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it's our business

newspad of the Employee Share Ownership Centre

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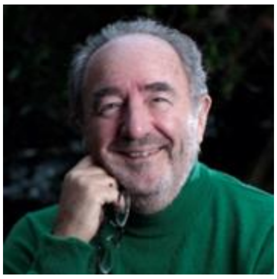
WELCOME

In this issue



From the life president

What's happening at Royal Mail? At privatisation employees were well rewarded with shares. There was a further top up when Sajid Javid was Secretary of State. He overrode the cautious advice of logicians to reward them with a further chunk. Now there's corporate complexity with Royal Mail existing alongside IDS (International Distribution Services). At the same time the future of the universal nationwide mail service in the UK has been put into doubt by the government. The Centre has an expert team, preparing to offer guidance to employee shareholders in these testing times. As with Roadchef we own the problems. This is no home for sycophantic good news.

Malcolm Hurlston CBE

Department for Business Innovation & Skills

The Rt Hon Sajid Javid MP
Secretary of State for Business Innovation & Skills

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Martin Donnelly
Permanent Secretary
Department for Business, Innovation and Skills
1 Victoria Street
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15 June 2015

Dear Martin,

ROYAL MAIL EMPLOYEE SHARES

Thank you for your note of 11th June 2015. This is to confirm that I am formally directing you as Accounting Officer to implement the gifting of up to one percent of Royal Mail shares to its UK employees.

I have noted your concerns about the value for money of doing so. However, in coming to this decision I have taken into account the wider benefits of this policy. Employees currently comprise an important part of Royal Mail's shareholder base. As you note in your letter, this principle of employee participation was enshrined in the Postal Services Act 2011. Furthermore I believe there is merit in rewarding the employees of Royal Mail for their hard work, which has contributed to the recent performance of the company and has been reflected in the current share price.

I therefore direct you to proceed as requested.

SJ

SAJID JAVID
Secretary of State for Business, Innovation and Skills

newspad awards 2022 announced

On Thursday March 30, at the Esop Centre's Sixth British Isles Share Plan Symposium, hosted by **Macfarlanes**, Centre president and founder, Malcolm Hurlston CBE announced the results of the Annual *newspad* All-Employee Share Plan Awards for 2022.

He thanked judges, Damian Carnell, founder and director of CORPGRO, and Anna Watch, Senior Manager Corporate Governance Legal, Regulatory & Company Secretary at BT, for dedicating their time and unique expertise to judging the entries.

We had a broad and fascinating range of topics in what was another exceptionally challenging year, and there was much to be distilled.

Overall the quality of the entries was outstanding. They showed that companies are looking at employee share plans as an important aspect of how they present themselves as a company, both internally and to the outside world. And companies are successfully finding new ways of using shares or equity of one kind or another, both to bring the company together and to make it stand out among others.

The judges were encouraged by the greater diversity in share plan take-up, shown by stats reports of higher numbers of female employees taking part; and noted that most of the entries featured far more references to company ceos than previously.

For the Esop Centre's 2022 Newspad All-Employee Share Plan Awards there were four categories:

1. **Best all-employee share plan in a large company** (more than 2,500 employees)
2. **Best share plan communications**
3. **Best use of technology, AI or behavioural science in employee share plans**
4. **Best share plan response to significant changes or challenging situations**

From all entries, the following companies' plans were shortlisted:

- AstraZeneca
- BP
- Centrica
- Comcast
- Dr Martens
- Jet2
- Kier Group
- Merlin Entertainments
- Mitie
- National Grid
- Reckitt
- Solvay SA
- Videndum

In recognition each received a *newspad* star which they are free to display.

Thank you to our Esop Centre British Isles Employee Share Plan Symposium 2023 host:

MACFARLANES

AWARDS

The results

Category 1 – best all-employee plan in a large company

An all-employee share plan can be a particularly effective way for a large, or multinational company to bring together a diverse workforce to help achieve key corporate goals. Applications to this award category are judged on how successfully the share plan meets the company's objectives in inclusivity within a large workforce or in light of the complexities of cross-border arrangements.

Comments on shortlisted entries:

The judges considered that BP's *Global Share Match Plan* was a good, worthy share plan, which was well executed.

The outstanding features of Centrica's entry - *Profit Share 2022* - were that it showed that the company had thought deeply about engagement with management, with wider engagement with varied teams across the company and that the Esop was set alongside wider health and wellbeing factors. Its strap line "We cannot do any of this without you" emphasised its commitment to engagement with employees. The mechanics of the plan were made very clear. It was noted that there was no application mechanic included, instead the award was offered on an opt-out basis. This must surely be the way forward for free share awards. Overall a very interesting plan.

Jet2's communications approach is really good, linking every stage with travel terminology. It gave the plan a feel-good factor, so making it stand out.

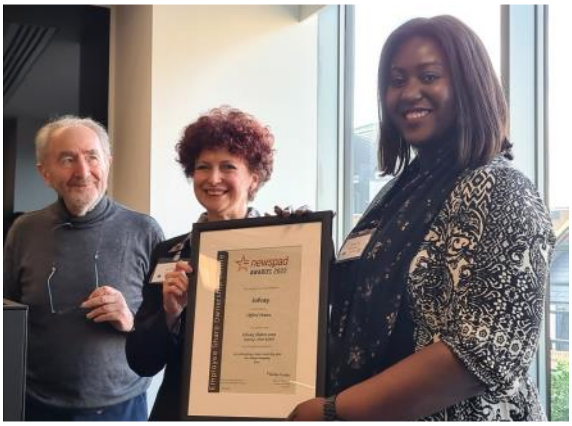
It is good to know that companies like Mitie are providing employee share plans. In its "*Share plans for all*", the change in matching ratio of free shares from one in ten to one in two, for SIP contributors, is admirable, as is the focus on rewarding front line workers, who tend to be on lower incomes, with free shares – 100 free shares each were awarded to staff earning less than £30,000 pa. It was good too that employee shareholders are encouraged to vote at agms.

