

Saxton Bampfylde

Through the employee ownership lens

How to prime the
Non-Executive
partnership



Saxton Bampfylde has been an Employee-Ownership Trust (EOT) business since 2014 and is proud to include itself in a vibrant and growing group of organisations also adopting this model. We believe in the purpose and values which led us on the path and transition to Employee Ownership and want to help sustain and champion organisations with this model – be they established, young or early stage. It is a collaborative and community-minded sphere which is rapidly becoming a recognised sector, and we are committed to helping to grow and enhance it by finding and developing the best Non-Executive Director (NED) and Executive talent.

Throughout our history we have deliberately put an emphasis on external and independent opinion, even as a privately owned organisation, and it is a function we are now being asked about with greater regularity from employee-owned organisations. As this developing sector gains traction and expands, the importance of having strong independent NED input to guide and support employee-owned businesses is arguably more imperative than ever, particularly in the hugely competitive and changing business, social and political environment we are faced with.

We decided to explore this topic in more detail and were delighted to have the chance to talk to over 20 Executives, NEDs and independent advisors across the employee-owned sector in the UK.

A very sincere thanks is extended to all of those who have participated in this work and been so generous and honest with their views, experiences and observations.



Introduction

The Employee Ownership (EO) model is gaining traction in the UK with a reported 1030 organisations registered in 2022¹ and the expectation is that this will continue to rise over the next decade. A greater emphasis on purpose and values, as well as a commitment to the future of an organisation and its employees, is being heralded as the catalyst for more organisations and founders assessing their succession planning and business longevity.

Those who have chosen EO have (typically) done so carefully, taken legal and tax advice, and many used professional networks and organisations like the Employee Ownership Association (EOA) and consulted with family and colleagues. For some the transition is a natural progression for their existing organisations and for others it requires more significant change, but overall, the UK's employee-owned business community is very much thriving and growing. It already accounts for approximately £30 billion to the GDP each year².

The following thought piece combines the reflections and advice of those we have spoken to, our own experience as an EO business, and our experience having advised clients for close to four decades on such appointments. We want to help employee-owned organisations navigate the requirement, identification and appointment of NEDs and Chairs – be it the first or fifth time that this is being undertaken. Whilst also offering meaningful advice and support to those who are considering their suitability and appetite for these roles.

1 White Rose Employee Ownership Centre figures are provided by Prof A. Robinson (University of Leeds) and Prof A. Pendleton (UNSW) <https://employeeownership.co.uk/resources/what-the-evidence-tells-us/>

2 <https://employeeownership.co.uk/what-is-employee-ownership/employee-ownership-benefits/>

Read the label: this is not your typical Board role

“EO reflects the time we are in: greater sense of society, much more purpose.”

Purpose and culture are woven into the fabric of employee-owned business: they are part of the glue which holds the organisations together. Employee-owned businesses harness a sense that they are striving for the common good, rather than individual gain: it is a model that emulates a collaborative and community-focused ambition.

At Board level, be that a Group or Trust Board, there is a clear recognition that mission, purpose and values must be respected and upheld. This means there is a greater need to explain decisions, and more time is spent thinking about and discussing how any strategy will be interpreted and delivered. One interviewee observed that the: *‘whole point of EO is that it can drive outcomes and allow the Board to be more productive, more thoughtful, more engaged.’* Collaboration is key and the NED and Board need to remember that.

“The role can be one of poke and challenge’, not just the Executive but also of employees.”

The role of the Board and its interaction with the wider organisation, can feel different in an EO business. The ability to get under the skin of what staff really feel and think is much easier; in fact, it is imperative. A well-run EO organisation has a finger on the pulse and responds to things in real time. As a result, the Board must be clearer in communicating with all employees from the shop floor to the boardroom. It can be a challenge of the model, but if harnessed correctly can make a marked difference on engagement and loyalty and reflects the substance of the business and the importance of people.

For many EO organisations, particularly those in engineering, creative or consultancy practices the Executive teams often have similar backgrounds and skills as their employees. That can be powerful, as it can create active engagement with employees. The potential risk being that leadership doesn't always look beyond the immediate environment for challenge or an alternative perspective. A NED can play a key role in that respect, asking those tough questions and challenging the status quo when needed.

