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it's our business

newspad of the Employee Share Ownership Centre

Fears for share schemes at takeover target Asda

More than 25,000 **Asda** employee shareholders fear for the future of their successful SAYE-Sharesave schemes, based on the shares of parent company Walmart, as a takeover loomed. Two billionaire brothers from Blackburn appear to have won the battle to buy Asda from US based **Walmart**, in a deal valuing the UK supermarket chain at £6.8bn. A consortium of Zuber and Mohsin Issa's EG Group and private equity firm TDR Capital will take a majority stake in Asda, unless a possible late bidder, or the regulator, spoil the party.

The employee shareholders received a bumper £62m return from Walmart's 2016 SAYE-Sharesave, which matured in July last year. Its share price has more than doubled from $65 in October 2015 to c. $146 (£113) by mid-October this year.

Participating employees saved to accumulate share options in Walmart, with the standard 20 percent discount, gaining the option of buying then selling them for a return after vesting. If the Competition & Markets Authority (CMA) gives the takeover regulatory approval, employee shareholders will be forced to sell their Walmart shares to the consortium, assuming no late rival tops the bid. Employees again stand to make a tidy profit on the value of their latest Walmart share options compared to where the share price stood a year ago.

However, there are doubts as to whether the new ownership consortium would want to install any new employee share schemes. According to an investor blog, once the takeover goes through,: *either* colleagues (employees) would get back the total *cash* they have paid monthly into the SAYE scheme for the share options that haven't matured, *or* (more likely) participants would be awarded at once the Walmart shares they have options to purchase through the discounted price - and so the scheme would end. A blog user claimed that Asda would not offer any replacement share scheme benefits to employees once the takeover had been finalised, though that is, for the moment, only speculation. Another worry is that, as a privately held company, EG Group is thought to have little knowledge of all-employee share schemes.

Many Asda senior managers hold Walmart restricted stock units (RSUs), which they were awarded as a retention tool. RSUs normally cannot be sold until they mature every three years. Walmart will come under pressure to allow early maturity of these stock units once Asda changes ownership. TDR Capital's view of the current share schemes is not known.

From the chairman

Many stories in this newspad show that - in addition to members' core interest in share schemes - much new thinking is bursting through at the same time. The Treasury may become a shareholder in startups, people care less who owns things as long as they deliver a service, companies want to reward people who contribute but aren't necessarily employees.

From the US we learn that grants of restricted stock or restricted stock units (RSUs) are now more common than grants of stock options. Employees need to understand core issues with these grants if they are to build wealth and prevent costly mistakes.

Users of myStockOptions.com in the United States are encouraged to start by looking at the stock grant agreement, the stock plan, and any employment agreement to confirm the facts and detect inconsistencies. But what is needed, in the UK too now, is a free direct and neutral source of guidance. There is a limit to what can be expected of employers.

At the UK Shareholders Association (which I also chair and where we enjoy reciprocal membership) this is now work in hand.

Malcolm Hurlston CBE

The Centre has long argued that corporate acquirers should be *required* to replace established all-employee share schemes (*which they have to do under company law, to recover 100 percent of the equity)* with new schemes, in those companies which they takeover.

Centre chairman **Malcolm Hurlston CBE** said: "Asda's share schemes were introduced by its transformatory chief Archie Norman, who later sold the company to US-based Walmart. They have remained popular among employees, even though the SAYE options they subscribe for are for shares in Walmart. Sadly, the omens do not look good, at the moment, for the survival of all-employee share ownership under the likely new owners.

"Over the years, there has been a loss of all-employee share schemes from UK companies taken over by mostly foreign based multinationals other than those based in France or the United States. DP World (Dubai Ports), a UAE state-owned company, acquired the UK-based P&O group and then closed its employee share schemes, without replacing them.

"Walmart should know that allowing the schemes to die would contribute nothing to management-employee relations; rather it would breed employee perceptions that their working lives were owned by remote figures who did not care for them. So it should consider a condition of sale that broad-based employee share ownership will be maintained under the new owners and not just restricted to the executive elite.

"We need public reassurance from a minister, backing the Centre and the Asda Eso participants on this issue, with perhaps a word from BEIS in the ear of the regulator. Archie Norman is now senior nonexec of BEIS...

"The adverse impact of the pandemic on share prices has made some companies much more vulnerable to hostile takeovers, so Asda/Walmart will not be the only case where the future of well-established employee share schemes could be in doubt," warned Mr Hurlston.

Approval by the regulator would mean Asda returning to majority UK ownership for the first time in two decades. The speculation was that, if they did succeed, the Issas would take a 20 percent equity stake each in Asda, TDR Capital 40 percent, with Walmart holding the remaining 20 percent. Walmart decided to sell a controlling stake in Asda after shelving plans to float the business following a planned £7.3bn merger with Sainsbury's, which was blocked on competition grounds. Walmart bought Asda in 1999 for £6.7bn and it plans to retain a minority stake in the supermarket chain after the sale goes through. Announcing the deal, Walmart said Asda would keep its Leeds headquarters and its ceo, Roger Burnley, would remain in place. Asda already has a relationship with the Issas through their petrol forecourt business. The brothers own EG Group, which has more than 5,200 petrol stations in the UK and Europe. EG Group's auditors, Centre member **Deloitte**, resigned abruptly, allegedly due to concerns over governance and internal controls within the EG Group, raising the probability of a full-scale probe by the regulator into the proposed takeover. Mohsin and Zuber Issa's company, initially called Euro Garages, expanded from a single site in Bury, Greater Manchester. TDR Capital now owns half of the group, with Zuber Issa controlling 25 percent and brother Mohsin the remaining 25 percent.

Valuation battle sours digital bank's CSOP

Staff at **Revolut**, the $5.5bn digital bank, voiced their frustration over the company's handling of its tax-advantaged share option scheme. Employees faced delays getting the share options due to them and claimed that they had little sight of the options they had earned since late last year, according to an inside source.

During the height of the pandemic lockdown in April, Revolut sought to cut costs by offering staff the chance to swap part of their salary for share options on a two for one basis, meaning £1 of salary could be exchanged for £2 in share options. This *Shares For Salary* strategy is being used by a number of companies in an effort to save jobs.

Revolut used a tax-advantaged Company Share Option Plan (CSOP) to grant share options to staff. Under its rules, employees must be able to acquire shares at a price no *lower* than the market value of the shares on the date the option was granted.

It is not known how many staff took Revolut up on this scheme, but apparently, employees were uncertain about the extent and value of their holdings for the better part of this year, claimed the FT-supported website *Sifted*. Revolut explained that the delays were due to a lengthy to and fro conversation with HMRC over how it valued shares in the business. The fintech business took in $500m from investors in February and topped up that round with an additional $80m in July – both at a valuation of $5.5bn. Before any further share options could be granted to staff, the company had to report these transactions to HMRC so that the latter could make its final valuation assessment. However, the Covid-19 pandemic resulted in significant delays to this process. The pandemic affected financial projections that Revolut had included in an earlier report for HMRC, which had to be updated. Revolut finally filed its report with HMRC in July and heard back from the taxman on September 23. HMRC said: "Due to taxpayer confidentiality, we're unable to comment on an indefinable business."

"*For Revolut, having our employees share in the success of our business is really important*," said a company spokesman. "*We want all our people to be rewarded for the hard work that makes our success possible. That's why we place a high value on all our people having the opportunity to become shareholders*."

Revolut has updated staff on HMRC's valuation and what it means for them. Staff were told they have a *ten-year* window in which to exercise their options, even if they leave the company. They were told too that anyone who had left Revolut before the missing options were granted would still receive their options and that these would vest on a pro-rata basis up to the date they left the company. However, some employees remained confused about the value of their share options and the impact of the changes, the source claimed. Part of the appeal of working for a highly valued tech start-up is the chance to be a part-owner and to profit from any future sale or stock market flotation.

Advisers who work for Centre members stress the importance of ***regular*** *two-way communication between executives/HR managers and the workforce about all aspects of tax-advantaged share option schemes, to reduce the prospect of employee anxiety over the award of share options, the mechanics of which participants may not fully understand, even in the high tech start-up sector if, for example, they are part of a Shares For Salary scheme.*

EVENTS

British Isles share plan symposium

The Centre is to deliver its fourth annual share plans symposium in **online** format on three successive days, namely **March 23, 24 and 25** next year. This key event, originally scheduled to have been held in the London HQ of a senior Centre member firm, has been postponed twice, due to Covid restrictions,

The online format will comprise three, hour-long, live webclaves with the speakers for each day forming a panel discussing the topic of the day with delegates able to interact live. Supporting material for each webclave will consist of the speakers' pre-recorded 20 minute video presentations, which will be released on the day before that speaker's live panel session.

The revised outline programme now looks like this:

Day 1 - Webclave: **All-employee share plans and share plan regulation**

Speakers: Baker McKenzie, Pett Franklin, Travers Smith, Computershare & EQ

Day 2 - Webclave: **Executive equity incentives**

Speakers: Deloitte, Linklaters & Willis Towers Watson

Day 3 - Webclave: **Eso opportunities for SME companies**

Speakers; Bird & Bird, David Craddock, Doyle Clayton & Rm2 Partnership

Programme segments will include the impact of the pandemic on employee share plans and on executive remuneration trends. Further details to be announced.

Our thanks to **Ocorian,** the independent Channel Islands based provider of corporate and fiduciary services, for its patience in co-sponsoring the symposium, which offers participants latest guidance on installing and operating employee equity schemes for companies of all sizes.

Delegates from share plan *issuer* companies, large or small, are welcome to attend **free of charge**, though you must register your planned attendance in advance with Juliet Wigzell (see below).