The judges liked Solvay's approach of using 'Local Champions', noting that the company operates outside the normal range of locations for share plans, particularly China. Particularly impressive was Solvay's ceo, Ilham Kadri who was the driving force behind the introduction of the company's first global all-employee share plan, publicly championing employee share ownership when announcing the ESPP.

Overall winner of **best all-employee plan in a large company** was **Centrica.** Equiniti's Jennifer Rudman accepted the award on Centrica's behalf.

Centrica's award is presented to Jennifer Rudman by Centre president Malcolm Hurlston CBE , and manager Juliet Wigzell.

And because standards were high in this closely contended category, the judges **highly commended** **Solvay's** First ESPP**.** Clifford Chance lawyer, Jennifer Danso accepted the award on behalf of Solvay.



Jennifer Danso receives Solvay's award from Malcolm and Juliet.

Category 2 – Best share plan communications

Communication is key to the success or failure of an all-employee share scheme. This award category highlights the need for communications programmes that are sensitive to the circumstances of an individual company and the make-up of its workforce.

Comments on shortlisted entries:

Of Centrica, the judges thought the company put a lot of effort into all sorts of communications including a Centrica Connect event which attracted 3000 employees. The message was clear, and was encapsulated visually very well.

Comcast's communications were very good, as might be expected, though the judges felt they could be more clearly expressed within the submission.

The communications campaign for Dr Martens' *Your Share BAYE SIP* was well liked overall. The materials were personable and well written and combined marketing of the plan with general Dr Martens themes (even managing to get the word 'funky' into a share plan description). Communications appear to have worked well as, in a sector where take-up rates for share plans are historically low, take-up of its SIP was almost twice what was hoped for at the outset; and **six** times the historic average for the sector.

Jet2's communications for its Sharesave scheme were lots of fun, linking every stage with travel terminology and corporate branding. The effectiveness of Jet2's communications was reflected in good take-up rates.

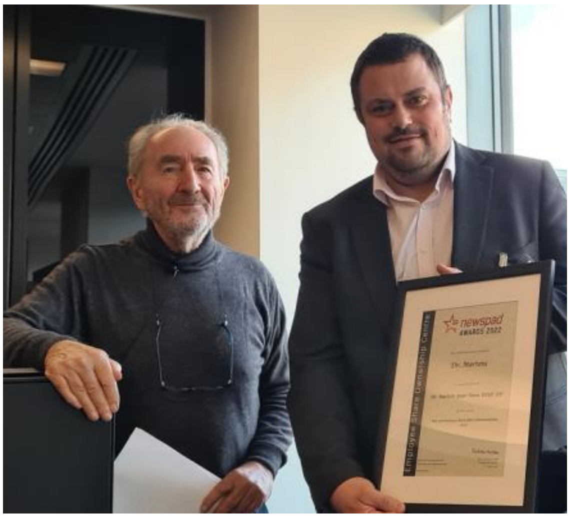
Kier Group's communications were impressive, and its microsite and mobile phone app were outstanding features. They demonstrated the group's effort to reach all employees, many of whom are not office based and mobile phones are their main or only contact with their employer.

Reckitt's communications were plentiful. The comms programme for its *GSPP 2022* was very good but there were no features that stood out among this year's high calibre entries.

Videndum had an interesting approach with good efforts to reach everyone via a 'one-stop-shop' Sharesave microsite plus a library of information including webinars for employees where local law does not allow them to apply for the plan via the portal. Its approach was rewarded with high participation.

Overall winner of best share plan communications 2022 was **Dr Martens'** *Your Share BAYE SIP.*

Dr Martens' Sarah Steadman and Robert Green asked relationship manager Paul Bowen of Equiniti to accept their award.



Dr. Martens' award presented to Paul Bowen by Malcolm Hurlston CBE.

Jet2 was **Highly Commended** for the communications around its Sharesave scheme.

Category 3 - Best use of technology, AI or behavioural science in employee share plans

Without effective technological solutions, all-employee share plans would be prohibitively expensive and time consuming for many companies. This award category recognises innovative uses of technology to manage, communicate and administer share schemes in a fast changing world.

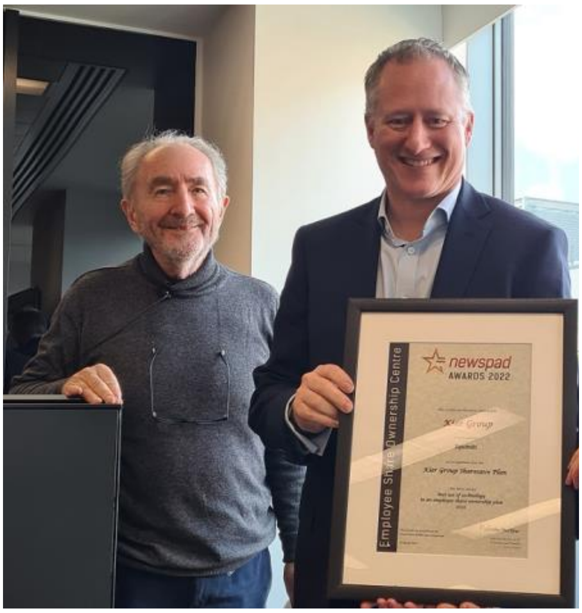
Comments on shortlisted entries:

BP's technology entry focused on back-office systems, which efficiently linked share plan administration teams with the participant portal.

