



Employee Share Ownership
Australia & New Zealand

Philippines Delegation Study Manual

Employee Ownerships: Their Role in Social
Entrepreneurship and Social Enterprise

Coops and Social Enterprise

- Coops are businesses that are subject to the same market and economic forces as all models of enterprise
- Coops trade for both social and economic purpose.
- The purpose of a coop is to maximise social and economic benefit to members by engaging in economic activity.
- A coop's members – whether they are consumers, workers or producers – are the owners of the business as well as the users of the goods and services

Continued - Coops and Social Enterprise

- Coops are governed on a one member one vote basis.
- The members are responsible for the success of the business – coops cannot be done “for” people.
- Risk and reward are shared amongst members
- Coops meet a common, community defined need
- Coops globally operate to a common definition and set of values/principles

International Cooperative Principles

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operation among co-operatives
7. Concern for community

Types of Cooperative

- 1. Producer** — is a type of co-operative where the members are producers of goods/services.
- 2. Consumer** — is a type of co-operative where the members are the customers of the enterprise's goods or services.
- 3. Worker** — is a type of co-operative where the members are the employees of the business.
- 4. Hybrid** — is a type of co-operative that has more than one membership class (for example, consumer and worker).

How to Form A Cooperative

- Cooperatives in Australia: A Manual
<http://www.rdamnc.org.au/publication/co-operatives-in-australia-a-manual/>
- Sections -
 - - Understanding cooperatives
 - - Forming a cooperative
 - - Running a cooperative
 - - Changing and leaving a cooperative

Getting Registered

- Registry of Cooperatives web-site :
http://www.fairtrading.nsw.gov.au/ftw/Cooperatives_and_associations/Registering_a_cooperative.page
- Step 1 - rules and disclosure statement
- Step 2 - the formation meeting
- Step 3 - apply to register your co-operative

Employee Share Ownership Plan (ESOP)

- There is another model of enterprise, one which offers flexibility and community wealth generation: employee ownership.
- Similar to worker co-operatives, employee-owned firms are majority-owned and controlled by their employees, but not necessarily on a democratic basis.
- In Australia, they are known as ESOPs – employee share ownership plans - which are operated through a “Trust” structure
- ESOP Trust based plans are used to cut employees into ownership during start-up and growth
- ESOPs are also used for business succession to buy out an existing owner’s share over time
- Tax benefits are potentially available to ESOPs
- ESOPs have the ability to leverage finance

The Leveraged ESOP

A leveraged ESOP looks like this



Employee Ownership

- An employee-owned company therefore is one where the majority of employees own the majority of the shares in the business.
- While not strictly co-operatives, employee-owned companies often implement democratic governance procedures and promote strong employee engagement in management.
- Employee ownership also drives increased productivity and business performance, as well as job security
- Employee ownership can be the most flexible of models and can take one of various forms.

Forms of Employee Ownership

- **Direct employee ownership** — using one or more tax advantaged share plans, employees become registered individual shareholders in their company. In comparison to worker co-operatives, votes are usually cast according to the number of shares held;
- **Indirect employee ownership** — shares are held collectively on behalf of employees, normally through an employee benefits Trust (ESOP);
- **Combined direct and indirect ownership** — a combination of individual and collective share ownership.

Typical Employee Ownership Scenarios

- **Start-ups** – group commences business which employs them.
- **Business succession** – private owners, such as an entrepreneur or family member, decide to sell the business to their workforce;
- **Professional Partnerships** – partners might decide to broaden ownership to cover most or all employees, reflecting the need to attract, retain and motivate talented people;
- **Insolvency or closure threat** – employee buy outs can prove an effective route to recovery for businesses that might otherwise fail;
- **Independence** – companies may decide that a significant and even majority employee stakeholding will demonstrate and help protect the company's independence;
- **Privatisation** – when services are going to be privatised there can be opportunities for employee owned “public service mutuals”;
- **Owner vision** – as in the case of the John Lewis Partnership or Arup Group, the founder of a business opts for employee ownership at the outset of the business or later.

Social and Economic Benefits

- Research studies around the world suggest that employee owned businesses offer three important social and economic benefits . These are:
- Improved organisational performance and efficiency.
- Employee and user engagement, with its resulting influence on service improvement and consumer directed care.
- Wider benefits to society resulting from a greater sense of citizen empowerment and responsibility.