Speakers needing to update their presentations should inform Fred Hackworth at: fred_hackworth@zyen.com. For all other enquiries about this event, including attendance logistics and reservations, please contact Juliet at juliet_wigzell@zyen.com or call +44 (0)20 7562 0586.

newspad **all-employee share plan awards 2020**

Submissions are now open for the 2020 newspad all-employee share plan awards. The newspad awards recognise the achievements of companies which offer employee share plans and hold up best practice models for other companies to follow.

This year has been particularly challenging and the awards reflect this with a new category focussing on share plans and the Covid crisis. All-employee share plans can play a key part in rising to such challenges by contributing to employees' savings, morale and engagement. This award category is designed to recognise ingenuity in adapting a share plan to fit the rapidly shifting landscape.

Companies can nominate themselves or advisers can make submissions on behalf of clients. The deadline for all nominations is 17:00 on Friday January 15 2021. Results will be announced at the British Isles share plan symposium.

The award categories this year are:

1. **Best international all-employee share plan (**more than 2,500 employees)
2. **Best UK all-employee share plan** (fewer than 2,500 employees)
3. **Best share plan communications**
4. **Best use of technology in employee share plans**
5. **Best executive/managerial equity reward plan** (involving more than 100 employees)

6. **Best start-up equity incentive plan**
7. **Best HR director**
8. **Best share plan adaptation to the Covid crisis**
9. **Outstanding company leader** (for chairman or ceo personally associated with company plans)

Entry rules and submission form are published on the Centre's website www.esopcentre.com

WEBINARS

Coming up

Lessons from lockdown: re-assessing how you manage share plans in a digital way.

November 6 11:00-11:45am

Recent, current, and even expected global lockdowns have forced the business world to test whether widespread remote work is possible, and whether employees can adapt to working from home effectively. Despite overall positive uptake, certain adaptive measures have needed to be considered by global companies and across industries. Among the challenges which have emerged, we have seen that remote working has exacerbated the risks involved with effective share plan management and employee communication. While adopting various measures to overcome such challenges, companies have also been required to ensure continued compliance with governing regulation and standards.

In this panel discussion, ShareForce's Adva Lewitte and guests Graeme Cook of Eximia and Lynette Jacobs of Pinsent Masons explore how the latest specialised technologies give businesses the flexibility they need to adapt in a thought-out and compliant manner.

Insights into share valuation for employee share schemes: revealed through dynamic case studies.

November 17 15:00-15:45

Share valuation is a key step in the design and implementation of an employee share scheme for an unquoted company. Tax or fiscal valuations in the UK are subject to special rules which have evolved over time out of a combination of case law and legislation. Whether a valuation is acceptable for tax purposes is ultimately a matter for HMRC.

Following up his "wisdom of price setting for your employee share schemes" webinar in July, David Craddock, who is technical secretary as well as a member of the Share Valuation Worked Examples Group, will guide us on share valuation for Esops through a series of case studies.

Webinar reports

** The Esop Sofa series: Employee share ownership hot topics*

YBS Share Plans' corporate relationships manager Darren Smith discussed the latest share plan administration, legal and tax issues with share plan expert guests on his virtual sofa. He asked colleague Bryony Padgett-Jones: **Deloitte**'s associate director Katie Stephens and **EY**'s incentives director Suzannah Crookes what they were witnessing in the market and what the future holds.

Bryony said that confidence had returned to clients after the first wave of the pandemic. Of the 13 share scheme offers which were postponed last spring, all had either now taken place or were in the process of doing so. However, there had been some 'churns' in which clients had cancelled plans to invite employees to participate in the next round of their share plan offers. Some clients whose share prices had fallen were capping the maximum that their employees could invest in SAYE-Sharesave schemes to the minimum £50 per month, or to a number well below the £500 per month maximum investment, because those companies would need more shares to cover their obligations at the lower share price level and some faced a potential share issue *headroom* problem. One client had cancelled a planned SAYE scheme launch because its now lower share price meant that a significant scale-back in the offer would have been inevitable. A lot of impending SAYE maturities were still underwater, she added. However, other clients were coping very well in the pandemic and continued to make share scheme awards as normal, with some awarding staff free shares as a *thank you* for staying at work. Some companies which hitherto had operated UK-only schemes were now looking to go global.

No executive client share plans had been cancelled because of the pandemic, but a couple of awards had been postponed from spring, said Bryony. Clients were beginning to bring back longer holding periods – e.g. no cashing in for at least a year after vesting – while others had moved to staggered options vesting – e.g. 25 percent per year. Some corporate plans had been put on hold – one client put a planned merger on hold, while another had put a planned de-merger on hold!

Susannah said that the companies she advises were still using equity for reward and incentives, though the extent varied from sector to sector. The pandemic had triggered internal reviews in many companies, of which some prioritised the use of shares and not cash vis-à-vis reward, so as to assist cash flow. Some private companies had looking around their valuation and looking for more affordable share schemes and there had been a lot of noise about engagement, bringing the element of share ownership to the fore, making sure they retained an engaged and motivated workforce where everyone felt that they had bought into the success or growth prospects of the company. Her experience in no way had shown that employee equity was doomed because of the pandemic – far from it, she added.

Katie said that communications with employees about share schemes had changed – it had become harder during the pandemic to retain that engagement when there was so much remote working from home. Older style communications, with posters and so forth, were gone and there was a lot more targeting of the demographics for equity plans. It was more important than ever that the value of what employers were giving was conveyed, even if the quantum was ultimately potentially reduced. It was a warlike atmosphere when the pandemic started; there were reactive conversations, a bit panicky – people asking - did the employees understand what they were getting? When fixing equity award scheme details at this time, companies and advisers had to manage expectations on performance and ensure that they had a robust objective framework in place for what they were proposing. Above all, they had to ensure that the arrangements were fair. Flexible working was here to stay, so the traditional reward mechanism was challenged and so they had to find out what it was that the employees valued, said Katie.

Companies were looking for discretion – what flexibility have they got when rewarding people working in different places, who were using different skill sets? How can you tailor, if appropriate, any *in flight* awards? asked Suzannah. There would be a lot of reviews going into the next reward season on how to approach performance targets because what they'd had during the current season might no longer be fit for purpose, she said. One area where lessons may have been learned concerned those industries which had been less fortunate during the pandemic, where we had advice around leavers – sometimes companies hadn't had the flexibility they wanted about how to pay people who were leaving.

Asked about the impact of *Rights Issues* on share plans, Suzannah said it was really important to factor that in at an early stage because it would make a difference according to which type of share plan was involved and the number of participants who, in many cases, had to be consulted about the details and implications of planned rights issue, which would take time, especially waiting for their replies.

** Institutional investor views on the use of share plans during the pandemic*

Share plan and employee incentives specialists Fleur Benns and Lynette Jacobs, who both work for Centre member **Pinsent Masons,** discussed the use of employee share plans amid the economic fall out of the pandemic. Their seminar gave insights into institutional investors' thoughts on share plans and how such views impact their operation. This webinar was chaired by **Professor Michael Mainelli,** executive chairman of **Z/Yen Group**, which operates the **Esop Centre.**

Lynette said that the pandemic had made the design of both short-term and long-term executive reward more complicated: share prices were volatile (*between January and March, 70 percent of FTSE350 companies had suffered a fall in their share price of at least 30 percent),* many companies had withdrawn their dividend payments, had used the government's jobs furlough scheme, or were going to their shareholders to raise more capital, so there was huge and continuing uncertainty. It was very hard to predict what was going to happen. Remuneration committee priorities had changed from those last January. The High Pay Centre had reported in April that *37 percent* of FTSE100 companies had cut executive pay, though a few had since reversed those cuts. Where executive awards were to be made now, it was important to avoid having certain people picking up windfall gains. Vodafone had delayed its 2020 LTIP awards until November in the hope that markets will have settled by then.

Marks & Spencer (M&S) did not apply discretion to the variable pay outcomes of the bonus and Performance Share Plan (PSP) because the final vesting was reflective of the last three years of M&S's performance and that policy operated as intended. However, it had delayed setting its performance targets going forward until realistic goals could be fixed. Meanwhile, the M&S PSP will continue in its current form to be the primary LTIP for executives, with the typical award being 250 percent of salary *(down from 300 percent)*. In direct response to shareholder feedback, the plan would retain a portion based upon Total Shareholder Return (TSR) performance. It would increase the shareholding requirement for all executive directors to 200 percent of salary, but the ceo's requirement would remain at 250 percent of salary. To further align executives with shareholders and the longer-term success of the business, executives would be expected to continue to hold their quota of M&S shares for two years after exiting the business.

Fleur said the Investment Association's (IA) members manage about 35 percent of UK plcs, so its views on executive compensation and shareholder expectations were hugely important. It had responded quickly to the pandemic in April, stressing that companies should ensure that, in formulating their responses on the pay front, they treated executives and the workforce consistently. Companies should use discretion to reduce 2020 full year bonus outcomes and should suspend or cancel dividends as necessary. Companies should not adjust performance conditions or in-flight share awards and where performance had not lived up to expectations or remuneration outcomes, then rem cos should use their *discretion* to ensure a good link between pay and performance (i.e. *appropriate bonus cuts*). Looking ahead, the IA said that rem cos should use discretion to reduce vesting outcomes where windfall gains would otherwise have been received. If companies had to take taxpayers' money via government schemes, or if they tapped shareholders for more capital, then this should be reflected in executive remuneration outcomes (*i.e. cuts in share awards and/or bonuses).*

Lynette said that proxy advisor ISS (Institutional Shareholder Services) had been vocal on how shareholders should vote on executive reward issues. It said that there should be contemporaneous disclosure of the rationale for changing performance metrics, goals or targets of short term bonus schemes and that for LTIPs, in-flight changes should be considered on a case-by-case basis, but only if absolutely necessary. *ISS warned that it would be keeping an eye out for any attempts by companies to re-price options in existing executive reward schemes without first running them past shareholders for their advance approval.* The Pensions and Lifetime Savings Association (PLSA) had asked investors to monitor how companies dealt with the pandemic and in particular to consider voting against directors whom they believed did not behave appropriately towards their workforces. Individual directors should be held to account, it added.