Kier Group's microsite and mobile phone app were the outstanding features of Kier's effort to reach its entire workforce. Both offered ease of use, both in access and applying for the plans.

A notable feature of Merlin Entertainments' share plan technology was the use of a robotic process automation 'bot' to pick up relevant information and ensure employees received information and documents unique to them.

Overall winner of **best use of technology, AI or behavioural science in employee share plans** was **Kier Group.** Kier's executive remuneration and share plans manager, Jonathan Sturman received the award.



Jonathan Sturman receives Kier's award from Malcolm.

Category 4 - Best share plan response to significant changes or challenging situations

Since 2020, the pandemic, global crises, rising inflation and the cost of living have brought many challenges to business, not least of which is the change to working life and finances. All-employee share plans can play a key part in rising to such challenges by contributing to employees' savings, morale and engagement. This award is designed to recognise ingenuity in either adapting a share plan or creating a special plan to fit the rapidly shifting landscape or help alleviate some of the pressures that arise from extraordinary situations.

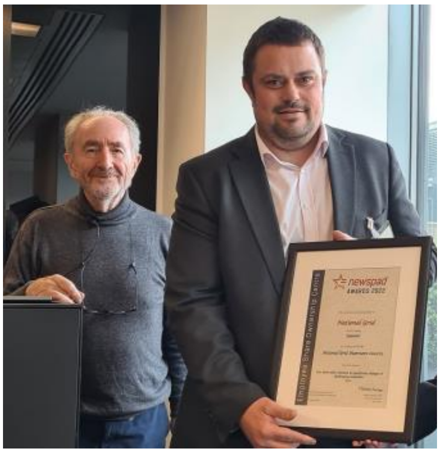
Comments on shortlisted entries:

All three shortlisted entries focused on employee share plan responses to acquisitions. Judges were impressed with AstraZeneca's approach to the logistics of onboarding Alexion Pharmaceuticals' employees and to the retention of key talent in the acquired company. It made a complex arrangement simple to understand, all in a short space of time.

The combination of the Interserve acquisition in late 2020 and the pandemic was the challenge that Mitie sought to overcome by keeping the plans simple and participation easy. This was done in an admirable, if not ground-breaking, way.

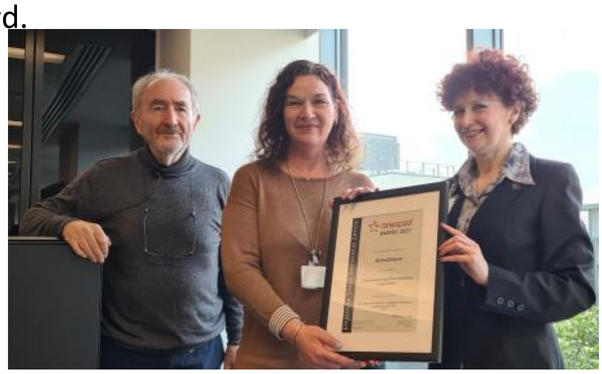
National Grid's challenge was its £7.8bn acquisition of Western Power Distribution (WPD) and launch of Sharesave to new WPD colleagues. The challenge was met in a short time scale with such effective use of technology that it resulted in massive take-up, which greatly impressed the judges.

Overall winner of **best share plan response to significant changes or challenging situations** was **National Grid**. Equiniti's Paul Bowen accepted the award on National Grid's behalf.



Malcolm presents National Grid's award to Paul Bowen

Highly Commended in this category was **AstraZeneca**, for whom global LTI plan manager Elizabeth Crutchley accepted the award.



Elizabeth Crutchley receives AstraZeneca's award from Malcolm and Juliet

Special mentions

The judges gave a special mention to four entrants because there is much to learn from them:

BP is noteworthy. It features on the shortlists in multiple categories and judges commended it for its ongoing long-term commitment to employee share plans.

Mitie is commended for its sensitivity to low paid workers and the honesty of its approach.

Merlin Entertainments received a special mention as judges were impressed by its use of robotic process automation ("RPA bot") to prepare and distribute documents, which were unique to each participant. It may well have blazed a trail.

And finally, **Jet2's inclusion** in its share plans programme of part time staff, who would not usually qualify for employee share plans received a special mention: bringing gig workers into share plans may, for one reason or another, be the pattern of the future.

★★★★★

The 2022 Newspad All-Employee Share Plan Award winners with Centre president Malcolm Hurlston CBE, and manager Juliet Wigzell at the Centre's British Isles Share Plans Symposium, March 30 2023.

Employee share plans - then and now

Damian Carnell's experience in judging the Centre's awards entries stretches back a long time. So *newspad* asked him to pen a few words reflecting upon the changes in employee share ownership that he has seen over the years.

These are his thoughts:

EARLY DAYS...

Employee share ownership was kick started in the UK by two tax favoured plans in quick succession. The 1978 Profit Sharing Share Scheme and the 1980 SAYE Share Scheme.

The tax breaks were a big thing, and both these plans were very tax generous. It also flagged government approval of the concept of employee share ownership which both left, and right leaning parties concluded was a "good thing".

The left believed employee ownership of shares was the beginning of increased worker rights, and the start of the ownership of the means of production that Karl Marx had long before predicted. Indeed, Clause IV of the Labour Party constitution set out their commitment to public ownership of industry, until Tony Blair removed it, some 20 years ago.

To get some flavour of those times, the sentiment is reflected here too…

"Accordingly, every possibility of the exploitation of man by man is ruled out in socialist enterprises."

(Political Economy Academy Textbook: USSR).

The political right wing, on the other hand, believed that employee share ownership was a way to educate the working classes about the benefits and mechanics of capitalism, and to woo the mainstream away from the dangerous propaganda of the hard left.

