





The voice of co-owned business

# Sarah Silcox

Making employee ownership work - a benchmark guide



### **EMPLOYEE OWNERSHIP ASSOCIATION**

The Employee Ownership Association is the voice of co-owned business in the UK and represents a sector of the economy now worth around £25 billion in combined annual turnover.

A network of over 70 companies wholly or substantially owned by the people who work for them, the Association's role is to serve its member companies and promote employee ownership. Governed by its members, the EOA has a proud record of influencing Government and has the support of all the main Parties. The Association is a dynamic source of new thinking and guidance on employee ownership, via its annual conference, policy papers and other publications.

www.employeeownership.co.uk



### **BAXENDALE**

Baxi Partnership Ltd (BPL) was established in 2001 by Philip Baxendale with the express purpose of building strong companies in employee ownership.

Since 2001 we have funded nine companies into employee ownership and supported many more in becoming successful employee owned businesses. BPL are expanding their activities, making a significant investment with the launch of a new division, Baxendale. This team will work closely with companies looking to enter employee ownership, supporting them in finding the best structure and process which meets their needs. Baxendale will also work with companies already in employee ownership, helping these companies become stronger successful companies creating value for employee owners within a culture of partnership.

www.baxendale.co.uk www.baxipartnership.co.uk

# **Foreword**

Over the past year, we have seen membership of the Employee Ownership Association more than double, a strong indicator of how the sector is developing. Interest in becoming employee owned is growing, and recognition of the benefits of co-ownership is extending into the wider business community as well as the public sector.

My own strong belief in employee ownership is based on ideas of fairness and that employees will get greater satisfaction, pleasure and fulfilment from working with others in a company in which they are all owners and have an opportunity to influence the way it is run.

My wish in setting up Baxi Partnership Ltd in 1983 was to establish employee ownership in the company, enabling employees to make a contribution to the business and share in its success.

This vision encompassed my desire to ensure that the company should:

- Continue forever to be employee owned
- Be a professionally managed, dynamic growing business
- And have regard always to the interests of its employees as people and as shareholders

In 2000, Baxi Partnership Ltd sold all the operations of the original business. This was the result of a poor decision to over extend borrowing in order to fund an acquisition. Although the best outcome given the circumstances, it was a great disappointment to me that the company was unable to continue in employee ownership.

The good thing to come out of this debacle is that Baxi Partnership Ltd now has a fund which is being used to enable more companies to become employee owned. Baxi Partnership Ltd has developed expertise in providing funding and structuring to assist companies into employee ownership. Baxendale, the support division, is helping companies through the business transfer process and beyond.

Part of the role of Baxi Partnership Ltd is to grow awareness and knowledge of the sector. I am very pleased that Baxendale co-funded this invaluable report into employee ownership.

As this report shows, the employee owned community is made up of a diverse range of successful organisations. It is interesting to see the variety of structures that exist, and how each organisation approaches its ownership differently. The common thread is that in each of these businesses, employees share in the rewards of the success of the business in which they work. The employee owned sector is going from strength to strength.

I am delighted about that.

# **Philip Baxendale OBE**Founder, Baxi Partnership Ltd Founding Member, Employee Ownership Association



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# Introduction

This report is designed to help co-owned companies get more from the employee ownership advantage. It compares how 25 co-owned companies handle key performance issues such as employee engagement, reward, governance, culture, and social responsibility. The report's format is geared to easy cross checking, comparison and benchmarking.

### **ABOUT THE RESEARCH**

The Employee Ownership Association (EOA) and Baxendale, the consultancy division of Baxi Partnership Ltd, commissioned 25 case studies examining how co-owned organisations manage the "people" aspects of employee ownership.

Case study organisations were selected and contacted by the EOA, and case study interviews with one or two key individuals in each organisation were conducted in early summer 2008, the reference date for all figures quoted.

The purpose of the research is to provide member companies with benchmark information on the people aspects of co-ownership, and examines the following areas:

- Employee engagement: securing employee engagement; informing and involving employees in strategic decision-making; giving employees an input into improving their jobs and working environments;
- Management systems and reward: using employee ownership (EO) in recruitment; reflecting EO in performance management; financial benefits for employees from co-ownership; separate incentives for managers and other groups;
- Governance and employee voice: formal employee representation structures; employee representation on boards; induction and training for employee representatives; and the role of employees in selecting managers;
- Employee ownership culture: ways of fostering an involved culture; most effective channels for internal communication; promoting EO to clients, customers and suppliers; and
- Ethics and social responsibility: corporate social responsibility (CSR) policies; core values and principles; encouraging employees to get involved in CSR activities; budgets and separate charitable trusts; CSR decision-making.

Participants were also asked to give "do's" and "don'ts" under each of the above five themes.

Organisations were also asked to provide documentation in support of their responses (for example, written constitutions, remits for employee representation bodies, and sets of core values).

Participating organisations:

- Arup
- Child Base
- CPCR
- Cyril Sweett
- eaga
- G3Baxi Partnership
- Golder Associates
- Gripple
- Herga
- Highland Home Carers
- Houlder
- John Lewis Partnership
- Loch Fyne Oysters
- Make Architects
- Martin Currie
- Mott MacDonald
- Quintessa
- School Trends
- Scott Bader Company
- Steer, Davies Gleave
- Sunderland Home Care Associates
- Tullis Russell Group
- Unipart
- Wilkin & Sons
- Woollard & Henry

### EXECUTIVE SUMMARY

A summary of the main findings under each of the five themes to the research appears below. In each section, current practice is described, areas of potential consensus are outlined.

### **EMPLOYEE ENGAGEMENT**

### **Current practice**

**Shareholding** is the most frequently mentioned way in which organisations in the research foster employee engagement:

- A wide range of different arrangements exist for enabling employees to become shareholders, from gifting shares (a practice more common in traditionally low paying sectors) to requiring employees moving into senior parts of the organisation to buy shares.
- The extent of shareholding by individual employees (either in their own names or through an Employee Benefits Trust, EBT) varies hugely, from organisations where less than 10% of employees hold shares to ones where employees own 100% of the organisation.
- The amount of shares that any one individual owns also varies, although is often subject to a maximum limit.

Other ways of **promoting employee engagement** include:

- Developing open, participative management styles, in which chief executives and managing directors "walk the talk", visiting sites and offices, and encouraging employee feedback;
- Establishing employee representation forums that engage in strategic dialogue;
- Using corporate social responsibility (CSR) activities to consolidate engagement;
- Incorporating aspects of engagement into competency-based performance management system; and
- Developing organisational development programmes linked to the organisation's core values, with engagement as the focus.

A mix of informal and formal approaches is used to **measure employee opinion**, including participation in the small-scale Baxi Partnership survey, and the *Sunday Times Top 100 employers'* research:

- Organisations use these surveys to develop both organisation-wide actions, but also drill the analysis down to team level, using it to highlight, for example, training needs amongst line managers;
- Organisations with sets of core values or principles use employee surveys to check how well employees associate with these values;
- Social audits and productive culture surveys are used by a minority of organisations; and

 Focus groups hosted by chief executives, or senior managers "walking the floor" are also viewed as effective.

Employees are involved in **strategic business planning**:

- Most commonly through a 360o approach to the development of annual and longer-term business plans;
- Employee directors, where they exist, are involved through participating in regular board-level discussions;
- Representatives on employee forums are used to gather employee views and feed information to board or forum discussions;
- Professional services organisations, with highly autonomous workers, use online networks, or communities of practice, to sustain a culture of strategic involvement; and
- Regular get togethers of staff, covering anything from strategic issues to more "housekeeping", sometimes known as "hygiene" ones are also used.

**Strategic information is provided** to employees in a range of media and formats, from traditional in-house publications to blogs and video casts:

- The largest number of organisations in the research prefers face-to-face communications;
- However, new technology is also used, for example, directors host forums on the intranet, into which employees are encouraged to lob questions, and expect a top-level response; and
- Formal AGMs are used to foster a wider understanding of business performance.

Very few organisations set out in writing what **decisions** are subject to consultation with employees, preferring to determine this in practice as appropriate:

- Companies with formal constitutions, perhaps underpinned by founding principles, tend to specify decision-making protocols; and
- One organisation uses a five-level model of decisionmaking.

Employees have an **input into improving their jobs** through:

- Annual or more regular performance appraisal;
- Taking up an issue directly with a line manager or other decision-maker;
- Suggestion schemes; and
- Continuous improvement/quality management systems fostering empowerment – as one manufacturing company puts it, "if you see a ball being dropped, catch it".

### Consensus

- Create, sustain and reinforce engagement: do not assume people have absorbed something because they have been told it once.
- But do not overdo engagement: involve people in decision-making at the appropriate level and never forget there is a business to run.
- Ensure all people in the organisation are open and approachable: operate an "open doors" policy and ensure that senior managers "walk the talk", avoid silo departments and never stop communicating.
- Recruit people who are receptive to concepts of engagement, and start engaging them early.
- Empower employees to ask questions of senior management and make improvements to their jobs: demonstrate to workers that it is acceptable to have a go, even if this results in a mistake, so long as there is a learning experience attached.
- Ensure senior managers and other leaders are fully aware of the need to keep engaging people in their teams: get them to talk to teams on the basis of "I work for you, because you own the business".
- Share business success with employees.
- Do not compromise on your values, even when times get tough.
- It is unrealistic to expect 100% engagement, 100% of the time
- Use the employment contract to reinforce engagement: set out how the organisation will treat people, but be clear about what behaviours are expected in return.
- Recognise that the workforce is diverse and has different reasons for becoming engaged.

### MANAGEMENT SYSTEMS AND REWARD

### **Current practice**

Using co-ownership in **recruitment**:

- The majority of organisations at least mention their co-owned status in job advertisements, although many find it is difficult for potential recruits to appreciate what this means for ways of working until they start employment.
- Most organisations with shareholding structures explain these to potential recruits during job interviews, together with any democratic bodies associated with this structure.
- Induction sessions reflect the nature of the organisation: some are highly-structured, describing the ownership structure in detail, and what this means for the organisation's sustainability and investment strategy, while others take the form of an informal discussion with the managing director or company chair. Most encourage new recruits to ask questions, often of senior people, which can be daunting for those joining from traditional organisations.

# The **role of EO in performance management** is often tenuous:

- However, a few organisations reflect issues such as engagement in competency-based appraisals;
- Others align the key performance indicators of more senior staff with aspects of EO, for example, living the company values and sustaining co-ownership;
- At least one organisation uses appraisals to examine how well individuals subscribe to the company's founding principles, for example, by seeking evidence of involvement in community and charitable activities.

### **Financial benefits to employees** from co-ownership:

- These accrue primarily from share holdings and profit-related bonuses.
- In most cases, the financial benefits from share holding come from share price inflation and the payment of dividends.
- Bonuses typically take the form of an amount of pretax profit being allocated and distributed to employees on the basis of salary (so that higher paid, more senior staff, benefit most in cash terms).
- Some bonuses, or parts of bonuses, are paid in shares.

### Variable reward:

- Performance-related pay typically takes the form of awarding an employee an increment on a pay band based on the result of an individual performance appraisal. A minority of organisations in the research use this type of performance-based reward; and
- Profit-related pay: primarily taking the form of bonuses based on pre-tax profit (some of these are becoming more sophisticated, and only result in a full payout to employees if profit targets are exceeded by a specific level).

**Incentives for senior managers** are used by a minority of organisations, ranging from simple cash bonuses based on the performance of divisions, to share option schemes.

### Consensus

Co-ownership is generally a useful recruitment tool:

- Employee ownership distinguishes the organisation from other, competing employers: use EO in the organisation's brand, stress what co-ownership means for stable ownership and longevity;
- The opportunity for employees to have a real stake in the business through share ownership provides a cutting edge and makes recruitment competitive;
- Senior people in a co-owned organisation are keen to train, develop and mentor new joiners, and are less focused on using junior employees for selfadvancement; and
- Co-ownership is a useful tool to persuade selfemployed specialist contractors to make the leap to employee status.
- EO is beneficial for staff retention in the long-term: many new joiners take time to appreciate the impact of an ownership structure, but are immediately aware of an organisation's participative or independent culture from day one.
- Mirror the organisation's marketing message in recruitment, for example, stress independence, longevity and stability.
- Getting recruitment right is a good precursor for engagement.
- Keep reward strategies simple, transparent and equitable, particularly any profit-related bonuses: explain why the organisation does not have separate incentives for managers or sales staff to avoid misunderstanding.

- But operate a meritocracy: people who deliver and perform need to be rewarded more than those who do not. Try to base this variable reward on team performance ("collective reward for collective effort")
- Use EO in recruitment to differentiate the organisation from competitors, for example, by rejecting the partner/junior model in professional services, or the highly-profit driven focus of most private sector care providers.
- Pay competitive salaries, but not out of line with your ethos.
- Consider involving any Employee Benefit Trust in designing bonus schemes: this is a useful check and balance against reward schemes with inappropriate provisions.
- Avoid over-motivating with financial reward: it influences behaviour and militates against team working.
- Speed up the process by which employees see real financial gain from EO once the organisation makes the transition.
- Do not "smooth" profit-based reward to shelter employees from harsher times, or pay bonuses if the achievement is not made: this is paternalistic and does not foster real ownership.

### GOVERNANCE AND EMPLOYEE VOICE

### **Current practice**

Organisations operate a range of **different boards** – for example, executive, legal, EBT – or none (preferring a loose grouping of founders who do not meet as a board).

There is a mix of **representation on these boards**, from boards that are 100% employee-elected to those with one employee representative (who may be an executive director) or none:

- Several organisations have no employee directors on the main board, but will have employee trustees on the EBT, which in many cases, has little involvement in the day-to-day running of the business;
- At least one employee forum has rejected the idea of employee directors, believing that such appointees soon encounter conflicts of interest, or become too distant from their constituencies, or even undermine the role of the formal employee representation body; and
- Other organisations believe they do not need formal employee representation bodies because 100% of the board directors are employee elected/nominated.

**Employee representation structures** range from highly developed governance tiers at long-established employee owned organisations, making decisions on the salary of the chief executive and dividend payouts, through informal weekly get-togethers, to primarily paternalistic set ups, where families or founders are firmly in charge:

- Representation bodies hold different remits, from those that formally hold the main board to account in a similar way as shareholders at an AGM, to those that appear more like Works Councils, focusing on non-strategic "tea and toilet" issues, with no conduit to the main board;
- Relatively little training or support is available to employee representatives, with the exception of those organisations with links to the Baxi Partnership, or a few larger organisations where the company secretariat organises training, and provides administrative support, to employee representatives; and
- Even less support is available for non-employee directors on boards, although many organisations accept the need for this, particularly in the case of new directors joining from non-EO organisations.

Employees are rarely involved in **selecting management personnel**, although a few organisations make it a requirement for senior candidates to meet teams before being formally appointed, and others make provision for the board (which includes employee representatives) to make the final decision in director-level posts.

### Consensus

- Give employees voice and never stop communicating the value of using voice;
- But ensure that all staff are aware of the difference between co-owned and co-operative organisations: managers must still manage.
- Be open and transparent in sharing information, including bad news.
- Ensure any representation structures reflect the organisation's way of working, for example, formal structures may not be appropriate for very small organisations but these may become more relevant as the organisation grows.
- Ensure senior people get out and meet people and make themselves as approachable as possible.
- If employee directors exist:
  - Ensure they are not ignored or marginalized;
  - Ensure they are equipped to do the job, and give appropriate time off and access to key senior managers;
  - Ensure the chair of the board is sensitive to employee directors' varying levels of understanding.
- Accept that giving employees real voice is challenging and resource-demanding.
- Encourage any employee shareholders to use their voice by holding AGMs and suggesting employees put questions to these meetings.
- Ensure line managers are signed up to the need for employees to use their voice: EO is meaningless if middle management adopts a traditional command and control approach.

### EMPLOYEE OWNERSHIP CULTURE

### **Current practice**

There is a **strong link between employee engagement and an ownership culture**, and many of the tools for fostering an EO culture reflect those for producing engagement:

- Encouraging share ownership and demonstrating its value in financial terms: getting people to think and act as shareholders is a key means of fostering an EO culture, although organisations are at different points on the journey;
- Communications and knowledge: using regular announcements on trading and future plans to demonstrate what the business does and the employees' role in this performance;
- Empowering employees by inviting them to take responsibility for decision-making relating to ownership (for example, deciding the annual return on shares, appointing the managing director) or their jobs (for example, encouraging them to use their autonomy to improve business performance);
- Sharing success;
- Encouraging employees to look beyond their responsibilities at work to the wider community; and
- Starting the process of creating an employee ownership culture at recruitment, and ensuring staff live the culture from the start.

### Most effective channels for internal communication:

- Face-to-face communications emerge as the most effective form of communications: in the face of ever-more sophisticated high-tech tools, most organisations in the research believe that face-toface methods are hard to beat;
- Although most do embrace new technology, using the full range of video casts, blogs, text messaging and social networking;
- Regular, formal meetings, where attendance is strongly encouraged, or even mandatory, are used by many organisations to review or develop business plans, and staff are often encouraged to raise issues and provide feedback. These range from single site meetings, to large global gatherings of employee shareholders;
- Many co-owned organisations in the research aim to foster an open, approachable management style, with open plan offices and an open doors policy, in which informal communications feature strongly. However, many recognise that sustaining informal communications as the primary means becomes harder as the business grows; and

 Elected representatives on employee bodies are frequently used to channel feedback and questions to the board or other decision-making body.

Practice is mixed on the extent to which organisations promote their co-owned status with customers and clients, although most include at least some details of the ownership structure on marketing material or other business pitches:

- EO differentiates organisations in the research from competitors and is a big feature in some pitches, particularly amongst firms competing for local and central government contracts;
- Co-ownership means that the employees clients and customers talk to have a direct stake in the business's success: as owners, staff are far more concerned about the company's reputation;
- Some sales pitches focus on how EO brings stability and longevity: customers draw comfort from the fact that the co-owned business is in it for the long-term and associate it with a high-degree of trust and sustainability.

Some organisations make more of their co-owned status when **dealing with suppliers and contractors**:

- Firms seeking to work in partnership with suppliers, or which rely on a regular, dedicated set of freelance specialist sub-contractors, stress what EO means for this relationship (for example, its longevity and stability of ownership);
- Some organisations are working with suppliers to help them make the transition to co-ownership;
- Organisations seek to educate suppliers about their co-owned ethics, reducing the risk that suppliers undermine the firm's objectives; and
- One organisation encourages its suppliers to attend its courses on the extended organisation and the cultural message of partnership working.

### Consensus

- Keep working to raise awareness of the fundamentals of co-ownership: take people back to your constitution, articles or founding principles and reinforce them.
- Use iconic events, like AGMs and road shows, to signify co-ownership, and issue share certificates and dividends as physical manifestations of ownership.
- Good management is at the heart of a good EO culture: put effort into equipping managers to manage in a co-owned way.
- After a transition to co-ownership, give people time to appreciate the differences between EO and a cooperative: do not expect the culture to change quickly and accept that some will not feel like coowners for some time, particularly if they are not shareholders.
- Celebrate the way the company does things within the EO context: this is particularly important for new employees joining from traditional organisations.
   Present EO as a positive aspect of the organisation.
- Accept that most customers, particularly large ones, are less interested in your ownership culture per se than in what it means for the quality of the products and services the organisation provides.
- But this does not mean organisations cannot link EO with being a successful company: demonstrate that the organisation provides quality products and services because it is co-owned.

### ETHICS AND SOCIAL RESPONSIBILITY

### **Current practice**

A minority of organisations have **formal, written corporate social responsibility (CSR) policies**, although many other have informal CSR practices. Formal policies tend to focus on environmental and community issues:

- Professional services organisations, particularly consultants, often work hard to persuade clients to be more socially responsible, and one makes provision for a conversation about ethics and social responsibility in its contracts;
- The focus of some CSR policies is designed to reflect the business interests of the organisations concerned, for example, energy efficiency and working with vulnerable people feature in the CSR objectives of one energy efficiency business; and
- At least one organisation subscribes to the Business in the Community (BITC) corporate index of CSR, a benchmarking scheme requiring organisations to demonstrate business benefits from CSR activities.

# A larger number of organisations have written statements of core values or principles:

- Many of these reflect founders' values (for example, the Baxi Partnership principles);
- Some are written into constitutions;
- Values cover a range of issues including employee relations ones, such as team working, taking a stake in the business, and valuing each other; and
- One organisation uses employment contracts to implement one aspect of its anti-exploitation CSR aims, requiring employees not to take on a second job.

Organisations **encourage employees to get involved** in CSR activities by matching their fundraising efforts, providing time off or sabbaticals to work on overseas development projects, and gifting them an amount of money each year to spend on a charity of their choice:

- Employees are given the opportunity to help construction work in a village in Ghana, with funding from an EBT, at one energy company;
- Consultants employed at one firm are encouraged to engage in the CSR activities of their professional communities; and
- Site champions are appointed at each location of one manufacturer to support nationally agreed initiatives and others approved by the site managers.