Employee ownerships: Their Role in Social Enterprise

- Starting up and running employee owned social care enterprises.
- Saving jobs through keeping businesses under threat of closure in business through employee ownership.
- Devolving public services to employee owned mutuals.
- Divesting a service unit from a large charitable agency to the employees of that unit.
- Employees taking over and running existing social services.

Examples of Employee Owned Social Enterprises - Australia

- Australian Independent Living Enterprise (Sydney) – cooperatively owned home care workers start up - <http://www.carecoop.org.au/>
- Nundah Community Enterprises Cooperative – businesses cooperatively owned and operated by people with a disability - <http://www.ncec.com.au/>
- Resource Work Cooperative – worker owned recycling and employment cooperative <http://www.resource.coop/>
- The Tamara Cooperative trading as the Desert Fruit Company – worker owned date farm in a remote area - http://www.desertfruitcompany.com.au/?page_id=286
- Reverse Garbage – worker run recycling cooperative - <http://www.reversegarbageqld.com.au/about-us>
- Tarcutta Textiles – job saving employee buyout operated as a cooperative factory - <http://www.tarcuttatextiles.com.au/aboutus.html>
- Bicycle Revolution – bicycle shop and repair service operated as a worker cooperative - http://www.bicyclerevolution.org.au/Bicycle_revolution_about_us.htm

Examples of Employee Owned Social Care – International

- Sunderland Home Care Associates – winner, “Social Enterprise of the Year”, UK, 2006 (operated through an Employee Benefits Trust)
<http://www.sunderlandhomecare.co.uk/>
- Leading Lives – a public service mutual in the UK spun out of the public sector as a large disability service (operating as a Community Interest Company)
<http://www.leadinglives.org.uk/about-us/how-we-operate>
- Cooperative Home Care Associates, New York, “Best for the World” B-Corp, 2012 (operating as a worker cooperative)
<http://www.chcany.org/>
- CPES (Community Provider of Enrichment Services Inc.), Arizona, USA, a large disability services provider in the west of the USA (operating as an ESOP).
<http://www.cpes.com/>

Case Study Results – HR

- Job satisfaction linked to democratic principles
- Pride by staff in their status as “co-owners”
- Whole of company involvement in strategic direction
- Commitment to teamwork
- Sense of value – employees views considered at Board level.

Case Study Results - Operating Efficiencies

- Broad-based innovation - service design improvements
- Ready acceptance of new systems that improve work-flow
- Increased productivity
- Low staff turnover
- Commitment to achieving KPIs and growth targets

Case Study Results – Competitive Advantages

- More engaged staff - direction setting, commitment to quality, achieving targets
- Lower staff turnover, fewer compensation claims
- Commitment to continuous improvement – design improvements, taking on new clients, external and customer feedback.

Enterprise Growth through Ownership Culture – ‘The Five Tasks’

- Free flowing information
- Individual autonomy
- Opportunity for All
- An atmosphere of trust and respect
- All share a stake in the outcome.

Task 1 – Free Flowing Information

- Install Open Book Management or similar
 - includes all employees in the management of the enterprise
 - gives people the information they need to successfully participate in achieving common objectives
- Communicate all information
 - Financial information
 - Operational processes
 - Current issues and business priorities
 - Future plans and strategies
- Make communication networks work

Why Share Information?

- It's the right thing to do. People respond to inclusion
- Regular information sharing improves enterprise performance and growth through ongoing disclosure and reporting
- Makes it easier to weather difficulties
- Generates more efficient use of resources
- Input closer to problems, faster recognition and solution, shared responsibility
- It's also a lot of fun!

Task 2 - Individual Autonomy

- Giving employees the right and the responsibility to fix problems really pays off.
- When a problem arises, it is likely that the person closest to the work will see the problem first.
- The easiest time to fix a problem is as soon as it is noticed. Delay always makes problems worse.
- Autonomous people require less management

Task 3 - Create Opportunity

- Tackle the 'poverty of aspiration'
- Develop your employees' ambition and make it your friend.
- Giving employees a chance to share in the outcome engages them in ways that magnifies the positive and minimises the negative.

Task 4 - Develop Trust and Respect

- Respect means more than just listening to people or suggestion boxes or “open door policies”
- Respect cuts both ways – it is both given and required and includes a willingness to communicate both the good and the not so good
- Trust is the result
- Respect is the driving feature of a corporate culture that is open, cooperative, collaborative and performance oriented.