So, everyone agreed employee share ownership was a good thing; but for very different reasons.

For companies the initial challenge was to decide to adopt a plan or not. And if so which one. The plan design was laid out by tax law - so that was not a discussion.

Once a plan was adopted, the main company tasks were communication and plan administration. Rolling out the plan on an international basis followed some years later.

Much of the communication centred on the tax favoured nature of the plan with, an overlay of basic financial education such as "What is a Share"? Some communications needed to remind employees that the workers don't control the company through the plan.

Some companies flagged that the ceo and board would not participate. The thinking was that this left more shares for the general workforce. Many employees saw this as a sign the employee share plan was of low value and aimed at the little people. A real turn off.

Many companies started the administration with in-house tools, but this was a big job, and SAYE also needs an independent saving carrier, which adds to the needed bookkeeping. Outsourcing was increasingly seen.

Having a plan at all was cutting edge, even bold. But broad-based employee share plans took off rapidly and became mainstream within only a few years.

AND NOW....

Now employee share plans are seen in almost all major companies in most developed countries.

Academic proof of the impact of share plans is available, but it is complex and a bit mixed. The better evidence that share plans work is that big sophisticated companies spend millions on them every year and very few cut back the spend or stop altogether.

From this we know the plan spend is seen as worthwhile, but what is missing still is an assessment of optimal spend. Is there a business case to increase the spend, by say, 50 percent or more? Hard cost benefit numbers are not available but thought experiment discussions would be useful, but are rarely seen.

Share plan success needs to be judged on a multi-dimensional basis, a simple look at the take up rate is no longer enough.

Communication of employee share plans is now highly professional. Often smartly branded, with multi-channel communications and tools online, like calculators - and share accounts that can be accessed by a mobile app. Advertising quality communication that is appealing and impactful.

The role of the ceo in supporting the plan is now recognised as vital. Although companies recognise this importance, there is a need to promote the ceo support as an ongoing strand of the communications set.

Professional administration brings customer level reliability, accuracy, tax and other compliance, and ease of use. Technology has transformed both communication and administration, and as we enter the world of AI, we can expect employees to ask Bard and ChatGPT if their employee share plan is a good idea. In fact, on a generic basis, I did just that yesterday, the Bard response is below.

Companies are now fully focused on financial education as part of the financial wellbeing offering for employees. This must stop short of financial advice obviously, but the integrated efforts of the administration and communication teams mean this aspect is now light years better than even ten years ago.

The role of share plans in financial security over a working life is an aspect that might need more focus. As pension provision from companies diminishes, other forms of equity based, tax efficient, long-term investment need to take up the slack. Employee share plans operated on a long-term basis can produce large capital sums. This capital will need diversification at some point in the cycle.

The total shares owned by employees can be significant. Cap Gemini is eight percent employee owned, about equal to the next biggest shareholder. These shares are worth some €2.4 billion. A company aim to allow a multiyear build-up of equity in the hands of employees, paired with a step change in participatory management might well be a good model for the future.

Employee share plans should not be seen as a useful fringe benefit. Correctly set into the corporate culture, and aligned with corporate purpose, employee share plans can create a genuine partnership between capital and skills to form a nexus of company value creation.

Is employee share ownership a good idea?

And Bard replied:

Employee share ownership is a good idea for a number of reasons. It can:

⇒ *Increase employee engagement and motivation. When employees feel like they have a stake in the company, they are more likely to be invested in its success.*

⇒ *Improve employee retention. Employees who feel like they are part of a team are more likely to stay with the company.*

⇒ *Attract and retain top talent. Employees who feel like they have a chance to share in the company's success are more likely to be attracted to working for the company.*

⇒ *Encourage innovation and productivity. Employees who feel like they have a say in how the company is run are more likely to come up with new ideas and be productive.*

However, there are also some potential drawbacks to employee share ownership. For example, it can be difficult to manage and maintain employee ownership schemes. Additionally, employee ownership can lead to conflicts of interest if employees are also involved in making decisions about the company's operations.

Overall, employee share ownership is a good idea for many companies. It can provide a number of benefits, such as increased employee engagement, improved employee retention, and increased employee productivity. However, there are also some potential drawbacks that should be considered before implementing an employee share ownership scheme.

EVENTS

Webinar

Esop Sofa – newspad review webinar April 27

The Centre's next *Esop Sofa-newspad Review* panel discussion will be at 11:00 am on Thursday April 27. Join our panel of share schemes experts for in depth discussion of their pick of articles featured in recent editions of "It's Our Business", newspad of the Esop Centre, with a focus on the SIP and SAYE budget call for ideas. Registration is open

UK CORNER

Changes in CGT allowance

Although relatively few employee shareholders will be affected immediately by the halving of the annual CGT exemption allowance to just 6K from the new fiscal year starting April 6, it will be a different story in a year's time when the 6K allowance is due to be halved again to just 3K. This is because the probability is that many three year maturing SAYE schemes will produce good returns as their starting point will have been in 2020-21 when most share prices were at rock bottom owing to the Covid pandemic. Hence their share option strike price in SAYE contracts will have been unusually low.

So, come fiscal year 2024-25, many employee shareholders will face big CGT bills unless the allowance rules are altered again.

Financial greenwashing: ESG, money and lies

New measures proposed by the FCA are a step in the right direction towards regulating sustainability claims about financial products, but rules need to be tightened significantly to avoid a greenwashing scandal, warned ICAEW's Polly Tsang.

Until now, terms such as 'sustainable' and 'green' were not regulated, meaning anyone could use them to describe their financial products. This has led to numerous accusations of financial greenwashing, when firms claim that investment products are more environmentally friendly than they really are.

