Integrated Skills: How a Small Tech Company Became Employee-Owned

This article was originally published by our procurement partners at Bramble Hub.

Integrated Skills Limited (ISL) has been a Bramble Hub partner for seven years, and together we have delivered their waste management solutions to several UK local authorities. We recently wrote about their software suite, in particular RouteSmart-for-ArcGIS™, which optimizes waste collection routes and can save local authorities money by reducing mileage (and of course CO2 emissions).

Aside from their excellence in waste management technologies, ISL is interesting for another reason: in 2021, the business was restructured and became an Employee-Owned Trust (EOT). How and why did this come about, and how has it changed the business?

EOTs (in their current legal form) were an innovation introduced by the Coalition government headed by David Cameron and Nick Clegg. A government review into the obstacles preventing employee ownership resulted in a 2012 report - Sharing success: the Nuttall review of employee ownership - which set out proposals for increasing employee ownership of businesses. In turn, this led to legislation that introduced rules and tax benefits for EOTs. There are now around 1,000 EOTs in the country.

Alan Paget, the company's CEO, had the job of overseeing the restructure, and is enthusiastic about the change. The EOT regulations resulted from a typical Conservative / Liberal compromise, which brought benefits to both parties: "The Tories won a reduction in capital gains tax, and the Lib Dems managed to extend employee ownership."

The initial impetus, he says, came from ISL's two founders, who owned a majority of the business. EOTs gave them a tax-free exit: a significant incentive to hand the business over to its employees rather than simply sell their shares to the highest bidder.

How does it work?

In the restructure, the exiting founders sold their shares to a trust. The rest of the business is still owned by four shareholders, including Alan. In this sense the Trust is not a 'pure' one; but it does hold a controlling stake in ISL. The agreement states that the company must repay the exiting majority shareholders out of its profits over a seven and a half year period.

The trust is overseen by a board of six trustees, and this is where it begins to differ significantly from a traditional limited company structure. Rather than represent the interests of shareholders, the trustees are committed to representing the interests of employees.

The ISL board of trustees consists of six members, representing a balance of interests:

- Two of the board members are employees.
- One of the founders is on the board, and will remain until the company has paid for the shares.
- As CEO, Alan sits on the board, and must report on company performance.
- A minority shareholder is also a board member.
- And the sixth position is held by an independent member, Abi Knight, who has financial experience in the tech industry.

Alan is resistant to using the word ‘democracy’ to describe the new structure: “We’re an EOT, not a cooperative”. But still, it does have democratic elements. The two employee board members are elected by a secret ballot of their peers. Employees must have worked at ISL for at least 12 months to serve on the board, and the role is time-limited. The board meets four times per year. Once the debt to the outgoing owners is paid off, the founder will leave the board.

So not only do employees have a powerful voice, but the entire structure is devoted to protecting their joint interests.

And there is another tax benefit: employees can be paid an annual bonus, based on profitability, of up to £3,400 per year.

What are the effects of the restructure?

ISL's revolution is a modest one. The management team stays unchanged, and still has day-to-day responsibility for running the business. But now, the CEO answers to the board of trustees, and not directly to the shareholders. Employee board members get a direct say on important business issues, including executive remuneration.

The new structure has led to cultural change within the business in a number of ways. With great power comes great responsibility (apologies to Marvel), and employees with more control are likely to take more responsibility for outcomes. This in turn motivates employees to be more interested in the financials and the company strategy – Alan suggests that "a management ethos is coming down the ranks."

The changes in structure and culture are also strong business selling points. Alan lists the benefits that employee ownership brings to ISL's customers:

Stability is a key one. The structure prevents unexpected takeovers that might arise if shareholders sell to outsiders.

So far, the indication is that employee loyalty and customer service have improved.

Employees now see a longer-term stake in the business – they are motivated to help produce profit in order to complete the purchase of the business.

With the EOT board having to sign off on pay rises above a certain percentage of salary, the structure is loaded against excessive executive pay: something that can arguably reduce employee morale and slow investment in new products.

The experiment is a young one, but Alan feels it is progressing well so far. All eyes are on the prize of Integrated Skills becoming fully independent, and highly profitable, in 2028.

See the article at Bramble Hub.