This submission is prepared by Scott & Fyfe Limited, Tayport to identify the benefits of employee ownership allied to innovation as practiced since 2012.

In 2008 Scott & Fyfe was a traditional family-owned industrial textiles company with long-term conservative management. The recession of 2008 had disguised the significant impact of the structural loss of two profitable product sectors and two overseas loss-making subsidiaries leading to a fragile and vulnerable business.

In 2009 a new chairman (non-executive) was appointed and a short-term recovery plan was put into action. In 2010 a new chief executive was recruited which accelerated the plans for change, recognising the many challenges facing the company, leading to a reduction in staff from 150 to 100. Additionally, the two overseas subsidiaries were closed and the two remaining Scottish plants and management block were merged onto one Tayport site.

It was decided to move the business model from a commodity producer (no longer possible given the secular market sector declines and the company’s size) to that of a specialist niche producer. Through a collaboration with the Glasgow School of Art financed by the Scottish Funding Council, innovation in a meaningful and sustainable way became embedded in the company ethos and strategy. This exercise was notable for the recognition of the inherent skills of the existing workforce, stimulated by internships and ultimately employment of a handful of Duncan of Jordanstone design graduates. This combination also led to the establishment of a company museum (150 years of history) in order not to lose the heritage and to the incorporation of an Innovation Centre within the production area. This became the “control room” and “brain” of the company, co-locating with the five pods (strategic business units). This combination, together with the formation of pods with individuals from different roles and levels and the sharing of all relevant information encouraged much greater participation.

In 2011 conversations started between the chairman and the family about the future ownership strategy which led to opening up and ultimately agreeing on a transfer to employee ownership. This led to the acquisition of the family’s equity as at 1.1.2013 by a newly-formed Employee Benefits Trust (EBT), funded in its entirety by the company’s cash balances. This transition was carefully planned and implemented in order to ensure that there was no misunderstanding on the owners’ objectives which involved a phased withdrawal of their capital and a commitment that the company would remain in Tayport.

This move was introduced with a detailed explanation of the owners’ objectives and of the future company structure, both ownership and managerial, and included a detailed and still extant website (www.tayportworks.com) explaining all of the related complexities covering:

- redeemable preference shares issued to the family to fund the company,
- an initial share distribution so that all staff would be genuine direct owners from the start,
• stressing that only current staff could be shareholders (and would sell the shares back on retiral)
• the routes to additional shares through purchase out of payroll (share investment plan), profits and incentive schemes,
• the role and appointment of EBT trustees,
• the introduction of an employee-elected director on the board,
• the enhancement of the role of the employee forum, and
• the role and importance of the annual shareholders’ meeting, open to all staff.

This was accompanied by an emphasis on significant changes on the pension front, introduced in order to ensure that staff would have a state pension, a company pension (with mitigation of the disparities between defined benefit and defined contribution scheme members) and an equity pot on retiral.

The employees are represented by an employee-elected employee director who has full rights on the board (and is Companies House registered). The employee forum monitors employee terms and conditions (but not pay) and considers and recommends changes with particular emphasis on hygiene factors. The trades union involvement has diminished to virtual irrelevance since the transition although this was not the original intention. As a result of the transparency of all communications (salaries are literally the only confidential information at this stage) and the understanding that all staff members (with 12 months service) are now owners so that the long-term interests of the company are looked at through the eyes of the staff. Since the start of this process staff have acquired rights to circa 7% of the equity directly, the balance being held by the EBT.

It is acknowledged that this combination of the EBT (which will always control a majority of the equity) and direct share ownership by staff is complicated and demands more administration and “management” than a scheme (cf John Lewis Partnership) whereby the EBT owns 100% of the equity. In revenue terms the management costs are of the order of £15k-£20k p.a. However it is believed that the benefits are significant (they have been analysed as part of a third party audit by EckosGen on behalf of Co-Operative Development Scotland) and that the link with direct ownership creates a more meaningful relationship between individual and company.

Amongst the changes resulting for the benefit of the company are:
• Flexibility of shift patterns
• Flexibility on holidays i.e. as required by customer demand
• Flexibility between machines and between departments
• Readiness to undertake additional training to support such flexibility
• Recognition that short-term working and lay-offs may be required with criteria for such lay-offs to be determined by management in the interest of the company rather than “last-in, first-out”
• Pay increases only when the company can afford them (following a pay freeze applicable to all staff including directors)
• Reduction of the “us” and “them” mentality and resultant evaporation of union activity
Employee forum responsible for elections of trustees of pension scheme, EBT and for employee director and employee forum members
Self-monitoring and control of revenue expenditure e.g. spare parts, energy utilization, waste, health & safety
Greater interest in and contribution from a wide range of staff to product, market and technology development.

The emerging benefits to the workforce are:
- Free shares (£500) on the transition for all staff
- Opportunity to subscribe to a share purchase scheme with tax benefits
- Opportunity for all to earn shares based on profit share scheme
- Greater acceptance that there is a job for them as they buy into the concept of employee ownership
- Recognition that opportunities for promotion/alternative jobs are available (many internal promotions)
- Enhanced training opportunities (both in-house and externally).
- Full awareness of company performance, sales and profitability on a monthly basis with acknowledged easy access to the chief executive
- Fairer pension treatment: this included the defined benefit scheme members accepting an increase in contribution from 6% to 10% over a period of years to ensure continued membership
- Enhanced company contributions to the defined benefit scheme well ahead of the obligatory auto-enrolment state scheme
- All staff are invited to the AGM and vote on the report and accounts and on the appointment of directors (restricted to two year terms)

The company has seen improved productivity, a more collaborative working environment and greater job satisfaction accompanied by enhanced individual autonomy and influence on operational decision-making. All salaries have been increased recently (2.5% in 2014 and 1.5% in 2015 after a nil increase in 2013). The company has recruited since late 2014 at all levels except director and, while textile pay is not high, we have had only three leavers from the company for reasons of pay and conditions in the last two years (all recent graduate recruits). There is nobody earning less than the living wage (including interns) and no utilization of zero hour contracts. More importantly there is now a funnel of new products at various stages of development including full market introduction without which the board would be extremely concerned about the future.

It should be pointed out that the company is not currently profitable, largely because of the loss of one major customer, the secular reduction in two key market sectors, pension scheme funding demands and the weakening of the Euro, but the company would be in significantly worse shape without the changes implicit in employee ownership.

In summary we would suggest that:
- There is definitely a role for employee ownership and specifically for those family owned and managed companies that cannot see a route to succession.
- Employee ownership is also an option for management buy-outs that have not prospered to the degree anticipated.
- Employee ownership properly managed provides an excellent route for the development of new products and services that can radically change the way a company does business.
- Research (St Andrews University) suggests that access to finance is not the barrier that it is believed to be; it should be possible to create a finance model incorporating a pay-out over a period of years (indeed if not possible, there is probably little hope for the company concerned).
- While Cooperative Development is doing a good job, more could be done e.g. large-scale annual conference in partnership with SE, SCDI, CBI; and perhaps those SE executives/consultants charged with the responsibility for SE account-managed companies should be educated in the potential of employee ownership.

We would be happy to provide further explanation(s) to the Committee in person.

Nick Kuenssberg  
Non-executive chairman

John Lupton  
Chief executive

4 January 2016