DWS, a subsidiary of Deutsche Bank, is a case in point. The firm was raided several times by the German authorities in 2022 in a $1trn greenwashing inquiry following a whistleblower tip-off. It was alleged that DWS exaggerated the green credentials of the investments it sold and made misleading statements in its 2020 annual report, claiming that more than half of its $900bn in assets were invested using ESG criteria.

The new Sustainability Disclosure Requirements and investment labels (SDR) is a package of measures proposed by the Financial Conduct Authority to regulate the use of 'green' terms in the UK so consumers can make more informed decisions about their investments.

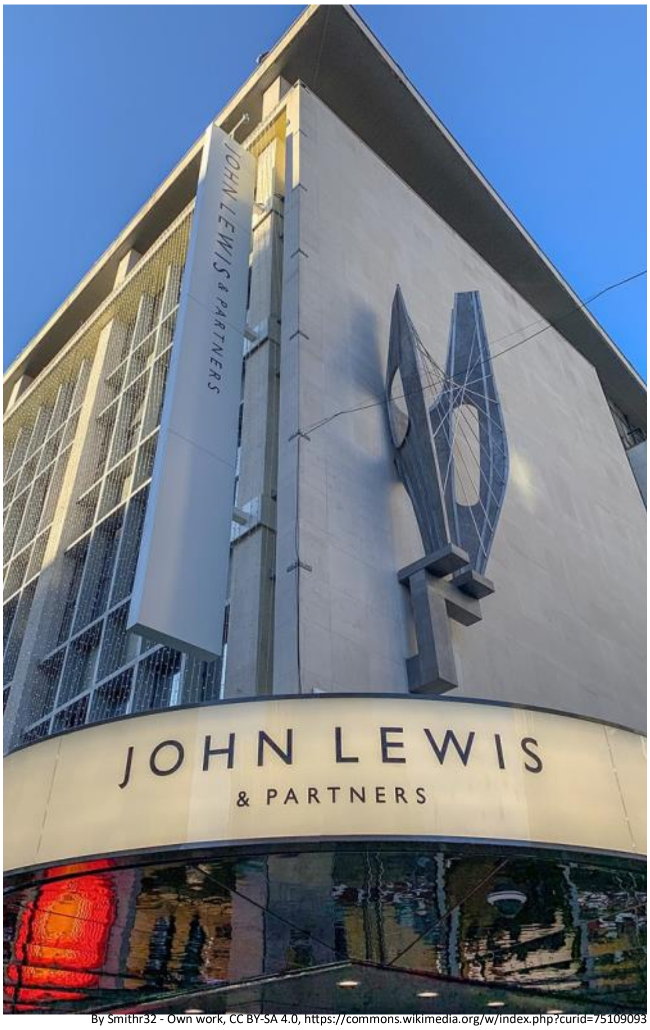
SDR aims to combat greenwashing by introducing standardised labelling of green financial products and setting a minimum threshold for the use of certain terms, so consumers have some comfort that products do indeed set out to do at least some of what it says on the tin.

John Lewis to sell out?

There were reverberations around the employee ownership community at the news that the leadership of John Lewis is considering selling some of its equity to external investors. Indeed, the story was so unthinkable that it consumed much of the business press and comment. Although in reality trust-owned John Lewis has always been seen as an icon for employee ownership in the UK. Founded in 1860 as a draper's shop in Oxford Street, London by John Lewis, the company is the third largest private unquoted company in Britain. The founders' son, John Speden Lewis began distributing the company's profits to employees in 1929, moving the company to full employee ownership in 1950. The shares were transferred to a trust, to be held for the benefit of the employees. The purpose of the trust is to ensure the company is run for the happiness of the partners. As with many retail businesses, it's been a rocky time for the Partnership. The company grew rapidly from 2000 to 2015, increasing from 151 to 379 stores. The announcement of the annual bonus was always a huge event for the John Lewis 'partners', often receiving bonuses equivalent to up to eight weeks' pay as part of the profit share policy. There have been no bonuses paid out in the past two years to employees. The decline of footfall in UK high streets, competition from online sellers, the financial crash and of course, the impact of the pandemic resulting in retail stores having to close for several months have taken their toll on traditional retailers. The company's board is now looking to raise a reported £2bn to return the company to some form of equilibrium.

Any changes to the current shareholding would require approval from the chair, the board and the partnership council – the representative body with elected members from across the John Lewis workforce. Interestingly, some of the more vocal critics of the plan are former employees of the company. Ex managing director, Andy Street, said any dilution of the employee ownership would be a "tragedy". Former employee and now retail analyst, Neil Saunders, was more critical of the JLP leadership team, saying that if the John Lewis Partnership wants to get back on track it must create a senior team that has a deep understanding of retail. His view is that current management, while well intentioned, has a weak grasp and has made poor judgement calls. Employees have been fiercely critical of the proposals. The Times reported that 85 percent of the company's partners had no confidence in the company's leadership, with calls for resignations.

The retail sector has also been critical of the proposal. Julian Richer, founder and managing director of employee-owned Richer Sounds, condemns the company's expansion plans when online sales were hitting retail hard. Retail expert, Mary Portas said John Lewis had "let go of its soul" and John Hawksworth, former chief economist at accounting firm PwC, said moving away from mutual ownership would be "terribly shortsighted". Nils Pratley, financial journalist with The Times said that to raise the required cash would likely mean selling a stake around 25 percent. This would give an external party significant influence in the organisation. Guy Singh-Watson of Riverford Organic, employee-owned since 2018, warns that "External investors will change the culture of the organisation. Everything will become short term and dictated by reporting to an avaricious shareholder”. What does this mean for the employee ownership sector? Probably not much. John Lewis is an outlier. The sheer size and scale of the Partnership is way beyond the next largest company. Turnover for 2022 was reported as £4.9bn and staff numbers were 70,600. The second largest is Arup with a turnover of £1.9bn and 17,208 employees. By far, employee-owned businesses tend to be smaller, entrepreneurial businesses. It’s likely there will be some negative publicity should the John Lewis plan go ahead. The current growth in the sector is likely to continue to accelerate as the success stories of some of the more recent transitions grab headlines. It has been proven that employee ownership works. What John Lewis does next sits with the leadership and the Employee Council. Irrespective of the ownership niceties JLP has shown the impact of an engaged workforce and is now strongly led by former HM Treasury official, Dame Sharon White.