Glass Lewis expected increased shareholder concerns over options re-pricing, share value dilution, burn rates, hurdle adjustments, changes to vesting periods and caps and cuts on incentives, said Fleur. Shareholders should *share the pain* with employees over compensation changes and boards had a heavy burden of proof to justify executive reward levels in a drastically changed talent market, said Glass Lewis.

Another key issue raised by institutional investors was the widening gap between reward levels achieved by executives in public companies and their rank-and-file employees. The massacre of the aviation industry during the pandemic already had shown up in voting at Ryanair's September agm; the remuneration report had received *less than two thirds approval* by voting shareholders. In addition, 27 percent had voted against the re-election of the directors. What they didn't like, said Lynette, was the huge bonus Michael O'Leary received, despite the collapse in Ryanair's profitability, while thousands of former employees had recently lost their jobs.

Fleur is a legal director in the employment & reward group and a share plan and employee incentives specialist. Lynette is a partner in the employment & reward group, leading Pinsents' share plans and incentives team. Prof Mainelli is a qualified accountant, securities professional, computer specialist, and management consultant, educated at Harvard University and Trinity College Dublin. Michael was Visiting Professor of Innovation & IT at the LSE. His third book, *The Price Of Fish: A New Approach To Wicked Economics And Better Decisions* , won the Independent Publisher Book Awards Finance, Investment & Economics Gold Prize. He is an Alderman and Sheriff of the City of London 2019-2021.

** Selling your company to an EOT: How it differs from an MBO*

Employee Ownership Trusts (EOTs) provide an attractive new exit route for retiring entrepreneurs who may have a succession problem. **William Franklin** partner in Birmingham based share scheme specialists **Pett Franklin** explained how EOTs actually work and how they differ from Management Buyouts (MBO). The 2014 Act had set up the EOT structure, modelled on the John Lewis Partnership, which had created trusts, but not employee benefit trusts. He characterised the EOT as indirect collective employee ownership with a trust having control for the long-term benefit of employees as a whole. They were employee buy-outs, rather than the narrower management buy-out. He reminded listeners that succession was the problem for thousands of SMEs in which the retiring or exiting founder could not find anyone to take over the reins. So the options were: a trade sale, sale to private equity, sale to management, wind down and closure (of which there were too many examples), or do nothing and leave a big mess for everyone else. Many trade sales led to cherry-picking by acquirers who were uninterested in the business culture, the employees or the locality and there were pressures on the business to deliver short-term gains for the purchaser, he said. In MBOs by contrast, the biggest problem was often finance for the purchase – how could managers afford to take control without saddling themselves with huge debt?

The EOT solution relied on vendor funding, combined with patient capital, but the company had to make distributable profits and have cash reserves to fund the EOT in order to repay its debts, perhaps during five years or longer, to the vendor.

The tax benefits for companies which used the EOT route were considerable: the sale of a majority stake to an EOT was exempt from CGT because the owner was handing over the key to the castle to the employees. In addition, Income Tax-free (but not NICs free) bonuses could be awarded annually to employees and payments to the EOT by the company were not taxable. The **Esop Centre** had played an important role in establishing that distributions to the employees were not dividends because they were not shareholders. In several respects, the EOT looked like a profit-sharing scheme, added William.

There was the EOT vision thing too - employee engagement and responsibility through ownership, long-termism, spreading wealth more widely, localism, more secure jobs, longer-term thinking and stronger performance over time, he added. As revealed in October's newspad, there were now almost 500 UK employee-owned businesses after a record 28 percent growth in their number last year. Productivity in employee-owned companies had risen by almost seven percent.

The corporate trustee ultimately sat over the EOT, so the question was: who were the directors of the corporate trustee? They were both directors and trustees who acted as a supervisory board, so their engagement was crucial and they could challenge the company's strategy or evaluate a takeover bid, but they were no substitute for the commercial board which ran the EOT company on a day-to-day basis. The structure was akin to the two-tier boards seen in many German companies, but which were virtually unknown in the UK said William.

A big advantage of an EOT over an MBO was that, in the event of corporate trouble, it was the MBO Newco which owed the vendor debt and not the EOT. So if Newco could not fund the debt, then ownership could revert to the vendors. In EOTs however, if the company could not fund the EOT's debt repayment, then ultimately the repayment might have to be written off by the vendors, he added.

Mr Franklin admitted during questions that keeping 100 percent of the equity within the EOT was not necessarily the best idea. He preferred that, where possible, a small slice of the equity, say ten percent, be kept back for the installation of employee share schemes, which would encourage even more employee commitment.

*William Franklin is a chartered accountant and a leading adviser on the valuation, accounting and financial aspects of all forms of remuneration, incentive and employee share schemes. He is a member of the HMRC Employment-Related Securities & Valuations sub-group and chairs the Worked Examples Group, which works with HMRC to publish examples of share valuations over a wide range of Eso and employee ownership arrangements. The webinar was chaired by Simon Mills, associate, Z/Yen Group, who compared the FS Club-Esop Centre webinars to the 18th century London coffee houses, in which politics, investments and trade could be discussed freely by customers. Simon began his career by working as a field botanist on Cloud and Elfin rainforest in Northern Costa Rica. He became environmental co-ordinator for the City of London, where he established the National Sustainable City Awards and worked on carbon trading, socially responsible investment and climate risk. Since joining Z/Yen as an associate, Simon has worked on mutual distributed ledgers, standards, sustainable business, and policy performance bonds.

**Innovative communication strategies aimed at increasing employee take-up*

Employee share schemes expert David Craddock, founder of his eponymous share schemes consultancy, outlined strategies and techniques that have helped increase employee take-up levels, especially in global plans, where the main motive often was to help build corporate unity, for example after multinationals had acquired satellite companies. For the successful implementation of such schemes depended upon having great communications with the workforce. Winning hearts and minds in employee share plan campaigns was often a combination of company and country cultures, said David. Eso was about the inter-connectivity of things and it required the tools of science to improve the design capability employed in global share plans. It was necessary to coach managers to believe in employee share ownership. The concept of employee involvement in the enterprise was relatively recent, though its origins in a sense went back to the Commonweal of Oliver Cromwell, said David. The business challenge was to release and harness human energy to maximise employee contribution at work.

When exporting the UK Eso model, plan sponsors had to be aware that whereas UK schemes tended to offer more short-term incentives, those in the US tended to be more long-term, for example those used in succession planning and long-term pension provision. When planning a global plan, the trick was to retain the same plan structure for as many countries as possible, while changing the plan delivery logistics to reflect cultural and national differences within the various jurisdictions.

David had devised a cultural index score system based on five factors: the emotional distance index, the individualism v collectivist index within a company; the gender index, the risk index (were they averse to risk?) and the timescale.

The presence of immigrant communities, for example in Canada, was sometimes very relevant to Eso planning, as was respect for different languages, because those speaking the same language would not necessarily receive the Eso message in the same way, said David. Then there was terminology: in the US, it was best not to use the term 'scheme' because that had mafia connotations, while in China, use of the number '8' was useful as it was associated with success, but the number 4 was associated with death, he added. In Africa however, Eso messages could sometimes be conveyed effectively by using story-telling in agricultural communities. Symbols and illustrations were important too, because in some areas illiteracy was high, he added. Meanwhile, in Hong Kong, employee participants in Eso plans had complained that the minimum three year vesting period was too long.

The webinar promoted an advanced understanding of the role of Eso schemes within the overall context of human resource management and social scientific trends. Ian Harris, md of Z/Yen Group, which operates the Esop Centre, chaired this webinar. Ian specialises in strategic planning and systematic performance improvement in both the civil society sector practice (which he leads) and commercial sectors.

MOVERS & SHAKERS

On the move

Centre member **MM&K** has moved out of Bengal Court EC3, which has been the remuneration consultancy's City home for many years. Its new City base is 1, King William Street, London EC4N 7AF. Emails and phone numbers remain unchanged. Ceo Paul Norris said: *"We will continue with home-working but our new base provides the perfect hub for working and meeting clients and colleagues, as circumstances permit."* MM&K joined the London Stock Exchange Group Issuer Services Platform. Through the LSEG, it produces and participates in webinars and presentations on remuneration, governance and related topics.

*The **British Virgin Islands** finally committed to introducing public registers revealing beneficial ownership of companies incorporated in BVI, but not just yet...The announcement came after years of alleged tax evasion and money laundering scandals, in which shell companies incorporated in the dependent territory regularly played a central role. Andrew Fahie, BVI premier and finance minister, said that his government would work with HMG towards compiling public registers of beneficial ownership and would aspire to match the EU's most recent anti-money-laundering directive. "*I emphasise that this undertaking is subject to our reservations which include that the format must be in line with international standards and best practices as they develop globally and, at least, as implemented by EU member states,*" he added. Foreign Office minister for the overseas territories, Liz Sugg, tweeted that the BVI would be adopting public registers by 2023.

Jersey, Guernsey and the **Isle of Man** announced 16 months ago that they would voluntarily adopt public registers of the true owners of offshore companies incorporated in their jurisdictions. In a joint statement, the three islands said they would introduce fully public registers by 2023.

*Former Esop Centre staffer **Joel Lewis** was promoted to senior manager, markets strategy & consulting, at Lloyd's.

*The **London Stock Exchange Group** agreed to sell the Milan stock exchange to the rival group Euronext for £3.9bn in cash, clearing the way for the LSE's purchase of the financial data provider *Refinitiv.* The LSE and Amsterdam-based Euronext, which owns several European stock exchanges, including the Paris bourse, began exclusive talks over the Borsa Italiana deal in September. The LSE believes selling Borsa Italiana will help it to gain regulatory approval from the European Commission for its £21bn deal to buy Refinitiv, whose Eikon terminals are found on trading floors and compete against those supplied by Bloomberg.