Task 5 – Share Enterprise Results

- For best results, cut stakeholders into formal ownership of the enterprise
- When broad ownership is coupled with participative management, growth and performance are enhanced.
- Fostering an “ownership culture” creates a much larger organisation to share.
- Ownership is just one element in the recipe – it won’t cover for bad management.

Social Care and Ownership Culture

- Ownership and participation delivers social inclusion
- Ownership culture delivers sustainable business growth
- The chase for solvency becomes everyone's responsibility
- The “best” workplaces deliver pride and commitment
- Sharing ownership and revenue with low income staff creates wealth and stability in less well off communities.
- Broadly owned ‘for social purpose’ business creates an alternative to ‘footloose’ private enterprise – business is anchored in the community.
- Employee ownership promotes ‘controlling your own destiny’ – increases personal satisfaction.

The Choice is Yours

Setting up an employee owned social enterprise is for you if you think that:

- Through shared ownership, you can run a service more effectively, achieving better outcomes for users.
- You can deliver a service more efficiently, saving on costs and time through shared ownership arrangements
- You have identified a gap in service provision
- Employees need to have a greater say in the service they are working in.

Getting Started on the Social Enterprise Journey

- Social innovation is driven by organisational innovation
- Structure follows strategy - the right organisational structure is determined by your strategy, which in turn is driven by your social objectives and capital needs.
- Preparing your enterprise for start-up and growth requires:
 - an engaged workforce, and
 - not just a great group of people, but a community of stakeholders sharing a culture of ownership

Defining Need and Organising Member Owners - Checklist

- What is the 'common need' that will give the group its identity.
- What is motivating the drive towards "collective activity" to meet the community need.
- What is the service that will need to be provided to meet the community need
- What is the group's initial plans for this service
- What business best defines the service to be provided
- Why is an employee owned structure being chosen to own and operate the business.

The Business Plan

- The “Business Plan” is the paper representation of your co-operative, taking into account the various aspects (strategic, operational, marketing, financial, purpose, risk) of the organisation.
- 1. **Strategic review** – brings together the work you have done previously, including: the need, purpose, objectives, and values and principles of the business; member and stakeholder analysis; competitor analysis; SWOT
- 2. **Marketing plan** – involves two stages: market analysis (which could be done through a Feasibility Study) and market forecasting.
- 3. **Operational plan** – explains how the business will be structured, the resources it requires and how these will be used.
- 4. **Model the business** – this section examines how the business will generate revenue, manage costs, and secure investment. It can be thought of as the roadmap of how the business will be successful economically.

The Business Plan - continued

5. **Evaluate and select strategy** – involves reflecting on and analysing the organisational design of the business, and the marketing, operational, and business model plans.
6. **Examine funding issues** – it is vital that the business's capital needs are well-served at the beginning of and throughout its existence. Considerations at this stage include projected cash flows, the type of funding required (debt, equity, grant), and short, medium and long-term capital requirements
7. **Perform risk analysis** – the SWOT analyses are relevant here.
8. **Present and approve the business plan** – the business plan is vital in securing start-up capital (from members and/or commercial lenders) and support from social enterprise development bodies.
9. **Implement the business plan** – proceed to the implementation stage of the venture creation process.

Cooperative Entrepreneurship

- Co-operative entrepreneurship is a form of joint entrepreneurship. Broadly speaking this means that there is more than one entrepreneur involved in the creation of a new venture.
- A more accurate definition of co-operative entrepreneurship is the establishment of a co-operative or mutually owned enterprise.

What do you need to be a co-op entrepreneur?

- Co-operative entrepreneurs set up enterprises.
- To do this, you require many of the same characteristics which other non co-op entrepreneurs tend to possess naturally - or which they develop by engaging in business activity.
- Most entrepreneurs display determination, a capacity to innovate and 'think outside the box', a willingness to take risks, and good communication skills to promote their ideas to others.
- Owing to the unique characteristics of co-operative enterprises, co-op entrepreneurs also need to possess a few specific traits and attributes to be able to establish these types of businesses.

Cooperative Entrepreneurship - Specific Attributes

- A commitment to working democratically and for the good of the collective, rather than for personal gain;
- A willingness to share risks and rewards with other members;
- An understanding of and commitment to the co-operative values and principles;
- An understanding of how co-operation adds value to the business.

Web Links - Practical Tools

- The Business Council of Cooperatives and Mutuals
www.bccm.coop
- Employee Ownership Australia
www.employeeownership.com.au
- Publications on ESOPs – the National Center for Employee Ownership in the US
www.nceo.org

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