By Smithr32 - Own work, CC BY-SA 4.0, https://commons.wikimedia.org/w/index.php?curid=75109093

Employee ownership creates company of entrepreneurs

David Whittleton, chairman of Arup Trustees, wrote in *the Times* last month: “when we describe Arup’s employee ownership model, we often refer to “you know, a bit like John Lewis” and people immediately get it. So the news last week that John Lewis may be considering altering its model gave us pause for thought regarding our own. But only a pause.

“The Arup model has similarities, but it is not identical — and the John Lewis business operates in a very different sector, with different challenges from those faced by us.

“The John Lewis leadership team, of course, know their own business and their people. They need to find the settlement that works for them. For us, there is no real debate. It is in our DNA.

“We have been employee-owned since 1977 and all 17,400 of our members are eligible for a twice-annual profit share based on the global performance of the business. We don’t have external shareholders that must be kept happy, meaning that Arup is independent and so can be master of its own destiny.

“Everyone in the organisation has the

opportunity to influence what we do and how we work. That is hugely powerful. Our people feel that they have a stake in the direction and performance of the business. This creates a culture of entrepreneurship and innovation that underpins our work.

"Of course, it's not always easy. Decision-making can be more difficult. It is often slowed down by the need to consult and find consensus among a large group of fiercely intelligent, opinionated people all over the world. It can lead to frustrations. Often we're accused of not acting fast enough in some areas or too fast in others. Our feet are held to the fire more than most leadership teams.

"But the benefits are clear. That pressure from our people means we are forced to confront the future far sooner than we might otherwise.

"In 2021, ahead of Cop 26, we made a commitment to stop all new fossil fuel work and pledged to provide whole-life carbon assessments for all our building projects. We might have got there eventually if we weren't employee-owned, but not this fast or with this level of ambition.

"As we face a range of generational challenges, we remain convinced that the world needs more employee ownership, not less.

"Our founder, the great Sir Ove Arup, delivered a "key speech" in 1970 that is still read by every employee. It shapes our purpose and forms the bedrock of our culture. In it, he talks about the importance of a "humanitarian attitude" where "every member is treated as a human being, not only as a means but as an end".

"That is the essence of employee ownership. It is the contemporary model that maintains our integrity and relevance in an ever more questioning world."

Are EOTs best option for everyone?

Employee Ownership Trusts have risen in popularity in recent years, with more opening their eyes to the benefits offered by this type of ownership model. In the light of John Lewis' travails, *Business Leader* asks whether EOTs all they're cracked up to be.

The number of employee-owned businesses in the UK reached 1,300 in December 2022. The size of the sector has more than doubled in the past three years; with recent growth thought to be linked to increasing awareness for businesses and advisers, the pandemic forcing owners to think about their own mortality and making sure they have a succession plan, and businesses wishing to be more sustainable with better impacts for people and the environment.

According to the EOA, 71 percent of employee-owned businesses have a statement of purpose, which includes making a positive contribution to society and the environment, while 96 percent say that looking after the workforce is a key measure of business success.

Another reason for their recent growth might be because they offer a range of benefits compared to other business ownership models. One of which is there is more incentive for staff to work harder in an EOT.

Chris Maslin, founder of Go EO explained: "You know that if the business makes a profit, you're entitled to a share of it. EOTs don't particularly reward individual brilliance/hard work, the fruits of success are spread. It encourages staff to work together for the greater good. The staff know that if they slack, they hurt themselves and their colleagues, not some rich fat cat at the top. Therefore, productivity tends to increase, staff turnover reduces, the number of sick days drops, etc."

However, Chris says similarly to privately owned companies, high performers will likely be promoted more quickly than their less talented and/or lazier counterparts. And if there is *a disadvantage of EOTs, it's that nobody is really financially tied to the business*, but you can get around this by having some key staff members with direct share ownership (or options to acquire them).

EOTs clearly have numerous benefits, but for founders who are thinking about an exit or changing their current ownership model, is it the best solution?

While EOTs come with a significant tax break for selling owners, the financial incentive is only a minor sweetener for founders. Typically, a founder's main option for exiting is to sell to a bigger competitor. That tends to mean their business is absorbed into the bigger entity. Their brand disappears, and half the staff are made redundant. Hence while the founder might get a big financial payoff, it often leaves a sour taste in their mouth; plus, Management Buy Outs used to be popular, where the up-and-coming 30–40-year-olds would buy out the share-owning 60+-year-olds. However, with house prices as they are relative to wages, your average 30-40 year old simply can't raise the cash to buy their seniors out. Hence these aren't as common as they used to be.

EOTs can solve both these problems. The business stays intact and independent and is focused on looking after the staff. Also, no staff must pay a penny. The founder gets paid out of the profits of the business.

Is John Lewis' ownership model to blame for its current problems? - Employee-Owned Trusts appear to be a great option for both employees and founders, but with the UK's biggest EOT, John Lewis, currently falling upon hard times, it's important to consider whether its ownership model has a role to play in this. Maslin believes the company's ownership model is not at fault.