CORPORATE GOVERNANCE

The **Financial Reporting Council** urged companies to respect shareholder rights amid a shift to virtual agms. The corporate governance watchdog said the way that some had managed virtual meetings was "*disappointing*" and had led to concerns that any move to fully digital meetings could disenfranchise retail shareholders. A survey of a majority of FTSE 350 companies revealed that 81 percent had held closed agms, requiring voting in advance by proxy. Of those that held closed meetings, almost 20 percent did not make arrangements for shareholders, including employee shareholders, to ask directors questions. Companies including *Next*, the fashion retailer, *HSBC*, the

UK's biggest bank, and *BAE Systems*, the defence contractor, were criticised by **Share Action**, a charity, for not giving shareholders more opportunity to have their say.

***EQ**'s (*formerly Equiniti*) annual review of agm trends revealed that plans to hold agms in hotels and conference centres had been replaced by the registered office or even the company secretary's home address. Closed meetings are the new norm with formal business and voting by proxy only. *"Who could have predicted at the beginning of the year that companies would be actively preventing their shareholders from attending agms, sometimes holding meetings in car parks or at the company secretary's home address?"* asked EQ ceo Paul Matthews. *"Themes and messages high on the list of investors last year have taken more of a back seat whilst companies have battled through the pandemic, sometimes for their very survival. That is not to say that concerns over executive remuneration and stakeholder matters have been forgotten. Businesses have faced pressure to support their workforces and ensure that directors take their share of the financial impact during the pandemic*."

Analysis showed that the key features of most agms held between the end of March to the end of July 2020 were: a closed meeting with no shareholder attendance permitted, the quorum provided by board members and the company secretary, shareholder engagement via Q&As submitted electronically and voting by proxy only. Other actions frequently taken by companies included restricting business at the agm to formal matters and changing agm locations to the company's registered or head office. Some companies asked shareholders to submit questions in advance via the company's website or by email, sometimes directed to the company secretary. Other arrangements put in place in order to encourage shareholder participation included: • a dial-in facility for shareholders to ask questions at the agm • a live broadcast • pre-recorded business presentation available on the website on the day of the agm • shareholder events planned for later in the year • questions answered by live audio webcast before the meeting and live audio feed available either one or two ways.

In the FTSE 350, only a small minority of companies had postponed their agm to later in the year. For public companies, postponement was not always an option. It was only in June that the *Corporate Insolvency and Governance Act (the CIG Act)* was passed, meaning that agms could be held remotely, with restricted shareholder entry and no particular location, regardless of the provisions in a company's Articles.

Virtual-only agms are not supported by the vast majority of investor relation bodies and few companies have in their Articles the ability to hold them. EQ predicted that physical agms would return, but that there would be moves towards holding hybrid agms, with part-sessions conducted by webcasts and the like. The bulletin said that momentum may be gathering for the wholesale reform of agms to bring them into the 21st century and make them a more useful vehicle for shareholder engagement. While EQ applauded the extension of the temporary measures introduced earlier this year to facilitate compliance of company agms until December 31, it believes that they should be further extended to March 31 2021 and beyond, to give more assurance to companies with a December year-end.

Case Study M&S digital agm: Having run a hybrid meeting in 2019, M&S was well positioned to run its 2020 agm as its first fully digital shareholder meeting at which all 'attendees' had the chance to listen to and question M&S directors live from their homes. The agm recording has been watched more than 15,000 times on its corporate website. The key drivers in the decision to hold a digital agm were M&S's commitments to improving efficiency, stakeholder engagement and becoming a '*Digital First'* retailer, though Covid stay-at-home measures reinforced that decision. Executives had to master the technical logistics and ensure compliance with the Companies Act and the company's Articles, such as establishing a quorum with no physical attendance permitted, opening and closing the meeting, submitting questions, proxy appointment and voting. The digital agm delivered some valuable lessons; notably, that preparation for digital-only meetings often involves stakeholders with more diverse expertise and perspectives, making effective communication more vital than ever. Additionally, digital-only meetings require much forward planning and development work in technology. Striking a balance between 'live' and pre-submitted or pre-recorded elements of the agm is key for time management, smooth running of the meeting and engaging shareholders. Although many FTSE companies chose to hold closed-door agms, or allowed questions to be submitted in advance only, M&S wanted to increase participation, improve efficiency and build trust. Private shareholder engagement near trebled by comparison with the 2019 agm; 1,511 individual shareholders joined the digital platform and 86 questions were submitted (compared to 28 last year). Both advance and live questions were answered during the web-cast, and every question submitted received a personalised written response. The '*as live'* recording was replayed more than 4,200 times in the first three days alone, by comparison with 496 views of the 2019 recording.

WHITE & CASE

M&S is chaired by Archie Norman, senior nonexec at BEIS.

UK CORNER

Roadchef: disturbing questions

A key aspect of the Roadchef Esop scandal which has received little attention concerns the tax charges the employee beneficiaries would incur, unless HMRC exempts them, when their various compensation pots are finally paid out

Morally, many ask, should the ex-Esop beneficiaries be taxed anyway, as their shares in trust were transferred elsewhere without their advance knowledge? Legislation passed in 2003 would have meant employee share scheme gains like those in the Roadchef Esop were free of Income Tax and NICs, but because the assets had already been removed from the original scheme five years earlier, the employee participants may have fallen through a legal gap. However, even if the Esop had remained within the tax-advantaged rules, the employee participants' gains would **not** have been exempt from Capital Gains Tax (CGT) charges.

Mr Christopher Winston Smith, chairman of ***Roadchef Employees Benefits Trust Ltd*** **(REBTL**), is threatening to take the compensation case to the tax tribunal unless HMRC agrees to waive all the potential tax and NICs charges in the exceptional circumstances. ***Sadly, the Tribunal of First Instance and the like are not interested in sentiment, they are interested solely in the interpretation and application of UK tax law.*** This is why some beneficiaries want their compensation paid now, even if it were to be taxed, because they are sick to the teeth of the delay over receiving what is due to them.

The High Court judge, Mrs Justice Proudman, summarised the tax issues in her January 2014 court ruling, starting paragraph 161.

*She said that Roadchef EBT lawyers at the hearing had grossed up their compensation claim because they ***knew*** that their client was liable to tax charges on the distribution of any agreed compensation which they were fighting to secure. *Further, the judge reminded the court that REBTL had claimed in evidence that a CGT charge would fall upon the *trust* and that the beneficiaries would be charged Income Tax and NICs on their compensation payments.

*She dismissed REBTL's grossing-up compensation claim as "*too speculative and thus too remote"* because it was unclear as to whether REBTL *would have made the maximum allowable appropriation of shares each year to maximise tax savings.* ***That had not been done in the past,*** the judge said. Secondly, REBTL had claimed that EBT1 would have distributed shares directly to employees outside the scope of the Esop. *"It is not clear how this would have been achieved since the shares would have had to have been released from the charge in favour of Unity Trust Bank,"* she added.

Mr Winston Smith argues that HMRC should waive ***all*** tax liabilities on the eventual pay-out because the surviving 350-400 Esop beneficiaries have suffered unjustly from such an unconscionable delay *(now almost SEVEN years since the court ruling)* and because, he said, they would have ***next to nothing left*** in their compensation pots after the huge case funding and legal costs have been deducted, were the beneficiaries be to be taxed in full.

Critics ask *why is that so* when this same trustee had won already a victory for the beneficiaries when HMRC agreed to handover to the trust a rumoured £6m-£8m which Mr Ingram Hill had paid it in settlement of his due tax on his profits from selling the ***Esop shares***? (*Media accounts have ignored the fact that of the £20m Ingram Hill paid in tax, much of it was genuine because he had owned most of the equity* ***himself*** *before the sale of Roadchef. This was in the form of his performance share awards- or shares acquired from other shareholders- Editor)* Nevertheless, surely, the *gross* amount sitting in an escrow account must be now in the region of £20m-£25m in total?

Mr Winston Smith said correctly earlier this year that had Roadchef's EBT not been stripped of its shares (which were earmarked for its beneficiaries), it would have continued as a tax efficient Esop scheme and would have evolved into what is covered by the legislation of today. *"The Trust and its beneficiaries (and others like them) shouldn't lose their tax-breaks solely because the Trust was laid bare by a breach of trust,"* he told the beneficiaries. *"Further, the Trust and its beneficiaries shouldn't lose their tax-breaks in circumstances when they manage to recover what was rightfully theirs. Taxing you in these circumstances would make you victims twice over. When parliament sanctioned tax-breaks for all-employee share schemes, it surely could not have been its intention to penalise beneficiaries who fall victim to a breach of trust or fraud. We are not seeking to change the law to avoid paying tax. This is about protecting the essence of what these schemes were all about - ensuring tax breaks for those who deserve it and who would have benefited but for Ingram Hill's actions."* The trustee told the *Daventry Express,* which covers the Watford Gap and Northampton Roadchef service stations: "*HMRC needs to do the right thing and bring an end to this mess, allowing us to make tax-free distribution to the beneficiaries. An urgent inquiry is needed to ensure lessons can be learned and a resolution brought before more hardworking people die without getting what's rightfully owed (to them).*"

HMRC is entitled legally to levy CGT in any event, but would it be on them individually, or on the trust? This matters because although the annual CGT exemption allowance is £12,300 for individuals, it is only half that - £6,150 - for trusts.

