

## SELLING TO YOUR EMPLOYEES – FOR THE MANY, NOT THE FEW?

*Ewan Hall, head of WJM's Corporate team and an acknowledged specialist on employee buy-outs, writes on the growing success of employee ownership as a business model.*

More and more business owners are looking to employee buyouts as a method of addressing ownership succession in their business. WJM has been involved in employee buyouts and employee ownership generally for many years now – we have probably been involved in more employee buyouts than any other law firm in the UK over the last decade – and we have seen a significant spike in interest in this area across the UK in the last few years.

For many owners, and their advisers, the traditional forms of exit/succession are transferring/selling the business to the next generation in the family; a trade sale to a third party; or a management buyout where the business is sold to a small number of senior managers in the business.

However, employee buyouts/transitions often represent a legitimate further option that (1) secures value for the exiting owner; (2) secures the independence of the business; (3) secures the legacy of the departing owner; and (4) provides the best opportunity for the future success of the business.

### Value and Funding

In an employee buyout, the employees as a group acquire the business. This is usually achieved by the employees acquiring individual stakes in the business, or a trust acquiring the business on behalf of the employees, or a combination of both structures.

As with more traditional exit routes, some funding will probably come from borrowing against the assets of the business, but this will now be for the benefit of all employees in the business as opposed to a select few as in a management buyout.

The employees themselves will usually also put in some of their own cash to fund the buyout – giving a much wider pool of funders than with a management buyout.

There are also a number of dedicated lenders in the UK who will specifically fund employee buyouts. Some of these lenders are themselves employee-owned and recognise the benefits of the model.

These funding options often provide more flexibility – especially in the current funding environment where high street banks are often reluctant to lend. This all means that an employee team may often have a better chance of securing value for the exiting owner.

### Independence and Legacy

Maintaining the independence of a business and the legacy of its owner are often connected.



For many owner-managers who have built up a business over many years, seeing it acquired by, and becoming part of, another organisation is not a comfortable situation. Such acquisitions are often based on the savings that the acquiring party feels they can make; which often means redundancies and a relocation of the business. For owners with a strong connection with their workforce and their local community, this can be an unpleasant and unwanted outcome.

An employee buyout not only helps anchor the business to the employees who have helped it grow, but it also anchors it to the community where it and its employees are based.

When considering what legacy they want to leave behind, owners may wish to ensure that the values of the business that they espoused continue to drive the business and its relationship with its stakeholders going forwards. Who better to help secure this than the employees who helped over the years to shape those very values?

## Future success

Employee ownership works – especially if structured correctly. The additional motivation and connection experienced by the employees produces very real commercial benefits for the business. Companies with significant employee ownership consistently outperform non-employee owned companies – whether you measure productivity, share price or sustainability. A prime, often quoted example is the John Lewis Partnership, which has consistently performed well even in difficult economic conditions.

They are the highest profile member of the employee ownership sector – a sector that generated over £25 billion of turnover last year.

Moving to employee ownership does not mean that there is suddenly a culture of management by committee. Successful employee owned companies (like other companies) need effective governance and management structures.

But they also need effective communication mechanisms to ensure that management is accountable to the owners of the business – its employees – and so that those employees can see the benefits and impact of their role within the business.

Employee buyouts represent what is often a unique win-win opportunity for the seller and buyer(s) of a business. Even if an owner ultimately decides that it is not for them, we would suggest that they at least consider employee ownership as a viable alternative to the more ‘traditional’ exits that are often espoused in a succession situation.

If you would like more information or to discuss any aspect of employee buyouts or employee ownership generally, please contact Ewan Hall, head of our employee incentives and ownership team.

**More information from  
Ewan Hall: [esh@wjm.co.uk](mailto:esh@wjm.co.uk)**

# WRIGHT, JOHNSTON & MACKENZIE LLP (WJM) AND EMPLOYEE OWNERSHIP

**WJM has a long-standing involvement with employee ownership.**

It began with the privatisations of the early 1990s where we advised a number of management/employee/trustee teams, including Kelvin Central Buses Limited and The Clyde Port Authority.

Since then, we have advised a wide range of businesses, business owners and employee teams transferring to or building on employee ownership, including:

- Loch Fyne Oysters Limited (seafood, meat and game wholesalers)
- Woollard & Henry Limited (manufacturing)
- UBH International Limited (manufacturing)
- Highland Home Carers Limited (care services)
- Stewarty Care Limited (care services)

- G3Baxi Partnership Limited (oil industry engineering)
- Childbase (children’s nurseries)
- Clansman Dynamics Limited (manufacturing)
- Galloway & MacLeod Limited (agricultural merchants)
- West Highland Publishing Company Limited (newspaper and magazine publishing)
- Edinburgh Bicycle Co-operative Limited (bicycle retail)

We are also the legal advisers to Baxi Partnership Limited, the UK’s leading employee and mutual ownership consultants and funders.

We have recently been appointed to the Employee Ownership Association’s specialist adviser panel on organisations transferring to employee / mutually owned structures. The Employee

Ownership Association is the UK’s representative body for employee owned businesses.

We also advise on community and collectively owned renewables projects.

We understand the technical stuff and have had the pleasure of explaining this to a wide variety of audiences. However we also understand the spirit that moves people from different types of organisation to seek our advice to help achieve their vision of broader participation in the ownership and governance of their organisations or enterprises. We would be pleased to share this experience with others.

If you would like more information or to discuss any aspect of employee ownership, please contact Ewan Hall, head of our employee incentives and ownership team: [esh@wjm.co.uk](mailto:esh@wjm.co.uk)

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Edinburgh, Glasgow and Inverness