



International Share Schemes: Exporting The Vision

David Craddock, Founder & Director, David Craddock Consultancy Services

Tuesday, 25 October 2022, 16:00 BST

A Word From Today's Chairman

Ian Harris
Managing Director
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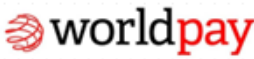
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Today's Agenda

- 16:00 – 16:05 Chairman's Introduction
- 16:05 – 16:25 Keynote Presentation – David Craddock
- 16:25 – 16:45 Question & Answer

Today's Speaker

David Craddock
Founder & Director
David Craddock Consultancy
Services



DAVID CRADDOCK CONSULTANCY SERVICES

Specialist in Employee Share Ownership and Reward Management,
Share Valuation, Management Buyouts,
Employee Ownership Trusts (EOT)
& Investment Education

Founder, Principal and Director:
David Craddock, MA(Oxon)
Consultant and Lecturer

Author of *“Tolley’s Guide to Employee Share Schemes”*

★ *Expertise and Experience* ★

A Webinar Presentation on

**International
Employee Share Schemes:
Exporting The Vision
for
The Esop Centre and The FS Club
by
David Craddock, MA(Oxon)**

**Specialist in
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Thursday, 25th October 2022



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The Challenge of the International Employee Share Scheme

The Objective of Global Goal Congruence

The objective of the international employee share scheme is to meet the on-going challenge for global goal congruence in an international worldwide group of companies.

The Fusion of Company Culture with Country Culture

The implementation of any employee share scheme, whether national or international, to be successful, hinges upon working to ensure the compatibility for employees between the following:

- the all-embracing **company** culture
- the **country** culture of each individual overseas subsidiary company country

The Respect for the National Identity

The key is always to respect the national identity of the individual countries but at the same time not to dilute that identity, the absence of dilution being in the interest of facilitating identity with the people in the overseas countries, whether **internal** employees or **external** customers.

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The Emergence of the International Employee Share Scheme

The Development of the Global Share Scheme Initiative

The international employee share scheme developed from the mid-1980s from a belief by business leaders:

- in the need for corporate unity within a worldwide group
- sustained by effective forms of unifying employee incentivization
- to create 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 Reinforcement of the Trend towards Global Share Schemes

The trend to introduce international employee share schemes has been and continues to be:

- encouraged by the globalization of world markets (although not dependent on globalization)
- which has reinforced the recognition by business leaders
- that all the disparate elements within and across a world corporate group are interconnected

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The Drivers for the Development of a Global Group of Companies: Slide 1 for Case Studies

Case Study 1: 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.

Case Study 2: A UK-Based Advertising Company

To create worldwide coordination for international clients that operate across multiple jurisdictions as part of a horizontal integration programme, i.e., international project driven.

Case Study 3: A UK-Based Ceramics Company

To create corporate marketing outlets overseas for products that are manufactured in the mother country, i.e., sales and marketing-driven.

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The Drivers for the Development of a Global Group of Companies: Slide 2 for Case Studies

Case Study 4: 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.

Case Study 5: A UK-Based Clothing Company

To create corporate manufacturing facilities overseas for products that are designed and marketed in the mother country,
i.e., manufacturing and production driven.

Case Study 6: 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 and business-related investment driven.



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The Employee Share Scheme International Rollout into the Overseas Countries

The Type of Employee Share Scheme

The employee share scheme used depends on the design of the scheme which is driven by ensuring that the employee share scheme incentive supports the achievement of the corporate objectives.

The Management of the Exchange Rate

The option price or purchase price is normally denominated in the mother country currency. For savings-related share option schemes savings will normally be denominated in local overseas country currency so the overseas employees will be allowed to make up any deficiency on exercise.

The Introduction of Phantom Savings-Related Share Option Schemes

The presence of complex securities laws or exchange controls may lead 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.

The Employee Share Trust

Typically, existing shares 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.

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Factors in Favour of International Employee Share Schemes

Among the economics and political factors to support the home government's support for international employee share schemes are the following:

- To raise 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 and a contribution to a balance of payments surplus in the mother country.
- To contribute to healthy relations with overseas countries through assisting with employment creation in those overseas countries and reducing inequalities on wealth creation in those overseas countries, (trade rather than aid), in accordance with UN Sustainable Development Goals.
- To strengthen control over supply chains from overseas, thereby reducing inflationary pressures by contributing to sufficiency of supply through mother country control over overseas production and supply.
- To reduce the volatility of world markets by creating an element of certainty within the stability and cohesion of a worldwide group of companies.