To add insult to injury for the Esop beneficiaries, it was somehow agreed among the lawyers after the High Court ruling that the term Roadchef ***beneficiaries*** included not only the Esop participants, but those who either were ineligible at the time to participate AND another 3,000+ subsequent Roadchef employees who had not worked for the motorway services chain when the Esop existed. As one legal commentator said: "*No-one in this shocking case is prepared to explain on record why more recent Roadchef employees should qualify for any 'compensation' at all, as they were not involved in the Esop. It is believed that the original trust documents, which brought the scheme into being, were not as precise in identifying the beneficiaries as they might have been.*" However, Mrs Justice Proudman, now retired, felt unable to rule that '*beneficiaries*' meant those who had participated in the Roadchef Esop. Had the late great Master of The Rolls, Lord Denning, still been alive, he would have had some choice words to say about that *lapsus.*

To his credit, Mr Ingram Hill insisted that the compensation pot, which he was ordered to fund by the judge, had to be divided in a way that ensured the Esop participants would get the lion's share of the cash. So, the lawyers and the court agreed finally that the Esop participants were to get 61 percent, the non-eligible employees nine percent and subsequent Roadchef employees the remaining 30 percent. *The basis for that division has never been explained because there is* ***still*** *a court-imposed gagging order in force preventing the lawyers and other involved professionals from discussing the case in public.*

Suppose the *average* compensation paid to the Esop participants, *after deduction of the rumoured £5m+ legal and case funding charges,* was £50,000 per head. For those now on state pensions (adding a further, say, £10K to their annual income for the tax year), the result would be a one-off Income Tax and NICs liability of perhaps *£17,000* per individual once the annual IT exemption is taken into account. That would leave a typical Roadchef Esop participant with a theoretical **c £43,300** in his or her back pocket, but if a separate CGT charge were imposed as well, they might be left with barely half the headline amount in their bank accounts.

HMRC faces another related problem on the Roadchef tax front because the court-awarded '*compensation*' to more recent employees, *who lost nothing during this scandal,* may have to be classed as a ***windfall*****,** which is non-taxable. After all, what capital gain did the Roadchef *late-comer* employees make in view of the fact that they were never Esop participants, yet were awarded payments out of the blue from the compensation fund – What investment had they made? – **None at all.**

Were HMRC to levy CGT charges on the compensation received by long-suffering Esop beneficiaries, but not on compensation received by more recent Roadchef employees, even the stones in the street would rise up in protest.

In 1986, cleaners, caterers and other low paid employees at Roadchef motorway service stations were hoping to benefit when the then owner, Patrick Gee, planned to set up one of the UK's first Esops. However he died before finalising the scheme, leaving the company in the hands of new ceo and chairman Timothy Ingram Hill, who much later transferred Esop shares into a separate trust and sold the company to a Japanese bank in 1998. The High Court ruling voided the transfer of the Esop shares from REBTL1 to the performance shares trust after finding Mr Ingram Hill guilty of a breach of his fiduciary duty. It did not, however, find him guilt of fraud or theft. It is believed that he paid the agreed compensation sum to REBTL1 almost ***five years*** ago.

Key questions about the Roadchef Esop disaster still rest unanswered:

*Why in the event of malpractice or negligence by a director and/or a trustee should it be so difficult to protect the interests of employee shareholders, in court if necessary? *Why is there no regulatory body tasked with the protection of employee shareholders in ownership disputes, or corporate malpractice?

*Why should a judge's ruling, banning leading participants in court hearings over misappropriated shares from commenting on settlements, be allowed to remain in force for years on end?

Years later Nikko off-loaded Roadchef to an Israeli conglomerate Delek Group, which in turn sold it on to European fund Antin Infrastructure Partners, the current owners.

News for *newspad*

Please send your share schemes news to *newspad* for publication in the next monthly edition. Your news can be about a successful launch of a new employee share scheme; a piece of Eso research your employer has carried out; promotions and/or personnel moves in the share schemes sector, or even about a technical Eso problem arising during the course of your work. Send your news items to *newspad* editor Fred Hackworth at: fred_hackworth@zyen.com.

Pandemic jobs losses

Furlough pay at 80 percent of normal wages - for hours not worked - was dramatically reinstated for millions of employees whose jobs were being suppressed again in the second national lock-down imposed by the government.

The much-altered Job Support Scheme, which had been due to kick in on Monday (November 2), was pushed aside for all 'non-essential' businesses as PM Boris Johnson, previously opposed to a new lock-down, performed a swift policy reverse, horrified by new projections of Covid deaths and intensive care unit forecasts, as the second wave took hold. Via the Job Retention Scheme, furlough pay at 80 percent, up to a cap of £2,500 monthly, will apply to qualifying employees (on PAYE payrolls) in the sectors forced to close - mostly hospitality and entertainment businesses, including pubs, restaurants, boutiques, hair salons, gyms, theatres, galleries and so on - until the lockdown ends. Businesses can either bring back employees on a part-time basis or furlough them full time. Owners will be asked to pay only their employee NICs and pension contributions.

The total cost to taxpayers of the jobs furlough scheme is expected to exceed £47bn by the end of this month. About three million employees are still thought to be furloughed, even though, hitherto, their jobs subsidy had been tapered off from 80 percent taxpayer support to 70 percent and then 60 percent last month.

A further measure announced by the chancellor was a cash grant for those SME businesses legally obliged to close in a lockdown. These grants will be linked to rateable values and will not have to be repaid, said Centre member **Bird & Bird.** Small businesses can claim £1,300 per month; medium sized businesses (with properties worth between £15,000 –£51,000) can claim £2,000 per month and larger businesses £3,000 per month. These companies will not have to top up wages while their premises are closed, but they will be expected to pay employee NICs and pension contributions. A Treasury source said the new scheme could cost hundreds of millions of pounds a month and that it would be reviewed in January.

For businesses ***not*** forced to close by lockdown, Mr Sunak announced big changes to the **Jobs Support Scheme (JSS)** and the original furlough jobs subsidy. Under the new rules, announced on October 22. Instead of a minimum requirement of paying 55 percent of wages for a third of hours, as announced at the launch of the *Winter Economic Plan*, employers will have to pay for a minimum of 20 percent of usual hours worked (*one day's work per week*), and five percent of hours not worked. The government will now fund *62 percent* of the wages for hours not worked, at an estimated cost of £1bn per month for six months. In addition, there will be grants of up to £2,100 per month for businesses in Tier Two zones with the cheques available to be backdated until the start of August. Grants to the self-employed will double from 20 percent of monthly profits to 40 percent, up to a maximum of £3,750 per month, costing another £3.1bn

JSS mark one, aimed at supporting part-time employees in struggling firms mostly in the SME sector, was far less generous to businesses than was the furlough scheme.

Again, companies will self-report worked employee hours! However, the hospitality (e.g. pubs and restaurants) industry said that in areas where there was no revenue coming in and nothing to pay staff with, redundancies were the only answer.

The Self Employment Income Support Scheme has been extended twice so far, but at lower amounts and only applies anyway to those whose annual profits are less than £50K per year. In addition, under the **Future Fund,** 711 start-up companies have between them borrowed £720m in convertible loans which, if not repaid, could be converted into taxpayer equity stakes in those companies.

*The conference and events sector, which ground to a halt last March when lockdown started, was still frozen in mid-October because neither sponsors nor clients wanted to take risks, as a second wave of the pandemic loomed. Commentators feared that up to 700,000 jobs in the hospitality trade could go, plus a further 300,000 in the conference and events sector. UK employers planned at least 58,000 redundancies last August, taking the total to 498,000 for the first five months of the Covid crisis. More than 950 separate employers told the government of plans to cut 20 or more jobs, compared to 214 in August last year, a more than fourfold increase. In reality, the job cuts that month were greater because employers planning to axe less than 20 employees do not have to inform the government of their intentions. However, official figures given to the BBC were down from the levels seen in June and July this year, which both saw at least 150,000 job cuts planned, many in preparation for the impending closure of the furlough scheme. The most recent unemployment rate, for June to August, was 4.5 percent, according to the Office for National Statistics (ONS). That was an increase of 0.4 percent over the previous three months, and meant that ***1.5m*** people were unemployed. However, this number is based on surveys taken in previous months. People who don't have a job, but aren't looking for one because they don't think they will find one, don't count as unemployed by this measure. Another measure of unemployment suggests that the real picture might be worse. The claimant count measures how many people are claiming benefits for being out of work, or on very low incomes. Between March, when the lockdown began, and September, the number of people in the UK claiming these benefits rose 120 percent to ***2.7m***.

***Edinburgh Woollen Mill (EWM),** owner of *Peacocks* and *Jaeger* clothing brands, teetered on the brink of administration as October drew to a close. The threatened move put at least *21,000* jobs at risk, amid what the company described as "brutal" trading conditions. EWM, which is owned by billionaire businessman Philip Day, has 1,100 stores for its brands, which include Bonmarché and Austin Reed too, but Bonmarché was not part of the administration. "*Inevitably there will be significant cuts and closures as we work our way through this*," said ceo Steve Simpson.

***TSB** was axing almost 1,000 high street banking jobs and closing 164 branches around the UK, as it blamed its plight on the declining number of customers visiting their local bank. The pandemic has been exacerbating the growing use of digital banking services, hitting high street visits. TSB, owned by Spain's *Banco Sabadell*, announced the redundancies and the branch closures on top of an earlier 21 branch closures, which will leave the bank with 290 branches at the end of next year, down from 475. The number of UK high street bank branches has dropped by a third in five years - from more than 9,800 in January 2015 to below 6,500 last July, according to the consumer group *Which?* The **Co-operative Bank** announced plans to close 18 branches in August. **Manchester Airports Group**, which includes *East Midlands* and *Stansted* airports is consulting staff over its plans to cut almost 900 jobs, due to re-imposed travel restrictions.

*Brighter jobs news came from Canadian fast food chain **Tim Hortons**, which plans a major expansion in the UK, hoping to capitalise on increased demand for *drive-through* casual dining. The firm told *The Telegraph* it hopes to open an outlet in every major city and town over the next two years. Such growth could create around 2,000 new jobs, it said. Tim Hortons, known for its coffee and doughnuts, opened its first UK location in 2017 and now has 23 sites. **Octopus Energy** too is in an expansionist mood. It plans to create 1,000 new technology jobs at its sites in London, Brighton, Warwick and Leicester and a new tech hub in Manchester, as part of its vision to make the UK the "Silicon Valley of energy."

