

COVID-19: NAVIGATING THE NEW BUSINESS LANDSCAPE, FOR EMPLOYEE OWNED BUSINESSES

Employee owned businesses are resilient. A desire to see the business continue successfully for the long-term is one of the key reasons businesses move into employee ownership. Employee owned businesses tend to have strong governance structures which enable them to make good decisions in the interests of all their stakeholders. They have a culture of communication, employee participation and an openness about performance which makes it easier to share the bad news as well as the good. Employees who understand the true position of the business they work for are able to make better decisions when it really counts. In the face of the current global pandemic this resilience will be an advantage, but will it be enough?

Many of us are experiencing business interruption unlike anything we have seen before. Even businesses which are thriving in the new environment are experiencing challenges over staffing and employee and customer safety.

As we all start get more comfortable with new ways of working, we look at some of the challenges currently facing employee owned businesses and how to manage them. As an employee trust owned business ourselves, these are important considerations for Baxendale as well as our clients.

THE ROLE OF THE TRUST BOARD

Companies that are majority owned by an Employee Ownership Trust are likely to be reporting to their Trustee Board about the steps they are taking to manage the crisis. The Trustee Board usually has a role holding the board to account and is always required to act in the best interests of the employees.



The Trustee Board is likely to have three main roles in the current crisis:

- Monitoring and understanding the safety and welfare of the employees. And, if it has any concerns, potentially intervening (although our experience to date has been that company boards, leadership teams and employees generally in EO businesses have been responding well to the current challenges).
- Monitoring and understanding the status of the business and the impact of the current changes. No business has been left unaffected and it is important that the trust understands, as far as is possible in what is often an uncertain time, the financial and commercial impact of the pandemic.
- The trust often has a role in reviewing and approving certain key decisions within an employee owned organisation. This is certainly a time when key decisions are being made in a lot of organisations and it is important that everyone is clear when / if the trust needs to be involved in those decisions. And where the trust needs to be involved, try and ensure that all parties have enough notice and warning of where it will be needed.

It is vitally important that the Trustee Board receives enough clear and regular information to enable it to carry out the above roles. At a time when there is often a great deal of pressure on boards and leadership teams this should be implemented in a way that seeks to avoid creating an undue burden on the business, but it must be done.

As stories of businesses behaving unscrupulously towards their employees fill the press, it will be reassuring to the employees of EO businesses that their majority shareholder is required to act in their interests. Difficult decisions may still have to be made though and acting in the best interests of all employees does not necessarily guarantee that all employees will be happy with the outcome. In most EO businesses you would expect the operational board to lead the process of crisis management, while keeping the trustee directors informed. The trustee directors' role is likely to be to question, challenge, but ultimately provide support to the board.

The operational board of the company will likely be reacting quickly to a fast-changing situation. It is important that channels of communication between the trustee board and the operational board are open, but trustee directors should also understand the difficult and fluid situation that the operational board will be dealing with and that they may have to make some decisions quickly. If there are issues which they would specifically like to be consulted on, the trustee directors should make the operational board aware of these.

COMMUNICATION WITH EMPLOYEE OWNERS

Employee owned businesses often have well developed communication with their employees as part of their EO structure. In a time when people will be feeling very confused and anxious, it is important to make sure that these communication mechanisms are fit for purpose, and employee communications are being directed to the right place. Particularly in smaller businesses this may be a balance between ensuring employee concerns are heard and responded to and making sure that the number of queries does not overwhelm those who are trying to navigate the business through the crisis. Employee councils or representatives can have a valuable role here.



As many people are working from home, self-isolating or have found themselves temporarily furloughed (placed on temporary leave), there are new challenges to making sure employee owners remain in touch with the business and informed about what is happening. This communication has never been more important for the health of the business and its employees.

Keeping employees regularly informed of what is happening can help people feel more secure, put an end to worry and speculation, and reduce the number of queries being received by the business. Groups of employees who understand the situation that the business is in are equipped to make better decisions and may be able to make suggestions based on their knowledge of their areas of the business, that might not have been apparent to those at board level. Some of this knowledge is usually passed on by sharing a workspace, and as that is no longer the case for many, employers need to make sure that gap is filled.

There are many commonly used means of communication; WhatsApp groups, slack channels and video calls instead of telephone calls etc., that can help fill this void. Contact with colleagues, outside of formal meetings, for “virtual coffee breaks” or buddy schemes, can also form a part of this.

