

CASE STUDY

Tullis Russell

MAIN BUSINESS

Paper and board manufacturer

ANNUAL TURNOVER

£136 million

NUMBER OF EMPLOYEES

800

WEB ADDRESS

www.trg.co.uk

Paper manufacturer and distributor Tullis Russell became majority employee owned in 1994 in a pioneering arrangement that involved the transfer of ownership to staff and unlocked capital for the family that had owned most of the business since 1809. The company employs nearly 800 people at three sites in the UK and one in South Korea. It has annual sales of around £136 million.

Tullis Russell began its journey from family to employee-owned in the 1940s when three family members inherited 75% of the shares, and the remaining 25% were transferred to a charitable trust, the Russell Trust. Its trustees are responsible for acting in the best interests of the employees. They can veto any proposed sale of the business and appoint directors. By the early-1980s shares were held by 40 family members. Only one, David Erdal, had any day-to-day involvement in the business, and the others were keen to release the value of their shareholding without compromising the firm's independence. Erdal believed this could best be achieved by extending employee ownership.

In 1985, the firm introduced a profit-sharing scheme. Under the arrangement, 7.5% of pre-tax profits were set aside each year to buy shares from family shareholders. Although the scheme gave employees a shareholding and annual dividends, it was neither tax efficient nor a quick route to employee ownership. So, in 1987, the company used a "case law" employee ownership plan to establish an employee benefit trust (EBT). The trust purchased a block of shares from the family, and employees wishing to sell equity, using a loan from the Royal Bank of Scotland and repaid from company profits.

To speed up the process even further, an employee buyout was engineered in 1994 via a capital reconstruction and the establishment of a new company, the Tullis Russell Group (TRG). The new firm agreed to buy all the shares in the business in return for either TRG shares or loan stock. Family shareholders converted their 55% holding to loan stock, while the Russell Trust, the EBT and 90% of individual shareholders accepted one-for-one shares in the new business. Since 1994, loan stock worth £19 million has been converted back to shares and distributed to employees.

The company operates a tax-approved Share Incentive Plan (SIP) to distribute shares to employees. The Russell Trust retains a so-called "golden share", preventing the sale of more

than 10% of assets and any changes to the rules of association that govern the business. The firm's paternalistic foundations mean that there is a history of wide-ranging employee participation and involvement. The company recognises the Unite trade union and around half of the workforce are members. The union performs a traditional collective bargaining role, negotiating terms and conditions.

There is also a highly influential Share Council, which was established on 1987, a year after the first profit-sharing payout. It meets four times a year and consists of 13 employee members, elected every three years by staff, four appointed by the company, an independent member (currently a chartered accountant who assists employees) and David Erdal, who is an honorary member.

The roles of the union and council are very distinct:

- The Share Council is not a negotiating body – its main purpose is to reflect the opinions of employee shareholders and to advise the board on the share scheme, such as the distribution of shares and dividend payments.
- It also acts as a safety valve for employees' views on how the company is being run.
- The Council also has six-monthly meetings with the Tullis Russell board, where Councillors are encouraged to ask questions and challenge the board on business performance and strategy. The Council receives the group's quarterly results and can quiz the board about them at the twice-yearly meetings.
- Council members also receive monthly performance reports.
- The council publishes a quarterly newsletter, which goes out with the company magazine.

The firm recently established an information and consultation body, which comprises both trade union representatives and Share Council members.

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