition of BCS by an EOT enables BCS to continue with the execution of its current strategy whilst ensuring that future equity value accrues for the benefit of the employees who work so hard to create it: "*The board of BCS has a profound belief that such employee ownership will make BCS an even more exciting and successful place to work and importantly believes that this ownership model will be of increasing appeal to BCS' clients."*

Announcements under the MAR, Disclosure, Guidance & Transparency Rules

*World lighting leader **Signify**, which is quoted on *Euronext,* completed its previously announced share repurchase programme. The company, repurchased 1.3m of its shares for ***€33.2m*** between May 2 and May 25 this year. These repurchases were made as part of Signify's shares repurchase programme. Signify will use the shares to cover obligations arising from its LTIP share plan and other employee share plans. Between May 22 and 25, the company repurchased 419,743 shares at an average price of €24.87 per share and an aggregate amount of €10.4m. Signify became the new company name of Philips Lighting as of May 16 this year.

*AIM listed **Westminster Group**, a leading supplier of managed services and technology-based security solutions, announced that it had granted 7,500,000 free share options over nominally valued 10p ords a price of 13 pence per share. The share options were awarded under the company's 2017 Share Option Scheme (SOS) to several directors and all UK based and key employees based overseas. The options can be exercised at any time from the first anniversary of the date of grant up to the tenth anniversary of that date. Save for a change of control in the company, the options will only vest if Westminster Group's share price reaches 26p at any time, being twice the middle market price on the date of grant. Several million share options were granted to directors, but 3m options were granted to all UK based employees and to key employees based overseas.

WORLD NEWSPAD

Employee millionaires the Chinese way

At China's Sunny Optical Technology Group - whose stock has climbed faster than any other in global indexes over the past decade - the richest employees are just as likely to be factory workers, janitors and cafeteria chefs. The lens maker's unusual decision to hand out stakes to early employees, regardless of their position, has turned hundreds of them into millionaires, according to data compiled by *Bloomberg*. The previously unreported value of their holdings has ballooned as Sunny Optical's shares surged more than 9,500 percent since June 2008, trouncing even Netflix's 7,500 percent gain. Founded more than three decades ago by a former appliance-factory worker with less than $10,000 of borrowed cash, Sunny Optical is now a $22bn giant that supplies lenses to Samsung and Xiaomi. Growing demand for cameras in smart telephones, cars and drones fuelled a decade-long streak of rising profits at the company, helping propel the shares' sharp rise. While its approach towards employee stock rewards may be atypical, Sunny Optical's rise is a prime example of the high-tech success story Chinese policy makers are trying to nurture. The company underscores the changing face of wealth in China, where tech-industry key employees make up an increasing proportion of the country's millionaires - a group that Credit Suisse Group estimates comprised two million people last year.

Sunny Optical's Eso participants have benefited from the largesse of Wang Wenjian, who started the company in Yuyao, on China's eastern coast. When Sunny Optical restructured from a village and township enterprise into a joint-stock company in the 1990s, Wang took the rare step of distributing stakes beyond top management and later organising the holdings into a trust that now has about 400 holders and owns 35 percent of the Hong Kong-listed company. "When money gathers, people will be apart; when money is scattered, people will gather," Wang wrote in a book on Sunny Optical's history. The company still has 400 people in its employee trust.

Leaving a 6.8 percent stake for himself in 1994, Wang allowed quality inspectors, company cooks and cleaners to subscribe for shares at a negligible cost based on their position and years of service. While Sunny Optical doesn't reveal how many shares each original employee owns, regulatory filings compiled by *Bloomberg* offer a glimpse at the huge fortunes they've amassed. A mere 0.013 percent stake in the employee trust would be enough to create a millionaire. Excluding the combined 16 percent ownership of four directors in the trust, the average holding would imply about $17m per employee. Wang, 70, who retired as chairman in 2012, still owns a 3.7 percent stake valued at more than $800m, according to the *Bloomberg Billionaires Index.* Sunny Optical, which had an initial public offering in Hong Kong in 2007, now employs 28,000 full-time staff spread across four production sites in China, and offices worldwide. The shares have continued their rally, climbing 66 percent this year to rank as the top performer in Hong Kong's Hang Seng Index.

