

“What Have ESOPs Got to Do With Social Enterprise”

A social enterprise – like most businesses – is little other than its human capital. The application of human skill is the main ingredient in the growth of any enterprise. What is the best way of involving human talent in your enterprise? Employee ownership is the answer.

Outside of the strong social and economic reasons as to why employees should expect to share in the profits of their skills, there is also a mass of research evidence which shows that employee ownership combined with employee participation has such a productivity impact that enterprises where this is normal practice always out-perform their competitors in the same market.

It is therefore no accident that most of the largest social enterprises in the world are employee owned - the most famous being the Mondragon Cooperative Consortium in NW Spain employing 75,000 worker owners in one of the largest business conglomerates in Europe, while still retaining it's social objectives – since 1956 - of “creating jobs for the locals”.

Alternative business structures such as the “Employee Share Ownership Plan” – or “ESOP” – where an employee benefits trust owns all or part of the enterprise, are not yet common in the social enterprise sector in Australia (though there are a few in the environment area, with none being majority employee owned).

The beauty of the ESOP structure is that because the employing company can make pre-tax contributions to the trust to buy the shares of the enterprise on behalf of it's employees over time, the enterprise is ‘purchased’ out of its future earnings rather the employee's current savings.

For evidence of the success of ESOP owned social enterprise, you can see the report from the UK Employee Ownership Association, (published February, 2009) called "Making Employee Ownership Work: A Benchmark Guide" (you can access this at: <http://www.employeeownership.co.uk/publications.asp>).

This report provides evidence on the phenomenal job creation results for those innovative social enterprises which share ownership with their employees through an ESOP. Among the case studies of 25 companies where employee ownership has been successfully introduced, there are several of the UK's most rapidly growing social enterprises, such as:

- **eaga Plc** (started with 4 people retrofitting insulation in social housing - now employing 4000 'co-owners').
- **Sunderland Home Care Associates** (started as a small coop employing half a dozen women in the economically deprived NE of England, now employing 300

'co-owners' in the same area. Winner of the UK "Social Enterprise of the Year" Award in 2006).

- **Loch Fyne Oysters** (started as a regional development initiative some 30 years ago, part-funded by the Highland and Islands Development Board, now employing 120 'co-owners').

- **Highland Home Carers** (social care provider providing employment to workers in remote areas, now employing 130 'co-owners').

The report details how these social enterprises got it right from the "employee engagement, governance and voice, rewards, ethics and corporate social responsibility" angles - none of which are normally associated with either the "not-for-profit" sector or social enterprises in Australia.

It seems that employee ownership can be especially worthwhile in those business areas where the level of an enterprise's performance rests firmly in the hands of its employees. It is this that makes employee ownership such an important component of future public and social service reforms, especially in the provision of care services.

Examples of employee-owned public or social service outlets are rare in Australia but generally impressive in the UK. Greenwich Leisure (a community interest company) is owned and run by its staff, operating seven formerly publicly-owned leisure centres, with an annual turnover of £45 million. Sunderland Home Care mentioned above has a turnover of over £2 million, and is now being replicated in other cities. Most strikingly, annual staff turnover at Sunderland Home Care is below 5 per cent, compared with a national average of 20 per cent among care workers. Central Surrey Health is owned by its 780 staff, consisting mainly of nurses and therapists.

The central argument in favour of employee ownership of social service providers is the same as it is for commercial entities. A virtuous circle of representation and productivity can be achieved to win greater commitment and responsibility from both management and employees resulting in a superior business model.

For more information, contact the Australian Employee Ownership Association (AEOA - www.aeoa.org.au).

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