“Trustees have the nuclear button and can fire Directors. They are accountable.”

Through specific functions, such as an EO Council or elected Trustee representatives, an employee or co-owner voice is presented to the Board as a crucial perspective. It helps to bring issues to the surface, in turn requiring the Chair and the wider Board to listen and respond. One interviewee talked of the attitude towards employees and warned: *‘Ignore them at your peril and the truth will out.’*

“EO is almost purposeful by default. By definition it is purpose-led.”

Potential or incoming Board leaders must understand the nuances of working with an employee-owned business – what it means for the culture, decision making and ambition of the organisation. They must understand the framework and feel sympathetic to the approach.

Is independence imperative?

60% of our interviewees said independence of the Non-executive was important



“Independent view is utterly vital, or it will descend into group think.”

The need for independent challenge is vital in most EO organisations. But in what way is this different to any other organisations in the private, public or third sector? One interviewee cautioned against *‘the virtue signalling that EO can bestow on an organisation’* and that *‘the model and approach should be questioned’*. It was suggested that any sense of smugness or even navel gazing about the operating model is unhelpful, even dangerous, for all involved. Leadership teams must be open to, and in most cases actively seek external influence and challenge. Actively seeking independence will really enhance an EO business.

“The power of the NED is to bring a different view.”

Many EO businesses enjoy lower levels of staff turnover, as a result they support and develop long established teams that have worked closely together for many years, even decades. This can lead to group-think; it can make decision-making more challenging and the balancing of different opinions difficult to resolve. In this context the independent view of a Chair or NED can be beneficial and something that should be considered carefully.

“Huge divide between NEDs who wanted to apply normal business techniques versus founders who think they are never wrong.”

An interesting way to incorporate an independent voice is with the role of the Chair of a Trust Board, which represents the employees as owners. In this capacity, the priority is to ensure that the overall interests of partners at all levels are represented and protected. This requires a delicate balancing act, particularly at the early transition stage when employees are testing or seeking to understand the implication of the ownership model for their own roles and responsibilities.

Many EO Businesses can trace their heritage back to a founder-led organisation. For those that are at a point of transition, the notion or reality that this voice should retain such weight after the transition to EO can require an independent Chair, NED and Executive to bring balance. An interviewee observed that often *‘the founder’s voice is disproportionately loud and the shadow they cast is disproportionately long’*.

This ability to work with, and appropriately question a founder or owner must be worked out early on. This particular relationship must be carefully considered, and ideally outlined before commencing any appointment process for a Chair or NED. It is equally important for any potential candidate to interrogate the structure when considering the role.

Experience or Empathy – does one win out?

“Cannot be agnostic to EO”

There is quantitative and qualitative evidence of the professional, economic and personal benefits that the model can bring to the team and to the business.³ EO appears to demand a far greater demonstration of and commitment to business values, a clear vision, and regular articulation of company culture. But the rewards it generates are demonstrated in a thriving and expanding community of businesses across the UK.

“Mission driven rather than profit driven – that’s why I was appointed as a NED”

For those candidates coming into a NED or Chair role in an EO, a belief in the model as a positive characteristic of an organisation, and an acceptance of the benefits that it therefore provides, is crucial. For some, this is the number one prerequisite, listed higher even than technical skill.

“Reluctance over EO is a showstopper”

Understanding the extent to which this belief is held by potential candidates is key, and should be done early on in any process, and considered in the context of the broader experience. *‘It is understanding rather than actual experience; I think we could get too bogged down with thinking it is that different.’*

Regardless of the specific EO model, the fundamental approach expected of any NED joining an employee-owned business does not differ ostensibly from any other business model. These core principles of consideration in a NED role were summarised clearly by one interviewee:

- *How best can this person/I help to define and deliver a strategy for the business?*
- *How will this person/I hold the executive team to account for delivery of that strategy?*
- *How best do they/I represent and respect the needs of all the shareholders (in this case, employees)?*

However, there is no denying the importance of educating any successful candidate in the nuances and specifics of the governance structure and business. EO businesses are rightly skeptical of individuals who demonstrate a resistance to further knowledge-building, mentoring support or an inability to flex in mindset.