Separate **charitable trusts** exist at a number of organisations to channel charitable work:

- A foundation established by one firm has a specific remit to encourage multi-disciplinary education amongst the groups of professionals it employs;
- A very recently established EO business has a small charitable fund and employs a fund holder to work with staff on ways of spending this cash;
- A large retailer has established a trust to make awards to employees who wish to work for a maximum of six months with a particular organisation. At any one time, between 20 and 40 people are engaged on these projects.

A group of organisations have specific **budgets for CSR activities**:

- A number subscribe to the 1% club, and donate 1% of profits to charitable causes;
- A firm of consultants created an extra shareholder at the time of its switch to co-ownership, and this shareholder benefits from any profit distribution, which is used to fund charitable activity (£4,000 in 2008):
- 3% of income generated by home delivery sales is put into the charitable trust of one niche food retailer; and
- the founding principles of one large, longestablished co-owned company require it to put 20% of annual profits into charitable activities.

Some organisations encourage **decisions on charitable activities** to be made at the lowest appropriate level, while others adopt a more *ad hoc* approach, with the managing director or chief executive making decisions, particularly in response to external requests for funding.

### Consensus

- CSR activity is an important aspect of being employee owned: it encourages staff to look beyond their role in the workforce to the community, reinforcing EO principles of sharing and working for the benefit of all.
- There is a growing awareness of the need to make CSR activity strategic, which means aligning it with the business, perhaps by getting involved in projects which specialist staff can support and sustain, or supporting charities that reflect the business' own activity, or focusing on one or two charities or themes each year, rather than scattering a limited budget over a large number of causes.
- Do not treat CSR as a separate activity, but seek to blur the lines between it and the business: these activities do not take place in two, parallel disconnected worlds.
- Demonstrate that you have your own house in order, particularly if you operate in an environmentally or ethically challenging area: do not do business if it hurts, and stick to your ethical policy, regardless of the business climate.
- Think about the value of throwing money at big, national charities but rather consider supporting niche or local ones: employees may be keener to support local causes.
- Ensure leaders act as role models in CSR activity: they are more likely to do this if they see it is linked with the strategic aims of the business.
- Ensure ideas for CSR activities come from employees wherever possible: otherwise they will not be well supported.
- Celebrate and congratulate employees' charitable activities and give them "air time" to talk about projects at staff meetings and in any newsletters.
- Ensure the causes the organisation supports are absolutely charitable and not being used by others for corporate gain.

# **Case Studies**

# Arup

### **CONTEXT**

- Global professional services company
- Workforce size: 10,000 at September 2008
- Annual turnover: £800 million

### EMPLOYEE ENGAGEMENT

Main ways of promoting engagement:

- Operate through an EBT: this body has its own trustee board and a duty to operate in the best interests of staff, which means it can take a longer view of the business. Trustee directors are given a budget and encouraged to consult in a personal way;
- Operating as a meritocracy, not a democracy: a significant proportion of the 400 or so most senior staff meet annually in a similar way to an AGM and hold the board to account and attend a range of fringe events;
- Operating a flat, open structure: there are only nine grades, and the firm encourages an open, participative management style in which people are constantly encouraged to ask questions; and
- Culture and values: "freedom and accountability" is one of the firm's value headings, and it never stops people trying things out or implementing their ideas.

Employee opinion is measured by:

- A bi-annual survey, which has achieved a 92% response rate in the past two years. Results suggest staff associate very highly with the firm's values and understand and associate with the firm's main drivers;
- All staff see a summary of the survey results, so can see how action is taken as a result; and
- Firm-wide actions result from the employee survey: for example, a recent dip in the scores employees gave to how the firm deals with poor performance prompted a string of initiatives on performance management.

Employees are involved in strategic planning through:

- An ongoing process of championing and celebrating employee success: through a weekly newsletter and face-to-face communications; and
- A culture of networks, or communities of practice: these are web-based forums and take two forms – 100 totally managed technical/business networks, for example, covering Arup consultants working in a particular specialist area, which are vital for the business's success; and myriad non-technical networks, which help sustain the culture of sharing.

Employees are informed about business performance issues through:

- A weekly Arup news email, which reports inter alia on the firm's four areas of focus (people, organisation, clients and products, and financial matters);
- A paper-based bulletin issued four times a year; and
- An externally produced house magazine published three times a year.

Employees can have an input into improving their jobs through:

- Being part of one of the consultants' networks, or communities of practice: people can be mentored on a network. Senior people put themselves forward for this, as being generous about helping junior colleagues is part of the ethos and the noncommand and control culture; and
- Having a career plan and an annual appraisal: each
  of the firm's nine grades has definitions of
  competence, and it is clear to employees how to
  progress from grade to grade.

### DO

- Work in open office layouts with no closed doors: Arup is a creative business so is constantly striving to break down barriers.
- Make senior managers accessible and approachable to encourage questioning and participation.
- Encourage senior managers to use the words "I work for you because you own the firm" when presenting to offices and regions.
- Encourage ownership through a trust: cut out the bureaucracy, foster creative working and devolved authority.

- Tell someone to do something, ask them.
- Operate individual incentive plans or bonus packages. Pay a reasonable, above average basic salary and share profits equally on the basis of grade/salary.

# Arup

### MANAGEMENT SYSTEMS AND REWARD

Employee ownership is a good recruitment tool, particularly in the graduate market. The ownership structure is explained in detail during the one week inductions for graduates, focusing on the advantages it brings in terms of research and development investment and the open ways of working. This can be daunting for newcomers not used to approaching and asking questions of senior people.

Employees are strongly encouraged to ask questions about the strategic direction of the business during annual appraisals.

Employees benefit financially from ownership through the payment of dividends and profit sharing.

Variable reward:

- Performance-related reward: no cost of living increases are paid, all salary rises are based on individual performance.
- Profit-related reward: 40% of management account profits are distributed in two payments each year on the basis of job grade/salary.

There is no incentive scheme for managers.

### DO

- Be simple and transparent, particularly about the distribution of profits to employees.
- Cut bureaucracy.

### **DON'T**

• Allow the management structure to create divisive outcomes or barriers between different parts of the organisation.

### GOVERNANCE AND EMPLOYEE VOICE

There is no formal employee representation structure, apart from Works Councils in those parts of the business where these are a legal requirement (these tend to focus on employment terms and conditions, rather than business strategy).

There are no employee directors on the group board (all are salaried employees), but Arup does have four employee trustees on its EBT, which has no management responsibility apart from appointing the group board and chairman.

EBT trustees are trained on the duties of trustees, and generally receive mentoring from longer standing trustee directors.

### DO

- Ensure directors are open to challenging questioning on all aspects of the business.
- Ensure each office is visited by a Board Director over the course of a year.

### **DON'T**

 Operate any "no go" areas in terms of questioning at senior management level.

# **Arup**

### **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Everyone is aware of the ownership culture and becomes engaged; and
- The networks, or communities of practice, are vital, and Arup is considering making involvement a job requirement (currently 60%–70% of consultants participate in a formal network).

Most effective channels for internal communication:

- All consultants have their own page on the intranet and have a responsibility for maintaining this, for example, by posting details of their latest project, and are prompted to update this information regularly. This means that, within two steps, anyone inside Arup can source an expert on any particular aspect of the business, including projects and clients; and
- Informal communications: this gets harder the larger the business becomes. Arup is currently experimenting with blogs, video casts and location-based newsletters.

### DO

- Be more assertive about the value of employee ownership: this model is hardly mentioned in the face of the predominant two, namely personally owned and publicly listed organisations, and it is hard to get the financial sector to take co-ownership seriously.
- Lobby for changes in taxation to enable the transition from start up to employee ownership.

### ETHICS AND SOCIAL RESPONSIBILITY

Arup reports against all its CSR benchmarks regularly.

As a service organisation, the toughest part of CSR activity is getting clients to be more responsible, and Arup includes a requirement to have a conversation about sustainability (including ethics and social responsibility) in its contracts with clients.

A separate set of values is contained in the founder's speech.

Arup encourages employees to become involved in charitable and voluntary activities by:

- Contributing to employees' fundraising efforts;
- Giving time off to get involved, although take-up is low;
- Encouraging consultants to engage in their professional community, for example, national and international bodies in their chosen specialist fields; and
- "The Arup Cause" means the firm associates with different charities related to its business, for example, engineers for disaster relief and other postnatural disaster recovery programmes.

A group budget exists for charitable activities and Arup encourages staff participation in the decision-making process.

The Ove Arup Foundation encourages education in multi-disciplinary areas of the professionals it works with, for example, bringing architects, engineers and constructors together in partnership.

### DO

• Blur the line between professional and CSR activities and strive to do the best in each.

- Do dishonourable things.
- Compartmentalise: charitable and business activities do not take place in two parallel, disconnected worlds.

# **Child Base**

### **CONTEXT**

- Nursery (childcare) company
- Traditionally low paid sector
- Highly dispersed workforce
- Annual turnover: £23.5 million
- Workforce size: 1065

### **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Distributing shares: around a fifth of the workforce has purchased shares through a matching arrangement (they receive two free shares for every one bought).
- Personal contact with employees: the chief executive undertakes regular road shows in the nurseries; and
- Through distribution of free shares over 86% of employees own part of the company.
- On-going education and explanation.

Employee opinion is measured through an employee survey every two years, which includes questions on engagement.

A Mercury Group of employee representatives meets four times a year and is the forum for employees to raise issues.

Senior managers visit the nurseries regularly to pick up on issues arising.

Employees are involved in strategic business planning through representation on the board of the EBT, which is involved in strategic discussions and meets with the main board twice a year.

Employees receive information on business performance through the annual accounts, information provided at road shows, emails and notice boards in each nursery.

Employees are encouraged to raise individual issues about their job or working environment with the immediate line manager.

### DO

- Share the success you have created.
- Raise awareness of the business and its performance.
- Ensure leaders and senior managers have as much personal contact with people as possible.

### **DON'T**

• Get to the point where employees approach external compliance or regulatory bodies, rather than your own managers, with an issue around service provision.

### MANAGEMENT SYSTEMS AND REWARD

Employee ownership is mentioned at the conclusion of job adverts, as competitors in nursery provision tend to be profit-driven.

Financial benefits from ownership:

A twice-yearly dividend is paid.

Variable reward:

- Performance-related reward: performance increments are paid based on individual performance appraisal and points scored for reaching particular targets.
- Profit-related reward: Staff in nurseries achieving "outstanding" Ofsted reports are also eligible for vouchers and other one-off rewards.

Managers are eligible for bonuses linked to the performance of nurseries, regions or areas.

### DO

 Create good career salary scales, particularly in a traditionally low paid sector.

# **Child Base**

### **GOVERNANCE AND EMPLOYEE VOICE**

Employees are represented on:

- The EBT board: this includes three employee elected representatives; and
- The Mercury Group employee forum.

There are no employee directors on the main board, but the operations board is composed entirely of employees.

### DO

- Ensure people feel valued.
- Ensure managers can manage and make decisions.

### **DON'T**

- Fall into the trap of token employee directors.
- Have too many committees and formal structures.

### EMPLOYEE OWNERSHIP CULTURE

Main ways of promoting an employee ownership culture:

- Up to 5% of annual salary is provided to all staff in the form of free shares.
- Give employees free shares: the company is aiming to be 100% employee owned in 10 years time; and
- Communicate face-to-face wherever possible, focusing on what the business does and employees' part in this performance.

Most effective channels for internal communication:

- · Personal contact; and
- "Talk" magazine.

### DO

 Demonstrate the value of share ownership to employees in financial terms: 30 employees recently took up the option to buy shares in the annual dealing day without any incentive, ie free or matching shares.

### ETHICS AND SOCIAL RESPONSIBILITY

The company operates to an informal values set: "we all contribute, we all benefit", and tends to steer clear of the mission statements and written values that its commercial competitors adopt.

There is a culture of participation in charitable events at Child Base – staff raised £83,000 in 2007 for its chosen charity, and staff regularly take part in other challenges.

5% of profits is allocated annually to match the fund raising of staff.

The operations board decides which charity to support each year, based on a presentation, and tends not to support the same one in consecutive years.

### DO

• Recognise the contribution of staff stepping outside the business with an award.

# **CPCR**

### **CONTEXT**

- Management consultancy formed in 1988, ownership moved from individual shareholders to EBT in 2007
- Professional services company workforce primarily consultants
- Workforce size: Fewer than 20 employees
- Annual turnover: £2 million
- Moved to partnership both to ensure long term sustainability as founders neared retirement, and also to enable the business to attract talent it might not otherwise be able to afford

### EMPLOYEE ENGAGEMENT

Main ways of promoting employee engagement:

- A Partners' Forum exists and all partners participate in team-based away days three to four times a year, and engage in structured dialogue on topics related to the business, in addition to "fun" activities like fly-fishing.
- Team briefings take place after monthly management meetings.

A sub-group of the Partners' Forum – the Consultants' Forum – is heavily involved in business planning. Support staff, who make up almost 50% of the workforce, also contribute to the development and implementation of business plans.

The firm moved formally to partnership status relatively recently, and the first main meeting of the new partners discussed how to bring the firm's new constitution to life, including setting out partners' responsibilities and clarifying the partners' role in decision making.

All partners are connected to a particular client sector, and hold sector group meetings regularly to review emerging intelligence in their specialist area. These sector groups also discuss how to approach particular clients and individual consultants' role in working with each client.

The board has introduced a system of online feedback questionnaires to explore issues, including its own performance. The first survey on board effectiveness asked employees to rate how effectively the board provides governance in line with the constitution, for example how it engages and communicates in the organisation, and the results were made available to all partners.

### DO

- Lots of engagement: you can never do enough.
- Nurture informal relationships that get you as leaders into conversations that give you an insight into the people with whom you work.
- Keep asking partners how we can make the constitution work – it is a collective responsibility.

### **DON'T**

- Underestimate how many times people need taking through the company's strategic business plan.
- Over-promise and under deliver.

### MANAGEMENT SYSTEMS AND REWARD

The firm's co-owned status is an important feature in recruitment – people come to CPCR, sometimes on lower salaries than those paid by competitors, because they know they will have the opportunity to shape the business and share in its success.

The partnership structure is described during induction, and ownership is always set in the context of the partnership. A copy of the firm's constitution is enclosed with all job offer letters so people have the opportunity to see it before starting work.

Financial benefits from co-ownership:

- The business is owned by an Employee Benefit Trust (EBT), which acts as a share warehouse, and will buy back shares from the original owners over the next three years.
- In the first year of the partnership in 2007/08, all employees benefited from a distribution of profits across the board, plus a variable performance-related payment.
- The firm does not intend allocating free shares to employees following its recent switch to co-ownership.

# **CPCR**

### Variable reward:

- Performance related pay: individual bonus as well as potential annual salary increments based on their contribution to business performance, as assessed by individual performance appraisal.
- Profit-related pay: in the first year of the CPCR partnership in 2007/08, all partners received £4,000 from the distribution of profits as a result of meeting business-wide targets.

### DO

- Focus reward on the things that matter to your business
- Be clear to people about how reward is structured.
- Explain the link between variable elements of reward and employees' contribution to the business – link employee ownership and individual effort in people's minds.

### **DON'T**

• Chop and change the reward system too often.

### GOVERNANCE AND EMPLOYEE VOICE

There is no employee representation at board level, and no formal employee representation structure – the firm currently employs less than 20 people, and such structures are not seen as appropriate. Employees' voice is heard through the partners' forum and through formal and informal dialogue and feedback.

One of the three trustees on the EBT is a regular (ie non-board) partner.

Newly appointed board directors in future will have an induction covering employee ownership, but the current board has not received any specific training or development related to the ownership structure of the firm because they have been closely involved in the development of the partnership from its inception.

### DO

- Think carefully before setting up formal representation structures: formal arrangements in a small firm can create layers of noise and bureaucracy. It is useful, however, to allow for a representation body in the firm's constitution, even if this provision is not used immediately.
- Foster good leadership: formal structures do not of themselves bring engagement, but leaders do. Managers need to be authoritative but their real influence comes from engaging the staff they manage.
- Ensure that senior people always remember that the people they line manage have the power to appoint and dismiss them as coowners of the business.

### **DON'T**

Rush to introduce more structures than you need initially.

# **CPCR**

### EMPLOYEE OWNERSHIP CULTURE

Most important ways of encouraging an employee ownership culture:

- Engaging people with ownership matters: this is best done by separating out business discussions from those focused on fostering the partnership.
- Inviting people to take responsibility and move away from a paternalistic model of behaviour. This involves a culture shift.
- Involving a wider range of people in the selection and recruitment process in order to emphasise to them that they are hiring the future partners of the firm.

Face-to-face communications, either through one-toones, partner forums or team briefings, is the most effective channel for internal communications, although email does have a place in collective communications (ie getting a dialogue started on a particular issue).

CPCR will mention its co-owned status in pitching for contracts with potential clients, emphasising how the partnership structure brings participation and responsibility.

Co-ownership is a definite selling point – clients know that the people they deal with from CPCR are co-owners, and can be expected to make decisions and act collaboratively.

### DO

- Keep raising awareness of, and educating around, the fundamentals of co-ownership (the partnership) by taking people back to the constitution and reinforcing it.
- Use iconic events to signify to people that they are co-owners: for example, a formal meeting including partner voting on certain issues emphasises participation.
- Give people time to recognise and test the boundaries of partnership after the transition to co-ownership: in order, for example, for them to become aware of the differences between employee ownership and a cooperative in terms of decision making.

### ETHICS AND SOCIAL RESPONSIBILITY

CPCR has a mission statement within its constitution, focusing on creating a better world of work.

It does not have a formal corporate social responsibility (CSR) policy, but considers sustainability in its broadest sense (ie not only green issues, but also economic and community sustainability). Its practices with clients emphasise concern for wellbeing and also incorporate skills transfer which makes for more sustainable working practices. CPCR also focuses on recycling and reducing the firm's overall carbon footprint.

Employees are encouraged to bring ideas for charitable initiatives to the Partners' Forum, which makes decisions on which charities to support.

At the time the partnership was created in 2007, it was agreed to create one extra notional "partner" (in reality a charities account rather than a person) for the purposes of any distribution of profits in future. In 2008, this charitable account therefore received the same allocation as each partner (£4,000) to be spent on charitable activities.

Staff at CPCR work flexibly, so that the issue of formal time off for charitable or voluntary activities does not usually arise, Most of the activities supported by employees tend to be locally based (for example, work for the Prince's Trust or the Samaritans) rather than longer term projects in the developing world.

### DO

- Ensure leaders act as role models in CSR activity by getting involved in voluntary or charitable work
- Actively and visibly endorse the efforts of people by congratulating them, for example, on money raised, or give them air-time in a staff meeting to share their experiences.
- Have a clear policy or formal decision-making arrangement to underpin voluntary activity.
- Link CSR to employees' interests, otherwise they will not get involved.

# **Cyril Sweett**

### **CONTEXT**

Professional services company

• Floated on the AIM in 2007

Workforce size: 950 at September 2008

• Annual turnover: £63 million

### **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Encouraging share purchase: employees can buy shares through a SIP, and for every 5 shares purchased, the company will award 2 shares, yielding an immediate 40% gain. The company also aims to make an annual award of Free shares in the SIP. The company currently faces a real challenge as the proportion of employees buying shares has dropped significantly since the flotation last year;
- Operating an underlying ethos of paternalism: treating people as individuals and showing them respect and encouraging good people management skills in the leaders; and
- Having a healthy corporate social responsibility agenda: encouraging employees to give something back fosters engagement in the organisation.

Measuring employee opinion:

- Employee surveys have been used in the past to measure employee opinion, but these are currently suspended during a current HR strategy review.
- The chief executive hosts focus groups, where he meets with small groups of employees 6-12 times a year, encouraging them to give their views.
- A separate forum on employment related issues meets 12 times a year, and if issues are raised, faceto-face feedback is given.

Employees are informed about strategic issues through a quarterly "state of the nation" style update, supported by intranet updates on acquisitions and other, more immediate news.

Employees can have an input into improving their jobs through the annual appraisal process – for example, they are asked what the company can do to help them perform their job better.

### DO

- Keep engagement simple and do not operate a host of elaborate programmes.
- Treat people as individuals.
- Manage people consistently.

### **DON'T**

- Run before you can walk.
- Assume that people know something just because they have been told it once: keep communicating and reinforcing.

### **MANAGEMENT SYSTEMS AND REWARD**

Employee ownership is part of the employer's brand, and much is made of this in recruitment:

- Most competitor firms are partnerships, so being a floated company that is part employee owned gives Cyril Sweett a unique status as an employer.
- The SIP is always explained during job interviews, as is the company's unique ownership structure.

Mini-induction sessions are held once a week for all new joiners, at which they are introduced to the share schemes and given a copy of the employee shareholder guide.

More formal, detailed induction sessions are held every two to three months in London. These include a series of presentations, including one from the chairman talking about the company's history, and talks from the chief financial officer and company secretary on shareholding. These latter sessions cover the SIP and employee share dealing facility.