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The Export of the Home Country Model

- The two foremost countries 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 the so-called tax-qualifying plans.
- Where the mother country is UK resident or US resident, the structure in the overseas subsidiary companies will typically mirror the mother country structure.
- As with any export product, whether core products and services, or the employee share scheme, it is important to refine the employee share scheme to be suitable for the importing country and this is where a country-sensitive communication strategy is pivotal.
- To restrict the international vision to a group 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.
- The businesses expanded into overseas countries with a spirit of vision and enthusiasm; the employee share scheme exportation should be done in the same spirit.

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The Export to the Overseas Countries

The factors to be addressed by overseas country are as follows:

- Securities laws
- Financial services laws and regulations
- Exchange laws
- Employment laws
- Data protection laws
- Scheme administration (usually undertaken centrally in the mother country)
- Detailed attention to communication in each of the overseas countries

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The Communication of the International Employee Share Scheme

The Same Scheme but Sensitised Communication by Country

The subtle point is as follows:

The structure of the employee share scheme should be as similar as possible around the world for group cohesion and unity reasons. However, although the content of the communication will be similar, the delivery will be highly sensitised to the different audiences around the world.

The Maximisation of Employee Understanding by Country

The key recipe for success is as follows:

- The cultures in which the businesses operate must be understood through research that is **internal** to the company.
- The use of indices that are developed **external** to the company enable the company to identify differences between cultural environments in which the company operates.

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The Cultural Indices

1. The Emotional Distance Index

This index 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

This index 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

This index measures how the traditional roles of men and women prevail in the community.

4. The Risk Index

This index 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.

5. The Timescale Index

This index measures the extent to which the community thinks short-term at the expense of long-term or vice versa.

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Immigrant Minorities: When cultures come together in one country

- The extent to which the presence of migrant minorities presents a challenge depends upon the degree of assimilation.
- Migration, particularly if not planned and prepared, can cause severe culture shock which can lead to illness, both physical and mental.
- Research shows that migrants will settle more easily at work than at home and that an apparent normality at work can disguise cultural turmoil back in their domestic setting.
- Language is central to cultural transfer and respect must be given to different levels of fluency so as not to undermine the confidence of those who are using the language as a means of assisting their cultural assimilation.
- The deception of language is to make the rash assumption that peoples who speak the same language will necessarily receive the message in the same way (**often they will not!!!**) - the language may be common, but the culture may not be common at all.

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Linguistic Implications: Uses of language that can contribute to cultural misunderstandings

- The choice of vocabulary, e.g., 1. The use of the word “Scheme” in the US rather than the word “Plan”; 2. The words “Share” and “Trust” have universal connotation.
- The use of powerful imagery, e.g., 1. The planting of seeds for Sharesave, 2. The division of a cake for profit-sharing, 3. Images of different ethnic backgrounds working together, 4. Images pertaining to the company’s products as a cross-cultural point of unity.
- The Chinese and Japanese have a particular set of beliefs (**never say superstitions!!!**) revolving around the use of numbers, e.g., 1. In Chinese communities, “4” connotes “death” while “8” connotes “success”, 2. In Japan, always check the use of numbers in examples with the local company.
- Ensure that interpreters understand the scheme, speak in detail with them before the communication to ensure their “buy-in” to the scheme.
- Use traditional story-telling in agricultural communities.

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Intelligence Levels: The respect for different levels of intelligence

- Always the intention should be to simplify the communication materials and any accompanying presentations.
- Avoid employee embarrassment and humiliation by offering an opportunity to ask questions in private.
- Maximise the ways in which questions can be asked, i.e., in the group setting, in a private meeting or by private e-mail or letter.
- Often a mix of intelligence levels in the communication group can be a help and point of unity, but it can also be a hindrance.
- What is intelligence? Remember that intelligence can take different forms; for some intellectual intelligence may predominate, for others it is emotional intelligence.

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Collectivism Versus Individualism: The relative strength of one versus the other

- The 1980s/1990s/2000s UK legislation has sought to encourage both: 1. **individual** wealth creation and 2. **collective** social cohesion.
- An understanding of any national or ethnic culture reveals a natural propensity to a predominant disposition of individualism or collectivism.
- Strong individualist countries are 1. former imperialist nations, e.g., UK and the Netherlands and 2. countries with significant ambitious populations, e.g., US, Australia and Canada.
- The requirement is to achieve an understanding of the balance between the two dispositions.
- The correlation between countries that have an individualist disposition and countries that have a capacity to generate wealth.
- The words “individualist” and “collectivist” refer to the natural inclination of a country and not to any enforced approach by a totalitarian government or authority.