US: The ***Main Street Employee Ownership Act*** **(MSEOA)** has been included in the Senate's National Defense Authorization Act (NDAA) and, if passed would be the first pro-Esop bill to become law in 21 years, reported the California-based ***National Center for Employee Ownership.*** The Senate is expected to vote on the NDAA shortly. The MSEOA focuses on increasing the lending and outreach efforts of the Small Business Administration (SBA) to support ESOPs and worker cooperatives by:

*Updating the SBA's lending practices to better serve employee-owned businesses

*Empowering the SBA to assist small business owners in converting their companies to employee ownership through outreach and training programmes

*Directing the SBA to coordinate with funds licensed as SBA Small Business Investment Companies and its Micro-loan programme to consider employee ownership as an area for investment and lending. Senator Kirsten Gillibrand (D) said: "*Employee-owned businesses have a strong track record of better pay and retirement benefits for workers and a commitment to creating local jobs*." The bill has won bipartisan support and is co-sponsored by Senators Gillibrand and James Risch (R). The companion bill in the House of Representatives (H. 5236) is included in the House version of the NDAA. Its primary sponsor, Nydia Velázquez (D), said: "*This bill will empower more employees to invest in firms and co-ops where they work, raising wages and creating greater economic opportunity."* There will be a conference committee meeting to reconcile the House and Senate versions of the NDAA, which is expected in autumn, after which the bill would proceed to the president to be signed into law.

Employees chase £4.4m Esop shares in Kenyan 'Roadchef' scandal

More than 1,000 employees of **Chase Bank**, who pumped millions of Kenyan shillings into the lender's Esop are facing potential loss after the Central Bank of Kenya (CBK) failed to clarify the fate of their investment following the recent sale of the bank to Mauritians. Correspondence seen by the *Business Daily* shows the CBK is non-committal on the fate of the Esop that valued workers' stake in the bank at more than 4.3 percent in 2015. Global Credit Rating company's 2015 report showed Chase Bank raised Sh600m ***(£4.4m*** sterling) through its Esop around the time it authorised a rights issue that raised Sh1.6bn. The Esop was established in 2006 as part of a bid to motivate employees. Chase Bank collapsed in 2016 with deposits of more than Sh100 bn, part of which was returned to small depositors while it was under the care of the CBK. Mauritius based lender **SBM** formally took over Chase Bank mid-April this year upon conclusion of a sale deal. Through their lawyers, Chase employees in a letter dated May 3 this year asked the CBK to give them detailed information about the sale of Chase Bank to the Mauritian lender SBM Group and, in particular, the status of their Esop investment. The employees now accuse the CBK of neglecting their stake in Chase Bank. "After the bank was placed under receivership, our clients learnt that the Central Bank of Kenya, had accepted an offer from SBM Holdings for the sale of the bank," lawyer Dan Okubasu wrote to the CBK in the letter copied to the Kenya Deposit Insurance Corporation (KDIC). "*Despite their (*employees*)legal and equitable stake and interest in the bank they have been kept oblivious of the transaction, let alone the fate of their interest as employees under Esop in the bank."* In a rebuttal through lawyers Oraro and Co, the CBK told the employees that the information they sought on the transaction was not within its scope. The CBK's reaction has left Chase Bank employees in the dark over the future of their stake in the lender. The bank, including its subsidiaries Rafiki Microfinance Bank and Chase Assurance Agencies, had 1,422 permanent employees at the end of 2014. Their Esop participants' plight is reminiscent of the fate suffered by hundreds of ex **Roadchef** motorway service station employees, who are still fighting for compensation almost 20 years since their Esop shares were sold, without their knowledge, to the then Japanese acquirer of Roadchef.