“Must always default to quality of behaviours”

Any interview process must check personal values and behaviours to ensure they have a fit with the business purpose and values they are being recruited for. It is also vitally important to consider, as with any other business, the stage at which the organisation is at: transition, continuation, evolution or disruption and what that therefore means for the approach required in this role.

³ <https://employeeownership.co.uk/resources/what-the-evidence-tells-us/> (median productivity increase of 9.4% 'like for like' or 5.2% as a whole, double the UK average of 2.6%)

“It is a modern democracy – need to be comfortable with that.”

An appointee must understand the DNA of the business, but that does not mean they need to necessarily agree with all aspects of the model and structure. An honest review of the model and structure may be required, particularly when external positions are being considered. These must feed into any discussions with potential NED or Chair candidates.

“Capability is more important than democracy on the Trust Board.”

The Trust Board does require a special consideration in the context of experience. An EO Trust has significant responsibilities and the Chair must be able to guide that group effectively. The need for experience around the Board table, particularly at the beginning of any transition, can be paramount; one interviewee observed that it *‘can be quite a scary responsibility so if the Chair doesn’t know what they are doing that can cause a real problem.’* While it isn’t deemed essential for even the Chair to have specific EO experience, the benefits are clear, and it may be considered risky to proceed without.



Can we widen the pool?

The EO business group remains relatively small and young compared to other business models in the UK: this creates a more limited pool of experienced senior executive talent and even fewer NEDs who know and understand the model.

“The transition is such a vital period Boards almost need someone with the technical prowess in establishing EO operations, structures and a legal understanding – there simply are not enough of these sorts of people.”

Though the talent pool is growing, securing experienced people does remain a challenge, particularly in the NED world where you may also be looking for candidates with specific technical skills. The view that *‘we do have to compromise [on talent] and it is slowing us down’* was not given in isolation, but with a hope that this will become less of an issue as the model becomes more popular. Technology has removed geographical barriers and, in many ways, has opened up the pool and also enabled greater levels of diversity.

“At the moment it is too much about self-selection”

If experience of EO is deemed vital in these roles it naturally restricts the candidate pool. We note that not every organisation came to the conclusion that the experience was necessary. The view was shared that a self-selected cohort of talent should be avoided to expand the knowledge and experience base in tandem with adopting the increasingly popular business model.

Our contributors believed a more-focused, collaborative effort by all EO businesses, and supporting professional services and membership organisations, would reap real rewards to expand and develop this talent.

“Mirror up to leaders, and a mirror up to themselves also.”

The choice to move to or embrace employee-ownership tends to come with an innovative mindset and a desire to want a more collaborative and open workforce, where the benefits and rewards, as well as challenges, can be shared more easily. This mindset and approach naturally leans towards self-development and education which can prove beneficial but this must be extended to the NED group too. One interviewee observed that *‘the more we look for talent the more we realise there is a lot of education to do and if we can short circuit that it would be hugely helpful.’*

There are some approaches to short-circuiting that with mentor or buddy-type schemes being undertaken in certain organisations where previous NEDs or long-service employees are helping to guide and nurture new talent into these roles. That is proving successful in certain businesses, but that also requires a willingness and resource from NEDs to take part and that is not always a given.

“Starting to establish industry leadership groups, but with growing interest in this model, more needs to be done to collaborate.”

Balance across the Board: how to optimise the Non-Executive search

The current economic and cultural climate in the UK appears to be more hospitable to the EO model than it ever was. There is political will behind it enhanced by the emphasis on people power and workplace culture which has arisen from the pandemic. It is an operating model that looks set to increase in its presence and potential.

“The recruitment process needs to test hard to understand the motivation and the interests of the individual to ensure you get the right one.”

Whether a business is transitioning, in early stage or well-established, the role of the external voice – NED or Chair – has an important place and must be considered carefully in the context of the organisation, its stage and the candidate(s) identified.

“This is not a fungible role – the business has to be really clear about how it wants the role to work.”



Closing insights

The experience of those people we talked to, as well as our own, has provided a range of useful insights which we believe will benefit others when making these decisions. These are defined in three different phases and from the perspective of the organisation and of the candidate(s).

