



The International Employee Share Scheme: Exporting the Vision

David Craddock is a recognised authority in the UK and worldwide on employee share schemes and cash profit-sharing schemes and is the author of *Tolley's Guide to Employee Share Schemes*. In this article, David describes and analyses the exciting world of the international employee share scheme as a motivational tool for unifying the employee workforce of an international group of companies, all designed to encourage enhanced productivity and profitability.

The Challenge of the International Employee Share Scheme

The objective in introducing the international employee share scheme is to meet the on-going challenge for global goal congruence in an international group of companies, whether the holding company is a quoted company with a presence on a recognised stock exchange or a private company with its shareholdings more tightly controlled.

The subtle key to the success of the initiative is to secure the fusion of the overall company culture with the individual country cultures of the overseas subsidiaries. The implementation, therefore, of any employee share scheme, whether national or international, hinges upon

working to ensure the compatibility for the employees between the all-embracing **company** culture and the **country** culture of each individual overseas subsidiary company country. To achieve this compatibility, it is always essential to respect the national identity of the individual countries and not to dilute that identity; the absence of dilution being in the interest of facilitating identity with the people in the overseas countries, whether the **internal** employees in any given country or its **external** customers. In other words, the scheme in its execution must be relatable in as practical a way as possible for the local population in the overseas countries. It is the genius of employee share schemes that they can achieve this objective in the international context as well as in the national.

The Emergence of the International Employee Share Scheme

The international employee share scheme developed from the mid-1980s, led by companies from the UK, and based on a belief by business leaders in the need for corporate unity within a worldwide group that could be sustained by effective solutions for unifying employee incentivization. This is a further demonstration of the uniqueness of the subject to use an incentive based on the developing value of the company's shares as the basis for corporate unity. The result is to encourage an entrepreneurial work ethic approach from the overseas employees across many different national and ethnic cultures as the totem for the commitment to the common corporate goal.

The earliest international share scheme initiative is generally believed to have come from The Wellcome Group, followed by Enterprise Oil, Guinness and Reuters, companies that had first experienced success in their home employee share scheme initiatives. As an all-employee model, many of the early international schemes sought to replicate the savings-related share option scheme arrangements using a Rothschilds investment vehicle in Guernsey in the British Channel Islands as the basis for the savings. On maturity, this arrangement would generate funds for the purchase of company shares inclusive of a gain on the investment from the monthly contributions made over the pre-set savings term.

By the mid-1990s, leading UK building societies and banks were offering the savings facility to support the introduction of the international savings-related share option arrangements. British Airways was an early company that utilised this savings freedom introduced by the UK savings institutions. Personally, I was privileged to develop the share scheme strategy and execute the

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detailed implementation for the international arrangements introduced by both Waterford Wedgwood in 1996 over the 20 countries in which the company had employees, and then Saatchi & Saatchi in 1998 over the 45 countries in which that company had active advertising agencies. Yes, it was a fascinating experience travelling to the countries, experiencing and learning the cultures of those countries, and refining the employee communications accordingly. I was supported by translators and interpreters, when necessary, as I travelled the world to secure that cultural fusion between company and country. Subsequently, from year 2000, I undertook a similar remit for US-based companies, notably the Sanmina Corporation, the electronics manufacturing services company,

that is headquartered in San Jose, California. Sanmina is quoted on NASDAQ with a preponderance of its shares held by employees. The objective given to me by the Sanmina board was to develop a scheme that welded together their European and Scandinavian subsidiaries with the US holding company around the totem of the developing share value.

The trend to introduce international employee share schemes has been and continues to be reinforced and encouraged by the globalization of world markets, the support of business leaders worldwide and a recognition that all the disparate elements within and across a world corporate group are interconnected, thereby recognising the developing share value to be the natural position for employee unity across multiple jurisdictions.