Employee ownership influences performance management at board and senior level – the company is increasingly using KPIs in performance management, and these are directly aligned to aspects of the business, for example, driving revenue and key account management. Delivering shareholder value is always in the minds of senior managers and leaders.

Financial benefits from employee ownership:

- Twice-yearly dividend payouts: those in the SIP receive dividends in shares (3p per share was paid in the financial year ending 31 March 2008);
- Increase in share price; and
- Matching shares: shares bought in the SIP are matched by the company on the basis of two free shares for every five purchased.

# **Cyril Sweett**

Variable reward:

- Performance-related pay: any annual increase in pay is based on individual performance as assessed during performance appraisal.
- Profit-related pay: 20% of pre-tax profit is put into a bonus pool and distributed according to share purchases, individual and team performance.

Around 50 directors and associate directors are eligible for CSOPs – for example, an associate director on a salary of £70,000 might expect around £10,000 in options annually, subject to HMRC's maximum limits.

### DO

- Recognise and reward as soon as you can after the end of the financial year.
- Operate a meritocracy: people who deliver and perform need to be rewarded better than those who do not.
- Remember that all reward does not have to be financial: congratulations notes and staff hospitality are important.

### **DON'T**

 Let line managers determine reward in isolation: a silo mentality can easily develop and employee buy-in at company level is threatened.

### **GOVERNANCE AND EMPLOYEE VOICE**

There is no employee representation structure and no employee representation at board level – structures tend to reflect the company's history as a partnership.

Board directors receive informal training related to employee ownership and governance – for example, a training course was held in 2007 on governance issues.

### DO

 Encourage share ownership, but not necessarily involvement and participation at board level.

### EMPLOYEE OWNERSHIP CULTURE

Main ways of encouraging an employee ownership culture:

- Shareholder' road shows given by the company secretariat and the chairman's roadshows at which we talk about employee ownership and the business side of co-owned status;
- CEO Bulletins and general internal communications: these are made every month, for example, on the turbulent state of the market and the effect of this on share price, and on future plans; and
- Extraordinary General meetings: as a wholly employee owned business, these were previously required to approve expenditure above certain limits. Having changed our Articles so as not to have to seek shareholder approval on routine matters, these meetings will not take place as frequently.

Most effective channels for internal communications:

- In-house newsletter: arrives on employees' desks every two months;
- Senior management/CEO road shows; and
- Intranet: for postings and knowledge sharing.

The company's co-owned status is mentioned in all marketing literature, investor relations literature and job proposals. Since the floatation, the firm sells itself as a previously wholly employee owned company, with employee ownership champions at the highest level.

Co-ownership is not an important issue with suppliers, but contractors are aware of the structure of the company through the website and media coverage (which has increased since the floatation last year).

### DO

- Ensure there is a good employee ownership champion at the highest level in the organisation.
- Use employee ownership as an underlying strap line in marketing.

### **DON'T**

 Assume that the employee ownership culture is self-sustaining: employees will be less willing to participate in share ownership in a volatile market and it is difficult to sustain employee ownership in tough times.

# **Cyril Sweett**

### ETHICS AND SOCIAL RESPONSIBILITY

A new CSR policy focuses on sustainability, environmental issues and internal recycling.

The company's charitable works are being refocused to become more strategic and will concentrate on one charity or theme for two-year periods.

A statement of beliefs and values appears at the front of all brochures and on the website.

Employees are active volunteers and charity workers, but the company is currently attempting to harness this effort to make it less ad hoc and more focused.

Charitable work by employees needs to be commercially beneficial, the company believes, and wishes to use this in marketing and dealings with clients

There is a modest company budget for charitable activities, managed by a board level committee.

### DO

- Approach CSR strategically and measure the benefit of investment in this area.
- Focus on one or two themes, rather than support too many different causes at any one time.
- Align CSR activities with your business.

### **DON'T**

• React with ad hoc activities.

### **CONTEXT**

- Energy efficiency services
- Employee owned, but also a Plc
- Workforce size: 4,400 at September 2008
- Annual turnover: £600 million

### EMPLOYEE ENGAGEMENT

Main ways of promoting employee engagement:

- eaga Cares, a programme of organisational development linked to the organisation's values;
- The creation of a new role of Director of Partner Engagement: works with the three bodies making up eaga's three-legged stool (plc; the eaga partnership trust; and the Partnership Council). The new Director's role is to drive initiatives which will continually improve Partner engagement, run the eaga Cares programme, which incorporates values based recruitment, performance management based upon a balanced scorecard between individual outputs and demonstration of the eaga Values, succession planning and talent development; and
- Coordinating the activities of the three constituent bodies: any of these can influence the direction of engagement in eaga, for example, the partnership trust has used its funds to create a hardship fund to help individuals, has purchased 5 holiday homes in Florida which are subsidised for Partners and their families, and is about to buy further holiday properties in Spain and UK.

A partner engagement survey is carried out every 18 months to measure employee opinion. The results are fed back into the business, and local teams receive their own scores and discuss them with the team leader. Data is used to develop individual leaders in cases where the survey results suggest this is needed.

Each division has a representative on the Partnership Council, and part of their remit is to go out and talk to individuals. For example, eaga is currently combining two divisions, and the Council reps are actively supporting employees on a day-to-day basis and can raise issues with the executive board directly.

Employees are involved in strategic business planning through the regular consultation the Partnership Council has with the executive board. The chair of the Council is mandated to be involved in strategic discussions with the executive board.

Employees are informed about strategic business change through:

- Email announcements of company wide news;
- Team briefs: team leaders attend these and take news back to their teams for feedback; and
- Monthly Core Briefs: these are given to team leaders to read out to teams, for example, information on financial performance, or celebrating success information. Team leaders are able to put their own spin on these briefs, increasing their effectiveness.

Employees have an input into improving jobs or the working environment through:

- Regular performance appraisal;
- Taking an issue to the Partnership Council, for example, if an individual feels their job has changed but this has not been recognised; and
- Approaching an Executive Director directly: all new starters attend Corporate Induction on their first day in the business. This is presented by an Executive Director and all Partners are given the Organisational Development director's email address and telephone number personally by him at induction.

### DO

- Communicate by talking to people in small meetings.
- Actively promote good leadership: eaga runs US-based Service Excellence Experience Tours to refresh its approach to leadership.
- Promote the values, and make them paramount.

- Conform to type as a typical Plc: do not let values slip when times get tough.
- Make decisions in a vacuum: consult and give employees the right to be heard.
- Compromise on your values: do it once, and the floodgates open.

### MANAGEMENT SYSTEMS AND REWARD

The one-day corporate induction session features sessions about the partnership, at which an Executive Director and representatives from the Partnership Council talk about values and governance. A pre-induction pack is being prepared and will contain written information on the ownership structure so people understand more when they attend induction.

The company values are central to performance management. The values are underpinned by competences, and individuals can develop through living the values and demonstrating competences, all of which are assessed during individual performance reviews.

Financial benefits from co-ownership:

- Eaga has just completed its first year as a Plc, and the financial benefits arising from co-ownership are under review:
- In recent years, partners (employees) have received a salary-related bonus;
- In future, eaga will pay a dividend on shares through a SIP;

Variable reward:

- Performance-related reward: none.
- Profit-related reward: bonuses are being reviewed in the light of the floatation last year, and it is unlikely the old-style bonus will be replaced by another profit-related arrangement.

A group of senior managers are tied into a share option scheme following the stock exchange flotation last year.

### DO

- Be flexible and do not impose group wide reward schemes on a diverse business.
- Make reward structures values based.
- Keep reward simple, particularly bonus schemes.

### **DON'T**

- Over complicate reward, particularly if you employ large groups of manual workers.
- Just focus on the numbers: reward should be about driving values.
- Ignore customers' needs and do not sacrifice customer care for a numbers drive: many eaga customers are on low incomes and typically receive poor service in many areas, something eaga will not tolerate.

### **GOVERNANCE AND EMPLOYEE VOICE**

The main representative body is the Partnership Council (PC). The chair of the Council is elected by the reps and holds a powerful position as the link person between the Council and the Plc.

The PC role is to hold the executive to account, and can challenge the latter's activity, either on its own or in conjunction with the full board and partners.

Each business unit elects a rep to the PC, but no attempt is made to make the PC representative of different job levels, so reps tend to be drawn from the supervisory/middle management level of the organisation.

eaga has its own internal people development consultancy, which runs courses for reps from the PC on basic employment law, and the boundaries of responsibility in the role (for example, how to avoid acting as a counsellor to employees with problems, but rather to signpost other sources of help).

A programme has recently started to up-skill PC reps in the light of the stock exchange floatation last year.

A separate programme of executive coaching is used to support directors in their role as leaders of a plc with employee ownership. The current emphasis is on shifting the balance between the operational and executive boards, so that the former takes on more responsibility for sustaining the organisation's values and running the business day to day.

### DO

- Ensure employee representatives understand the boundaries between information and consultation, particularly concerning price sensitive information.
- Consult early and listen to what you are being told.

### **DON'T**

- Pay lip service to employee voice: it is easy to hide behind a body's constitution or other document setting out values, especially if the latter has no teeth.
- Underestimate the power of employees: they should always have the right to hold the executive to account.

### EMPLOYEE OWNERSHIP CULTURE

Main ways of promoting an ownership culture:

- Promote employee ownership at every stage of the recruitment process;
- Incorporate employee ownership into the performance development framework; and
- Ensure people understand that they benefit financially from co-ownership: this is a big challenge for eaga currently, as it is proposing to replace a cash bonus scheme with shares and dividends via a SIP.

Most effective channels for internal communications:

- Team leaders' brief;
- · Text messaging; and
- Conference calling.

Promoting eaga's co-owned status is a big feature of the company's dealings with customers and local and central government – employee ownership differentiates the company in the marketplace.

eaga believes it occupies a unique position as a socially responsible organisation, a PLC and also a vibrant partnership.

Suppliers are not as interested in eaga's ownership structure as customers, although it can help in acquisitions (which sometimes involve suppliers).

### DO

- Involve employees in decisions as early as possible.
- Find ways to listen to employees regularly.
- · Share success.

### **DON'T**

 Give up on employee ownership: it is always beneficial, so do not morph into a typical Plc model after a stock exchange floatation.

### ETHICS AND SOCIAL RESPONSIBILITY

The main features of eaga's CSR policy are: social inclusion and working with vulnerable people; energy efficiency; and employee involvement in social responsibility.

Eaga's values have recently been redefined as part of the eaga cares programme of organisational development. Employees are shown how to demonstrate the values, which are assessed during the competency-based performance management process.

The company encourages charitable activities amongst employees by:

- Offering 30 partners the opportunity to help construction work in a village in Ghana: the EBT funds the majority of costs and employees pay £300. This is designed to encourage employees to make a contribution, with a personal growth angle; and
- The Plc offers 10 working days to each partner (five paid; five unpaid) to work on other projects overseas, but with the emphasis on leadership principles and the eaga values.
- The Future Leaders programme for up and coming leaders includes a further 17 Partners undertaking a construction project in Tanzania and a total of 32 Future Leaders committing to sit on the Boards or Committees of charities as part of their leadership development.

The eaga charitable trust operates with a budget from the Plc, and considers applications for funding linked to the CSR policy.

The Plc employs a social responsibility manager to promote and encourage employees to participate, and also to ensure that projects supported are sustainable in the long-term (for example, solar energy programmes where eaga staff have the expertise to support communities in the long-term).

### DO

- Focus on issues that are important to the organisation and its Partners: link CSR activities to your values framework, and areas where the organisation has practical expertise so that activities are sustainable.
- Keep activities simple. Employ external companies and charities with relevant expertise, in the case of projects in developing countries.
- Listen to the priorities expressed by employees, which may lie in local, community projects rather than large, overseas ones.

- Do it for the publicity: do not use CSR activity as an extension of corporate marketing.
- Become too fancy: employees want their own local charities and causes to be considered for funding, in addition to big external ones.

# G3Baxi Partnership

### **CONTEXT**

- Very new employee owned partnership, based on the Baxi model
- Small, professional services company
- Workforce size: 30

### EMPLOYEE ENGAGEMENT

Main ways of promoting employee engagement:

- Communications: a quarterly briefing is held to present a summary of the financial performance of the company and to discuss business strategy, and all staff stop work to attend; and
- Personal development and delegation: with such a small staff (30), this can be done informally, but G3 is aware of the need to ensure new joiners and younger employees in particular feel part of something different.

G3 uses the confidential Baxi Partnership employee survey to test staff opinion, which covers all the issues connected with employee ownership. All staff share an open plan office, so know if colleagues are smiling or not and whether any issues of concern are building.

Employees are involved and informed in strategic business planning through:

- The election of two employee directors (out of the total seven on the board);
- Regular, quarterly briefings of up to a day in length, which always contain a strategic component; and
- A monthly newsletter.

Employees have an input into improving their jobs through the operation of a quality management system, which aims to improve work processes through feedback. As a new company, G3 is trying to establish non-strategy dependent ways of working, which means empowering employees to take responsibility for suggesting improvements.

The leaders want employees to spot business opportunities and ways of making the partnership more effective, including improvements to their own jobs.

### DO

- Be transparent.
- Make engagement relevant and meaningful.

### DON'T

- Overload people with too much information.
- Hide issues.
- Overdo engagement: it costs money and remember there is still a business to run.
- Become a co-op: at some point, management has to make the decisions.

### MANAGEMENT SYSTEMS AND REWARD

Co-ownership features strongly in the company's recruitment practices, focusing on the fact that employee ownership makes for stable ownership and long-term sustainability, which is important for recruits, many of whom come from organisations that have undergone major organisational change (for example, in ownership or location).

The point is also stressed that profits stay in the organisation or are distributed to employees, not external shareholders.

During recruitment, managers also stress that senior people are keen to train, develop and mentor more junior staff, and are not focused on their share options or using younger staff for personal gain.

G3 wants young recruits to stay with the company, rather than move around consultancies to gain experience, so takes an active interest in developing and nurturing them so that they have the opportunity to grow in the business. One of the business's key performance indicators is to keep staff turnover low.

Financial benefits from employee ownership:

- An EBT currently owns 60% of the share capital of the company. The EBT will always hold maintain a majority shareholding. The EBT trustees aim to ensure the company is run for the benefit of current and future employees. This helps guarantee the company's longevity and substantially adds to the long term benefit of the employees: and
- New employees joining the firm since its foundation as an employee owned organisation can obtain shares through a SIP: in future, bonus shares will be distributed in each profitable year (this has not happened yet, as value can only be distributed after two years' profitable trading).

# **G3Baxi Partnership**

Variable reward:

Employee benefits include;

- Performance-related pay: in the current company structure the effort of all in the company has been considered comparable (similar effort and relative contribution from everyone in the company so no differentiator has been applied to individuals).
   Therefore the company currently applies only profitrelated-pay. This component of benefit may change as the company grows and a clear difference between the performance of groups and individuals emerges.
- Profit-related pay: a bonus is paid, based on a percentage of salary, pro rated for service with the company.
- SIP distribution to all employees based on fair HMRC approved criteria such as length of service etc.
- Dividends on shares held by the employees.

### DO

- Be fair and open when making decisions about reward strategy.
- Involve the EBT trustees in paying bonuses: use them as a check and balance to ensure fairness.

### **DON'T**

- Allow unfair management incentives or targeted share options.
- Allow managers to bend the reward structure by guiding money into their own pockets. If it looks unfair it normally is.

### GOVERNANCE AND EMPLOYEE VOICE

The firm views itself as too small to have a formal employee representation structure, but does have one elected employee director on the board, out of a total of six (including one from the Baxi Partnership). It is planned to add a second elected director as the company grows. Two out of four trustees on the EBT are elected by the staff.

These employee directors and trustees tap into the Baxi Partnership for support, attending two or three courses a year. Sustaining employee ownership requires resources, particularly in administering the EBT, SIP and communications.

### DO

- Give employees a voice on the main board.
- Operate a system of one shareholder, one vote, rather than one share, one vote, so that larger shareholders do not get the only say.

- Pay lip service to employee representation, but listen to what people are telling you.
- Stick employees on the board and ignore or marginalize them: give them full director responsibility as soon as they become directors.

# G3Baxi Partnership

### **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Communicate: particularly financial information, which is often hidden in traditional companies. G3 puts all this information on the table at its quarterly briefing sessions, and encourages staff to ask questions, anonymously if they prefer; and
- Making shareholding a powerful incentive: issuing certificates and making payouts on shareholdings makes ownership real, as does the concept of one shareholder, one vote.

Most effective channels for internal communication:

- Quarterly briefings that all staff attend: covering financial, strategic and topical subjects;
- Newsletters: and
- Informal communications: very effective in a small firm.

In its dealings with major oil companies, the firm will argue that employee ownership means it can employ the best and most talented people (employee owners), so that clients benefit from fully engaged and motivated professionals. However, the management also accepts that, ultimately, clients are conventionally owned and most concerned about whether the services provided add value to their business.

### DO

- Communicate meaningfully.
- Ensure all employees own shares (no outside shareholders are allowed).
- Operate on a one shareholder, one vote basis, so that significant shareholders cannot make changes without giving the employees a real voice.

### **DON'T**

- Introduce unfair special incentive schemes for senior people. Any incentive scheme should be transparent and supported by employees.
- Have voting on a proportionate basis.
- Claim to be employee owned if a single or several people own 50.1% of the shares, even if employees own the rest. At its heart, and to be fully effective, employee ownership means a real voice in the company.

### **ETHICS AND SOCIAL RESPONSIBILITY**

G3 does not feel that it needs its own formal CSR policy or statement of values at present, although the latter do exist in the company's foundation documents such as its Articles.

G3 subscribes to the 'OECD Guidelines for Multinational Enterprises' on formal CSR measures.

The firm operates a small charitable fund and employs a fund holder to work with staff on spending the cash in the fund.

Employees are able to apply for a sabbatical, funded by the charitable fund, and can also claim unpaid time off for voluntary activities as long as these are agreed ahead of time with the fund holder (who is not a senior manager in the company) who will liaise with management to ensure that project requirements are also considered.

Quarterly meetings of staff will discuss any ideas for charitable or voluntary activities that have been proposed, and a show of hands usually decides whether to support these.

### DO

- Encourage knowledge transfer in the local communities in which you do business.
- Be absolutely ethical, fair and transparent.
- Keep doors open so employees can make suggestions for activities beyond the immediate project requirements.

- · Operate unfairly.
- Do business if it hurts any stakeholder or community in which you are involved. The only entity that should suffer any loss of value through the work done are your competitors.
- Let external organisations dictate your voluntary or charitable work.

# **Golder Associates**

### CONTEXT

Professional services company

• Global operations

• Annual turnover: £52.1 million

• Workforce size: 7,000 globally, 300 in the UK

### **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Ethos of employee ownership: the opportunity for all staff to buy shares runs through the organisation and its dealings with the outside world. All shares are held in one holding company, which acts as glue holding staff in different global locations together.
   Shares can be bought on an annual dealing day, and employees are able to buy in bulk on the day, or through monthly salary deductions;
- A web survey, which runs on a quarterly basis, provides regular insight as to the level of employee satisfaction throughout the year and surveys 25% of staff each time so that all staff are surveyed once a year. The survey poses 20 questions designed to help assess a number of key issues, including whether staff understand where the company is going, how they fit in and how they are progressing; the results are also used to help steer the direction of the Human Development Strategy.
- Career Development Review (CDR) process: The CDR provides a formal opportunity to have a meaningful, forward focussed discussion regarding an employee's work and continuous development with the company. Centred upon the employee the process instills responsibilities on the Reviewer and Group Manager to support the employee's continuous development with the company; development that is focussed on leveraging strengths and talent.
- Employee Forum The Forum provides a structured and more formalised mechanism to disseminate information and conduct consultation, and provides a mechanism to proactively solicit feedback about matters which affect the company as a whole. It aims to facilitate greater communication between employees and management and offer an environment where staff are confident in expressing their views without concern, where their suggestions are listened to and considered and contribute to the continued success of the company.

Staff are involved in strategic business planning because, as an employee owned firm, it can only change direction if the staff are taken along. Formal meetings of all major shareholders (the Principals and Associates who hold the majority of shares) are held regularly at the regional and global levels. Management presents the business plans at these meetings and these are discussed, and can be revisited if the major shareholders have strong views.

Employees are informed about major strategic change through face-to-face communications as far as possible, filtered down to office and team level wherever appropriate. Discussions groups on the intranet are also used to focus on particular clients or technical areas.

Employees are consulted on issues connected to terms and conditions, or other aspects of the business that are likely to have a significant impact on jobs and roles. For example, UK employees recently rejected an additional two days' annual leave in favour of retaining current levels of death-in-service benefit.

Major shareholders are consulted on certain issues, for example, the appointment of a regional president for Europe in 2007 was subject to a high degree of consultation amongst Principals and Associates.

