SUBMISSION FROM CAROLE LESLIE

Carole Leslie

I have worked in the field of employee ownership since 2000. I worked in two employee owned businesses (EOBs) and then in 2005 joined a consultancy that specialized in supporting organisations making the move to employee ownership. Since 2010, I have been running my own consultancy supporting EOBs and helping organisations looking to transition. My particular expertise is in helping EOBs implement and embed a profitable and rewarding ownership culture. I work mainly in Scotland but have strong links with employee owned organisations in the US, Europe, South Africa and Australia.

1. Scale and growth of employee ownership

Interest in employee ownership has been growing significantly in recent years, and this growth is worldwide. The US has a long history of promoting employee ownership, offering Capital Gains tax and corporation tax incentives to employee owned firms. Australia has recently passed legislation to promote the growth of employee ownership and there have been recent initiatives in Europe, South America and Africa. Governments recognise the economic benefits of employee ownership and there is an increasing body of evidence demonstrating that employee ownership brings benefits to the business in terms of sustainability, profitability, productivity and innovation, as well as to the individual in happiness, wellbeing and wealth.

There is a range of reasons for an owner to consider a sale to employees. In my experience, the key motivator is legacy; the business owner wants to preserve the unique culture, the ethos, the history of the firm. There is a loyalty to the staff and a desire to secure, as far as is possible, their future employment with the company. Some companies I’ve worked with:

- 95% of the workforce of Stewart Buchanan Gauges lives within 5 miles of the Kilsyth factory. The vendor sold into employee ownership as a way of rooting that company in the local community.
- The employees of West Highland Free Press knew that a sale would lead to the paper moving to the Central Belt or further afield. Employee ownership offered a way for the business to retain its independent voice, and retain the jobs on Skye.
- Specialised Castings Ltd in Denny, was the last foundry in the area, an a location with a rich heritage in metalworks. The owner did not want to be responsible for disposing of the last foundry in the area.

Sometimes employee ownership is the only viable option for the business. I’m currently working with a company where the owner is keen to exit and pursue other interests. It’s a good, profitable business, but not an attractive proposition as an acquisition. We are currently assessing how employee ownership could work. The alternative is he closes down and 30 jobs are lost.

Employee ownership is not always about exit. I have seen an increasing number of businesses look at broadening the ownership stake as a means to
increase engagement within the business. Optimus and Hunter Adams are two recent examples of this.

I’m currently working with another company where the owner is pursuing 100% employee ownership for this reason. He wants people to be part of the company in every sense, and share in the rewards they help create.

In these examples, the owners are not looking to exit any time soon, but are willing to divest some or all of their shareholding to the wider workforce.

As an indicator of the growth in interest, from 2005 until 2013 I would work on one transaction each year. I’m currently working with 7 companies currently in the process of moving to employee ownership, with several more in the pipeline.

2. Examples of innovation

Research demonstrates when employees own the business, and think feel and act like owners, they find better, more effective ways to do things. This innovation isn’t always “headline grabbing product launches” but can manifest in different ways. Some examples from companies I work with:

I. Increase in commercial awareness: Employees at Clansman Dynamics in East Kilbride became much more conscious of material costs and insisted on competitive quotes for all materials. Managers were challenged on buying decisions.

II. Service initiatives: Stewartry Care in Dumfries and Galloway has implemented a number of initiatives to improve the lives of the people they support. They run a weekly craft afternoon an a variety of events to combat social isolation, and at Christmas produced short videos allowing service users to send Christmas wishes to distant relatives. It is worth pointing out the company is not paid for anything above their commissioned care hours; these activities are mainly undertaken by the employees in their own time.

III. Strategic diversification: Woollard & Henry in Aberdeen diversified from paper to energy sector, developing several innovative products, and from a mainly domestic market to achieving 63% of sales from international customers resulting in a Queen’s Award for Export

3. Sources of funding and support

Funding is an issue in employee ownership with most transactions relying exclusively or heavily on vendor financing. This does not suit the aspirations of all business owners; many will want to realize the value of their company sooner. For these people, employee ownership is unlikely to be a feasible option.
The 100% employee ownership model is not an easy one for additional funding. The aspirations of venture capital does not often fit well with the long term aims of the internal shareholders. Such funding comes at a price, often with an element of disproportionate control.

