

## **Bringing in the New: An Ownership Succession ESOP at Hugh Hamilton Ltd.**

*An interview with John Rutherford, Business Manager*

From: 'Shared Ownership' magazine, Employee Share Ownership and Incentives Association, Canada, Summer, 1998 edition.

### **What is your company's business history?**

Hugh Hamilton Limited was incorporated in 1968, and has been providing mapping services and forestry consulting, primarily to the forestry industry for thirty years. In 1973 the company got involved in digital mapping and expanded into geographic information systems (GIS) as the technology developed. Today our forestry consulting dovetails with our mapping work and GIS, so we can provide an integrated forestry planning service. Currently we have 45 employees, 18% more than when we became employee-owned. We have a lot of long-term employees. In fact, 11 people have worked here for over ten years.

### **How did the ESOP buy-out occur?**

It was a result of the founder's desire to retire and sell the company. Although Hugh received other offers, he acknowledged the contribution of the employees to the value of the company, and decided that if acceptable terms — such as price and security — could be worked out he was happy to see us have an opportunity to buy it. A negotiating committee of employees was formed and in 1995, Hugh and Jane sold all the shares to 20 employees.

### **Does the original owner still own any shares?**

Yes and no. We're in a hypothecated situation. Basically if you were to buy someone's house and you only gave them a down payment, say 25%, and you defaulted on the remaining payments, he'd get the house back — that's the kind of arrangement we have with Hugh. So legally we own 100% of the company — but some of the shares have not yet been paid for. Hugh and Jane transfer the shares to our escrow agent as they are paid for. Right now over 80% of all the shares sold in 1995 have been fully paid by myself and my co-workers.

### **What's the ownership breakdown?**

There are 28 working owners, about 62% of the employees. The shareholders each own between 0.03% and 9.9% of the company. There are no non-working shareholders. If anyone should leave the company, the shares will be re-purchased by our treasury.

### **Do the employees receive any financial incentives other than ownership?**

We have a whole series of ways of motivating employees. We've always had a philosophical belief that we're all in this together, so our incentive payments are based on company-wide results, not on the fortunes of specific divisions. Everyone that has been a full time employee for a year gets the same amount under our employee incentive plan. Senior managers also have the discretion to award individual achievements with a one-off bonus.

We can't pay real ownership dividends yet, while Hugh still has custody of some shares. Instead, we have a formula to reward owners through their pay, based on ownership and our corporate performance. This year- and for the last three years

– we funded our incentive plans with taxable income over \$200,000 (to a maximum of \$100,000). The amount is split proportionally between ownership bonuses and employee incentives. Last year, 65% went to reward ownership and 35% for general employee incentives. This year, its 55% for share ownership and 45% for other incentives.

We want people to take their employment incentive and do with it what they will. But we're a growing company, and we have to spend roughly \$250,000 for new computers every year, so it is important that the employee shareholders not take cash out of the company yet. The only way we can continue to grow without more debt or liquidating assets in the company is to ask for leadership from the owners. Consequently, any money paid as an ownership incentive is returned to the company as a shareholder loan. We think it's a progressive approach. After all, the big reward of ownership is in the capital gain.

### **Why did you register your ESOP in the British Columbia government program?**

We like the program because it gives employees a 20% tax credit for investments of up to \$10,000 per year, up to the lifetime investment maximum of \$50,000. The staff at the Ministry were very helpful and worked with us to establish the ESOP, and we were able to offset some of the legal costs through the cost-sharing provided by the government program.

### **Are there voting rights for employee shareholders?**

Yes, but we don't always strictly vote by shares because we try to be as democratic as possible. We do vote for our Directors by share ownership, and on serious resolution changes, plans and constitution changes. Otherwise it's a show of hands with one vote per person.

### **Do you share financial statements with employees?**

We have an AGM every year, and shareholders have the right to see the reviewed statements as it affects the share value. But in terms of interim statements, they're not shared very widely beyond the Directors, managers and the bank.

### **How has the company performed since starting the ESOP in 1995?**

Our sales are way up. We used to be \$2 million company, now we're \$4 million, and our share value has increased by over 25% per annum — from \$60 to just over \$110 in two years. We also opened a branch office in Castlegar when we started the ESOP and now there are four people in that office. We've grown by seven employees: that's an 18% staffing increase.

I measure productivity with a time-utilization sheet, and the growth has been amazing — in hours billed and the value of those hours. We've gradually changed from fixed contracts to more fee-for-service billing arrangements, like lawyers, and were charging higher rates.

Waste and reject levels used to be quite a serious problem, with people re-doing tasks to meet government standards. So every division got involved in creating systems that now mean we don't have to do the tasks twice. There's less absenteeism too. Some of our project managers are more committed because of the ESOP but for others, it's just who they are. They're so driven, they have a hard time even taking their leave entitlements.

**Do you have any joint employee-management committees?**

We have a very flat kind of company, with no formal Committees except a Board of Directors and our Management Committee. The people that create our newsletters aren't managers, just anyone who wants to be involved

**Is the company organized in self-directed teams?**

We have a Forestry Consultant division; the Geography Information Systems division; and a Base Mapping division, and these cross over to work together in teams: a geographer, a forester and a mapping technician will work on the same project. We give people a lot of responsibility in their jobs and their independence complements their integration.

**How do you share information with employees?**

The *HHL Hellion* is our monthly newsletter. The general manager always writes something - about clients or projects etc. If there's a really important issue, we'll have an information meeting, but they're rare. People talk to their managers about issues at section meetings. And like every office, there are always informal water cooler meetings.

**Any problems since the employees bought the company?**

For me, the most significant problem our company faces with respect to employee ownership is more organizational than financial. When we bought the company in 1995, each employee decided to buy for reasons ranging from security and stability to high growth and technological improvement. As we are employee-owned, it is important that we incorporate the vision and views of all employees into a strategic plan that has their support and also makes sense in the market place. So in 1996, the Directors commissioned a management study to canvass employees' opinions and make recommendations.

**What is your personal feeling about employee ownership?**

I believe employee ownership is extremely valuable. It allows people to take charge of their own destiny, and it's a great motivator on a long-term basis. In terms of employment, ownership is a great way to reward a growing work group.