MANAGING AND RESTRUCTURING VENDOR DEBT

Many employee owned businesses will still be making repayments to their former owners, and those arrangements may now need to be reconsidered and potentially renegotiated. It is important that where possible, any changes to the payments are agreed in advance by all parties in writing, to avoid a potential default. The ultimate consequence of a default can be that all the money that remains owed to the sellers becomes due and payable.

The details of repayment arrangements are usually contained in a share purchase agreement or similar document and the arrangements by which payments can be varied may be included in here too. Even if there is not a specific provision to vary the payments, you can still approach your former owners to ask about a renegotiation.

Some sellers will still be working in their businesses during the repayment period and may even be leading this process. Even if the seller is no longer active within the business, it is in their interest that the business survives this crisis, so they can receive the remainder of the debt that is owed to them; so they are likely to be receptive to a renegotiation. The long-term success of the business is often one of the reasons that business owners choose employee ownership, so, over and above their own interests, they are unlikely to want the business to fail. Even though former owners are often benevolent creditors, it will still be important to be able to demonstrate to them the other steps that the business is taking to manage the crisis and to cut costs, and to bring to them a realistic proposal, that demonstrates how you intend to get the repayments back on track once business returns to “normal”.

Any renegotiated debt arrangements may simply involve a pausing or reduction in payments for a period. But some businesses may propose additional criteria, such as a working capital or cash test for payments for a period. Interest will usually also be a factor in the discussion. Usually postponed payments would incur interest charges, but these are challenging times and vendors may be willing to waive these provisions.

In some cases the former owner may also be the landlord, and negotiations for a rent holiday may also be part of this equation.

We recommend that any variation in payments be recorded in writing in a formal document. This helps make clear exactly what has been agreed and for how long.

ACCESSING BUSINESS INTERRUPTION LOANS

Business interruption loans have been made available by the government, working with accredited lenders; however initially the lenders required security, commonly personal guarantees, before these loans could be accessed. Employee owned businesses; majority owned by a Trust were not be able to provide these guarantees.

The Employee Ownership Association, as the membership organisation for employee owned business, began to lobby for these personal guarantees to be removed for employee owned businesses so they can access the loans, as did other organisations representing small businesses who were having trouble providing the required security.



A revised, expanded scheme was put in place as of 6th April, and insufficient security is no longer a barrier to using the scheme. It remains to be seen how this will operate in practice and the Employee Ownership Association are still interested to hear from any EO businesses who are having problems accessing any of the reliefs. Their contact details are given in the links below.

SUMMARY:

Employee owned businesses have unique strengths and advantages which help them to cope in difficult times. We saw this in the 2008 / 2009 financial crisis and we are seeing it again now. Under the shadow of the current global pandemic, our considerations go beyond the economic, as we consider the best way to act responsibly and keep our employees and customers safe.

Employee owned businesses, owned by and for the benefit of their employees, are already familiar with this mindset. We are ahead of others when it comes to understanding the importance of putting employee and stakeholder wellbeing ahead of profit, when the two cannot go hand in hand.

This will be an extremely challenging period, when we will need to consider carefully how to overcome our challenges and use every advantage that we have as employee owned businesses. The collective and supportive culture that runs through many of our businesses and the wider employee owned sector, hopefully means that we can come through this bruised, but still together and well placed for the future.

LINKS TO FURTHER SUPPORT AND GOVERNMENT RELIEFS:

<https://employeeownership.co.uk/eo-community-coronavirus-covid-19-resources/>

Resources provided by the EOA, to support and signpost their members and the wider EO community during the current crisis. Includes FAQs, links to information about the government reliefs available and resources to support employee wellbeing.

<https://www.gov.uk/government/collections/financial-support-for-businesses-during-coronavirus-covid-19>

Government advice on the financial support available for large businesses, SME businesses and the self-employed; including the job retention scheme (furlough), business interruption loans, grants, rates relief, sick pay and tax.

<https://www.mind.org.uk/workplace/mental-health-at-work/coronavirus-supporting-yourself-and-your-team/>

Workplace mental health and wellbeing advice from mental health charity mind, to help businesses and employees cope with the new working practices and environments.

<https://www.icaew.com/coronavirus/uk-practical-business-advice-covid-19>

Practical business advice and updates from the Institute of Chartered Accountants in England and Wales. Regularly updated.

Baxendale are specialist advisers on employee ownership. We have been advising businesses on employee ownership for twenty years and have been employee owned ourselves for thirty years. During this time we have helped over 100 businesses become employee owned.

Contact us: hello@baxendale.co.uk

www.baxendale.co.uk