The Drivers for the Development of a Global Group of Companies

The natural instinct of a growing and ambitious company is to expand and extend its commercial development, i.e., to expand its markets and then to extend its reach across the world as it



develops its products and services to cater for the needs of people across multiple cultures and countries. The natural fit for the motivation and incentivisation of the employee workforce to maximise the productivity and profitability of the overseas ventures is for the international employee share scheme to act as the international corporate glue for the unity of the employees worldwide around the totem of the developing share value. So, the company exports its share scheme initiative just as it exports its commercial development. It was with a spirit of vision and enthusiasm that the businesses originally expanded their trade into overseas countries; the employee share scheme exportation should be done in the same spirit.

The international commercial development of Waterford Wedgwood, the ceramics and crystal company that was at the time quoted on the London and Dublin Stock Exchanges, was driven by sales and marketing considerations to create corporate marketing outlets overseas for products that were manufactured in the UK and Ireland. The commercial development of Saatchi & Saatchi, as a quoted UK-based advertising company, was driven by international client project considerations to create worldwide coordination for clients that operated across multiple jurisdictions as part of a horizontal integration programme.

In the same vein, private companies expand and extend their activities overseas. Within the client base of my own consultancy business, **David Craddock Consultancy Services**, I have selected four private company case studies for illustration:

A UK-Based Hi-Tech Service Provider Company

To secure the comparative advantage for a group on access to the specialist skills of employees within the indigenous population of the overseas countries, i.e., employee skills driven.

A UK-Based Corporate and Personal Gifts Company

To access a lower opportunity cost of

labour for manufacturing within the indigenous population of the overseas countries, i.e., labour cost savings driven.

A UK-Based Clothing Company

To create corporate manufacturing facilities overseas for products that are designed and marketed from the head office in London, i.e., manufacturing and production driven.

A UK-Based Jewellery Manufacturing Company

To take advantage of natural resources or other supply chain products in a foreign country as part of a vertical integration programme, i.e., supply-chain business-related investment driven.

The Rollout into the Overseas Countries

The type of employee share scheme used depends on the scheme design, which is driven by the principle of ensuring that the employee share scheme incentive supports the achievement of the corporate objectives. The scheme type may, therefore, be all-employee or management only. It may be share option, share purchase, or share gifting. It may be contributory or non-contributory. In short, it may be any

of the variations or permutations on employee share scheme design that are introduced in the UK.

For the international scheme, on the management of the exchange rate, the option price or the purchase price is typically denominated in the mother country currency. For savings-related share option schemes, the savings will normally be denominated in the local overseas country currency so the overseas employees will be allowed to make up any deficiency on exercise.

The presence of complex securities laws or exchange controls may lead – indeed, often in the tax jurisdictions of the Asia Pacific region – to a company preference to operate phantom savings, which in essence requires the overseas employees to organise their own savings and produce a savings record on exercise for payment of a deferred bonus based on the rise in the share price.

Typically, whether a quoted company or a private company, usually it is existing shares that are recycled (to avoid dilution) through a single employee share trust, typically based in Jersey or Guernsey in the British Channel Islands, to service





all countries in the international worldwide group. New issue shares can be used if that is considered more expedient. For the private company, the trust will also act as the market for the shares when the employees are ready to sell.

The Politics and Economics of the International Schemes

The political and economic factors that support governmental support from the mother country for international employee share schemes are many. Effective implementation raises the group's trade and turnover through export-led sales of UK-manufactured goods into the overseas countries, thereby contributing to employment levels in the UK as more goods are required by an expanded market. Export development contributes, therefore, to a balance of payments surplus in the mother country. Additionally, for the mother country, there is the strengthening of control over supply chains from overseas, thereby reducing inflationary pressures by contributing to sufficiency of supply through control over overseas production and distribution.

Furthermore, international schemes contribute to healthy political

relations with the overseas countries. This comes through assisting with employment creation in those overseas countries and reducing inequalities on wealth creation in those overseas countries (trade rather than aid), which is, incidentally, thoroughly consistent with UN Sustainable Development Goals. For the economics of the international financial markets, do not underestimate the reduction in market volatility by creating an element of certainty within the stability and cohesion of a worldwide group of companies.