If capital investment is likely to be required, then this can be factored into the business structure at the outset. There are more providers specializing in this type of lending but do tend to be small scale. We need to see more mainstream lenders take an active interest in employee ownership as a business model and offer patient capital to enable these businesses to establish and grow. An alternative might be a fund supported by the Scottish government which is aimed specifically at supporting EOBs.

Other kinds of business support are an issue. There is a lack of awareness amongst training providers and consultants about the different dynamic that exists in employee owned companies. For example, I worked recently with an employee owned firm who had engaged a consultant for leadership development, who just didn’t “get” the additional transparency and accountability that features in employee owned businesses. Managing within EOBs is different; the employees may have the power to fire the board for example. There are no specific training programmes that recognise this difference.

I do run annual training sessions for elected employee directors and elected employee trustees. These sessions are hugely popular and attendees report they are invaluable in increasing understanding of the rights and responsibilities of employee ownership and helping them carry out their roles. The maximum I can take in one programme is 12 and, as the sector grows, that’s not sufficient to meet demand. There is no funding support for these training sessions, and in common with most SMEs, training budgets are tight.

4. What public bodies are doing and should be doing

Awareness of employee ownership has grown significantly in the past few years, primarily due to the sterling efforts of Co-operative Development Scotland (CDS), and also because of the exemplary success stories of companies such as Woollard & Henry, Clansman Dynamics, Page/Park and Highland Home Carers.

The work of CDS in educating Professional Advisers, such as lawyers, accountants and banks, has been particularly effective as this is where business owners turn to for advice when looking to exit their business. Scottish lawyers and accountants are streets ahead of their other UK counterparts in awareness of employee ownership. Having said that, with the exception of a few firms, knowledge levels are low. A few companies I speak with tell me of how their lawyer/accountant/banker tried to dissuade them from exploring employee ownership. This dissuasion stems from the myths that EOBs are not profitable, decision making is by committee and employee ownership means giving your business away for peanuts. Evidence shows the opposite is the case.
There remains a significant section of the business community who are unaware of, or misinformed on, employee ownership. I am currently working with Edinburgh based Black Light Ltd on their employee buyout. The owner, Gavin Stewart, had explored other succession options. A local competitor had relocated within a year of being acquired by a larger firm, despite promises to the contrary. Gavin felt some commitment to the employees who he recognised as having contributed much to the success of the company. Gavin discovered the employee ownership option at a seminar hosted by his legal advisers. The staff welcomed the prospect of employee ownership enthusiastically and Gavin believes it is exactly the right route for him.

I have met many business vendors who wish they had known about employee ownership before they sold their business to a competitor. Too often, that successful business has been asset stripped or relocated. Once a skilled business leaves a locality, it rarely returns and the jobs and skills are lost with it. In view of the benefits of employee ownership to the economy, the community, the individual then public bodies should be investing more effort into raising awareness of the model.

Public bodies must educate themselves on what employee ownership is. I believe it’s not helpful to separate employee ownership from the mainstream commercial world and group EOBs with cooperatives and social enterprises. There can be some crossover, but more usually, employee owned firms are just private businesses with internal shareholder rather than external. They are not co-ops in that they don’t adhere to the seven Cooperative Principles and although bring many social benefits, most do not operate to an express social purpose as social enterprises do.

EOBs operate in the same competitive environments facing the same challenges as other companies and have to deal with the same legislative and financial constraints. We need our politicians, policy makers and business leaders to view employee ownership as a viable and valid business model.

**In Conclusion**

We need more awareness of employee ownership, and recognition of the benefits EOBs bring to the economy. We have to resolve the funding issue. Scotland has achieved much over the past 5/6 years and I know CDS has ambitious plans to grow the sector substantially. The benefits have been proven. Employee ownership is one key to a healthy economy and a better, fairer society. It is of critical importance that the effort is maintained.

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