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The Gender Factor: The balance between masculine and feminine characteristics

- The concern is not the innate biology of man and woman but the gender characteristics of masculinity and femininity.
- The mark of a mature society is where there is a high level of tolerance, and this usually correlates with a healthy balance between masculine and feminine characteristics.
- The outcome of the index hinges on the extent to which 1. there is a breakdown of traditional roles within the country and 2. roles are interchangeable within the country.
- The countries in which the natural characteristics of compassion and tenderness prevail, characteristics traditionally associated with femininity, are usually countries in which there is a high level of co-operation that is conducive to employee share ownership and a natural appeal and reception for the employee share scheme initiative.

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Timescale Orientation

Compare and contrast the following:

- In 1924, when asked about the effects of the French Revolution, Chou En-lai of China replied: “It is too early to say”.
- In 1996, during the last years of British colonial rule in Hong Kong, a group of potential share scheme participants remarked that three years was too long a term for the employee share scheme.

The timescale index is impacted by the following:

- The perception of what constitutes long-term and short-term.
- The expected length of service of the employees.
- The cyclical nature of the business.
- The potential volatility of the country’s political status.
- The state and the response to the world economy.

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The Summary Statement on International Share Schemes

The international employee share scheme is a truly global “win-win” solution, delivering benefits, when properly executed and communicated, to the following:

- The micro-economic objectives of the international worldwide group of companies and the employees of the overseas companies.
- The macro-economic objectives of the government of the mother country of the international worldwide group of companies.
- The macro-economic objectives of the governments of the overseas countries in which the overseas subsidiaries are based.

Any further assistance required on your international employee share scheme initiative then please do not hesitate to contact David Craddock:

Contact details on the next slide

Employee Share Schemes

All Best Wishes for Your Business Initiative

from David Craddock MA(Oxon)
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and Specialist in Employee Share Schemes
and Reward Management,
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Comments, Questions & Answers





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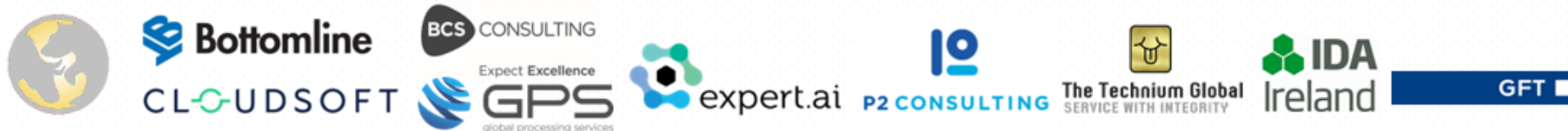
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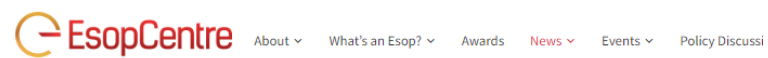


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*It's our business – the Centre's monthly has been synonymous for many years with the name of its editor [Fred Hackworth](#). It is fitting that the new Chancellor has given him a rousing send-off by selecting for action Fred's almost lone call for making effective use of the CSOP. Doubling its maximum was at the lower end of the ideal but it was a strong move. He was also glad to see the end of the Office of Tax Simplification, whose recommendations had frequently riled him and many members of the Centre. But most pleasing for all of us was the Chancellor's clear summation from the despatch box – **We want this country to be an entrepreneurial, share-owning democracy.***

From the pages of newspad Fred led an unrelenting and well-informed campaign on behalf of the original shareholders of Roadchef. He has passed on access to the channels through which he kept informed and through which as a journalist by profession he was able to cover the sad story with impunity.

That will be harder for the Centre in a world where the consensus favours good news, but I shall personally keep his high ideals in view. I have compared the Roadchef saga with Dickens' Jarndyce v Jarndyce in which the pot was empty after all legal fees. However, I understand that there are substantial sums of money now gaining ever more interest so there may be light at the end of this rare dark tunnel for employee ownership. Fred's light will continue to shine.

Malcolm Hurlston CBE

Please send all press releases, company bulletins and news items for newspad to esop@esopcentre.com. Thank you.

October 2022

TOP STORY

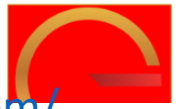
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MOVERS & SHAKERS

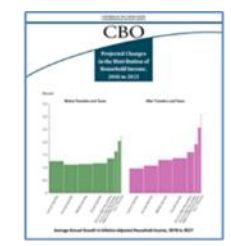
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(LF.10) Reduced Inequalities

In September 2015, 193 world leaders agreed to 17 Global Goals for Sustainable Development. If those Goals are completed, it would mean an end to extreme poverty, inequality and climate change by 2030.

Goal 10: Reduce inequality within and among countries.