Employees have an input into improving their jobs through discussions with their Line Manager and through networking with other influential people within the company. The Quarterly Satisfaction Survey also provides insight into what elements of people's roles may be a source of dissatisfaction.

### DO

- Be open and approachable in communications.
- Be genuine and do not create a veneer of employee ownership.
- It face-to-face wherever possible: try and avoid the email option.

- Ignore feedback.
- Just go through the motions in order to appear that you are engaging with people, this creates a hollow process.

# **Golder Associates**

### MANAGEMENT SYSTEMS AND REWARD

The company's co-owned status features strongly at the interview stage of recruitment. Employee ownership can be a differentiating factor – the opportunity to buy shares provides a cutting edge and makes recruitment competitive.

This continues during the induction and integration period, during which the founding principles, and the need to sustain these, is presented, along with the roles and responsibilities of employees in this process. The mechanism for buying and selling shares is also explained.

Employee ownership influences individual performance management to the extent that career development plans now focus on developing individuals' targets to achieve their aspirations, which may include becoming a shareholder, or in the medium to long term, a Principal or Associate, the group that hold the majority of the organisation's shares.

Financial benefits from ownership:

- Dividends on shares owned: people view dividends as a long-term incentive, similar to occupational pension benefits; and
- Increase in the value of shares owned.

In recent years the typical total return on these two capital elements has been around 25% per annum.

Shares are oversubscribed and the company has developed a sell down plan for those approaching retirement in order to release shares for purchase.

Guidelines also set out the expected share holdings at different levels in the organisation, including the fact that senior staff are required to buy shares in order to become Principals and Associates, which means they are prioritised to a certain extent.

### Variable reward:

 Performance-related reward: there is little individual performance reward, and the company tries to motivate in non-monetary ways. The reward strategy focuses on paying the market rate salary for the role and offering a flexible benefits package that can be tailored to individual preferences.

There is no separate incentive scheme for senior staff, although occasionally, a "golden hello" may be given, which appointees are encouraged to translate into shares.

### DO

- Check that you are paying people the appropriate market rate by benchmarking externally.
- Always have a dialogue about pay during annual reviews and encourage people to raise the issue.
- Use employee ownership as a recruitment tool, and use it to stress your difference.

### **DON'T**

 Over-motivate using monetary reward: too much emphasis on performance pay influences behaviour and militates against team working, which can be destructive to a team-based culture.

### **GOVERNANCE AND EMPLOYEE VOICE**

Senior staff (Principals and Associates) meet regularly in the UK to consider the current business focus, for example, currently there is a big push on health and safety performance, and how major shareholders can contribute to this.

There is no employee representation at UK board level, although there are four "at large" directors on the board of the global holding company. These are elected by employees in the regions and usually come from the senior Principals and Associates group. These directors have a particular brief to both represent staff in their region and to report back to them, giving a voice at the highest level in the company.

"At large" directors on the global board receive specific training for their remit.

The major shareholders (Principals and Associates) are usually consulted in selecting national managing directors.

### DO

- Ensure you give employees a voice.
- Make sure there is a commitment to employee voice from the highest levels in the organisation.
- Make it clear that senior people have the authority to make decisions.

- Ignore the voice of employees.
- Operate a completely democratic system by taking involvement to the extreme.

# **Golder Associates**

### **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Reinforcing the fact that employees own the organisation and can determine its ethos, for example, by giving them responsibility for deciding the annual return on shares;
- · Encouraging staff to buy shares; and
- Providing transparent feedback on the performance of the business

Most effective channels for internal communications:

- Face-to-face communications;
- Intranet:
- Live web-based meetings; and
- · Peer group networking.

The company promotes its co-owned status to clients by stressing how employee ownership ensures a different, higher level of service – as owners, staff are far more concerned about the company's reputation, for example.

Employee ownership is used in pitching for business – clients take comfort from the fact that the senior people they deal with on a project have a direct stake in its success.

### DO

- Present employee ownership as a positive aspect of the organisation and make share ownership is a key part of the culture.
- Present a frequent, consistent message on employee ownership.
- Celebrate the way the company does things within the employee ownership context, particularly to those employees with little experience of working in a co-owned environment.

### ETHICS AND SOCIAL RESPONSIBILITY

The CSR policy focuses on environmental issues, health and safety, business and ethics and how the firm interacts with key stakeholders.

There is also a code of conduct policy, which all staff and suppliers, and even some clients, are required to work to.

A charitable trust, the Golder Trust for Orphans, has been set up to channel charitable giving. This has a board and funding (comprised of cash from Golder, money raised by employees, and salary deductions through a flexible benefits scheme).

This trust works with people affected by HIV/AIDS in South Africa, and most Golder offices engage in fund raising and the company also encourages employees to get directly involved.

### DO

- Demonstrate that you have your own house in order, particularly if you operate in an environmental, or ethically challenged area.
- CSR activity needs to be more than a veneer, and practices must match policies.

### **DON'T**

 View CSR just as charitable giving: try and align it with your core business activities to allow staff to make a concrete, professional input.

# **Gripple**

### **CONTEXT**

Manufacturing company

• Workforce size: 240

Annual turnover: £26 million

### **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Requiring employees to buy shares: new employees recruited since 2005 have been required to buy £1,000 in shares after 12 months' service. 70% of employees currently own shares in their own names;
- Communications meetings: these are held after each
  of eight trading periods in a year. Strategic issues are
  discussed and attendance is high (two sessions are
  held to allow different shifts to attend); and
- Open and approachable management style: the culture of the organisation is characterised by an open, fluid approach, with few committees or formal structures.

The main way of measuring employee opinion is through senior management walking the factory floor and asking people how they feel.

Employees are informed about business performance issues through regular communications meetings at the end of each trading period and department-level meetings and feedback sessions.

Employees are encouraged to take the initiative in improving their own jobs or working environments – for example, there is no central buying department and teams purchase equipment as they need it, in other words, "if you see a ball being dropped, catch it".

### DO

- Keep the organisation and employee participation fluid and open, avoid "silo" departments, and operate an open door policy.
- Operate a simple, well-understood structure and convey a simple message.
- Make it fun to come to work.

### **DON'T**

 Have auxiliary departments running the business – accountants should be keeping the score, not running the business.

### MANAGEMENT SYSTEMS AND REWARD

The Gripple co-owned structure is a definite recruitment aid in the local Sheffield area and is used in advertisements. At interview, recruiters talk about what it means to work in an employee-owned organisation, and describe the requirement for employees to buy shares after 12 months' service.

Induction sessions describe the co-owned structure in more detail, explaining what this means for the culture of the organisation.

Employee ownership only influences the performance appraisal of senior people, as it is part of this group's role to sustain the business, so appraisals will cover issues like succession planning.

Financial benefits from employee ownership:

- Dividends: one third of post-tax profits are distributed in dividends the latest dividend equated to seven times the price/earnings value.
- Capital growth in share value: for example, employees with long service who bought shares when first offered have seen the value grow seven times.

Variable reward:

- Performance-related pay: no performance increments are paid.
- Profit-related pay: no bonuses are paid.

Managers are not offered a separate incentive scheme.

### DO

- Make employees buy shares: do not gift them as they are not valued – over £300,000 of shares was traded at the last annual dealing sale.
- Make reward transparent and equitable: do not operate separate incentives or bonuses for managers.
- Treat all staff equally.
- Be open so that people feel comfortable about raising reward issues.

### **DON'T**

• Gift shares in the organisation to employees.

# **Gripple**

### **GOVERNANCE AND EMPLOYEE VOICE**

There is no formal employee representation structure and no employee representation on the board, although this is an area of planned change over the next five years.

The legal board is made up of management directors from the management board. Employee ownership is inculcated in these groups, rather than trained.

Employees are not involved in selecting any tiers of management at Gripple, although the company is debating whether directors should give a report at the AGM and stand for re-election, effectively by the employees.

### **DON'T**

 Set up formal committees of employee representation if you want to run the business in a different, entrepreneurial style, driven by innovation and change.

### EMPLOYEE OWNERSHIP CULTURE

Main ways of encouraging an employee ownership culture:

- Making it a requirement that employees buy shares after 12 months' service;
- Encouraging employees to look beyond their responsibilities at work to the wider community; and
- Operating an open, innovative structure that encourages employees to look at the business differently.

Most effective channels for internal communications:

- Walk the floor: the managing director and chairman are always walking around, they do not sit in their offices, and can tell if someone is not happy;
- Communications meetings at the end of each trading period; and
- Intranet: this is not used massively, but is useful if a quick response is needed, for example, asking for volunteers to help get a particular order out on time.

Gripple encourages its suppliers to make the transition to employee ownership, and uses its status to recruit senior people to the business. The co-owned status is not included in brochures, but is always raised in face-to-face discussions with customers.

### ETHICS AND SOCIAL RESPONSIBILITY

A Way Forward document sets out the Gripple values, for example, treating people fairly and having fun.

Employees get involved in a huge range of voluntary and charitable activities, which the company supports (including a WI-style calendar for 2009!).

The company will also offer time off to employees planning specific fund-raising adventures, often paying the fee and keeping their job open.

Gripple donates 1% of profits to charitable causes (amounting to £27,000 in 2008). A committee composed of employees runs this effort, deciding how to spend the cash at regular meetings.

### DO

- Arrange charitable work bottom up so employees become committed.
- Make sure you do the charity work: it is important that employees look beyond the workplace, as this helps to reinforce employee ownership principles of sharing and working for the benefit of all.

### **DON'T**

 Give directors and senior people the responsibility for running charitable activities.

# Herga

### **CONTEXT**

- Manufacturing company
- Recently switched to employee ownership still feeling its way in many aspects
- Workforce size: 138 at September 2008
- Annual turnover: £4.9 million

# EMPLOYEE ENGAGEMENT

Main ways of promoting engagement:

- Trust employees and be open in your dealings: all information is accessible to staff; nothing is locked in the managing director's office, including financial details;
- Give recognition; and
- Start engaging early: new employees are invited to have a cup of tea or coffee with the managing director to talk about the company's goals.

Twice-yearly discussion groups are used to measure employee opinion – employees are encouraged to bring topics to the group for discussion.

Employees are typically informed about major change in a face-to-face meeting with the managing director, followed by smaller team briefings.

Employees are trusted to make changes to their own jobs, and are given the autonomy to make changes in their teams in order to improve the business.

The former jobs of people moving to a new role in the company are guaranteed for three months after they move in case the new job is not suitable, encouraging people to grow personally.

### DO

- Trust people.
- Be open.
- Allow time for people to become engaged they might see it as a fad and need it to be embedded in order to feel engaged.

### **DON'T**

• Stop trying: it is a journey so it can take time for all to buy in to employee ownership 100%, 100% of the time.

# MANAGEMENT SYSTEMS AND REWARD

The company features its co-owned status in the recruitment process by stating the fact that it is a partnership company on all job advertisements, its website, letterheads and packaging.

The company's family history, and its more recent switch to employee ownership, is explained during job interviews, and this will be expanded on during inductions to include an examination of what partnership means for ways of working.

Financial benefits from co-ownership:

- All employees received shares at the time the partnership company was created two years ago.
- A share saving scheme has been introduced to enable employees to buy more shares.
- Shareholders will benefit from potential share price increases and dividend payouts in future.

Variable reward:

- Performance-related pay: none
- Profit-related pay: 10% of profit is shared out on a per capita basis, ie all staff receive a flat-rate bonus, regardless of salary.
- There is no separate incentive scheme for managers.

- Consider carefully what you measure when designing rewards.
- Think carefully about the balance in variable rewards for teams and individuals.

# Herga

# **GOVERNANCE AND EMPLOYEE VOICE**

There is no formal employee representation structure, although employees do have a voice at twice-yearly discussion groups and can always talk through issues with the MD "open door".

There is no employee representation at board level, although the board of the EBT [major shareholder] does include an employee nominee.

The employee trustee on the EBT takes part in company visits to other co-owned companies, and receives help from the EOA on issues including the role of the trustee.

Peers are involved in recruiting peers, but not managers.

#### DO

- Encourage people to get involved in any representation structures, including EBTs: 15 people expressed an interest in becoming the first employee nominated trustee on the EBT.
- Encourage employees to use their voice as shareholders, and to learn to grow into the role. Although all shares at Herga are held, at present, in a SIP (not in individuals' names), the company has held a mock AGM at which employees were encouraged to question the board as if they were direct shareholders.

# EMPLOYEE OWNERSHIP CULTURE

Most important ways of encouraging an employee ownership culture:

- In decision making: by getting employees to take responsibility and use their autonomy.
- By ensuring that as many employees as possible, not just the sales people, meet the customers – then they will deliver for them.

Monthly team briefings are the most important channel for internal communications by far, and are seen as such by all staff. Attendance at these briefings is compulsory.

Lunchtime learning sessions on a Wednesday are a good way of fostering informal communications. Topics covered in recent meetings include new product launches, the experiences of the managing director on overseas sales trips, and the impact of the Euro on the company.

The company's co-owned status is always included in sales pitches, with the focus on how employee ownership brings stability and long term investment. Distributors overseas, in particular, are keen to know that the firm will be independent for the long-term in order to have the confidence to invest in it.

#### DO

- Trust people.
- Be open.
- Allow time for people to become engaged, and do not expect the culture to change quickly.

#### **DON'T**

• Stop trying to foster the necessary culture change.

# ETHICS AND SOCIAL RESPONSIBILITY

The Herga partnership trust has a written belief statement, setting out the immutable principles under which the company was founded, and accompanying guidelines (eg the imperative to survive the demand cycle, and the fact that no single customer should represent more than a fifth of total sales).

All employees are encouraged to get involved in voluntary activities outside work, and funds are set aside to match employees' fundraising activities.

There is a budget for charitable activities.

Decisions on which applications for charitable help to support are made by the managing director, who has so far never declined requests.

- Be seen to be developing ethics and social responsibility in the organisation
- Give time to CSR.

# **Highland Home Carers**

### **CONTEXT**

- Social care provider, with remote-based workforce
- Traditionally low-paid sector

• Workforce size: 135

Annual turnover: £2.4 million

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Issuing shares: every employee with more than six months' service receives free shares annually. In 2008, £35,000 was distributed: 70% to those with any qualifying service; 15% to employees on the basis of weekly hours worked; 10% divided between those with more than three years' service and 5% to those with more than five years' service;
- Electing employees on to the board and as trustees of the EBT: three out of six main board directors are elected by the employees, and 60-70% of eligible employees vote in these elections; and
- Staff meetings: the vast bulk of staff work remotely, and bringing them together in one location for a meeting is not easy, so tend to spread staff meetings around. Staff meetings cover a range of issues, but the current focus is on the company's participation in a pilot social auditing process, with the aim of producing social accounts. These accounts will cover engagement issues, including relations with service users and staff.

This social audit is one way of checking employee opinion. The company also uses the Baxi Partnership employee survey and its own, which always asks questions about the importance of the ownership structure to staff and how the company performs in these area. Response rates to these initiatives are variable, but any issues raised are taken to the board for action.

Employees are involved in strategic business planning through the three employee elected directors on the board.

There is no formal route for employees to have an input into improving their jobs, but the company does try to encourage people to speak to a director or another manager. Some employees do not always find managers are approachable, and the company leaders accept that work needs to be done to foster an improved culture of openness.

#### DO

- Ensure people can take issues to a director or other employee with the time to give these proper attention: it is often hard for line managers to fit this activity in with day-to-day
- Keep working at engagement and do not get complacent.
- Always look for new ways of engaging employees: this is hard in a sector where the bulk of the workforce is offsite.

#### DON'T

 Pay lip service to employee involvement by putting the finance director on the board as an "employee director": put real employees on the board and have confidence in their ability to make a contribution.

# **MANAGEMENT SYSTEMS AND REWARD**

The ownership structure is a major recruitment tool, although nobody joins the company purely because it is employee owned. The management believes that, in the long-term, employee ownership will prove beneficial and positive for staff retention.

There is a whole session on the company's history and its ownership structure, including what it means to be a voting shareholder, during the induction process.

Employees do not benefit financially yet, as they need to hold shares for five years before they can be cashed tax free, and no dividends have yet been paid.

Bonuses have been given, but these are not specifically related to employee ownership.

There is no separate incentive scheme for managers and no formal profit-related pay scheme, although the bonuses paid are only given if the company is making a profit.

# **Highland Home Carers**

#### DO

- Try and speed up the process by which employees see real financial benefit from employee ownership: some of the company's staff move employment before they see any benefit, despite the fact that turnover is low for the sector (30% of the current workforce has been with the company for more than five years and will have the opportunity to cash in shares for a financial benefit next year).
- Treat all employees equally and do not have separate incentives for managers or other senior people.
- Always mention employee ownership in recruitment and any other dealings with external bodies and individuals.

# **DON'T**

 Operate systems that allow some people to make inappropriate amounts of cash out of a service for vulnerable people.

# GOVERNANCE AND EMPLOYEE VOICE

There is no formal employee representation structure, but three employee elected directors sit on the main board, alongside three non-elected directors. Between 60%-70% of those eligible to vote do so in the elections for directors, and people are keen to take up the posts (nine candidates stood for one director's post recently).

As part of the Baxi Partnership, the company taps into the training available for new directors and elected trustees, who come back from these courses with a better understanding.

Non-elected directors do not receive any specific training relating to their role in a co-owned organisation, although do attend Baxi Council and other meetings.

### DO

- Trust employee directors and bring them into areas of real decision-making, for example, give them a role in appointing senior people.
- Ensure new joining directors understand the role of employee directors: this is vital for sustaining the employee ownership structure.

- Over consult: use employees as a sounding board, but keep decision-making focused.
- Pay lip service to employee voice: ensure directors are involved and included.
- Be too cautious: employee ownership will be meaningless if management is too traditional.

# **Highland Home Carers**

# EMPLOYEE OWNERSHIP CULTURE

Main ways of encouraging an employee ownership culture:

- Share ownership and all that goes with it;
- Newsletters;
- · Meetings; and
- Employees reading about the company in external media.

Most effective channels for internal communication:

- One-to-one, face-to-face: not easy with remote workers, so has to be worked at;
- Meetings: but people cannot be forced to attend; and
- Printed communications: but people cannot be forced to read them.

Highland Home Carers promotes its ownership structure with clients continuously, and feedback suggests that clients look more favourably on the company because of its co-owned status, particularly local authorities (although they would never state this explicitly). A tender was recently won when the company went head to head with another firm, and the pitch used employee ownership overtly as a selling point.

### DO

• Link employee ownership with being a successful company: demonstrate that you provide quality products and services because you are employee owned.

# **DON'T**

- Let yourselves down by losing sight of the need to be profitable.
- Let quality standards slip.

# ETHICS AND SOCIAL RESPONSIBILITY

There is no CSR policy, although a framework document sets out the company's mission and objectives. It is currently working on a set of values as part of a pilot social auditing process, which is likely to result in a new version of the mission and values for wider distribution.

Employees are supported to get involved in charitable activities, but it tends to be senior staff who do the most charity work. The company has stated that it will consider funding employees to become more actively involved, although there is no specific budget for this activity.

The managing director decides which CSR projects to fund on an ad hoc basis, although this is likely to change as a result of the current social auditing pilot.

- Have a statement of values and principles and share it with your clients and purchasers of
  convices.
- Ensure CSR evolves and develops with the organisation.
- Ensure there is a benefit for the organisation in addition to the charities supported.
- Market yourself as an organisation that enables employees to get involved in activities beyond work.

# Houlder

### **CONTEXT**

- Professional services company
- Recent convert to employee ownership
- 100% EBT-owned
- Workforce size: 45
- Annual turnover: £9 million
- High numbers of regular, specialist sub-contractors

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- An EBT owns 100% of the company: employees do not own shares in their own names but have a beneficial interest in the EBT. There are three categories of shareholders for voting purposes: senior managers (who own 50% of the voting rights), other managers (own 30%) and staff (20%); This weighted voting is for formal EBT matters only.
- Profits are shared between the beneficiaries on the basis of salary, and the beneficiaries agree levels of bonus annually; and
- Beneficiaries are empowered, for example, they have control over who is appointed as a director (a director cannot vote for him or herself).

Employee opinion is measured informally: staff can ask questions through the intranet and anticipate a response from a director. Responses given are shared at major formal staff meetings twice a year.

Employees are informed on business performance through:

- The distribution of the annual report and accounts to all staff;
- Updates on how many hours consultancy is sold each week (this is a key monitor of the business's success);
- General strategic plans are presented at twice-yearly meetings; and
- Directors' responses to questions posted on the intranet are shared.

Employees have recently elected two employee representatives and part of their role is to put questions to managers.

#### DO

- Pass on as much information as possible to staff.
- Share profits on the basis of peoples' inputs and salaries.
- Encourage input and ideas for change.

#### **DON'T**

• Create reasons for not engaging with people.

# MANAGEMENT SYSTEMS AND REWARD

The company's co-owned status features heavily in graduate recruitment, for example, the fact that staff elect the directors and share in the profits. This is a good recruitment tool – new recruits appreciate the fact that they will join a very professional, expert-driven environment where employees are in control.