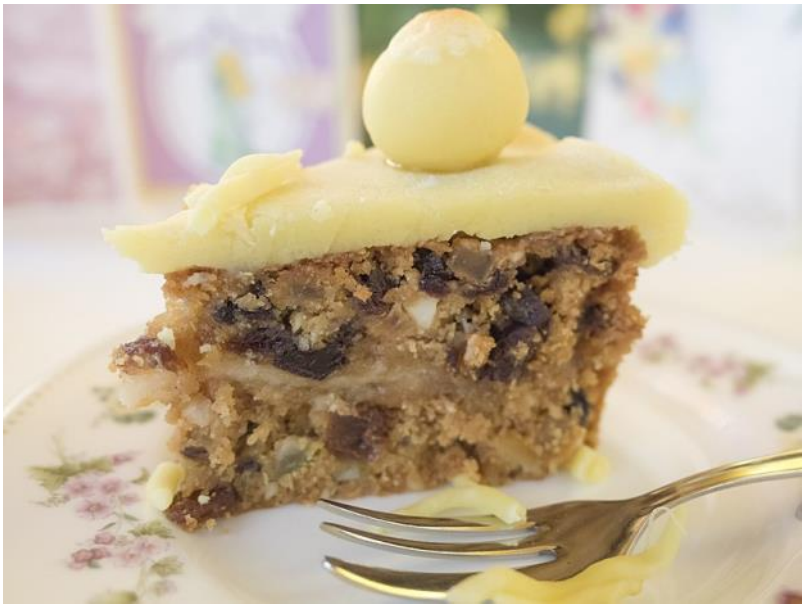
"Virtually every high street shop has really struggled over the last decade or two," he explains. "John Lewis is, unfortunately, experiencing the same issues as others, mainly being competition from online firms. Employee ownership doesn't magically change the fact it's a difficult market for them.

"There is an argument that being (and remaining) 100 percent employee-owned does make it difficult for them to raise capital. However, this isn't that different to an individual owning 100 percent of the shares. If you want investment, you likely need to give away some of that ownership to get it."

Employees take ownership of employee ownership boutique

A boutique that specialises in employee ownership has new employee owners after the firm was acquired by staff. Former Centre member Postlethwaite Solicitors has changed hands via an employee ownership trust.

Robert Postlethwaite, founder and managing director, said: “After 20 years advising our clients on how to become employee-owned, in more recent years often through an EOT, the time is right to do this ourselves. Our success has always been generated by the talent we enjoy throughout our business, making EO for us a compelling foundation for our continued growth.”



New EOTs:

- Bakery and butchers Watkin's
- The publisher behind *Recruiter* Redactive Media Group
- Digital recruitment firm We Are Adam
- Product design, engineering and development specialist eg technology
- Vehicle rental firm The Herd Group
- Apprenticeship provider Talk Training
- Independent financial planning business Cheetham Jackson
- worktop and decorative surface distributor Blackheath Products
- Children's nursery Abigail's Day Nursery
- Invasive plant specialist Environet
- Provider of marketing and logistics Granby Marketing
- National training provider HIT Training

Exec reward

Rio Tinto rebellion?
Rio Tinto is facing a shareholder rebellion this month after raising its chief executive's pay by 70 percent.
Jakob Stausholm took home £4.8million in 2022, up from £2.8million the year before, after the mining giant made record profits on the back of soaring commodity prices. But analysts at the proxy advisory group Pirc have urged investors to vote against the FTSE 100 group's pay scheme.
It has also recommended a vote against the re-election of senior independent director Sam Laidlaw, former chief executive of Centrica, who chairs Rio Tinto's pay committee.
The advisory group, meanwhile, has told shareholders to abstain from voting for sustainability committee head Megan Clark, who is up for re-election, as questions remain over plans for the miner to build a huge copper mine in Arizona on sacred Apache land.
Rio Tinto plans to do this through a company it jointly owns with BHP, called Resolution Copper.
A US congressman, Raul Grijalva, recently introduced a bill aimed at protecting the Oak Flat site, which would stop Resolution setting up the mine.
Any rebellion over pay is unlikely to be on the scale of the shareholder revolt in 2021, when more than 60 percent of investors voted against plans to hand ousted former boss Jean Sebastien-Jacques a £7.2 million bonus.
He was forced to leave after the company blew up two 46,000-year-old Aboriginal sacred sites in Western Australia to expand an iron ore mine.
This triggered worldwide outrage and an Australian parliamentary inquiry, as well as a boardroom clearout.
Campaigners have questioned why Rio has not ditched plans to build the Resolution Copper mine, which would harm another sacred site, when bosses have pledged never again to destroy native heritage.

Ofwat tightens executive pay rules
Ofwat has set out its proposals to introduce a mechanism to control how bonuses are awarded to company executives. The regulator said remuneration committees must consider how companies have delivered on customer service, obligations to the environment and communities when making pay decisions. It stressed that billpayer money should not be used for bonuses if performance is inadequate.

Exec reward *more*

AMP shareholders vote against executive pay packets
The *Guardian* reported that shareholders at the Sydney agm said the remuneration was excessive for a financial institution that has dramatically shrunk in recent years.
AMP shareholders have voted against executive pay packets at the troubled financial institution over concerns bonuses are too high for a company delivering lacklustre performance and a weak share price. The Australian company has lost about three-quarters of its market value in the five years since the banking royal commission disclosed numerous poor practices at the company, including its willingness to charge insurance premiums to dead customers.
At the company's annual general meeting, almost half of shareholders voted against its remuneration report, far exceeding the 25 percent threshold needed to deliver the company an official strike.