In the context of an organisational view, we suggest these points below be used as a guide for areas to be considered when designing a job description and person specification for a role, and when judging the suitability of candidates for that role.

The first question that any organisation must reconcile is of course:

Are we ready for an NED/Chair and what do we hope to gain by appointing an NED/Chair?



Defining the role: Important considerations

- Do we have clearly defined and agreed governance structures?
- How do we envisage this role fitting into that structure?
- What are the key accountabilities and responsibilities for this role?
- What is an appropriate term limit for the role?

Defining the candidate specification: Important considerations

- Do we require specific sector or functional experience?
- Is existing NED experience important?
- How crucial is existing experience of EO?
- Are there specific skills lacking on the Board that this role can fulfill?
- How important is empathy or enthusiasm for the model?
- The importance of highlighting independence.
- Do you want to refer to development on offer for this role?
- What is an appropriate term limit for the role?

Testing and appointing candidates: Important considerations

- How closely do they meet the person specification?
- Where are we willing to compromise on the fit with the person specification?
- Have they met enough of the team?
- Are we confident that they understand our model? Or have experience of other similar models?
- Can they work with the Founder or Current Executive Leadership?
- How will they engage with the wider employee group?
- Is there a need for development and, if so, an appetite from the candidate to undertake it?
- Are they aligned with our values, mission, and vision?
- What are they bringing to the organisation that we do not already have?

When is prior experience required?

How important is EO experience – what our interviewees said:

20% Responders agreed EO experience is needed for a Non-Executive

80% Responders agreed EO experience is needed for a Trust Chair

70% Responders agreed EO experience is useful

10% Responders agreed EO experience not needed



Top considerations for candidates

From the individual or candidate perspective we suggest that these points be used as a guide when considering whether to take on a NED role in an EOB:

Before accepting a role: what to consider

1. Has the interview process instilled in me a confidence that this organisation is prepared to welcome an independent Board member?
2. Are the governance structures clearly defined?
3. Have the expectations for the role been clearly communicated to me?
4. Am I confident in my knowledge of EO or will I be provided with enough development to understand EO?
5. Am I sufficiently supportive of the organisation's approach to EO?
6. Is there a sound basis for good working relationships with key stakeholders?
7. Do I feel sufficiently aligned with the values, mission, and vision of the organisation?
8. Am I confident that I will be able to contribute and provide the correct level of challenge and that my contributions will be taken into consideration?

We have observed the extent to which prior experience of an EO business depends on the role that is being appointed, and the stage of the organisation's development. This can broadly be outlined in three scenarios :

Scenario	Challenge	Solution
<p>A founder-led business actively exploring EO as a potential succession root.</p>	<p>The founder and/or leadership team will require strong and robust challenge when assessing the relative strengths and risks of each option.</p>	<p>Prior experience of EO is less of a requirement at this stage. The Chair's ability to support, counsel and advise a founder is key. Instead, previous experience of navigating such points of transition, and exposure to a range of business models and transactions is key.</p>
<p>A transitioning / recently transitioned EOB looking to appoint its first Trust chair and Board chair.</p>	<p>During the period proceeding a transition, the work to establish and embed the model starts.</p> <p>In addition to the heavy lifting required to establish a new structure, significant internal engagement is key. A new Chair, or NED must be visible, they will be required to spend time working in close partnership with the leadership team.</p>	<p>For the appointment of the Trust chair, prior experience of an EOB is highly advantageous.</p> <p>There is some more flexibility when looking to appoint a group chair, again prior experience of an EOB is helpful, but the search criteria can be widened to include partnership models.</p> <p>There is some more flexibility when appointing additional NEDs, but we would advise that candidates can evidence exposure to a range of ownership models.</p>
<p>An established EOB</p>	<p>Board appointments in this context must bring strong external perspectives, constructive challenge, in addition often to a specific track record or experience.</p>	<p>For a chair appointment, prior experience of an EOB is helpful, as they are likely to understand the nuances and challenges of the model. Though an openness to equivalent experience is possible, for example a legal partnership.</p> <p>There is further flexibility for NED appointments. Here a willingness to learn about the business and the model, combined with the specific track record or experience. Prior NED experience is not a prerequisite.</p>

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