- If the distribution of income, assets owned, resources, and talent were to follow CBO's projections, **income inequality** will be greater in 2030 than it was in 2010.
- **High growth** over the past decade has been based on unsustainable resource exploitation, allowing the **existing growth in inequality** and environmental costs will be critical to ensure social stability and to ensure **strong sustainable growth** in the coming decade.
- The increase in **inequality** observed in the last 20 years is a warning to future's social systems.
- America's **globe-piercing** product is providing a lot of jobs that will further increase **income inequality** at a time when **income** and **wealth** gaps are already widening.
- A failure to give the world's **poorest women control** over their bodies could **widen inequality** in **developing countries** and **derail progress** towards global goals aimed at ending poverty by 2030.
- Under French leadership the G7 group of the world's largest advanced economies plus the European Union will have to step up **fighting inequality**, including **poverty** caused by **climate change**.
- Leadership might require **compromise** in **labor practices** and **achieve** for **change** on **global inequality** – including **for work** **poverty**.
- Achieving the 17 **Sustainable Development Goals**, which include **clean water**, **clean energy**, **sustainable cities**, **climate action**, **responsible consumption**, **reduced inequality** and more – could open a market opportunity of **\$1 trillion** by 2030.
- The next decade offers an opportunity to address **African urban poverty** and **inequality** and shape development priorities to ensure that urbanization helps **lower** and **transforming**, **flexible** and **innovative** cities.
- In Africa and in the LDCs, **reducing poverty** by 2030 will require **both double-digit GDP growth** and **decade declines in inequality**, **showing** the **scale** of the **current challenges** faced.
- The **most** **wealthy** of **the world** will continue to see **the most** **wealth** in the coming decade – **benefit** **reducing global inequality** among **countries** and **among** **world** **citizens**.



(FS.3.05) Employee Share Ownership

Considering 75 percent of the 2022 global workforce will be Millennials and Generation Z, it's critical that organizations keep a pulse on **employee engagement** and do so in a way that's consistent with how the emerging generation communicates.

• **HR** will see a **continued evolution** to **designers'** understanding of **workplace optimization** with **designs** that **boost** **office** **morale** and **employee wellness** while **facilitating** a **remote** **work** **environment**.

• By 2026, **Customer Profile** (via an **AI** **Employee** **Onboard** **Device**) **and** **the** **most** **tech** **driven** **Enterprise** **Onboard** **Devices**, **W2B** **proposed** **envisions** for the **HR** **Corporate** **Governance** **Club**, **these** **tools**, **envisions** will be **expected** to **report** on **employee engagement**, as **announced** **earlier** **this** **year** by **Financial** **Reporting** **Council**.

• For **HR** **leaders** looking to **better** **document** the **attitudes** that **drive** **employee** **turnover** and **increase** **retention**, using **AI** to **provide** **insights** into **employee engagement** will be **critical**.

• By 2025, **Artificial** **Intelligence** **will** **allow** the **rate** of **innovation** to **flow** **double** to **double** **Employee** **productivity** **gains** are **expected** to **increase** 1.5 times.

• **Artificial** **Intelligence** will **double** the **rate** of **innovation** **improvements** and **improve** **employee** **productivity** **gains** by 1.5 times in **New** **Zealand** by 2025.

• US health benefits costs per employee will increase 4.7% next year – slightly higher than inflation and less than the double-digit increases seen in prior years.

• With a tight labor pool, small businesses will feel the pinch in terms of **employee engagement** and **loyalty**.

• Nearly 20 percent of respondents also expect that automation will lead to some reductions in their **full-time workforce** by 2025, based on the job profiles of their **employee base** today.

• **Employee** **wellness** has **been** **on** **the** **rise** for **years**, but **expect** to **see** **some** **high** **tech** **changes** in 2023.

• By 2025, **automation** and **artificial** **intelligence** will **reduce** **employee** **requirements** in **business** **shared-service** **centers** by 15 percent, which says the **B2B** **market** will **save** **\$1** **trillion** by 2025.

• **This** **year**, **many** **organizations** will **look** to **employee** **scheduling** **software** to **solve** **problems** around **creating**, **publishing** and **managing** **employee** **schedules** that **include** **options** to **cover** **shifts** to **select** **personnel** and **integrate** **data** on **sales** to **help** **identify** **customer** **traffic** **patterns** to **optimize** **worker** **rotas**.



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- Wed, 26 Oct(16:00-16:45) Smarter Ledgers - How BAFT Is Changing Payment Commitments, How DLT Payment Commitments Will Change Trade
- Wed, 2 Nov (15:00-15:45) How To Save The World With Rigorous Carbon Accounting
- Mon, 7 Nov (15:00-15:45) Your Next Lawsuit – Coming From A River Or Forest Near You
- Tue, 8 Nov (12:00-12:45) The EU AI Act: State Of Play
- Wed, 9 Nov (16:00-16:45) Stablecoins: Crypto's Killer App? Or Killer Of Crypto's Investors?

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