VW plans 25% pay increase for exec board members
Volkswagen wants to pay members of its executive board up to 25 percent more, sparking wider concerns over Oliver Blume's role as chief executive of both VW and Porsche, according to the *Financial Times*.
Blume, head of Porsche since 2015, stepped into the dual role in September after Herbert Diess was ousted as boss of VW by shareholders and union leaders following repeated clashes with the group's powerful works council. Some investors have criticised Blume's unusual position as head of both companies, particularly given his plans to overhaul VW at a difficult time for the group and car industry as it switches to electric technology.

Executive pay at Silicon Valley Bank soared after bet on riskier assets
Executive pay at the failed Silicon Valley Bank soared after the bank embarked on a strategy to boost profitability by buying riskier assets exposed to rising interest rates, according to a Financial Times analysis of securities filings and people familiar with the matter.

The jump in pay for chief executive Greg Becker and chief financial officer Daniel Beck was a result of large multiyear bonus awards pegged to the bank's return on equity, a key measure of profitability that rose sharply between 2017 and 2021, the filings show.

Exec reward *more*

Average Wall Street bonuses plummeted in 2022 to $176,700
Wall Street bankers might have to start counting their pennies: the average banking bonuses fell 26 percent last year, leaving the average bonus at "just" $176,700, the *Guardian* reported last month.

After significant boosts during the pandemic, profits started to fall for Wall Street firms in 2022 as inflation rose and fears of recessions started to hit, leaving companies with less leeway for bonuses, according to a report from the New York state comptroller office released on Thursday. Bonuses are now at pre-pandemic levels, reaching a low not seen since 2019.
The bonus pool in 2022 was $33.7bn, down 21 percent from 2021's record of $42.7bn. In 2021, the average bonus was $240,400 – what had been a 20 percent increase compared with the year prior.

WORLD NEWSPAD

USA: More employee ownership can help retirement security

In a recent op-ed for *The Well News*, president and ceo of the Employee-Owned S Corporations of America (ESCA) Stephanie Silverman noted that skyrocketing inflation means many Americans are "tapping into savings to make ends meet" and that Congress could do more to boost retirement security.
"While there is no single policy solution, the strain on American savings makes clear that Congress should not adjourn for the year without passing bipartisan legislation to help Americans save for a more secure retirement," said Silverman.
In a welcome development, Congress added language to a must-pass year-end bill that includes important benefits for employee-owners.
These provisions include expanding important tax benefits for the first time ever to S corporation owners and directing the Department of Labor to address regulatory clarity challenges that have plagued Esops. Congress is expected to pass the package before the current continuing resolution funding the government expires on December 23.
Silverman highlighted a recent study by Ernst & Young that found how the S corporation Esop "has proved to be one of the best tools for increasing economic stability later in life." Silverman also pointed out that "employees at private Esop-owned companies have more than twice the average total retirement savings than Americans who work at non-Esop companies."

Employee-owners are also "better equipped financially to handle big expenses like car payments, mortgages, college costs for their children and retirement costs," something that is especially important during times of economic volatility.

"Giving businesses and workers more tools to increase savings for retirement, ensure job security and grow America's economy is an urgent, common -sense step Washington can't afford not to take," concluded Silverman.

To read Stephanie Silverman's full op-ed in The Well, follow this link .

To learn more about the Employee-Owned S Corporations of America (ESCA), follow this link.

Canada:
Employee ownership trusts introduced, but with no incentives

Ownership Matters (newsletter of the Ownership Association UK) reported this month, that after long and hard lobbying by Canada's employee ownership sector, the Budget 2023 has proposed new rules to make it easier to implement employee ownership trusts to acquire and hold the shares in a business. However, the legislation did not include incentives for employers or employees to participate in EOTs, which both the Canadian Employee Ownership Coalition (CEOC) and the Canadian Federation of Independent Business (CFIB) had recommended. Jon Shell, managing director and partner with Social Capital Partners in Toronto and a member of the CEOC steering committee, said employee ownership is one of the most powerful tools to build middle-class wealth. However, he said we shouldn't expect the budget to drive significant uptake. "Without the types of incentives we've seen be so successful in the US and the UK, this new trust will be marginal in Canada. And with so many baby boomers retiring over the next 10 years this would be a massive missed opportunity," said Shell, whose comments reflect his own views rather than the coalition's. Owners "are making a major sacrifice" selling to an EOT, he said: they get paid out over time, as opposed to in a lump sum, and may forgo the opportunity to evaluate multiple bids. Other than the tax incentives, the Canadian style EOT is very like the UK model. To be considered an EOT the trust must have only two purposes. First, it would hold shares of qualifying businesses for the benefit of the employee beneficiaries of the trust. Second, it would make distributions to employee beneficiaries, where reasonable, under a distribution formula that could only consider an employee's length of service, remuneration, and hours worked. Otherwise, all beneficiaries must generally be treated in a similar manner. As in the UK, the Canadian EOT would be required to hold a controlling interest in the shares of one or more qualifying businesses. All or substantially all of an EOT's assets must be shares of qualifying businesses. A qualifying business would need to meet certain conditions, including that all or substantially all of the fair market value of its assets are attributable to assets used in an active business carried on in Canada. An EOT would not be permitted to allocate shares of qualifying businesses to individual beneficiaries. One key difference with the UK is that Canadian legislation insists that the trust is based in Canada. UK legislation allows for offshore trusts to be used for EOTs. The Canadian legislation takes effect on January 1 2024.

*Reporting on the 2023 Budget, *Investment Executive* added that an advocate suggested EOT legislation, as proposed in the 2023 federal budget, will not lead to increased employee ownership.

Small business owners hoping to sell to their employees will soon have a new tool to do so, but some advocates worry that uptake will be insufficient in the absence of incentives.

The government expects EOTs to cost $20 million over five years, and said it may add restrictions in future "to protect the integrity of the tax system."