# Case Study 7.5

## Tullis Russell

In 1994, in a small corner of Scotland known as the Kingdom of Fife, Tullis Russell, a paper manufacturer, transferred the ownership of the company into the hands of its employees. The Employee Benefit Trust (EBT) was one of the first of its kind in the UK and was the culmination of many years of hard work that began in 1985 with the appointment of David Erdal as company chairman. The success of this pioneering transfer of ownership is well documented by other sources and will not be recounted here. This case study is concerned with a particular event and decision in this company's existence, one which demonstrates the power of an ownership culture based on the key principle of sharing information amongst all employees.

### Background

One of Tullis Russell's most profitable and successful product offerings was a highly specialised premium paper used to transfer designs onto ceramic objects, such as cups and plates. The company established a manufacturing plant to develop this type of paper in Stoke-on-Trent, an area in the west midlands of England famous for its pottery factories. Throughout the 1990s however, this division of the company came under increased competition from manufacturers in South Korea, who had rapidly expanded to capture large chunks of the enormous Chinese ceramics market. In order to stay competitive and expand the business, the board of directors knew they had to capture some of the Chinese market, as the UK market (in particular the Stoke-on-Trent potteries) had shrank in the face of intense competition from the east. In 2002, eight years after the company became employee-owned, an opportunity arose to acquire a Korean manufacturer who had recently declared itself bankrupt. The board felt that the acquisition made good economic sense for the company but was aware of the impact it would have on the Stoke plant and its employee-owners. Before the decision could be made to acquire the company, the elected body of employees, consisting of fourteen employee-owners representing every employee in the company, had the power to veto the decision made by the board. The elected body even included two employees from the Stoke plant. How would the employees vote?

### The power of engaged employees

The decision surprised the board. 100% of the elected body voted in favour of the acquisition. This decision would baffle traditional economists and trade union leaders. Surely the employees would preserve their self- interest by vetoing the decision and protecting the Stoke factory? The unanimous decision by the elected body put paid to this notion and to prove that this was not an aberration, the elected body made the exact same decision when asked to vote on the board's suggestion to close the Stoke plant altogether. The elected body again acted in the best interest of the company. This can only be explained by the high levels of engagement employees had with the company. Managing Director (MD) Fred Bowden, who subsequently went on to become chairman, had instilled in the company's management the need to inform and engage employees at every level. Information regarding the company's performance, strategic decisions and other important policy matters was shared with every employee at regular intervals. The relationship between the company and its employees was enhanced even further when the management promised to keep the decision to close the plant confidential until the employees in Stoke had been informed. This allowed the company to use the 14 months before the closure to assist those employees with training and employment opportunities.

### The power of sharing information

The ownership culture at Tullis Russell, based on information sharing, influence and trust, has delivered improved performance and productivity almost every year since ownership of the company was transferred to its employees. They're approach stands in direct contrast to more conventional forms of ownership where the right to information lies with the shareholders. It is becoming more common for even the board of directors to hold very little information regarding the decisions and direction of a company. How can a company expect to improve employee relations and productivity if it doesn't even share the information that employees help to generate and (unknowingly) interact with in the first place?

As David Erdal states in his account of this event, "managers sometimes think that keeping everyone informed is not part of 'real' management, the essence of which is taking tough decisions. But keeping people informed allows them to understand and therefore support decisions, even the most difficult." In essence, there is direct correlation between the ability of employees to either support or make a tough decision and the amount of information regarding the company they are privy to.

The sharing of information is central to any ownership culture, particularly in an employee-owned company, and the results of such a strategy often lead to a more productive and sustainable business. The Tullis Russell approach highlights how important it is to treat employees with humanity; the response is often untapped and under-utilised employee innovation, intelligence and competence. And it all begins with the small step of sharing information.

Source: D. Erdal, *Beyond the Corporation: Humanity Working* (London: The Bodley Head, 2011), p. 79–83.