The organisation uses high numbers of specialist contractors but is currently trying to convert some of this group to employee status – employee ownership is a useful tool.

Employee ownership is a key element in induction sessions – new recruits are presented with the company's culture and the openness and approachability of all managers, including the managing director, is stressed.

Financial benefits from employee ownership:

 Profit-sharing: 15% to 20% of profits were recently distributed, representing 6% of individuals' salary on average. The aim is to increase this to around 20% of salary. Beneficiaries agree profit-related payouts.

### Variable reward:

- Performance-related reward: have steered clear of individual performance pay due to the complexities of balancing reward in teams which include high numbers of sub-contractors (who tend to be on salaries and bonuses higher than in-house staff).
- Profit-sharing: this scheme recently paid out around 6% of salary on average.

There is no separate incentive scheme for managers, who benefit pro rata from profit sharing, as this is salary based.

# Houlder

# GOVERNANCE AND EMPLOYEE VOICE

There is no formal employee representation body, although two representatives of staff were recently elected. These individuals have a 20% block vote at the twice-yearly meetings of the beneficiaries in the EBT (all staff).

The company has only recently moved to employee ownership from its previous status as an MBO and is working with the IPA to develop representation and other aspects of employee voice, perhaps moving towards the establishment of a forum.

There is no employee representation at board level.

# **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Employees own 100% of the company.
- They elect the board, they ask the questions and management decisions are discussed.
- Employees can call a meeting of the EBT beneficiaries.

Most effective channels for internal communication:

- Operating an open, approachable management culture: employees can ask managers or directors any questions and expect an answer;
- Using elected representatives to funnel feedback and questions; and
- Enabling the managing director to make regular presentations to each office, which are minuted and placed on the intranet.

The company does not tend to promote its co-owned status with clients, as the large companies and organisations it deals with are not concerned with ownership structures, so long as the contractor performs.

As a firm of naval architects, the company has a number of large suppliers, who have been fascinated by the organisation's recent switch to employee ownership, prompting a number to examine taking a similar course.

### DO

- Extend employee control to the maximum degree possible.
- Maintain internal control of your company.
- Reward sharing.

# ETHICS AND SOCIAL RESPONSIBILITY

The company does not have a formal CSR policy or statement of values.

Its charitable work is almost dictated by the CSR activities of its large clients, who strongly encourage contractors to support the charities adopted by the contractor.

The organisation also encourages and supports staff to get involved in fund raising, particularly, any projects that requires them to be physically active.

Directors make decisions on which of the clients' charities to support, and there is a corporate budget for this activity.

- Try and maintain control of CSR internally rather than be dictated by external factors (including clients' CSR).
- Develop a CSR policy.
- Ensure the charities you support are absolutely charitable, and not being used by others for corporate gain.

### **CONTEXT**

- Major retailer
- Flagship employee-owned organisation

• Workforce size: 68,000

• Annual turnover: £5.8 billion

# EMPLOYEE ENGAGEMENT

Main ways of promoting engagement:

- Gain: sharing the benefits of co-ownership with partners (employees), including a bonus worth 20% of pay in 2008;
- Knowledge: making a huge amount of information available to partners and taking time and trouble to ensure people understand it; and
- Power: operating a range of councils and committees with which partners can become involved.

JLP operates three levels of partner representation:

- the Partnership Council;
- two divisional level Councils; and
- · branch level forums.

Partners are involved in strategic business planning at the Partnership Council level – this body is able to hold the chairman of the business to account in a similar way as shareholders would in a Plc.

Employees are informed about major strategic change through:

- Briefings, given at the same time as the information is passed to external parties;
- Formal AGMs are held at least once a year to foster understanding of the wider business performance;
- A raft of online and printed communications, including the Gazette and branch-level editions;
- Road-shows and video presentations; and
- The formal democratic structure is used.

Employees can influence theirs jobs or working environment by:

- Using the democratic structure: in particular, revamped branch-level forums are creating ways for partners to contribute to the running of the business more efficiently at a local level;
- Using the suggestion scheme: JLP is a very devolved business and individuals are given the space to make decisions and come up with ideas; and
- Through management consulting with partners on key areas and issues, i.e. changes to performance management framework.

#### DO

- Communicate.
- Be clear about the aims of this communication.
- Act out the employment contract: state how people can expect to be treated, but be clear about what is expected in return.

- Over-complicate or intellectualise.
- Get smug or complacent: this leads to a disconnection between what leaders think they say and what others hear.

# MANAGEMENT SYSTEMS AND REWARD

JLP states its co-owned status up front in the recruitment process, and recruiters will stress what co-ownership means for behaviours at the interview stage – that is, how the organisation will behave towards people when they join and how it expects partners to behave in return.

Employee ownership influences reward strategy – the emphasis is always on collective reward for collective effort, so there are no individualised rewards or incentives, and bonuses are paid as a fixed percentage of salary.

JLP operates a clear set of behaviours around its partnership status and these are enshrined in performance management, particularly for line managers, who are required to manage in a co-owned way (characterised by "less tell, more consult"). A great deal of resource is invested in developing people to lead in a co-owned way.

Financial benefits from co-ownership:

- The partnership bonus: 20% of pay was distributed as a profit-related lump sum in March 2008;
- The bonus has not been lower than 15% of pay in the past five years; and
- Bonus rate was not adjusted this year, despite the tougher economic outlook for 2008/09, as the business feels it is important not to shelter partners from bad times by "smoothing" bonuses from one year to the next. As co-owners Partners take the rough with the smooth.

### Variable reward:

- Performance-related pay: market rates are used to determine base pay, and individual increments are added to this rate on the basis of merit (assessed by performance appraisal); and
- Profit-related pay: a percentage of profit is returned to partners annually as a lump sum, after retentions.
   Partners also benefit from provisions from profit for social and leisure facilities, linked to the founder's principle to take a holistic view of people.

#### DO

- Drive your expectations consistently through all you do, for example, align performance management across the organisation, or people will pick up the inconsistencies;
- Operate collective reward for collective effort, do not incentivise individual performance as this will drive behaviour contrary to your coowned principles; and
- Be honest with people and be clear about your principles: explain to senior managers and sales people why there are no separate incentives for them, and then there is no room for negotiation or misunderstanding.

# **DON'T**

 Attempt to protect employees from the harsh times by artificially smoothing or manipulating any profit-related reward stemming from coownership: this can be interpreted as paternalistic and prevents people feeling like real co-owners.

# **GOVERNANCE AND EMPLOYEE VOICE**

JLP has three governing authorities:

- The executive chairman.
- The Partnership Board: containing a mix of five directors elected by the Partnership Council (see below) and five chairman-appointed directors, plus two non-executive directors.
- The Partnership Council: a body directly elected by partners.

Equipping the five partner directors on the partnership board for the task is challenging, and most serve more than one term as it tends to take two years to build up the capacity.

The company secretariat organises the support for partner directors:

- It is important that colleague's in a new partner director's branch understand the time that needs devoting to the role, particularly in reading documentation;
- The secretariat organises courses for directors, using in-house expertise and a list of preferred external trainers;
- Partner directors are mentored by a appointed directors, who will check that partner directors have received relevant papers in advance of a meeting, and offer to talk through any issues with them;
- The secretariat will arrange for partner directors to talk individually with the group finance director if required, which is helpful if a particular financial issue is being considered by the board; and
- The chairman invests a good deal of effort in ensuring elected directors are comfortable with the issues they are required to understand.

#### DO

- Concentrate on the issues in which partners express an interest, not those that leaders and senior managers think they ought to be;
- Root structures in issues that are important to employees, who must feel they can change things and make a difference;
- Be wary that any principles developed for the business are connected with people's experience of the organisation;
- Accept that significant effort needs to be invested in equipping elected representatives to perform the functions of directors; and
- Help senior managers joining the organisation from a non-employee owned environment to understand leadership in a co-owned structure.

#### **DON'T**

 Forget that senior people, particularly those without a co-ownership background, will not automatically understand where the value is created in a co-owned business.

# EMPLOYEE OWNERSHIP CULTURE

Most important ways of encouraging an employee ownership culture:

- Sharing gain: bonuses ensure people share in wealth creation;
- Knowledge: people understand how the business is performing, which is particularly important in tougher economic times; and
- Power: using the co-ownership democratic structures to get partners to reflect on the business climate and their role in JLP's performance.

Most effective channels for internal communications:

- Line managers: a partner's experience of working in an employee-owned business is only ever as good as their line manager;
- AGMs: big set piece events do work; and
- Local, branch level forums consisting of groups of representatives elected by colleagues, are useful for drilling down information cascaded from the group level.

Co-ownership is not used as a major selling point with customers. However, the organisation does believe that customers notice the better service delivered by staff who are engaged.

Suppliers are more aware of JLP's co-owned status, due to its founder's focus on forging good relationships with suppliers (partners work hard at building long-term relationships based on fair prices and prompt payment, as these principles are part of the partnership's constitution).

#### DO

- Communicate and help people understand the role they play.
- Give people the space to play an effective role, accepting the risk that mistakes might be made.
- Be consistent and authentic about what the organisation is seeking to achieve.

# **DON'T**

• Punish people for making mistakes if you encourage them to take risks.

# ETHICS AND SOCIAL RESPONSIBILITY

A statement of principles sets out how the JLP is powered:

- Be honest
- Give respect
- Recognise others
- Show enterprise
- · Work together
- Achieve more

A mission statement sets out four equal planks of CSR:

- workplace;
- environment;
- · community; and
- customer.

A sub-committee of the Partnership Council is responsible for overseeing charitable and community giving. Over the last few years this has amounted to approximately 2% of pre-tax profits.

Branches have their own pots of money to spend on working with local charities, and often get customers involved in deciding how to spend this cash.

A separate charitable trust, the Golden Jubilee Trust, makes awards to partners who wish to work closely with a particular organisation. Partners can apply to the trust for paid leave to work with these bodies for a maximum of six months. Between 20 and 40 partners are engaged in this activity at any one time.

- Treat CSR as much like "business as usual" as possible, by setting it in the context of a holistic approach to people at work.
- Foster a well-developed sense of CSR amongst people.
- Keep CSR aligned with the business: it is hard to maintain control of this agenda in the face of different agencies advising your organisation what to do, so keep activity focused on the business.

# **Loch Fyne Oysters**

### **CONTEXT**

Specialist food retailer and restaurant

Workforce size: 120

Annual turnover: £11 million

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting engagement:

- Formal quarterly meetings: workforce is broken down into groups and each attends one of several sessions over the course of a day to learn about the financial results of the business and to ask questions;
- Employee Communications Group: this meets every month and consists of representatives from each department, who bring questions from their own areas of the business. Meetings are chaired by the two employee directors, who commit to obtain answers from the senior management, or to pursue recurring themes with the main board; and
- Regular communications, including newsletters to which employees are encouraged to contribute.

An employee survey developed by the Baxi Partnership is used to test and measure employee opinion and the results of this annual exercise are used to verify and identify trends, rather than to target specific issues. The survey is used as an *aide memoire* to check impressions gleaned from other sources of feedback.

Employees are involved in strategic business planning:

- Through the two employee directors, who have never been excluded from board discussions and are highly involved in this group's discussions;
- Each function in the business has a role in drawing up the company's five year plan and the following year's budget; and
- Internal meetings with the management team consider corporate objectives and cascade these down to the operations level, but the process is twoway, and the operations people are also expected to feed up information on corporate strategy.

Employees are informed on business performance through:

- Quarterly meetings held several times on a single day to enable all staff to participate; and
- Notice boards are used to issue updates on particular issues between quarterly meetings (for example, progress on acquisitions).

The main way that people can improve their job or working environment is through taking an issue to the fortnightly meeting of the Employee Communication Group. This group considers a wide range of issues, from strategic ones to holes in the road on site, and individuals can take issues to it in preference to their line manager.

#### DO

- · Give feedback to employees.
- Get people to invest in shares in their own company: people like to see physical manifestations of employee ownership, like a cheque that is not part of their pay.
- Get people to extend their skills and knowledge beyond the immediate requirements of their job.
- · Learn from other companies.

#### **DON'T**

- Think that employee ownership is an automatic recipe for success.
- Assume people's behaviour will change overnight simply because they become shareholders or partners: the label given to employees is not relevant, what is important is bringing life to employee ownership using engagement.

# **MANAGEMENT SYSTEMS AND REWARD**

The prospect of becoming a shareholder in the company is used in recruitment. This aspect of work differentiates the company from other employers in the area – shareholding is a physical benefit of employee ownership.

The reward strategy has three strands: basic pay; incentives and dividends on shareholdings.

New starters are assigned a buddy (usually one of the employee directors), who will explain how shareholding works and make themselves approachable for questions.

The organisation has moved away from service-based pay progression to a system based on performance increments, and the performance management system now uses competency scores during the appraisal to assess this progression. These competency scores cover aspects of employee ownership, like engagement and communication.

# **Loch Fyne Oysters**

Financial benefits from co-ownership:

- Free shares are allocated annually, and the same amount is allocated to each employee, regardless of job role;
- There is an opportunity to purchase shares once a year at a price fixed by the auditor;
- The SIP and EBT have first refusal on shares offered for sale;
- 90% of employees own shares in their own name, although some are held in a SIP;
- Dividends have been paid in the past two years, and employees also benefit from any increases in share value.

Variable reward:

- Performance-related reward: annual salary increments are awarded, based on competencybased performance appraisal.
- Profit-related reward: a budget is set, and any excess over a set amount is distributed to employees as a bonus, up to a maximum of 20% of salary.

Although there is no separate incentive scheme for managers, this group receives the maximum level of bonus under the profit-related scheme (20%) if profit targets are exceeded by a set amount.

#### DO

- · Reward performance.
- Be fair and transparent in reward.
- Set stretching, but achievable targets.

#### **DON'T**

- Set unachievable targets.
- Pay a bonus if the achievement is not made.

# GOVERNANCE AND EMPLOYEE VOICE

There is no formal employee representation structure, although the Employee Communications Group acts as a forum for employee voice (it is chaired by an employee director, who can take recurring issues to the main board for consideration).

Two out of nine main board directors are employee elected, and serve for a maximum of two terms each, standing down in rotation.

Employee directors attend courses arranged by the Baxi Partnership and the chairman is good at picking up on instances when the board is dealing with an issue that is at the limits of the employee directors' understanding.

Non-employee directors do not receive any specific induction or training related to the fact that the company is employee owned.

#### DO

- Make it possible for employee directors to play a full part and be effective by equipping them properly and ensuring that the chair of the board is sensitive to their levels of understanding.
- Spend time up-skilling non-elected directors on the meaning of employee ownership.

#### **DON'T**

 Assume all employees buy into employee ownership: never stop explaining the issues.

# **Loch Fyne Oysters**

# **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Quarterly meetings of all staff to discuss matters of strategy and finance.
- Employee Communications Group meetings: representatives from each function meet and bring questions from their areas to feed into the discussion.
- Employee participation in voting on dividend levels and employee directors.

All of these events are diarised through the year, producing an undercurrent to the working lives of employees, so that people feel part of the ownership culture and understand their rights and responsibilities.

Most effective channels for internal communications:

- Newsletter
- Employee Communications Groups: representatives from each department are required to attend and meetings are held in normal working time.

Although company stationery states that the organisation is co-owned, this is not stressed in dealings with customers. It is more important that customers are commercially engaged.

Feedback does suggest that employee ownership is an important feature for customers, particularly the longevity that it brings, and the element of fairness.

The organisation is seeking to promote the idea to suppliers of a partnership, and that as an employee owned company, it wants to make a profit, but not to maximise it at suppliers' expense.

#### DO

• Keep working at developing an employee ownership culture: this is a continuous process and needs reinforcing.

#### **DON'T**

- Imagine that you've made it: getting buy-in for employee ownership is a continuous process.
- Assume employees will be better team workers or communicators simply because they are shareholders.

# ETHICS AND SOCIAL RESPONSIBILITY

The organisation is participating in a social audit pilot project, run by Co-operative Scotland, which is measuring its CSR focus, namely: care for the environment, care for the individual, and care for animals.

A set of brand values covers sustainability, quality, provenance, sourcing locally where possible and the care values contained in the CSR statement.

A separate charitable trust – the Loch Fyne Trust – funds local charitable projects, including nurseries and school initiatives.

3% of all income from home deliveries is paid into the trust, which is managed by a trustee board of three employee trustees, who make decisions on how to spend the money.

# DO

- Be consistent.
- Have an aspiration for CSR, but be realistic about getting there.

# **DON'T**

• Commit to unrealistic CSR targets.

# **Make Architects**

### **CONTEXT**

- Professional services company
- 100% owned by an EBT
- All recruits join as partners
- Annual turnover: £20 million
- Workforce size: 138 at September 2008

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Giving employee ownership: all recruits join as partners, and no new starter has to work their way up a greasy pole, or work to a senior architect's brief. All shares are owned by an EBT, in which partners are the beneficiaries;
- Trusting people and giving them responsibility: staff
  are given a high degree of responsibility and freedom
  to design as they see fit, especially when compared
  with other, more traditional architect practices. In
  turn, employees must trust the organisation if
  employee ownership is to be sustained even if
  people do not like a particular decision, they must
  trust that the organisation is taking it for the common
  good; and
- Operating in an open, shared space in teams: nonarchitects work in a shared space with architects and will visit buildings during construction.

Employee opinion is not measured formally, but all staff are approachable and are encouraged to talk to the person they think will be able to give them an answer. Email discussions are active, and demonstrate how strongly people feel (sometimes about quite trivial issues, for example, should bananas be included in the company fruit scheme for sustainability reasons?).

Friday "get-togethers" are held in the largest room in the office, at which any issues can be raised, from accounts won to whether to widen the choice of wine on offer beyond the current organic offerings. Around 75% of staff in the studio attend these sessions.

There is no formal structure for employees to be involved in strategic business planning, but if an employee comes forward with an idea, it tends to be attempted. This enables quick decision-making compared with more traditional firms.

Employees are informed about business performance issues through the Friday get-togethers, and the intranet.

The main way employees make an input into their own jobs or working environment is by suggesting improvements and testing them, for example, a team is currently experimenting with a new type of desk and has employed a carpenter to build a mock up in the studio.

#### DO

- Encourage people to share information and work as a team.
- Encourage people to develop particular skills.

### **DON'T**

- Upset people.
- Operate an environment where people compete with each other to climb the tree: there is a tree at Make, but every one sits in the branches together, with nobody at the top.

# MANAGEMENT SYSTEMS AND REWARD

Employee ownership does not feature strongly in recruitment, as the company is primarily looking for bright architects, with personalities to suit its way of working. Co-ownership is mentioned in passing, as there is a suggestion that employee-owned organisations are happy ones, but Make does not want happy people who are lousy architects.

Employee ownership is mentioned during induction sessions, at which new joiners will be asked what they understand by the term, and the formal manifestations of employee ownership – the profit share – is explained.

The employee ownership structure plays a big part in staff retention, and Make has very low turnover rates compared with other professional services firms.

Financial benefits from ownership:

Profit share: accounts are prepared quickly after the
year end in December and during March the chief
executive decides on the amount of declared profit
to distribute. The company is aiming to distribute
100% in future. Individuals have received at least
25% of annual salary in profit sharing in previous
years and Make hires an investment adviser to talk to
staff about using this bonus wisely.

There is no performance-related reward, or bonuses, other than the profit share distribution.

# **Make Architects**

#### DO

• Operate individualised pay and encourage all staff to work for the good of the organisation.

#### **DON'T**

 Introduce structured reward, with pay bands and grades, in an open, creative organisation.

# **GOVERNANCE AND EMPLOYEE VOICE**

There is no formal employee representation structure and no employee representation at board level.

There is no management structure and the four founding directors do not meet as a board.

#### DO

- Keep the organisation open with minimal management structures: this avoids endless meetings, enables quick decision-making and is a highly profitable model.
- Encourage staff to give their views and opinions to the person they believe can best take action.
- Give staff responsibility for, and autonomy over their job roles.

# EMPLOYEE OWNERSHIP CULTURE

Main ways of encouraging an employee ownership culture:

- Explain the culture during induction discussions;
- Ensure employees benefit financially from annual profit sharing; and
- Empower staff to join in discussions at the regular Friday get-togethers.

Most effective channels for internal communications:

- Word-of-mouth: this takes place all day, every day;
- Friday get-togethers; and
- General email discussions.

The company's co-owned status is mentioned during discussions with customers where appropriate, and is also covered in the Make Annual, a brochure given to clients, which includes the firm's charitable works and its employee owned status.

The firm does not force its structure on clients, as most are less interested in its ownership than in whether its people are good architects.

#### DO

- Stay in touch with staff.
- Empower people by giving them a say.
- Stress to employees that they own the business.

# ETHICS AND SOCIAL RESPONSIBILITY

There is no written CSR policy, although Make does have a set of values, which it included in the first company Annual.