Kenya Airways** is set to issue 142.1m ***free shares currently worth Sh1.4 bn to its staff, reinstating its suspended Esop. The new shares have been created but are yet to be issued, with the Nairobi Securities Exchange-listed national carrier still working on rules to govern the scheme. The scheme was approved at the airline's egm. "Under the scheme, eligible employees may be granted shares at the discretion of the directors for no cash consideration upon the satisfaction of various conditions as determined by the directors from time to time," said the annual report. The move means the employees will automatically book a profit once the stocks are credited in their accounts, making KQ's one of the most generous Esops in Africa. Most other listed firms running stock-based compensation schemes require their workers to buy the shares at a discount. Free shares are usually issued to high-performing employees, mostly managers and senior executives, who oversee teams and are in charge of crafting and implementing corporate strategies. The KQ staff shares are held by Trustees of the Kenya Airways Eso scheme 2017, "*a trust set up for the purpose of incentivising certain employees through issuing shares to employees as part of their remuneration package.*"

***Canada**: The Trudeau government will claw-back the performance pay and bonuses paid to deputy ministers and other top-ranking federal executives if they are found guilty of misconduct or mismanagement. For the first time, the government will be able to recoup performance pay from its most senior executives should new information come to light that would have changed the performance rating they were given that year. The new rules will affect 160 full-time governor-in-council appointees who are appointed by cabinet and eligible for performance pay – these include deputy ministers, associate deputy ministers, heads of agencies and ceos of Crown corporations. However, another 6,480 government executives entitled to performance pay won't be affected by the new rules, because they are hired under the Public Service Employment Act and not by the Cabinet. Performance agreements are drawn up every year, laying out what individual, management and corporate goals these senior executives are expected to achieve in the year. At the same time, they are assessed on the previous year's commitments and those eligible for performance payments receive them every autumn. They will lose their performance pay too if found to have "wilfully or recklessly" hid or misrepresented their achievements" during performance evaluations, in order to make any 'deficiencies' hard to detect.

*Ahead of the **Irish Proshare Association (IPSA)**'s annual *Employee Share Ownership Day*, ceo Gill Brennan warns of a potential risk to employment and revenue that has been overlooked by successive governments. She said: "Many SME founders and owners are coming close to retirement age. By 2020, it is estimated that 92,900 people in the labour force will be aged 65 and over, and by current trends a large proportion of that number will be thinking about retirement. Based on available data we can assume that a minimum number of these, one percent, are SME business owners, that's 929 businesses across the country. Based on Central Statistics Office (CSO) data, we can assume that these businesses employee on average 30 people per business, that's 27,870 people. And by current CSO figures that's 27,870 people contributing c. €40,000 GVA per person, a total of €1.12bn to the Irish economy."

The number of owners reaching retirement age was a major concern as the present succession options were too limited and could lead to large numbers of these businesses closing. For many owners who do not have family members to take over the options presently are limited to a Stock Exchange listing, a trade sale or a sale to private equity including management buyout. Not all of these will be preferred options to many SME owners. Gill Brennan continued: "*We have witnessed the closure of some well-known businesses where the founders prefer to wind-up the company rather than sell to a competitor. If this was to continue, it could lead to the loss of several thousand jobs and huge economic reverberations for the local and national economies. Based on our assumptions above that would be 13,935 out of work and most likely dependant on the State* – putting pressure on social welfare resources. What's more that would be €560m taken out of the economy and putting a nice little dent in future national growth plans." One viable and proven solution had been ignored by successive Irish governments to date, she said. IPSA is urging the Government to put in place a legal framework that will make a sale to all staff of the business through an EOT available to SMEs. Selling the business to an EOT gave the seller a competitive price and a guaranteed exit from their business. The process and the model are proven to reduce the risks that are usually associated with transferring ownership and leadership.

The Employee Share Ownership Centre is a membership organisation which lobbies, informs and researches on behalf of employee share ownership.