*Almost three-quarters of City firms are reviewing how much office space they really need following the boom in home working during the pandemic, new research shows. The latest CBI/PwC financial services survey found that 74 percent of companies, particularly banks and insurance firms, have been examining their office requirements in the hope of either using the space differently, or reducing it. Almost half of those surveyed said that more than 90 percent of their employees could do their jobs without being in the office. At high street lenders such as Lloyds Banking Group, Barclays and Metro Bank, branch staff, who are considered essential employees, have continued going into work throughout the crisis, but most other bank employees have been logging on remotely. Schroders, the FTSE 100 listed fund manager, told staff that they would not have to return to the office full time even after the pandemic has passed. JP Morgan, the Wall Street lender is still expecting up to 30 percent of its 256,000 employees to work remotely in future, at least part of the time. Lloyds, which has had 50,000 of its 65,000 staff work from home, will test whether empty branch space could be kitted out for office employees, but that will only start once Covid restrictions are relaxed. Nevertheless, there was survey evidence that, nationwide, by early October, more than 60 percent of employees had returned to their offices or other places of work.

Bounce Back:
Billions feared lost in suspected loans fraud

The government was warned last May that its flagship loan scheme to help small firms affected by Covid was at "*very high risk of fraud*" from organised crime, it emerged. The state-owned **British Business Bank (BBB)** which supervises the *Bounce Back* Loan Scheme, twice raised concerns. A *BBC* report revealed that criminals were setting up fake firms to get loans worth tens of thousands of pounds, but the Bounce Back scheme has already paid out more than £38bn in taxpayer funds. Just two days before the scheme launched, Keith Morgan, ceo of the BBB, wrote of the "*very significant fraud and credit risks*", adding that it was "*vulnerable to abuse by individuals and organised crime*". The bank, he said in a letter to business secretary *Alok Sharma*, could not guarantee "robust controls". Other concerns included an "extensive reliance on customer self-certification" and "potential for market distortion". He said that the BBB had commissioned a review of the scheme by accountants ***PwC***, which had classified its fraud risk as "*very high*". However, Mr Sharma said the scheme should go ahead despite the risks, because of what he called the "unprecedented situation facing the country".

HSBC stopped all new applications for business accounts to concentrate on resolving a back-log of applications for *Bounce Back* loans. *The question was how many of the loan applications it had received were genuine and how many fraudulent?* HSBC has approved 194,000 *Bounce Back* loans to date, worth a total £5.9bn. At one stage, it was approving a *Bounce Back* loan every 20 seconds. Such loans are 100 percent government-backed for up to £50,000, and were introduced to mitigate the huge pressure on small businesses after the economy went into pandemic lockdown. *The loans do not have to be paid off for six years, and are interest-free for the first 12 months*. Latest Treasury figures reveal that there have been 1.55m applications, with 1.26m approvals and *£38.02bn* paid out. One bogus company, *Tellings Home Made Furniture*, "borrowed" £50,000 by stealing the personal details of a man called Mark Telling.

*It was revealed that the government may have paid out up to **£3.5bn** in wrong or fraudulent claims for the furlough scheme too, according to a *National Audit Office* report. Criminals who set up fake companies were responsible for much of the fraud, but some genuine companies claimed for employees not on furlough, or exaggerated their claims for taxpayers' assistance.

*Homeware stores owner **Dunelm** is to hand back £14.5m it had claimed under the chancellor's jobs furlough scheme, as stay-at-home idle hands turned to DIY projects in a big way. Sales jumped almost 47 percent in the three months to September 26. Latest HMRC statistics show that *80,433 employers* to date have returned taxpayers' cash they were given to help cover employees' pay.

EOT legacy of Gandhi

Fieldfisher partner **Graeme Nuttall** spoke recently at the Govt. Post Graduate College Rajouri, India, in a webinar on *'Gandhian Philosophy and Post-Covid World'*. Graeme explained how the employee ownership trust (EOT), introduced in the UK following his Nuttall Review of Employee Ownership, might be used by businesses to implement Gandhi's theory of trusteeship. Graeme's Gandhi Foundation lecture featured in an international peace conference that attracted contributors worldwide on the theme of the 'Gandhi Revival Era'. This conference was part of the Global Peace Education programmes. Earlier this year he delivered The Gandhi Foundation's prestigious annual lecture, in which he advocated employee ownership as a means to achieve higher standards of environmental, social and governance (ESG) outcomes. His main conclusion was that every employee-owned company should commit to making an overall positive contribution to society and the environment. The keynote speaker in the webinar was Mrs Ela Gandhi, granddaughter of Mahatma Gandhi

Reward

Public sector *golden goodbyes* curbed: Huge payoffs for public sector fat cats will be outlawed this month, claimed *Mail Online* newspaper. A ban on six-figure *'golden goodbyes'* could save taxpayers up to £200m a year. A new law will mean top civil servants, council chiefs and BBC executives should not be handed more than £95,000 when they are made redundant, but it will come into force too late to stop mandarins who left Whitehall this year from leaving with huge sums. Cabinet secretary Sir Mark Sedwill was handed £248,189 when he departed in September. Four other permanent secretaries whose departures were announced this year are set to receive six-figure sums too. Latest accounts show four employees made redundant at the Department for Transport were handed payoffs over £200,000 last year along with three staff at NHS Digital which uses technology to improve health and social care. Even local government has been in on the act, with Sandra Dinneen, former ceo of South Norfolk *District* Council, receiving a total exit package estimated at ***£500,000***. John O'Connell of the *TaxPayers' Alliance* said: '*Hard-pressed ratepayers have been bearing the cost of the public sector's lavish golden handshakes for too long*.' A pledge to end 'taxpayer-funded six-figure payoffs for the best paid public sector workers' was included in the 2015 Conservative Party manifesto and the following year Sajid Javid, then business secretary, said too many 'public sector fat cats' were receiving huge exit payments. Five years after the manifesto, the new rules will come into force on **November 4.** Exit packages over £100,000 reportedly cost the public purse £200m in 2017 to 2018, including compulsory and voluntary redundancies. The new rules apply to public bodies ranging from town halls to hospitals, police forces to quangos and government departments as well as the BBC. In most cases from now on, even long-serving employees cannot leave with more than a total of £95,000 in redundancy payments, settlements, severance pay and pension top-ups. However, payouts for accidents or death in service are not included in the cap and local authorities can waive the rules to settle whistle-blowing or discrimination cases. *The Mail* cited two pay-offs in recent years which had raised public anger: Civil servant Clare Moriarty, who ran the Brexit department received a pay-off of £262,185 and Steve Mason, who in 2017 when he stepped down as ceo of Northumberland County Council received a golden goodbye of £369,999, the biggest payment of that year to a town hall official. Experts predict the new regulations will be challenged in court. The British Medical Association has applied for judicial review of the cap, claiming it was unlawful for the government to override doctors' job contracts.

*One of the City's leading fund management groups could face a shareholder backlash against its bonus scheme after two investor advisory firms raised concerns about the plan. **Glass Lewis** and **Institutional Shareholder Services** said that investors should oppose the pay policy proposed by **Ashmore Group** because of worries about the structure of its complicated bonus scheme, which pays in cash and shares. All staff are included in the plan, but the advisory groups are concerned about the payouts for Ashmore's executives. There is to be a binding vote on pay policy at the agm in mid-October

*Partners at **Deloitte** will suffer a 17 percent pay cut after revenue growth slowed during the Covid-19 pandemic. The 709 equity partners of Deloitte's UK arm will receive an average payment of £731,000 for the year to the end of May 2020, down from a record £882,000 in the previous financial year. Equity partners take a share of profits instead of a salary. The firm's distributable profit was £518m, down 16 percent on the £617m previously.

*More than one third of voting shareholders of **The Restaurant Group (TRG)**, which owns the *Wagamama, Frankie & Benny's* and *Garfunkel*'s chains, tried to throw out a generous new reward deal for its ceo, Andy Hornby, in a year during which the company closed more than 200 restaurants and pubs and made 4,400 staff redundant. TRG's new remuneration policy was grudgingly approved by shareholders, but almost ***37 percent*** voted against it. Both Hornby, boss of *HBOS* bank in 2008 when it had to be rescued by Lloyds Banking Group and TRG's fd, Kirk Davis, waived their annual bonuses and took pay cuts of 40 percent and 20 percent respectively this year because of the pandemic. TRG has been hit hard by the pandemic, which pushed the company into a £235m pre-tax loss for the first half. Hornby is still in line for a share award of £787,500 this year, taking his total maximum pay packet to £1.3m, even after his pandemic-related temporary pay cut. Next year, he will again qualify for a £945,000 cash bonus plus a share award equal to his £630,000 basic salary, taking his maximum package to £2.2m. Davis will be paid £788,000 this year and is in line for £1.3m next year. Debbie Hewitt, TRG's chairman, said the firm had engaged "extensively" with shareholders before proposing the new policy and was pleased that the majority had backed it. "We recognise that some did not support the proposal and we will continue engaging with our shareholders in the coming months." She said TRG had already made concessions, lowering next year's share award to 100 percent of salary, instead of 200 percent of salary. The share awards will not pay out for three years.

*The two top executives at **William Hill** will collect retention bonuses totalling up to £2.1m after the £2.9 bn takeover by **Caesars Entertainment** if they stay on until the non-core assets are sold. The potential payouts were revealed as Caesars and William Hill announced that the bid by the US based company had been recommended by the UK group's board. Including debt, the offer values William Hill at about £3.25 bn. Ulrik Bengtsson, who was appointed the bookmaker's ceo a year ago, and cfo Matt Ashley, will be entitled to cash payments from Caesars equivalent to 200 percent of their salaries. Each will receive 100 percent of their salary at the point when William Hill loses its independence.