Two forums exist to support charitable activities:

- Charitable activities: the firm currently supports two charities in London working with young people to improve their local environment; and
- Sustainability activities.

These groups meet as required and any employee with an interest can join in discussions. A current project will involve Make staff building wells in South Africa, with transport paid by the firm.

### DO

 Empower people to get involved in charitable work: most people like to work for a business that does something for the broader good.

# **Martin Currie**

### **CONTEXT**

- Professional services firm; active equity manager
- Global operations; headquarters in Edinburgh
- Workforce size: 272 as at September 2008
- Annual revenue: £80.4 million

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting engagement:

- Independent and employee owned: a strong virtue is made both of the independence of the firm and employee ownership. All employees have the opportunity to invest in the firm. This is seen as a powerful way of getting people to engage and to think of themselves as owners as well as employees.
- Communications structure: most staff are based in Edinburgh so it is relatively easy to get them all together at "Town Meetings", which discuss strategic issues regularly. Conference call town meetings are held with London and New York staff and all Edinburgh town meetings are filmed so that all staff have access to them. A separate "directors' forum", composed of the 40 or so most senior staff, is used to test ideas before final decisions are made on major business issues; and
- Annual business planning process: this is a mixture of top down and bottom up business planning, during which the firm sets out the priorities in detail for the next 12 months and broadly for the next 3 years.
   Local managers use the main plan to develop local ones with the help of mini "town meetings".

Martin Currie uses an in-house annual survey to measure employee opinion, and this year's survey focused on engagement, for example, asking questions on how proud people are to work for the firm. Whilst some themes are often consistent across the business, this information is also analysed at team level and can reveal distinct local messages, which are used to take action. For example, a lack of clarity about individuals' objectives emerged from the latest survey as an issue in some areas, prompting a detailed examination of how this operates at team level.

Staff are heavily involved in strategic business planning through the business planning process. The chief executive and board set out overall priorities and the executive member for each area takes the corporate plan to their local level. Each team takes its own priorities forward within the overall corporate strategy.

Employees are typically informed about major business or strategic changes at "town meetings", often preceded by a directors forum.

The main ways in which employees can improve their jobs or working environment are:

- Through discussions with their line manager;
- At regular team meetings; and
- Through participating in the business planning process.

#### DO

- Communicate strongly.
- Involve people in decision-making.
- Ensure engagement permeates all activities in order to bring cultural engagement.

# MANAGEMENT SYSTEMS AND REWARD

Employee ownership is the single most strongly stated message in recruitment – the fact that the firm is independent and employee owned strongly mirrors the message presented to clients, and using this in recruitment is deliberate. Our experience is this is an immense positive in terms of recruiting talented and ambitious people into the firm.

Martin Currie uses independence and employee ownership as an important recruitment tool.

Financial benefits from co-ownership arise through share ownership:

- All employees are able to buy shares;
- Staff share option plans are made available to all permanent employees
- The firm normally pays a percentage of the annual bonus in shares (20% of bonus in 2007/08).

#### Variable reward:

Basic pay: base pay reflects market rates and individuals are paid at the top, middle or bottom of the market range for their job role, according to performance.

There are five main bonus schemes:

- Investment Scheme:
  - payable to investment managers based on the performance of their funds against an agreed benchmark.

# **Martin Currie**

- Performance Fee Scheme:
  - payable to investment managers based on % of performance and management fees.
- · Sales Scheme:
  - payable to sales and client service staff based on sales revenue.
- Support Scheme:
  - payable to non investment and non-sales staff, based on objectives agreed annually
- Executive Scheme:
  - payable to members of the company's senior management team based on achievement of profit targets

In 2008, a specific link was introduced between the bonus schemes and the profitability of the firm, so that 75% of the bonus generated is paid if profits after expenses are less than £30 million and 100% of bonuses is paid if profits are £40 million or more. A sliding scale applies between £30m and £40m.

Executive board members receive an explicit profit-based bonus based on business plan profit targets, in addition to the bonus appropriate to their job role (see above).

#### DO

- Share ownership should be a strong component of reward. It encourages long term view and commitment to the overall performance of the company.
- Link bonuses and reward to company wide performance.
- Be transparent and consistent and operate clear reward principles.

# GOVERNANCE AND EMPLOYEE VOICE

Martin Currie has a relatively small workforce with a minimal hierarchy and almost all staff are based in Edinburgh. It believes that formal representation structures are unnecessary and might appear very artificial. There is no formal employee representation at board level. However all areas of the business are represented at corporate board level and at the level of the management executive board. In this way, and through the directors' forum, town meetings and the normal management process, the company believes employee will is a strong component of the way the business functions. In addition, all employees are shareholders and have the opportunity to attend general meetings.

#### DO

- Make employee voice integral to the culture of the firm.
- Ensure employees are aware of their role as shareholders by widely publicising the AGM, holding it in normal working hours and giving time off to attend.
- Communicate the ownership structure strongly.

### **DON'T**

• Fail to involve staff fully in the business planning process.

# **Martin Currie**

# EMPLOYEE OWNERSHIP CULTURE

Main ways of promoting an ownership culture:

- Strongly market co-ownership as part of the fabric by putting it in literature to staff, clients and external bodies, so that employee ownership becomes part of the branding, both to employees and clients
- Operate a consultative management style: team members are consulted and updated regularly particularly during times of change
- Getting people to think and act as shareholders.

Most effective channels for internal communication:

- Town meetings: held on average every six weeks, all staff in Edinburgh attend (conference call meetings for other staff), and they take the form of questions and answer sessions;
- · Business planning process; and
- Directors' Forums: held four or five times a year, attended by 40 most senior staff, including the investment directors, senior sales people and senior managers from the support areas.

The firm's independent and co-owned status is strongly used in dealings with clients, with the emphasis on what this structure means for speed of decision-making.

#### DO

- Put shareholding at the heart of the business and the brand presented to clients, suppliers and prospective recruits.
- Ownership culture should be integrated with reward.
- Enable employees to buy shares and understand how shareholding works.

# ETHICS AND SOCIAL RESPONSIBILITY

Charitable work is a significant part of what the firm does and employees are encouraged to become involved in charitable work either independently or through our charitable foundation:

- A separate charitable Foundation exists, chaired by a member of the executive board with representation from the firm. The foundation manages the Rob Roy Challenge, a physical fitness test that has raised £700,000 in the past two years. 25% of the workforce participates in Rob Roy;
- The firm donated £135,000 from profits to the Foundation in 2008.
- There is always a theme attached to charitable activities – the current one is supporting young people to develop sustainability in their lives. These themes are revisited every two to three years.
- Martin Currie gives paid time off and expenses to employees wishing to get involved in major overseas reconstruction projects, and these opportunities are strongly supported in the firm – this activity is seen as a powerful team building exercise, as well as valued charitable activity.

- Involve employees directly in deciding where CSR money and effort should go.
- Set criteria or themes in deciding which charities to support.
- Celebrate success in CSR activities with clients and staff.

# **Mott MacDonald**

### **CONTEXT**

Professional services company

• Worldwide operations

Annual turnover: £750 million

• Workforce size: 13,000 at September 2008

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Concentrate on promoting engagement from within;
- Foster a culture that encourages teamwork; and
- Provide senior people with the opportunity to buy shares: the most senior 15% of the workforce is offered the opportunity to buy shares, which are highly sought after and viewed as an incentive to progress in the company. No free shares are gifted.

Employee opinion is measured using an annual survey, conducted at unit level. Some questions in the survey cover organisational culture issues. The last survey suggested there was an issue with middle management competence, and training and development initiatives have been put in place as a result.

Employees are informed about business performance and strategic issues through:

- · An active intranet;
- Intranet discussion groups;
- · Staff Councils receive quarterly reports; and
- Shareholders receive annual report and accounts.

The company specifies areas for consultation with shareholders, for example, a shareholders' committee can veto certain actions, such as the sale of more than 10% of the company.

Divisions and units have a great deal of autonomy to organise their own work, as do the professionals working within them, and are expected to sort out any issues around job roles or working environments.

#### DO

- Be honest and transparent.
- Treat all fairly.
- Celebrate and recognise success.
- Train managers in people skills.

# MANAGEMENT SYSTEMS AND REWARD

Employee ownership does not feature strongly in recruitment, except in the case of senior people recruited to the level at which the opportunity to buy shares is offered. The opportunity to buy shares does help attract talent at the senior level.

The ability to buy shares is also explained at the interview stage in the case of senior recruits, but does not currently feature in induction sessions.

Financial benefits from ownership:

• Senior staff eligible to buy shares benefit from a return of between 40% and 60% of the value of shares each year. Individual payments vary enormously, but can constitute 70% of a group board member's total pay, for example, but a payout of 10% is more typical in the case of more junior shareholders.

Variable reward:

- Performance-related bonus: modest bonuses paid for individual performance
- Profit-related pay: 11% of salary is typically paid to all staff with salary.

There is no separate incentive scheme for managers - shareholding performs this function.

- Keep reward simple so that all staff understand the rationale.
- Value the asset and ensure a good return for shareholders.
- Make ownership highly prized as a goal and get everyone fighting for it.
- Make ownership special.

# **Mott MacDonald**

# GOVERNANCE AND EMPLOYEE VOICE

The company operates Staff Councils, but these are not connected to employee ownership and are not designed to foster a particular culture.

Every office has its own Council, which vary in enthusiasm, and the board tries to send a senior director to talk to each quarterly meeting. Representatives on the Councils are elected, but there is not much competition for places.

Employees are not involved in selecting any management appointments.

#### DO

 Communicate: discussion groups at Mott MacDonald are very spirited - you cannot do enough communicating.

#### **DON'T**

 Do not let an "us" and "them" culture emerge by ensuring that all staff view themselves as employees, not managers and workers.

# **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Do not push employee ownership into the faces of employees: non-shareholders probably do not feel like co-owners, but have the opportunity to become owners as they gain seniority;
- Shareholders are invited to two global meetings a year to discuss strategy, and are all treated the same, regardless of location; and
- Provide loans to help senior staff buy shares.

Most effective channels for internal communications:

- Email;
- Intranet and discussion groups;
- Internal group and regional meetings;
- Shareholder performance reports; and
- Twice-yearly global meetings for shareholders.

# ETHICS AND SOCIAL RESPONSIBILITY

A CSR policy is published in the annual report and accounts and covers community and staffing issues, but is starting to better reflect the company's growing interest in sustainability, both internally in terms of the company's own carbon footprint, but also how the consultancy can help clients minimise their own footprints.

A separate statement of principles – the Pride Values – exists.

The company encourages employees to engage in charitable activities by:

- Matching any funds raised by employees for charities;
- Supporting graduates with bursaries; and
- Giving time off to employees to work on overseas projects.

The company also supports its own causes, including building typhoon shelters in Bangladesh and supporting other charities, like engineers without borders.

# Quintessa

### **CONTEXT**

• Professional services provider

• Highly-specialist staff

Workforce size: 23

• Annual turnover: £2.5 million

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Giving shares: the board decides when and to whom to give options;
- Bonus scheme: a flat-rate bonus scheme exists and is designed to reward team performance; and
- Non-financial aspects of engagement: ensure that managers enable people to participate and have their say in a range of regular meetings.

Employee opinion is measured informally, through lunches and regular feedback.

Employees are involved in strategic planning through strategy meetings held every two years. All employees go off site to discuss general and more specific issues, for example, the most recent meeting discussed a diversification strategy away from the nuclear industry.

Employees participate in discussions on business planning issues through the bi-annual strategy meetings, but also through quarterly "management" (although all are invited) meetings. Staff are encouraged to voice their opinions at these meetings, the minutes of which are distributed to all employees.

Employees are able to have an input into changing their jobs or working environment through:

- Informal discussions with decision makers; and
- During annual appraisals, at which point the job and continuing professional development needs are considered.

#### DO

- Talk and listen to people.
- Operate good management.

# **DON'T**

 Impose decisions without consulting or involving staff: people want control over their working lives as much as possible.

# MANAGEMENT SYSTEMS AND REWARD

Employee ownership is always mentioned in recruitment adverts and on the company website – it is a good recruitment tool for the company, which tends to be a magnet for people who may already be thinking about the culture, even if they work in very different organisations at present.

Recruits must be able to cope with the culture; so much effort is put into ensuring they fit during recruitment. The company recruits as needed, and will always ensure that interviewees have a chance to chat to other team members and get their feedback.

The managing director undertakes induction sessions and always starts by sharing information on employee ownership, explaining the company's philosophy, and its visions and principles.

Annual performance appraisals may touch on aspects of employee ownership, for example, an employee may raise share options as an issue.

Financial benefits from ownership:

- Through the share option scheme: this obviously has a financial benefit, but also has a strong emotional aspect.
- Dividends paid on shares held, which tends to provide the highest reward for those who joined in the early days.

There is no individual performance-related reward, and no separate incentive scheme for managers (the structure is very flat and all staff can benefit from share options).

#### DO

- Give financial and emotional ownership in the company to employees.
- Listen to employees and give them a say.
- Share information openly and in a transparent way.

- Use individual performance-related pay: use other levers to adjust pay.
- Have secrets.

# Quintessa

# GOVERNANCE AND EMPLOYEE VOICE

There are no formal structures for employee representation, and no formal system of employee board directors, although all three board members are also employees.

### DO

• Be open and transparent in sharing information, including financial information.

#### **DON'T**

 Impose decisions without discussion or explanation.

# **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Start the process at recruitment and ensure all staff live the culture: the company's culture focuses on excellence, but is also about sharing information and joint decision making. People are aware of this from their earliest days and weeks with the organisation;
- Give a financial stake in the organisation; and
- Operate good management: this goes hand in hand with employee ownership, because employee owned companies tend to think carefully about how they manage.

Most effective channels for internal communication:

- Face-to-face: body language communicates so much, and people tend to think laterally and not be on their guard;
- Formal quarterly meetings and bi-annual strategy meetings; and
- Emails and internal blog to update teams on news from clients and projects.

The firm's co-owned status is promoted on the website and in proposals to clients.

Employee ownership is also mentioned in dealings with contractors, who are also made aware of it through our behaviour towards them – ie the company treats suppliers, particularly associate consultants, fairly and always keeps them informed about the progress of potential bids.

#### DO

- Operate an open and participative management style.
- Share information.
- Be fair to all.

# ETHICS AND SOCIAL RESPONSIBILITY

The company does not have a formal CSR policy but does have a statement of values and principles.

The company has very little capacity to release consultants for charitable work, and is also conscious of the need for them to maintain a good work/life balance, so does not encourage or discourage them from engaging in charitable activities.

It supports charities related to its business, for example Quintessa is sponsoring the Henley Schools Environmental Science Competition.

At present, it does not set aside a proportion of profits for charitable purposes and decisions about giving are made on an ad hoc basis.

### DO

- Act ethically: do not work for clients who you do not believe are acting ethically, even if this costs money.
- Discuss ethical considerations openly, but recognise that ethics is not an absolute science (for example, some believe nuclear power is unethical, while others have major concerns about parts of the oil industry).

#### **DON'T**

• Treat people unfairly.

# **School Trends**

### **CONTEXT**

• Manufacturing and distribution company

Annual turnover: £9.3 million

Workforce size: 140 at September 2008

# EMPLOYEE ENGAGEMENT

Main ways of promoting employee engagement:

- Share ownership: new employees are required to put a minimum 5% of salary in the first year of employment into a pot which is converted into shares at the end of the first year;
- The Governing council: this system of representation includes four employee representatives and a President elected by the staff; and
- Extensive communication structure: which encourages and enables people to be involved and understand employee ownership and that School Trends is their business.

Employee opinion has been measured through the organisation's participation in the *Sunday Times Top 100* employers survey and through an annual company benchmarking survey, Iscan.

A productive culture survey is carried out three times a year and employees are asked to score 15 questions, including aspects of employee engagement:

- The survey enables the company to analyse movements across teams and to identify areas for improvement, for example, the results of a recent survey suggested employees did not feel they received praise for good work, which prompted this being built into monthly figures meetings;
- Teams also examine their own scores under different headings to identify local areas for improvement.
- The productive culture survey is instant and tangible and is a practical, ongoing means to sustain the organisation's culture.

Employees have a limited involvement in strategic business planning, although the operational board does consult extensively, and all strategy relating to personnel issues has to be approved by the Governing Council (the representative body).

Employees are informed about business and performance issues through different level meetings:

- Monthly figures meetings;
- Policy and information meetings: monthly for senior and line managers;
- Action group meetings: monthly at team level, to disseminate information and to receive feedback and input from teams; and
- AGM: participation from employee shareholders is encouraged by getting them to work in teams to put questions to the AGM.

A five level model of decision-making is used to determine the extent of consultation over particular issues. All staff are made aware of which level a discussion is at before it takes place – for example, A1 decisions are directive decisions on compliance issues, taken by the board, while level G discussions take place on issues that are handed over entirely to groups of employees, for example, arrangements for the Christmas party.

Main ways that employees have an input into improving their jobs:

- Bright Sparks: a suggestion scheme;
- Monthly ideas forums: teams develop ideas and make changes, details are sent to the managing director, who reports on the best and may make a small award; and
- Action Group meetings: these are a two-way process although their success does depend on the skills of individual managers in getting people to come forward.

### DO

- Involve people in decision-making but make sure this takes place at the appropriate level to ensure a valuable input.
- Always explain decisions to those who have not been involved in making them.
- Be upfront and clear in advance about which decisions employees will be involved.

- · Ignore employee views.
- Tell people what to do.
- Convey the message that employees will be involved in all decisions in the business.

# **School Trends**

# MANAGEMENT SYSTEMS AND REWARD

The organisation's co-owned status features prominently in job advertisements and employee ownership is reiterated at interviews. First interviews are undertaken by the HR function and focus on whether the candidate is right for a co-owned organisation.

At induction, new recruits are given a copy of the company's brochure, which talks about the vision and values and the community pillars. They are also talked through the role of the Governing Council and shareholding.

Financial benefits from employee ownership:

- Capital growth in shareholding (dividends and share price increases); and
- Profit-related earnings: a proportion of pre-tax profits (between 20% and 30%) is distributed to employees each year, linked to salary.

Variable reward:

- Performance-related pay: employees move along a pay band based on annual performance appraisal.
- Profit-related reward: a performance related earnings scheme distributes between 20% and 30% of company profits annually, based on salary.

#### DO

- Make reward simple and easy to understand.
- Celebrate bonuses and other profit-related reward
- Communicate the reward strategy.

#### **DON'T**

- Complicate reward.
- Hide profit-related reward or treat it as an administrative task.

# GOVERNANCE AND EMPLOYEE VOICE

A Governing Council exists, composed of an elected body of four people. No more than one person from the operating board may be elected to the Council. The remit of the Council includes working with the board in a participative style to keep the company strong, examining the social impact of future strategy, changes to the salary structure and changes to terms and conditions and policies.

There is no employee representation on the operating board, but two employee representatives sit on the legal board, which deals with the company's fiduciary duties, and the EBT.

Representatives on the Governing Council and other bodies receive a day's training on joining, plus other training as required.

Employees are involved in selecting senior managers to the extent that the Governing Council makes the final appointment of the head of the organisation.

### DO

- Put good governance and employee voice mechanisms in place.
- Communicate them and take time to train people so that they understand the principles.
- Support the process.

- Pay lip service to employee voice.
- Ignore advice.
- Take it for granted.

# **School Trends**

# **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Keeping people informed through the monthly figures meetings;
- Ensuring staff are involved in decision making;
- Holding effective AGMs at which staff are encouraged to ask questions; and
- Ensuring all staff attend a one day class in their first year of employment on their rights and responsibilities in an employee owned environment.

Most effective channels for internal communication:

- Word-of-mouth and face-to-face communications;
- Action group meetings; and
- Newsletters as a back-up.

The company's regular suppliers are aware the company is employee owned, and that School Trends treats them as partners.

### DO

- Have an employee owned culture.
- Make it clear what is expected of people and give credit where it is due.
- Publicise employee ownership regularly.

#### **DON'T**

- Pay lip service to the culture, but live it and ensure managers set an example.
- Take it for granted: it needs sustaining.
- Focus on the negatives.

# ETHICS AND SOCIAL RESPONSIBILITY

Biggest CSR issue is ethics – School Trends is in the garment trade, so needs to ensure its suppliers operate ethically.

A formal statement of values appears in a brochure given to all new recruits.

The company supports a no redundancy commitment

The company does not make direct donations to charities, but actively encourages fundraising for a chosen charity which it supports for 2 years. School Trends also supports employees to undertake community work, particularly in quieter trading periods.

### DO

- Involve and engage.
- Give people time off to undertake charitable work.
- Publicise what you do.

- Pay lip service or pretend you are doing more CSR activity than you are.
- Back out when times get tough: if you have an ethical trading policy, stick to it, regardless of the business climate.