The Export of the Home Country Model

The two foremost countries in the world on the development of share scheme structures and the tax reliefs are the UK, with the so-called tax-advantaged (tax-approved) schemes, and the USA, with their so-called tax-qualifying plans. Where the mother country is UK-tax-resident or US-tax-resident, therefore, the structure in the overseas subsidiary companies will typically mirror the mother country structure.

As with any export product, whether core products and services provided by the company, or its employee share

scheme, it is important to refine the employee share scheme to be suitable for the importing country; this is where a country-sensitive employee communication strategy is pivotal. The technical issues to be addressed are securities laws, financial services laws and regulations, exchange controls, employment laws and data protection laws. But to restrict the international vision to a set of molecular legal structures loses sight of the human resources context, implemented through communication which is the driving force for extending the schemes into the overseas businesses. Always remember that share scheme administration is undertaken centrally as the responsibility of the mother country, albeit with a link into each overseas company office, usually into the local HR Department or maybe Finance. Efficient administration is crucial to the ongoing maintenance of the schemes as well as providing the support information for effective communications to the employees once the scheme is in place.

The Communication of the International Employee Share Scheme

The overriding motto in the development of the international share scheme should be: the same

scheme in each country but with sensitised communication by country that respects national culture. The subtle point is that the structure of the employee share scheme should be as similar as possible around the world for group cohesion and employee unity reasons. However, although the content of the communication will be similar, the delivery and presentation will be highly sensitised to the different audiences around the world.

The recipe for success in the maximisation of employee understanding by country is to apply two key principles alongside each other: (1) the cultures in which the businesses operate must be understood through research that is *internal* to the company while (2) the use of cultural indices that are developed *external* to the company enable the company to identify differences between cultural environments in which the company operates. The point is that the application of the cultural understanding of a given country enables, both in the written word and in the verbal presentation, the refinement of the employee communication in that given country. Expressed in the form of cultural indices, the factors to take into account, are: (1) **The Emotional Distance Index** which measures the level of emotional distance between managers and the people reporting to them, the “power distance”, and the level of trust and affinity between people in authority and the people who are subject to that authority, (2) **The Individualism/Collectivism Index** which measures the extent to which

a community is bound by ties of collectivism or, alternatively, is made up of individuals who are pursuing their own personal agendas with or without regard to the collective good of the community, (3) **The Gender Index** which measures how the traditional roles of men and women prevail in the community, (4) **The Risk Index** which measures the inclination of the culture to avoid uncertainty and for people within that culture to accumulate around them benchmarks as points of certainty and inflexibility, and (5) **The Timescale Index** which measures the extent to which the community thinks short-term at the expense of long-term or vice versa. Understanding how each country's culture is impacted by each of these factors has the capacity to refine employee communications to a high degree and maximise employee engagement and scheme participation.

Recommending the International Employee Share Scheme

The international employee share scheme is a truly global “win-win” solution for companies, for employees and for national governments, delivering multiple benefits, when properly executed and communicated. These benefits can be summarised as: (1) the micro-economic objectives to the international worldwide group of companies and the employees of the overseas companies; (2) the macro-economic benefits to the government of the mother country of the international worldwide group of companies; and (3) the macro-economic benefits to the national governments of the overseas countries in which the overseas subsidiaries are based. Any company,

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whether quoted or private, should consider the international employee share scheme as the motivation and incentive that it introduces for its worldwide workforce. Remember that the evidence for its success, properly implemented and communicated, is strong and well-tabulated.

David Craddock, the Founder and CEO of David Craddock Consultancy Services and David Craddock International, has been advising on employee share schemes and cash profit-sharing arrangements for over 35 years. He advises on every aspect of the implementation process, working personally with the client at each stage, and offers solutions and expertise on all the technical questions that require clarification during the entire consultation. David is also a member of the Steering Committee of The ESOP Centre, the Educational Director and Fellow of The ESOP Institute and the Technical Secretary and Adviser to the LEADS Share Valuation Team that meets regularly with HMRC to discuss the interaction between employee share schemes and share valuation.

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