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Your weekly blog on all things EO
with Barry Horner

Episode 21 | Series 1

EO Unvarnished - Why Your Most Popular Employee Owner Might Be Your Worst Trustee

Balancing the democratic spirit of an Employee Ownership Trust (EOT) with the technical requirements of governance is one of the most delicate acts in the EO journey.

You are essentially trying to bridge the gap between representation (the heart) and regulation (the head).

Here is how to hold those competing priorities in tension and the specific skill sets required for an effective EOT Board Trustee.

1. Holding the Tension - Representation vs. Skill

The tension arises because a popular choice for Employee Trustee may lack board experience, while a skilled choice may feel like a corporate plant to the workforce.

The biggest mistake is thinking an Employee Trustee is there to be a 'Union Rep.' They are not there to negotiate pay, but rather they are there to ensure the Board of Directors is running the company in the interest of all the employee owners.

We recommend adopting a staggered appointment process. Allow prospective Trustees to sit in as observers for six months. This filters out those who are interested in the status but find the reality of legal compliance and governance dry or overwhelming.

A balanced Trust Board usually looks something like this:

- The Founder/Vendor- For institutional memory.
- The Independent Trustee - For professional governance.
- The Employee Trustee(s) - For the voice and mood music of the wider business.

At Paradigm Norton, following an externally led governance review and a period of trial and reflection, we reduced our Trust Board from nine members to five whilst at the same time we created 'Partner Voice'. The two current employee owner trustees are most definitely financially savvy, have significant business leadership experience and don't mind 'calling things out' if for any reason this is necessary and required.

Partner Voice acts as the vital link between the employee owners at large and the executive. While the Trust Board handles high-level governance and the Executive handle operations, the Partner Voice group is the 'engine room' of ownership culture. The Partner Voice group acts as a two-way conduit. They translate complex executive decisions into language understood by all employee owners and, conversely, bring frontline concerns to the leadership before they ferment into cultural issues.

Its early days for us, but this change has already fundamentally strengthened the clarity of our governance and the vibrancy of our culture, proving that by simplifying the structure, we have amplified the impact of our collective voice.

2. Does a Trustee Need to be 'Financially Savvy'?

The short answer is - They don't need to be an accountant, but they must be financially literate.

A Trustee's primary job is to ensure the business remains perpetually successful so it can pay out the deferred consideration and future bonuses and see the business thrive for decades to come. To do that, they must be able to:

- Understand a Profit & Loss (P&L) statement.
- Recognise the difference between Cash and Profit.

- Understand the vendor loan debt obligations of the EOT.

If an elected Employee Trustee lacks these skills, the business has a duty to provide appropriate financial training. You are not however looking for someone who can build a complex financial spreadsheet, but rather you are looking for someone who can ask great questions, such as - “If we spend £100k on this new machine, how does that impact the employee owners year-end bonus?”

3. The Requirement for Business Acumen

The business acumen required when setting of a possible Trust Board appointment is typically about Governance.

They need the ability to look at a 5-year plan and judge if it is “reasonable.”

They need to be able to spot “red flags” in culture or strategy that might jeopardise the long-term health of the Trust.

Under UK law, a Trustee must act as a ‘prudent person’ would in managing their own affairs. This requires a level of common sense and maturity that outweighs specific industry knowledge.

4. The Essential Trustee Skill Set

When drafting the person specification for your Trust Board, we recommend that you also look for these four non-negotiable traits:

Skill	Why It Matters
Inquisitiveness	The courage to ask ‘Why?’ when the CEO presents a complex plan.
Confidentiality	Trustees are privy to highly sensitive data.
Integrity	They must put the interests of the entire team above their own or their department’s needs.
Communication	The ability to translate complex board decisions back to the team in a way that builds trust.

The other attributes that you might wish to look for in your Employee-Owner Trust Board appointment would include:

- Approachable and seen to act in the interests of both the business and its people.
- Willing to engage widely and listen to different perspectives.
- Able to analyse and extract relevant detail from financial and other reports.
- Confidence asking questions and offering appropriate challenge.
- Comfortable presenting and communicating matters to both the Trust Board and colleagues in a clear and balanced way.
- Represents employee views fairly and constructively.

The enduring success of a Trust Board of an EO business is defined by its ability to hold tension. At Paradigm Norton, our shift to a smaller, high-competency Trust Board - supported by the engine room of the Partner Voice group - has proven that clarity and simplicity are the keys to a thriving EO culture.

By ensuring our Trustees are financially savvy and bold enough to ‘call things out,’ we protect the legacy of the firm. Ultimately, an EOT doesn’t just need supporters, it needs stewards. When you appoint for skill while creating a separate space for the collective heart to beat, you ensure that the business doesn’t just survive its transition - it flourishes.

A common mistake is treating the Trust Board as a popularity contest or a union-style representative body. However, a Trustee’s duty is to ensure the business remains perpetually successful for the benefit of all of the employee owners.

For more information or to discuss anything in this latest Know-How; Contact **Barry Horner** at bhorner@pnfp.co.uk.

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