# **Scott Bader Company**

### **CONTEXT**

- Long history of employee ownership and founding principles
- Highly developed structures of involvement and governance
- Global manufacturer
- Annual turnover: £170 million
- Workforce size: 660 at October 2008

# **EMPLOYEE ENGAGEMENT**

Main ways of encouraging employee engagement:

- Highly-developed employee representation structure:
  - Global Members' Assembly: composed of 14 elected members from around the world;
  - Commonwealth Board: four members are elected by commonwealth members (employees) with a remit to consider charitable giving and the philosophical development of the company; and
  - Works Councils: UK Community Council is composed of 12 elected employees.
- AGM: all commonwealth members (employees) are encouraged to participate, either personally or by proxy; and
- Recruitment policy: all new recruits are required to demonstrate during selection that they meet at least three criteria, based on the founding principles of the company. They are also assessed on these after six months in the job to check they are demonstrating these values. Only then can they obtain membership of the Commonwealth Board and full voting rights.

Employee opinion is measured through:

- A global employee survey is used to measure employee opinion, and contains a discrete section on commonwealth membership (latest survey shows that 83% of employees understand the values). The results of the survey are used to develop country and group action plans, focusing on low scoring areas.
- Board of directors' briefings are held quarterly and are designed to engage employees so that they give feedback and pick up on issues; and
- Open staff forums, carried out in native languages where appropriate.

Employees are involved in strategic business planning through the Commonwealth Board and the Members' Assembly, both of which are involved in major decisions (for example, a current discussion focuses on whether to invest in Qatar). These bodies also finalise dividend bonus levels and agree the renewal of senior managers' contracts.

Quarterly briefings, typically consisting of around 20 slides, are used to convey business performance information to employees.

The main areas of decision-making on which the company consults are specified in the constitution, which was reviewed in 2007.

The main ways employees have an input into improving their jobs:

- Through local Works Councils (the Community Council in the UK); and
- Direct consultations with line managers.

### DO

- Communicate frequently and simply.
- Be consistent in messaging and do not use a tiered system of disseminating information.
- Continue to pursue new ways of engaging staff, for example, building measures of engagement into individual performance objectives, and measuring these using assessment criteria.

- Underestimate the need to check employees' understanding of values and principles, particularly in global operations.
- Allow apathy: longer-serving employees may become immune to the need to demonstrate engagement.

# **Scott Bader Company**

# **MANAGEMENT SYSTEMS AND REWARD**

The company's co-owned status features in recruitment:

- All recruitment literature contains a statement on the company's heritage, the values handed down by the founder, the democratic principles and the fact that new employees will be expected to take this on board in a formal way; and
- At interview, people are assessed against a minimum of three employee ownership criteria and have to demonstrate a caring ethic. The company has rejected, otherwise acceptable, candidates on this basis.

New recruits undertake an induction programme which includes attending a one day learning event (or meeting with the Commonwealth Champion in non UK sites) containing detailed information on the Commonwealth, employee ownership and involvement. This element of the induction must be completed before an individual can be confirmed into role following their probationary period.

Six months into a new job, as part of the confirmation into role process, employees are required to evidence their commitment to the company's seven principles, showing that they live the values. This document must be endorsed by the line manager and two other Commonwealth Members. Only once this is completed (along with other performance related requirements) are they confirmed into role and granted commonwealth membership.

Employee ownership influences individual performance management:

- All those taking up office in the employee representative structure have this role included in their individual performance appraisal objectives; and
- The performance appraisals of other staff take account of how well they subscribe to the company's founding principles, and evidence is sought on involvement in community and charity activities, and active participation and engagement in the commonwealth's democratic process.

Financial benefits from ownership:

- Group staff bonus: up to 20% of annual pre-tax profits is distributed in equal cash slices to employees, and can be worth up to a month's pay;
- paid leave is given as a sabbatical for education activities after 25 years' service; and
- Single tier health care is provided, regardless of seniority.

Variable reward:

- Performance-related pay: appraisal-based increments to basic salary are awarded in place of cost of living increases each year.
- Profit-related reward: up to 12.5% of basic pay is distributed annually, based on group, regional and local level results.

### DO

- Emphasise team-based reward over individual pay: employee ownership can break apart if reward is too individual based.
- Consult widely and get employees involved.
- Be flexible around a core approach, for example, the sales force may need some individual target-based reward, even if this is not appropriate for the majority.
- Retain the right to keep hold of benefits in certain circumstances to protect the company's position: this may be necessary to stop people leaving the company very soon after taking a bonus.

### **DON'T**

- Make reward too complicated: link it to one or two drivers.
- Focus on soft behaviours, but on hard ones, like customer values and meeting financial targets.

# GOVERNANCE AND EMPLOYEE VOICE

The company has a highly developed governance structure, with a global Members' Assembly at the top level. 14 members are elected from each of the global businesses, and are currently chaired by a sales manager from Dubai. The group meets quarterly for one or two days, and solicits reports from the business and can engage with any decisions on the table.

At a recent quarterly meeting, the Assembly approved the salary of the CEO, formally appointed the new chairman, decided on the distribution of the dividend and received several strategy updates. The Assembly has its own office and staff, funded from company profits.

The group board includes four lay employee members, including two nominated from the Members' Assembly and two elected by a global vote.

Specific courses are organised by the company secretary for employee representatives on the various governance bodies, delivered by external trainers.

# **Scott Bader Company**

All board directors are required to attend the commonwealth induction training and be assessed for membership of the Commonwealth Board (ie provide evidence of their ethics and caring status).

New directors are assessed and challenged by the Members' Assembly and the Commonwealth Board prior to appointment as part of the selection process.

#### DO

- Have employee representatives at all levels, including the board.
- Equip employee representatives appropriately and expect them to keep up to speed.
- Train reps well and reflect this role in individual performance objectives: participation will be low if people believe their day jobs will suffer.
- Have good, robust criteria setting out who is eligible to stand for employee representative office.

#### **DON'T**

- See employee board level representation as a threat.
- Underestimate the impact that high levels of involvement have on trust.
- Operate token representation: let people vote freely and make sure decisions are not viewed as done deals.

### EMPLOYEE OWNERSHIP CULTURE

Main ways of encouraging an employee ownership culture:

- High degree of employee representation;
- Make charitable giving accountable by giving employees the opportunity to vote on which causes to support; and
- Operate dual voicing: give information, but expect opinions to be voiced.

Most effective channels for internal communication:

- · Quarterly briefings;
- Group Managing Director's newsletter; and
- Commonwealth open forum.

Co-ownership is mentioned in dealings with customers and appears on the website. Customers see employee ownership as a comforting factor, as they associate it with a higher degree of trust and sustainable business.

#### DO

 Inform and educate your suppliers about your co-ownership and ethics: otherwise they can undermine your objectives.

# ETHICS AND SOCIAL RESPONSIBILITY

The biggest focus in the CSR policy is the environment (energy consumption and renewable sources are a big issue), but the company's principles also dictate policy on a range of other issues, including conflict and genetically modified organisms.

Employment practice also reflects the company's wider anti-exploitation aims, for example, individuals are encouraged not to take on a second job to avoid taking work from others.

The company's constitution contains a separate statement of values and founding principles.

Charitable activities are supported:

- One of the founding principles states that 20% of profits must be gifted to charity and that employees will retain ownership so long as they decide where to put this effort.
- The company also gives product and cash after worldwide disasters, for example, £50,000 was recently given following the Chinese earthquake;
- Each employee is able to elect to donate (from the company profits) £120 to their personal chosen charity;
- Unpaid sabbaticals are provided for employees wishing to spend time on one of the company's supported projects; and
- The company also organises children's trips to the theatre, fun runs and offers the local community free access to its indoor swimming pool at specific times.

Decisions on charitable giving are taken at the AGMs.

### DO

- Put your money where your mouth is, and make it meaningful.
- Match employees' fund raising with company contributions.
- Use charity work as a team building activity.

#### DON'I

- Write out cheques to charities without getting involved.
- Plough your cash into large, global causes: match giving to your sector to make it meaningful.

# **Steer Davies Gleave**

### **CONTEXT**

- Professional services company
- Employee ownership has evolved organically through a culture of participation
- Workforce size: 350 at September 2008
- Annual turnover: £37m

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Encouraging employees to purchase shares through a SIP;
- Participation in a new employee forum; and
- Operating a participative culture: senior managers are approachable and employees have an input into decision-making.

An annual employee survey is used to measure employee opinion, and includes aspects of employee engagement (for example, the extent to which employees feel listened to). Results are published and used to identify priorities (for example, additional resources are being invested in training and development as a result of the 2008 survey). A staff forum has recently been established as a result of feedback obtained through the annual employee survey.

Employees are involved in strategic business planning as this is devolved to business units, and many employees get involved.

Employees are informed about strategic developments through a quarterly email from the CEO, giving an update on company performance. Feedback suggests these are well read.

Main ways employees have an input into improving their job and working environment are:

- Through a new employee representative body, the forum; and
- Through actions resulting from their input into the annual employee survey.

#### DO

- Be open in communications.
- Respond to employees' concerns and explain the management's thinking, particularly when the response is negative.

### **DON'T**

- Ignore people.
- Be afraid of what people might say if you give them a voice: it is always better to get issues on the table.

# **MANAGEMENT SYSTEMS AND REWARD**

The primary focus in recruitment is on the firm's independence, rather than its ownership structure per se, as many competitors are owned by large parent organisations.

Employee ownership is mentioned during interviews – what it means for the firm's structure and culture, although the company finds it is often difficult to disentangle the two.

People joining the company take time to become aware of the ownership structure (because they do not acquire shares immediately), but are aware of the participative/independent culture from day one.

The rules of the share market are explained during induction sessions: namely, that only employees can hold shares, and that 20% of these are held by an EBT, 20% in the SIP and the remaining 60% by employees in their own names as a result of buying during the annual dealing window.

Employee ownership only influences performance management to the extent that four percentage points of an individual's total performance-based bonus is paid in shares.

Financial benefits from employee ownership:

- Buying shares through the SIP: partnership shares
  can be bought and are matched on the basis of one
  free share for every three purchased. No single
  employee can hold more than 15% of the
  company's share capital; and
- Part of the bonus is paid in SIP shares: around one third of an employee's typical bonus is paid in shares (for example, 4% of a 12% of salary bonus).

# **Steer Davies Gleave**

Variable reward:

- Performance-related pay: the first reviews under a new balanced score card review system have just been held, and have been followed by a round table discussion and the allocation of a share of the bonus pot to individuals in each unit according to their performance. This performance pay is consolidated into basic salary and is based primarily on development in the job role.
- Profit-related pay: an annual bonus, part of which is paid in shares, is based on performance over the year, rather than an individual's growth in the job role

A group of 70 senior people are eligible for a share option scheme.

### DO

- Use a SIP to foster employee ownership.
- Clarify roles and reporting structures to avoid management in the ether.
- Think strategically about how employee ownership impacts on the organisation and design reward structures accordingly.

### **DON'T**

 Feel it is necessary to award all employees the same level bonus just because you have a different ownership structure: introduce variable reward on the basis of individuals' performance.

# GOVERNANCE AND EMPLOYEE VOICE

An employee forum was established in 2008 – as the company grows, it becomes harder to sustain informal employee voice and engagement.

Nine representatives from the different grades and office locations sit on the forum, which has no formal constitution or strict remit at present, although this is expected to evolve over time.

Early meetings of the forum have considered terms and conditions of seconded employees, how to secure the company's culture with growth, pay benchmarking across departments and environmental issues.

There is no employee representation on the board, EBT or SIP.

Employees are not formally involved in selecting senior managers, although all senior recruits meet a range of people during selection, and team members may sit on interviewing panels in some cases.

- Consider establishing a formal employee representation body as the organisation grows and it becomes harder to retain the founding culture through informal routes.
- Recognise, however, that non-structural aspects of employee voice are still important.

# **Steer Davies Gleave**

# **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Talk about how the structure of ownership works at every opportunity: for example, the managing director is currently talking to small groups of people about employee ownership, and expects to hold 30-40 such meetings over the coming months;
- Reinforce this face-to-face talking in regular, weekly emails; and
- Ensure employees have access to external resources on employee ownership.

Most effective channels for internal communications:

- Weekly news update; quarterly strategic update from CEO;
- Making this communication available offline, for example, on kitchen notice boards;
- Forum representatives receive feedback from their constituencies, which they can feed into meetings of the forum; and
- CEO initiatives: the CEO is currently holding monthly dinners with the senior management group of 70 to talk about strategic issues, including ownership.

Sales pitches to potential clients are more likely to stress the company's independence than employee ownership.

#### DO

- Talk about ownership, particularly in the early days.
- Use the EOA and learn from the experiences of others.
- Build up an employee ownership culture gradually, and recognise that share ownership and other long-term reward may not interest younger, more junior members of staff.

#### **DON'T**

- Push share ownership too hard, particularly to younger consultants, who are more interested in getting a foot on the home ownership ladder.
- Treat those holding shares in their own names differently to other staff, ie those holding shares in the SIP, as this can be divisive.

# ETHICS AND SOCIAL RESPONSIBILITY

The CSR policy focuses on environmental issues and volunteering.

A new volunteering policy states that the company will match the time taken off by individuals to volunteer with paid leave up to a maximum of five days a year.

The company will match funds raised by employees for charities on an informal basis.

A budget for charitable purposes exists. Employees approach the executive with ideas for fundraising and it decides whether to support the proposal. The new employee forum has so far rejected the idea of becoming involved in CSR decision-making.

A set of core values exists, and is talked about by the CEO, but are not formalised.

# **Sunderland Home Care Associates**

### **CONTEXT**

- Social care provider
- Traditionally low-paid sector
- Annual turnover: £2 million
- Workforce size: 200

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Providing employees with free shares and an opportunity to deal them once a year: a proportion of the trading surplus each year is put into a SIP and distributed as free shares on the basis of employees' salary, service and hours (to a maximum salary of £15,000);
- Working parties of volunteers are put together to consider policy issues (for example, the basis for the distribution of free shares, night working and overtime); and
- Employees elect all members of the main board: two members of the board stand down at each AGM.

Employee opinion is measured informally, through regular statutory supervision (every three months) and external inspection.

Employees are involved in strategic business planning through:

- The employee elected board, which makes recommendations on issues to:
- A general meeting, which takes place every two
  months: all staff have the opportunity to attend,
  although high levels of attendance are hard to
  achieve given the workforce's structure (high levels
  of shift and remote working).

Employees are informed on business performance issues at general meetings, the minutes of which are circulated to individuals with their weekly rotas (rotas are used to disseminate a wide range of information more generally).

Employees can have an input into improving their jobs through:

- Raising an issue during regular supervision;
- Raising it at a general meeting; or
- Through the company's general encouragement for people to come forward with ideas (for example, staff wanted to establish a fund to buy equipment for vulnerable service users, using a £10,000 award).

#### DO

- Keep communication lines open at all times, even if the news is bad.
- Encourage people to bring ideas forward and run with them: this way, you avoid having to impose systems on people.
- Value people and consider requests for flexibility at work.

### **DON'T**

- Impose unnecessary systems on people.
- Operate only top-down management.

# **MANAGEMENT SYSTEMS AND REWARD**

Employee ownership is mentioned in job adverts and at interviews, at which potential recruits are asked about how they feel about SHCA's different ways of working. Often, people do not appreciate these differences until they start work, so it is difficult to state that employee ownership acts as a recruitment tool.

The company's training co-ordinator uses a checklist during induction sessions, and will talk about the SHCA way of working, and an individual's responsibilities in a co-owned company.

Employee ownership is an issue during supervisors' supervision (which is carried out by the director), but not during that of care workers', although may be raised if an individual is judged to have let the organisation down in any way (for example, by not turning up at a client's home).

Financial benefits from ownership:

- Improvement in share price: free shares are distributed annually through a SIP and employees have the opportunity to deal in these once a year;
- No dividend has been paid to date.

Variable reward:

- Performance-related reward: none.
- Profit-related reward: the Christmas bonus is based on hitting targets and amounted to around £200 per employee in 2007.

There are no separate incentive schemes for managers.

- Be fair in reward practices.
- Ensure that the board discusses pay increases.

# **Sunderland Home Care Associates**

# GOVERNANCE AND EMPLOYEE VOICE

There is no formal employee representation structure, as all the board members are employee elected.

The board is currently composed of five people, including a care co-ordinator, a domestic co-ordinator and a care worker. All board members will have been care workers at some point, as supervisors are recruited internally.

There is no formal induction or training for elected directors.

### DO

- Listen to people, both the good ideas and the gripes.
- Ensure the company fosters and instills partnership working in its policies and practices.

#### **DON'T**

- Impose your will on people, let them produce the ideas and run with them.
- Apply a heavy hand in management.

# **EMPLOYEE OWNERSHIP CULTURE**

Main ways of promoting an employee ownership culture:

- gifting shares to employees and enabling them to deal in the shares annually: share certificates are distributed at the AGM, and this physical manifestation of ownership is an important way of promoting the culture;
- incorporating employee ownership in everything the company does, from recruitment to supervision, so that it permeates the organisation; and
- using general meetings to reinforce the employee ownership message; and
- circulating positive external media coverage to all staff, publicising external awards, and getting staff involved in making presentations to visitors.

Most effective channels for internal communications:

- · General meetings;
- Weekly communications distributed with staff rotas; and
- Supervision sessions with care workers once every three months.

Employee ownership is mentioned in a leaflet provided to potential clients, a growing number of whom are private individuals purchasing their own care. SHCA will stress that co-ownership makes it different and means it can deliver a better quality service based on a retained, engaged workforce.

Suppliers are aware of the company's co-owned status and the company does attempt to involve them in social events, such as the Christmas party.

#### DO

- Be seen to be fair: in the social care sector, this means not operating separate incentives for managers.
- Ensure that employee ownership permeates everything you do and promote the cause to the workforce regularly.

#### **DON'T**

• Impose unnecessary systems or rules on people.

# ETHICS AND SOCIAL RESPONSIBILITY

There is no formal CSR policy, although SHCA will promote environmental awareness to its clients during home visits, for example.

A short mission statement sets out the organisation's philosophy, including respect and fair compensation for workers, treating people positively and the need to provide jobs in a worker-owned company to achieve high levels of service.

The company supports various charities and projects, including the construction of specialist accommodation for children with severe special needs.

It does not have a budget for charitable giving and does not operate to margins that allow it to offer workers sabbaticals to get involved in voluntary work.

External requests for fundraising support are considered by the board.

#### DO

 Always listen to requests for support and try to say "yes" because this activity is an important part of being employee owned.

#### DON'1

 Brush requests aside without properly considering them.

### **CONTEXT**

- Global manufacturing company
- 72% employee owned; 28% charitable trust
- Workforce size: 800
- Annual turnover: £140 million

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting engagement:

- Through the corporate governance structure: 72% of shares are owned by employees, either directly or through an EBT. The remaining 28% are owned by a charitable trust, making the company 100% employee owned effectively. A Share Council, with one representative for every 80 employees, meets with the managing directors of the divisions represented on the board twice a year to discuss performance and long-term strategic issues;
- Through the continuous improvement process: every employee has the right to have a voice on decisions that potentially affect the way they work. Teams operate to continuous improvement principles, with wide participation, giving employees a reasonable level of input and involvement in day-to-day issues; and
- Through communications: employees can contribute and ask questions through a quarterly magazine, and a senior manager must respond. The company also hosts "listening lunches", where senior managers visit locations, listen to individuals and respond to issues; and
- Works Councils or union-based forums discuss terms and conditions.

A bi-annual, wide ranging survey is used to measure employee opinion. Questions asked cover engagement and employee voice, for example, the survey asks employees how they are treated and listened to. Data is collated by department, and fed back and discussed with local area managers, who develop action plans as a result.

Recent examples of actions taken in response to employee feedback include: levels of training, and the extent to which middle managers demonstrate the company values.

Employees are heavily involved in strategic business planning through:

• The Share Council meets twice a year with the group board;

- The appointment of non-executive directors on the operating company boards has to be approved by the Share Council, which looks to these people to counter balance the executive directors; and
- Annual seminar weekend: the Share Council meets with the executive directors to discuss topics of longterm strategic interest (for example, wealth sharing priorities for the next few years).

Employees are informed about business or strategic issues through:

- A specific annual employee financial report: containing easy-to-access financial information and other articles on corporate governance;
- A weekly newsletter on the state of trade, plus a quarterly magazine; and
- Team briefings presented by team leaders, which can take place daily, weekly or monthly.

The company does specify which areas it will consult employees on in the Share Council's constitution. The Share Council operates to a four-box matrix, which sets out:

- issues for information only;
- issues on which the Council will be consulted;
- issues they are consulted on and have a right of veto;
- issues over which the Council have a right of veto with or without consultation.

#### DO

- Commit the time to do it properly.
- Engage line managers: this group has to see engagement as a critical part of their job, so reflect this in their reward (for example, link bonuses to how well they demonstrate values such as empowering staff and health and safety performance). Ensure managers understand the importance of their role in engaging people.
- Ensure people are adequately trained to do the job.

- Be secretive.
- Forget the nature of your organisation, for example, by paying senior managers out of line with the ethos of the company.

