

The logo for the Australian Employee Ownership Association (AEOA) features the letters 'A', 'E', 'O', and 'A' in a bold, sans-serif font. The letter 'O' is stylized as a circle with a white arrow pointing upwards and to the right, suggesting growth or a forward-looking perspective.

AUSTRALIAN EMPLOYEE
OWNERSHIP ASSOCIATION

The Mercury Centre logo consists of the text 'The Mercury' in a curved, serif font at the top, a central circular emblem containing a stylized female symbol (a circle with a vertical line and a cross), and the word 'Centre' in a serif font at the bottom.

SEWF 09

Panel TH 103

Look Before You Leap - Preparing Your Enterprise for
Growth

Topic: Why Share Ownership?

Who We Are

- The Mercury Centre Co-operative Ltd - non profit cooperative research and development agency (www.mercury.org.au).
- The Australian Employee Ownership Association (AEOA) – membership based support organisation for employee owned enterprises (www.aeoa.org.au)
- The AEOA is setting up an Employee Buyouts Centre with 'Jobs Fund' funding as a jobs saving, social enterprise strategy

Values that Drive Us

- “People not structures” – Andrew Mawson, Social Entrepreneur
- “Participation changes peoples’ lives” – Hilary Armstrong, MP, Social Exclusion Minister, UK
- “You know that it’s for you, not someone else, so you seem to have more pride, I suppose you would say, in your work” – Worker owner, Abrasiflex workers cooperative.

Getting Started on the Social Enterprise Journey

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

Broad Ownership Structures for Social Enterprise

- Community or Employee Owned Co-operatives
 - Owned by members based on cooperative principles and democratic voting rights.
- Community Interest Companies and 'Stakeholder owned' corporations
- Employee Share Ownership Plans (ESOP)
 - Trust based share ownership plans used to cut employees into ownership during start-up and growth
 - Also used to buy out an existing owner's share over time
 - Tax benefits potentially available
 - Ability to leverage finance

Enterprise Performance and Ownership Culture - The Evidence

- ESOP companies that combine employee ownership with a participative management style grow 8 -11 percent per year faster than they otherwise would have been expected to grow based on pre-ESOP performance. *Harvard Business Review*. September/October 1987).
- ESOP companies outperformed competitors on job growth measures 49 percent of the time and 50 percent showed the same growth rate. *(Ohio Employee Ownership Center and Kent State University, 1993)*.
- ESOP companies had sales growth rates of 3.4 percent per year higher and employment growth rates of 3.8 percent per year higher in post-ESOP periods than otherwise expected. *("Employee Ownership and Corporate Performance." The National Center for Employee Ownership, 1996)*.

Case Study – ESOP based Social Enterprise

- “ABC” Pty Ltd - a for profit social enterprise – started up 8 years ago with 5 people.
- Now employs 50 plus
- Three social objectives – create market for enviro-tech invention, employ women in deprived region, cut all staff into ownership.
- ESOP commenced early – 20% of total equity allocated to eligible employees through ESOP trust.
- Remaining equity contributed by ‘patient’ social investors

Case Study – How Managed

- Enterprise governed by Board of 4, including CEO, with one employee elected director
- ESOP trust run by staff elected trustees
- Annual profit share allocated to ESOP trust
- Shares allocated to staff based on annual salary and performance.
- Staff assemblies held monthly to review business strategy, sales and results, business improvements, customer feedback etc.

Case Study – HR Results

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

Case Study - Operating Efficiencies

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

Case Study – Competitive Advantages

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

Enterprise Growth through Ownership Culture - Preparing the Groundwork.

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

Task 1 – Free Flowing Information

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

Why Share Information?

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

Task 2 - Individual Autonomy

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

Task 3 - Create Opportunity

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

Task 4 - Develop Trust and Respect

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

Task 5 – Share Enterprise Results

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

Establishing a Social Enterprise Based on Ownership Culture

- Ownership and participation delivers social inclusion
- Ownership culture delivers sustainable business growth
- The chase for cash and profits becomes everyone's responsibility
- The “best” workplaces deliver pride and commitment
- Sharing profits and ownership with poorer people creates wealth and stability in poor communities.
- Broadly owned ‘for social purpose’ business creates an alternative to ‘footloose’ private enterprise.
- Cooperative ownership promotes ‘controlling your own destiny’ – increased personal satisfaction.

Contact

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