*A preliminary report on *The role of ESG factors in global executive remuneration* showed that less than two-thirds of quoted companies in the developed world have incorporated ESG (Environmental, Social & Governance) metrics into remuneration plans to date. This initial report was published by the GECN Group, which comprises five independent advisory firms specialising in executive remuneration and corporate governance, including Centre member **MM&K.** The group conducts annual research into global trends in corporate governance. The preliminary findings were surprising, said MM&K – indicating that only 63 percent of companies, with as many as 78 percent of companies in Australia and as few as 54 percent of companies in the US; had incorporated ESG into executive remuneration plans to date. In the UK, the proportion of plans with ESG factors in them was 66 percent. Utility and energy companies and financial services are leading the way in terms of implemented ESG metrics, the report said. Another aspect of the research was to examine into which incentive plans companies have incorporated ESG metrics. Instinct might suggest that ESG measures would be more prevalent in long-term plans; however, the research suggested that ESG is linked predominantly to short -term incentive plans, added MM&K.

*EQ's (formerly *Equiniti*) review included 2020 agm remuneration resolutions, as monitored by proxy advisor *Boudicca*: Among the 68 FTSE100 companies who put a remuneration *policy* resolution to their shareholders, the average vote in favour was 91.6 percent. Among the 125 FTSE250 companies who put a remuneration policy resolution to their shareholders, the average vote in favour was almost 94 percent. Slightly more than 93 percent of the companies surveyed received 80 percent or more of the shareholder votes in favour of the remuneration policy resolution. The policy vote, every three years, is the one companies cannot ignore – it is *binding*. The Investment Association (IA) had warned that its proxy advisor, IVIS, would 'red top' remuneration policies that did not state new directors would have their pension contributions set in line with the majority of the workforce and would 'amber top' a remuneration policy where an existing director will receive a pension contribution of 25 percent or more of salary. *The IA and other investor relation bodies said that investors were losing patience with companies not responding to shareholder concerns on remuneration, particularly the use of 'exceptional circumstances' to justify large reward outcomes and not consulting with shareholders in any meaningful way on executive reward.* However, many other companies heeded these warnings with an improvement overall in voting in 2020 for the non-binding remuneration *reports* compared to last year, with 83 percent of companies surveyed receiving 90 percent or more of votes in favour compared to 77.7 percent in 2019, said *Boudicca.*

Shareholder voting support over remuneration *reports* among FTSE100 companies ran at an average of almost 94 percent and voter support was only fractionally lower at 93.3 percent among FTSE250 remuneration reports. The review reported that 44 dividend resolutions had been withdrawn by company boards during the 2020 season, owing to the implications of the pandemic. In one unnamed company, shareholders actually voted *against* a resolution to pay the final dividend!

COMPANIES

***Aveva,** a Cambridge-based technology company in computer-aided design will become Britain's largest software group after agreeing a $5bn takeover of an American rival. Aveva, which engineers design of offshore oil rigs and automate factories, is acquiring Osisoft, an industrial software developer which collects data for its customers. The swoop is its second multibillion-pound deal in recent years after Aveva's tie-up with a French rival in 2017. The British company is betting that manufacturers will increase investment on software to cut costs, automate processes and make their operations more efficient. California based Osisoft develops software that enables clients, such as drug and chemical companies, to analyse data.

*The in-flight defenestration of **BA** ceo Alex Cruz revived speculation that its parent **IAG** could start to separate out BA from the Group and eventually sell it. Cruz was replaced by Sean Doyle, previously top dog at **Aer Lingus,** which is part of IAG too.

The rumour was reinforced by London based hedge fund **Marshall Wace**, which built up a surprise £140m three percent stake in IAG, whose share price has hovered just below 100p for many months. Interestingly, almost 40 percent of Marshall Wace is owned by employee share ownership fan **KKR**, the US based private equity house, which is a member of the Centre! IAG's biggest shareholder remains Qatar Airways, which has a 25 percent stake. The key point for the Eso sector is that the vociferous BA trade unions have long argued for the restoration of BA's popular employee share schemes, but their demands cannot be met while BA remains part of the IAG Group, whose own shares do not seem nearly so attractive as the old BA shares were. Brian Strutton, general secretary of Balpa, the pilots' union, told *The Telegraph* that he believed IAG was "*internally downgrading BA and maybe preparing it for a future separation.*"

***Clarkson** plc announced that it had applied to the Financial Conduct Authority and the London Stock Exchange for the block listing of 58,588 ords of 25p each to trade on the LSE . The shares will be issued from time to time, after the exercise of options under the Clarkson Sharesave plan and the Clarkson international Sharesave plan. It was expected the admission of the new shares would be effective from October 26. Clarkson is a leading provider of integrated services and investment banking facilities to shipping and global offshore markets.

***M&C Saatchi** investors face a substantial dilution of their stakes as the advertising group prepared to hand staff up to £15m in share-based bonuses. The payouts could increase the number of shares in issue by almost a quarter this year, dealing a new blow to existing investors. The company has suffered from an accounting problem for more than a year. Its share price has fallen 85 percent from an all-time high of 394p in March last year to 57p at the end of September, when share trading was suspended after M&C Saatchi missed a deadline to file audited accounts for last year. The share price fall means the company will have to issue many more shares than originally planned to meet its bonus payment commitments.

*A US private equity firm struck a £630m deal to buy **McCarthy & Stone**, the UK's biggest retirement house-builder. Shares in the company rose more than 40 percent after it announced the proposed acquisition by **Lone Star** at a 38.6 percent premium to the previous day's share price. McCarthy & Stone, founded 43 years ago, built and sold more than 2,000 houses a year before the pandemic and has a market share of about 70 percent.

***Sage**, the accounting software provider, remains the UK's largest listed technology company, with a market cap of just £8bn. Sage is 18 times smaller by cap than Dutch chipmaker ASML and 20 times smaller than German software company SAP. However, Spotify, the Swedish $49bn music streaming company ignored Europe and listed instead on the NYSE and some UK, German and Scandinavian technology companies remain in private hands. Meanwhile, Cambridge-based chip maker *ARM Holdings* was sold by its Japanese owner *Softbank* to the US based graphics chip specialist *Nvidia* for $40bn.

***Sensyne,** the healthcare technology company founded by Lord Drayson, the former business and science minister, which has been embroiled in bonus and boardroom controversies, failed to meet the corporate governance code on ten requirements last year. One instance included Sensyne not having a functioning remuneration committee after the departure of two senior non-executive directors in quick succession and temporarily not having at least half the board, excluding the chairman, occupied by independent directors, its annual report said. Sensyne has outlined a new incentive scheme for executives and senior managers, under which Lord Drayson, who with his wife holds almost 30 percent of the equity, would be in line for 25 percent of awards, said *The Times.*

*The government could become part owner of Bristol based chip designer **Xmos**, which received a convertible £4.8m loan from investors and the Treasury's *Future Fund.* The loan converts into equity if Xmos secures fresh funding for its chip which powers voice tools, such as Amazon's personal assistant, Alexa. The £500m fund, which has attracted many business proposals, was due to expire at the end of last month. Its structure opens the way for the Treasury to end up owning equity stakes in many gazelle-type companies.

Brexit: Post transition chaos feared

A large chunk of the UK's professional and business services exports could be stymied unless a *comprehensive* trade and services deal between the UK and the EU is struck soon, warned a House of Lords committee. For an annual £35bn worth of EU bound specialised support services to businesses and the public sector, including advertising, legal services, market research, accountancy, architecture, engineering, design, management consulting, and audit are at stake, said its new report: ***The future UKEU relationship on professional and business services, House of Lords, EU Committee.*** A succession of experts told Peers that there was still no clear sign that Brussels would grant automatically equivalence status to such services emanating from the UK, *as_newspad has warned repeatedly in previous issues*. Chief among these is the prized ability to continue harvesting data from across the FS and professional services sectors and bringing it back to the UK. *This key power lies entirely within the hands of Brussels and is of vital importance to a large slice of the UK share schemes sector which is involved in operating and/or extending employee equity schemes on the European mainland.* The Peers' report said: "Separate to the future relationship negotiations, we are alarmed about the lack of an EU decision on the ***data adequacy*** of the UK framework and the absence of most decisions on financial services equivalence and audit adequacy. We urge the government to push for these assessments to be concluded as soon as possible, to give businesses in the UK and EU legal certainty and time to prepare."

The problem is that Brussels could decide to withhold '*adequacy*' status from the UK for some months after January, thereby preventing the legal flow of data from EU member states to the UK. Although lack of data adequacy would not stop UK ***to*** EU data transfers or digital trade, firms would, however, need to put in place "*ad hoc legal mechanisms*" to meet the requirements of the GDPR because "every business in the UK and the EU that exchanges personal data" will be subject to these obligations. The GDPR provides several mechanisms for enabling data transfers to a third country in the absence of an adequacy decision, the most relevant to professional and business service providers being: • *standard contractual clauses* - template contracts, created by the Commission, which both parties engaging in an EU-third country data transfer must sign and • *binding corporate rules*, to facilitate data transfers within a company or group of companies, requiring approval from the relevant EU data protection authority, *which can take many months, or even years, to achieve.* The Law Society said that these alternative mechanisms had "serious shortcomings, as compared to data adequacy", for example that businesses would be "subject to regulatory responsibilities (and associated costs)" and exposed to "sanctions and fines" in case of non-compliance. Such sanctions would have reputational as well as financial implications for businesses.

Similar fears surround the ability of UK business people to travel and meet/negotiate with clients within the EU after December 31, especially if their professional qualifications were no longer automatically recognised by the EU under the *equivalence* regime. Nor is there any agreement with Brussels over the post transition period protection of UK intellectual property rights either, a big worry in the UK's extensive creative sector.