# MANAGEMENT SYSTEMS AND REWARD

Although the company's co-owned status is mentioned in job advertisements, it is not seen as a major attractor, as most of those joining are not sure what employee ownership means. This is explained at interview, at which point it is made clear, particularly to senior managers, that they can expect to have their salary details published and for their departments to have the opportunity to comment on their appraisals.

Performance appraisal reflects the business values, for example, discussions will cover how well an individual is integrating into a team and how they demonstrate the business values.

Financial benefits from co-ownership arise from share ownership and bonuses:

- 15.7% of profits is set aside for distribution as a bonus, paid as a proportion of salary, representing the employees' share of success;
- a further 7.5% from group profits is used each year to buy shares from the EBT, which are then distributed evenly to all employees with at least a year's service, regardless of seniority; and
- money is set aside from the cash flow to repurchase shares during the annual trading month to sell back to the EBT. Employees can buy shares through a SIP in this period, and those purchased are matched by free shares.

# Variable reward:

- Performance-related pay: none.
- Profit-related pay: 15.7% of profits is distributed as a bonus. An additional profit-related share distribution means that around 23% of profits in total are distributed in wealth sharing.

Managers are eligible for a separate two-level bonus scheme:

- A short-term element under which managers can earn up to 17% of salary, including 7% based on key tasks; and
- A long-term incentive plan based on the increase in share price and inflation.

#### DO

- Be transparent and open, particularly about any specific incentives paid to senior managers.
- Be prepared to defend the rationale for your reward system.
- Pay competitive salaries, but not out of line with your ethos.
- Ensure the reward system is closely aligned with the business objectives.
- Keep reward clean, tidy and defensible.

- Pay over the odds to senior managers.
- Differentiate total reward by using perks, such as cars, private medical insurance or different pension schemes.

# **GOVERNANCE AND EMPLOYEE VOICE**

The Share Council is the primary employee representative body, and consists of one representative per 80 employees, plus no more than five members appointed by the group board. Meetings are held quarterly and the Council has a right of veto over the appointment of non-executive directors on the group board and any proposed acquisition with a purchase price in excess of £15 million.

Although there are no employee directors, the Share Council meets with the full board twice a year, and also meets non-executive members on the main board separately. The Share Council rejected introducing employee directors on the basis that once on the board, such employees become too distant from their constituencies.

Ultimately, the most important decisions in the company (for example, selling the business) rest with the trustees of the EBT, not the board. This is a ninestrong body, including four trustees from the Share Council, four appointed by the main board and an independent chair, elected by the Share Council.

Supporting the Share Council to perform its role effectively is important, and an annual training needs analysis of its representatives is undertaken. This is used to develop a training programme. All representatives also attend initial induction training, covering report writing, finances, and presentation skills.

#### DO

- Embrace stock exchange corporate governance rules, particularly those on transparency in the provision of information and on senior salaries.
- Be prepared to engage employees in corporate governance activities: they are the shareholders and have a responsibility to participate.
- Ensure that employee representatives are equipped to do the job and given the appropriate tools and training.

#### **DON'T**

 Get frustrated with employee representatives: they have a wide range of skills, and you need to work with all those elected or chosen. Line and senior managers need educating to respect the employees' choice of representation.

# EMPLOYEE OWNERSHIP CULTURE

Main ways of encouraging an employee ownership culture:

- Ensuring all employees are entitled and able to have a say on issues that might affect them;
- Being open and honest about financial information; and
- Ensuring that middle managers are driving and living the company's values.

Most effective channels for internal communications:

- Face-to-face communications cannot be beaten, but are hard to ensure, particularly in a 24/7 operation.
   Ensuring all team leaders are equipped to perform financial briefing is a particular challenge.
- Newsletters and monthly communications can short circuit the grapevine.

The company will stress to customers what coownership means for sustainability – it is able to make long-term commitments and to reinvest profits back into the business.

The company sometimes has to work hard to convince external parties that employee ownership is not a negative attribute (many confuse employee ownership with co-operatives).

Suppliers are interested in the company's financial viability, so it stresses that employee ownership brings long-term stability and reinvestment.

### DO

- Be open and transparent.
- Use employee ownership as a selling point, but subtly and over time by delivering good quality products to deadlines.

# **DON'T**

 Push employee ownership too heavily, as it can turn some customers and clients off – know your customer and how to use your co-owned status.

# ETHICS AND SOCIAL RESPONSIBILITY

CSR and ethics are covered by a number of policies and statements, and the company is currently pulling these together.

A separate set of values covers:

- A progressive approach to safety.
- A progressive approach to the environment.
- Open and honest communication.
- Rewarding and recognising success.
- Fulfilling the needs of customers.
- Continually improving products and processes.
- Effective development and training of employees.
- Employee involvement and teamwork.
- Working with openness, honesty and integrity

The company diverts profits every year into its Russell Trust for charitable activities. This charitable trust distributes around £250,000 to charitable causes annually, generally to pump prime particular charities, both national and local. The trust is managed by a board composed of the group chairman, two non-executive directors from the main board, the chief executive and three family trustees.

The company encourages employees to get involved in their local community, and will provide time off and matched funding for any money they raise.

It also sponsors managers working in the voluntary sector to attend local leadership training activities.

It is the company's 200th anniversary in 2009, and it is looking to build an eco centre locally at a cost of around £600,000.

#### DO

- Focus on short-term gain and use your money to pump prime projects, rather than get locked into long-term sponsorship.
- Encourage self-help by giving groups initial funding.
- Use your CSR activities to promote the company in the local community: recognise the element of enlightened self-interest.

#### **DON'T**

 Get locked in to a long-term commitment to a particular project or charity.

# **Unipart**

### **CONTEXT**

- Large manufacturing company
- Highly developed philosophy of engagement and continuous improvement, The Unipart Way, underpins the organisation
- Workforce size: 8,786 at September 2008
- Annual turnover: £1.1 billion

# EMPLOYEE ENGAGEMENT

Main ways of promoting engagement:

- Invest in training: employees are the key to unlocking business improvement;
- Empower employees and give them permission to make changes: for example, through participating in local quality circles; and
- Communication cells in each area of the business mean teams meet daily to discuss performance improvement.

Unipart uses informal and local site surveys to check employee opinion. The results of these are not reported up to main board level, but actioned locally. Employees are also encouraged to raise issues at daily team meetings.

Employees are not involved at the most senior level of strategic decision making (ie the board) but Unipart operates a Policy Deployment process, through which the board sets out its strategic priorities, which are cascaded to divisions and teams, who prepare their own plans to support the overall strategy. This strategic planning process is a formal one and takes place at ½ day sessions annually, with quarterly reviews.

The main way in which employees influence their jobs or working environment is through an established continuous improvement process – employees are empowered to improve processes at the local level, and the team briefing is the main conduit for this action.

#### DC

- Set out your stall, in terms of values, clearly.
- Live the organisation's values with authenticity and introduce physical manifestations of the values, for example, onsite gyms, learning centres.
- Encourage a "give it a go" spirit and create a culture where it is OK to get it wrong as long as there is a learning experience attached to a mistake.

#### **DON'T**

- Assume that people join your organisation for life: the workforce is diverse and has different reasons for becoming engaged, so reflect this in your philosophy.
- Assume people are work shy: the majority want to improve themselves, so give them the chance.
- Compromise on recruitment processes: getting the right people in the first place is vital for employee engagement. Hire for talent.

# **MANAGEMENT SYSTEMS AND REWARD**

Employee ownership is not featured in job advertisements but is mentioned at interview, but not in any detail.

During induction the company stress the Unipart philosophy of working, and the vital role of employees, rather than employee ownership per se, although the details of share ownership are presented.

There is a clear link between individual performance objectives and the Unipart values, which themselves are linked to employee ownership.

The company also operates a six-weekly reward scheme for outstanding service, and people are rewarded with free shares.

Financial benefits from co-ownership arise from share ownership:

- Employees hold shares in their own name and get to trade them once a year during a trading month in December;
- The only way they benefit as shareholders is through capital growth in share value, as no cash bonus is paid; and

# **Unipart**

- Free shares have been given as part of the Mark in Action recognition programme for outstanding personal customer service;
- 55% of staff hold shares in their own names.

#### Variable reward:

- Performance-related pay: in practice, people receive an annual merit increase determined by the appraisal process, but this is not formalised.
- Profit-related pay: an unconsolidated profit-related bonus at team level (for example, based on accuracy in storekeeping) is paid. There is an element of bonus in this reward, but the remainder is related to the profits of the division. Further up the hierarchy, profit-related reward is distributed on an individual basis.

A number of people in the organisation are eligible for share options, which are allocated at a fixed price and individuals can decide whether to purchase them after three years.

# DO

• Consider the ethics of offering shares to people when the price is static or even falling.

# GOVERNANCE AND EMPLOYEE VOICE

Three divisional level forums exist, each composed of around 10 people, operating as traditional joint consultative bodies. The forums meet on a timetabled basis, typically once a month to discuss local site conditions, although are discouraged from drifting into "tea and toilet" type issues, but to concentrate on business performance, expectations for the future and how the forum can contribute.

There are no formal channels for the deliberations of the forums to feed through to the board, although senior managers (and particularly any divisional managing directors sitting on the forums) do take issues to the board (for example, pension scheme eligibility was recently raised at board level).

New representatives on the forums receive training from the EEF, covering negotiating skills, and how to act as a representative without letting your own views dominate. Each forum reviews its own working practices once a year.

There is no employee representation at board level and employees are not involved in selecting any tier of management, apart from at local level on an ad hoc basis.

- Try hard to ensure that representation goes through to the most senior level.
- Treat employee representatives as adults and do not patronise them by trying to protect them from hearing bad news.

# **Unipart**

# **EMPLOYEE OWNERSHIP CULTURE**

Main ways of promoting an employee ownership culture:

- Operating a structure that enables the business to take a long-term view: as an employee-owned business, Unipart is able to take the long view;
- Operating a market in shares;
- Holding meaningful AGMs giving employees a real voice, which they use; and
- Making employees the key to unlocking business improvement.

Most effective channels for internal communications:

- Daily team briefings;
- Face-to-face communications; and
- Internal video service ("Grapevine").

Unipart promotes its co-owned status with customers strongly, using employee ownership as a selling point. It stresses that co-ownership means it can take the long view and make investments without going to the City.

Co-ownership is also promoted to suppliers, who Unipart views as partners. Major suppliers are encouraged to attend Unipart-organised courses on the extended organisation and the cultural message of partnership working. It believes this supplier engagement gives Unipart a reputation as a trustworthy organisation with a long-term view.

# DO

- Emphasise the importance of employees to the business in dealings with customers.
- Promote peer-to-peer communications, not just management to peer.

### **DON'T**

Over communications and do not rely on emails

# ETHICS AND SOCIAL RESPONSIBILITY

Unipart subscribes to the BITC corporate index of CSR, focusing on the workplace (including health and safety and engagement), the environment and the community. The BITC approach requires participants to demonstrate that they have made business benefits as a result of CSR activities.

Unipart donates at least 1% of profits (£200,000 in 2008) to charitable causes, and selects two or three national initiatives a year to support, which are cascaded to local sites.

The company emphasises employees' time commitment to community causes in addition to any money donated, believing this has business benefits in terms of retention, recruitment and a raised profile in the local community.

Site champions are appointed at each location to organise participation in local activities to support the nationally agreed initiatives and others approved by the site managers.

Employees may take time off to participate in larger, overseas projects, but this is not actively promoted.

# DO

 Tie CSR activities with business outcomes: this creates a virtuous circle and also means senior people are more likely to engage because they see the business benefits.

- Throw money at charities.
- Get too involved in high profile, national events or charities: employees are sufficiently motivated to get involved in these without the employer's encouragement.

# Wilkin & Sons

# **CONTEXT**

- Co-owned manufacturing company
- Describes its approach to employee ownership as low key
- Currently re-examining the ownership structure

• Workforce size: 201

· Annual turnover: £20 million

# EMPLOYEE ENGAGEMENT

Main ways of promoting engagement:

- Employee Benefit Trust is promoted whenever suitable opportunities arise;
- The co-owned structure of the company is promoted at induction; and
- The employee handbook describes the ownership structure.

No employee surveys or other informal means of measuring employee opinion are used and employees are not involved in strategic business planning.

Employees are informed of major changes through staff briefings, which are held guarterly and when needed.

The company fosters an open management style in which employees are encouraged to talk to their line manager or a director.

Employees can also have an input into improving their jobs or working environment by using a suggestion scheme, and they share any financial improvements resulting from their suggestion.

#### DO

- Use staff meetings to foster engagement: but try and keep them small to encourage all employees to speak and be more proactive.
- Communicate strategic business news face-toface initially wherever possible.

### **DON'T**

• Use circulars alone to convey news.

# MANAGEMENT SYSTEMS AND REWARD

Although the company's co-owned status is not mentioned in recruitment literature, it does feature in the induction process, when the EBT is explained. Managers will also explain how the ownership structure links to the firm's philosophy of sustainability and being in the business for the long-term.

Inductions encourage employees from an early stage to believe the company is their business.

Financial benefits from co-ownership arise through share ownership:

- An EBT holds 45% of the votes through its holding of 2.5% Cumulative Ordinary shares and has a trustee board of five, including two employees. Its role is to keep a watching brief on the company's operations and performance. The intention is for the EBT to acquire the entire class which would give it voting control by a small margin.
- One class of shares A shares have been put into a SIP, which is used to gift free shares twice a year to employees on the basis of salary. These shares are held in individuals' names but in the trust. Employees receive free shares after one year's service and are able to sell them back to the EBT on leaving employment, or after five years (tax free).
- Employees, therefore, benefit financially from any capital growth in the shares: dividend payments and growth in the share price.

Variable reward:

- Performance-related pay: none.
- Profit-related pay: a percentage of the trading profit is put into a pot each year and distributed as a bonus to all staff, amounting to less than 5% of salary.

There is no separate incentive scheme for managers or sales people: the company works on long-term principles and is reluctant to use financial incentives to push people to perform in one year, only for the performance to disappear the next.

#### DC

- Be transparent in all aspects of reward, including bonuses.
- Treat people equally and fairly.

# **DON'T**

• Treat people differently: reject specific rewards for particular groups, for example, sales people or senior managers.

# Wilkin & Sons

# GOVERNANCE AND EMPLOYEE VOICE

There is no employee representation at board level, although two out of five trustees on the EBT are employees.

The company is currently looking to strengthen the EBT as a defence against hostile takeovers, and the board discusses this issue regularly, but believes it needs further advice on how to structure this body for the future to make it more watertight.

There is no formal employee representation structure.

### DO

- Always have the long-term in view: review governance structures to ensure they protect the sustainability of the business long-term.
- Maintain good communications.

#### **DON'T**

 Use employee directors: they cannot sit on both sides of the fence and are bound to encounter conflicts of interest. Employees can put their voice to the board through other channels.

# **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Spreading the gospel about the EBT: for example, there is a hardship fund within the EBT, which has helped some, and the EBT is also used to pay exceptional bonuses in really good years;
- Pay a dividend to employee shareholders; and
- Allocate free shares: people selling back to the EBT see a financial gain from their ownership.

Most effective channels for internal communication:

- Staff briefing: sometime company wide, but usually in groups on an ad hoc basis;
- · Newsletters; and
- Notice boards.

The co-owned status of the business is not mentioned or promoted to either customers or suppliers.

#### DO

 Keep plugging the message so that employees understand what employee ownership is all about.

- Lead employees to believe they will be consulted on all decisions: be wary of building up too rosy a picture of employee involvement.
- Trumpet co-ownership too much externally by promoting it heavily in dealings with customers or suppliers.

# Wilkin & Sons

# ETHICS AND SOCIAL RESPONSIBILITY

There is no formal CSR policy, but a formal statement of values appears in the employee handbook, covering trust, integrity, excellence, respect, fair reward and celebrating success.

The company encourages employees to get involved in charitable activities by:

- Actively encouraging, particularly senior staff to engage in external voluntary activities;
- Encouraging all staff to put together teams to participate in charity competitions and challenges; and
- The company plays a large part in the life of its community, which is village based.

There is no budget for charitable activities and the chairman decides whether to support a particular application for support, and tends to favour local charities and causes, particularly schools within a 30-mile radius of the site.

- Support local causes if you are small organisation with a limited budget: otherwise your contribution is a mere drop in the ocean.
- Give a little to many, rather than more to a few
- Encourage employees to get involved as this helps the company's reputation and staff morale.
- Ensure one person is responsible for making decisions on which charities to support, otherwise you may find you are giving to the same groups twice.

# **Woollard & Henry**

### **CONTEXT**

- Specialist manufacturing company
- Scottish based
- Annual turnover: £2.7 million
- Workforce size: 32

# **EMPLOYEE ENGAGEMENT**

Main ways of promoting employee engagement:

- Senior managers walking and speaking on the shop floor: people do very specialist jobs, and they are the ones who know what is happening, so responsibility tends to be delegated to them;
- Weekly meetings to discuss order and the financial aspects of the company; and
- Providing an opportunity to participate in share ownership: employees acquire shares by buying them through a SIP, or acquiring free shares if financial targets are reached (£250 in shares was paid to each employee in this way last year).

Employee opinion is measured through participation in the Baxi Partnership's annual survey, and through weekly staff meetings, which take the form of an open forum at which people always ask questions (for example, on the finances, external audits, or customer visits).

Employees are involved in strategic business planning through the election of two employee directors on the board, who take an equal part in determining strategy. Strategic plans are then presented to the full workforce for buy-in and ratification.

Employees are informed about business issues through announcements at the weekly meetings, and at AGMs or EGMs for strategic issues.

All areas of the business, except remuneration practices, are open for discussion, although this is not formally specified.

Employees on the shop floor are specialists, so tend to make suggestions as to how their job roles or working environments can be improved, and reasonable requests are acted on.

#### DO

- Tell the truth when asked, even if this is not palatable.
- Control delivery of less than good news to avoid it spiralling into a bad news story.

### **DON'T**

 Raise expectations too high until you are confident of delivering financial benefits from employee ownership.

# MANAGEMENT SYSTEMS AND REWARD

Employee ownership is not mentioned in job adverts, but is raised at interviews, where recruiters will explain the company structure and the potential benefits for staff.

The information provided at interview is reinforced during induction sessions, as many people do not take it in at the former. Managers talk about potential entitlement, using historical figures, but will also set out employees' responsibilities as co-owners to make the company profitable.

Financial benefits from ownership:

- An amount of profit is set aside if the company reaches targets, which is distributed as a bonus, free shares and matching shares to those bought by employees from the SIP, and as a dividend. £60,000 was distributed in this way in 2007.
- Employees also benefit from any increase in share price: which has risen from 80p in 2006/07 to £1.54 in 2007/08.

There is no variable element to reward, and no separate incentive scheme for managers.

#### DO

• Treat people equally, especially when sharing profits.

# **Woollard & Henry**

# **GOVERNANCE AND EMPLOYEE VOICE**

Two of the full board members are elected from the workforce, rotated on a three-yearly basis. Currently, one employee director is from the shop floor and one is from the office.

As part of the Baxi Partnership, the company taps into Baxi training for elected representatives and trustees, which covers the responsibilities of directors and employee ownership.

### DO

- Listen and explain management actions.
- Provide an opportunity for employees to speak at a regular forum, even if they chose not to
- Be honest but manage expectations.

#### **DON'T**

 Promise what you cannot deliver: people get fed up hearing the same old promises.

# **EMPLOYEE OWNERSHIP CULTURE**

Main ways of encouraging an employee ownership culture:

- Ensure employees are aware of the company's financial position: this can be risky when the trading position is hard, but is a powerful tool in good times;
- Distribute shares: this is a powerful tool when the share price is rising, but needs careful management in harder times; and
- Give people the power and responsibility to shape the business through giving them a voice.

Most effective channels for internal communication:

- Senior managers walking the shop floor; and
- Weekly meetings: take place at coffee time and obtain high attendance.

The company does mention its co-owned status in discussions with customers: stressing that this means it is in all employees' interests to get the job right first time, and not to have to do repeats. The company stresses that employees understand the value of high quality work.

However, it is also important to ensure that customers appreciate the difference between employee ownership and a co-op – and that managers still manage.

#### DO

- Stress to customers that an employee owned company is similar to other well-run organisations, and that managers still manage.
- Distribute some shares in the company at the earliest opportunity so that employees possess a bit of paper declaring their physical stake.
- Make sure the business is robust from the outset and in a strong position to support an employee ownership culture (ie, people are not turned off when times get hard).

#### **DON'T**

• Raise expectations too high.

# ETHICS AND SOCIAL RESPONSIBILITY

The Baxi founders' wishes are relevant to the company.

The firm also has a statement of values in its Articles, specifying a range of issues, including fairness, treating people with respect and the need to pass the organisation on in good shape to future generations.

The company does not have a budget for charitable activities and tends to support employees' efforts in an ad hoc manner.

#### DO

• Work to the Baxi Partnership principles.