Professional and business services added £225bn gross value to the UK economy in 2019 and employ 13 percent of the UK workforce, yet these dynamic and highly successful sectors had been *overlooked* in the UK-EU future relationship negotiations, said the Lords report. The EU is the largest market for the UK's professional and business services, amounting to ***37 percent of exports (£35bn).*** Most are SMEs, closely linked to the financial services sector and the creative industries, which face the same vulnerabilities and threats raised in this report. A free trade agreement on services was no silver bullet, but there were areas that both sides needed to get right to limit potential barriers to trade, it added.

*Treasury and Cabinet Office Minister **Lord Agnew** criticised businesses for taking a *"head in the sand approach*" when preparing for post-Brexit trade. Asked by Treasury Committee chair Mel Stride MP whether the UK would be in the right position on day one after the transition period when it came to trading, Lord Agnew said the country was in "reasonably good shape" when it came to customs issues. But he said: "The bit that worries me the most is trader readiness". He accused businesses of taking a *head in the sand approach* to preparing, which he said had been "*compounded by* *what I'd call the quadruple whammy of two false alarms - the two [Brexit] extensions at the very last minute, then followed by Covid and now followed by the recession".* He added: "*The traders are not as ready as they should be. If there is one headline that I hope comes out of this is to send another shot over traders' bows to warn them that it is their businesses that are at stake from the first of January and they really must engage in a more energetic way."* Tim Rycroft, coo of the *Food and Drink Federation (FDF),* said he didn't think it was "accurate or helpful for ministers to assert that traders have not engaged in Brexit planning".

WORLD NEWSPAD

***Australia:** Oz based administration services company **Link** rejected a $2.8bn takeover bid mounted by a consortium of private equity firms, claiming it materially undervalued the company. Private equity firms Pacific Equity Partners and Carlyle Group offered to buy 100 per cent of the company's shares for a price lower than what PEP initially floated the company for in 2015. Investors were split on whether the takeover bid would be good for Link, that provides admin and call centre services for major super funds, with Perpetual backing the deal and Yarra Capital saying a better offer was needed. Link said it had held discussions with the private equity consortium and shareholders but unanimously decided to reject the proposal. Sources close to the private equity firms said there was no substantive engagement over the proposal and the firms would now consider whether "they want to stay engaged or walk." The consortium had offered to take over the bulk of the company, but leave the highly profitable property settlements platform PEXA with shareholders. Link said it would continue to engage with the firms over a corporate restructure, that will likely include de-merging and re-listing PEXA.

Chinese** financial technology giant **Ant Group** looked set to make the world's largest stock market debut. Ant, backed by Jack Ma, billionaire founder of e-commerce platform Alibaba, is to sell shares worth about $34.4bn (£26.5bn) on the Shanghai and Hong Kong stock markets. His employees have been told to expect a slice of the equity cake too. The 240-page filing said that Ma's stake "will be reduced over time" to a level not higher than the 8.8 percent shareholding he held in Alibaba at the time of its 2014 IPO. "Neither Jack nor any of his affiliates would receive any economic benefit" from the divestment, it said, while adding that it "is expected to be accomplished through a combination of future ***equity-based incentive awards to employees and dilutive issuances of equity in Ant Group, among other" methods. It is rare for a major shareholder to use his or her own shares to award staff equity, but Mr Ma has been doing this already by granting share-based awards linked to the valuation of Ant Group to **Alibaba** staff since 2014. By doing so with Ant means that he has no need to issue new shares, which would dilute the shareholding of current shareholders," said Na Boon Chong, who advises Southeast Asian companies on compensation plans as managing director and partner for human capital solutions at *Aon*. "The future issues of new equity needed to help reduce Ma's stake to 8.8 percent will likely be extremely dilutive and should be watched closely by independent shareholders," said Jamie Allen, secretary-general of the *Asian Corporate Governance Association*, a Hong Kong-based group that promotes investor interests. Some expect Ma to take a gradual approach which would help to reduce the impact on other investors. Advisers to Ant set the share price amid reports of very strong demand from major investors. The previous largest debut was **Saudi Aramco's** $29.4bn float last December. Ant, an online payments business, is only selling about 11 percent of its shares. But the pricing values the whole business at about $313bn. Mr Ma's Ant shares are reportedly worth about $17bn, taking his net worth to close to $80bn and confirming him as China's richest man. Ant runs Alipay, the dominant online payment system in China, where cash, cheques and credit cards have long been eclipsed by e-payment devices and apps.

***France**: The French government extended payment deadlines for profit-sharing and incentive payments in employee savings plans this year until December 31, due to the pandemic crisis, said *Taxand*. For companies with a financial year corresponding to the calendar year, these sums normally should have been paid to the beneficiaries or allocated to an employee savings plan or a blocked current account before June 1, this year. Order n°2020-322 temporarily adapting the terms and conditions of the additional compensation provided for in Article L.1226-1 of the French Labour Code extends this deadline. Pandemic quarantine periods will not penalise employee participants bonuses from profit-sharing and incentive schemes, added the French government. Article 6 of Act 2020-546, extending the state of emergency, extends this regime to periods of quarantine mentioned in the French Public Health Code. An employee placed in quarantine due to a suspicion of Covid-19 will therefore not be penalized by this absence, for the calculation of profit-sharing and incentive schemes.

***US: Apple** ceo Tim Cook may receive up to a million shares by 2025 provided the *iPhone* maker continues its stellar performance. He will receive 334,000 restricted stock units which will start vesting in 2023, according to an SEC filing. The award could be worth between $76m and $114m depending upon its share price over the next three years. It has been structured on a performance basis, so that he could get zero or up to 200 percent of today's value, which was $116 per share in early October.

Goldman Sachs is starting to *claw-back* or cut a total of $174m in compensation from current and former employees including ceo David Solomon and former ceo Lloyd Blankfein over the 1MDB scandal, reported *CNBC*. Goldman announced a broad settlement with US authorities over its role in the 1MDB debacle, in which a $6.5bn Malaysian investment fund was looted with the help of some of the bank's employees. "*The board views the 1MDB matter as an institutional failure, inconsistent with the high expectations it has for the firm,*" said the bank's directors.

Goldman wants to claw back $76m from the three former employees most implicated in the scandal, Timothy Leissner, Roger Ng and Andrea Vella, the bank's board said. On top of that, five former senior executives including Blankfein have been asked to return $67m in long-term compensation awarded back in 2011. Finally, Solomon, his coo, chief financial officer and international division head will have their 2020 pay cut by $31m. Those awards will be paid out in February of next year. The punishment meted out by the board of the New York -based bank may be viewed as an acknowledgement that Goldman's leaders had some responsibility for the episode. Top executives were on committees that reviewed the deals.

KKR's equity grants for all policy: Ingersoll Rand issued $150m worth of stock to its all 16,000 employees. Unlike at most companies, where only the top echelons of management are paid in equity, this grant was for the rank and file, including hourly employees. The grants equated to 20 percent of employees' annual base cash compensation and came on top of what the employees otherwise would have expected to take home this year, reported *newspad* a month ago. The company did something similar in 2017, back when it was still called Gardner Denver and private equity firm KKR & Co was taking it public again after a 2013 buy-out. When the company announced a hitch-up with Ingersoll-Rand's industrial unit in the spring of 2019, it boosted the strategy so that the thousands of employees joining its ranks could benefit as well. The transaction closed on February 29, just as the pandemic took hold and yet Ingersoll Rand still followed through. Vicente Reynal, Ingersoll Rand's ceo, said: "*We never thought about pushing it or cancelling it. We want employees to have skin in the game and a stake in the long-term shareholder value creation we expect to achieve*."

The equity-grants-for-all model is the brain child of **Pete Stavros**, KKR's co-head of US private equity and Ingersoll Rand's chairman. Pete's father operated a road grader for a construction company and his complaints about the lack of alignment between workers and management stuck with his son. Under Stavros's leadership, KKR has implemented this strategy at eight different companies, including pharmaceutical capsule manufacturer Capsugel, Minnesota Rubber and Plastics and aerospace hardware company Novaria, reported *Bloomberg*. If employees feel they will personally benefit when the company succeeds, they'll be more invested in things like inventory management and software enhancements. Stavros views manufacturers as particularly fertile ground for this kind of model because there are so many levers to pull to enhance productivity (from procurement to scrap reduction and quality control) and because the hourly workforce is usually the best positioned to actually pull those levers. By contrast, there's not as much variability in the development of software, while retailers have too much employee turnover to make this type of programme worthwhile. Both Stavros and Reynal said they talk regularly to companies interested in replicating what they've done with equity grants at Ingersoll Rand, but that initial enthusiasm doesn't usually translate into action. "*There's a belief that ownership is complicated and not everyone understands it. That's offensive to me because my dad was an hourly employee and the smartest guy I know*," Stavros said in an interview. The biggest issue may be that "*treating people like owners is hard work*," he added. *'It's a huge logistical undertaking to give equity to 16,000 people and coordinate with different regulatory regimes across numerous countries. But the grants are just the first step. For the ownership model to really be effective, training has to take on a different lens*."

So Ingersoll Rand is working with the non-profit *Operation Hope* to provide personal-finance education to its employees and Reynal himself helps conduct regular sessions to share data and brainstorm how to close performance gaps. As a result, Ingersoll Rand receives hundreds of ideas from employees on ways to reduce costs as the pandemic crippled business activity. Some of those ideas have helped save jobs. "Capitalism does result in changing competitive dynamics," Stavros said. "How does that translate and interface with, '*Ok, you said you care about employees*?' Being a stakeholder capitalist doesn't mean that you don't do things that make the company more efficient. It's about how you treat people."

The Employee Share Ownership Centre is a membership organisation which lobbies, informs and researches on behalf of employee share ownership.