Case Study 8.7

National Freight Consortium

National Freight Consortium (NFC) is often highlighted as one of the most financially successful conversions of public companies to employee ownership in the UK and has acted as a template for the privatisation of state-owned companies in Eastern Europe during the 1990s. At the time the UKs largest road haulage operator, the ownership of the company was transferred in February 1982 from the UK government to the company's employees. On closer inspection however, employee ownership at NFC lasted only seven years and culminated with the flotation of the company on the London Stock Exchange, eroding both employee financial participation as well as the participatory management culture developed during the employee ownership years. The case of NFC reveals important lessons regarding the lifecycle of employee ownership and the factors influencing the success or failure (in non-financial terms) of an employee-owned venture.

Background

In February 1982, led by Chairman Sir Peter Thompson and 12 of the company's senior management team, the employees of NFC purchased the company from the government for £53.5m. The management-led employee buy-out was the culmination of many years hard work restructuring the company to return it to profitability (staff levels were reduced from 66,000 to 24,500) and the effective support provided by specialist advisors and Barclays bank. Oddly, the largest union active in the company, the Transport and General Workers Union (TGWU), opposed the transfer of ownership to the employees, which impacted the number of staff who purchased shares in the 1982 buy-out. This despite the issues raised by senior management regarding the risks the company faced if the business did not become employee-owned, namely the flotation of the company on the stock exchange or a trade sale, possibly to a competitor. Either of these scenarios, in the view of Sir Peter Thompson, would have erased the culture and character of the business. The major aspects of the buy-out are summarised below:[1]

- 35% of the company's 24,500 employees opted to purchase shares.
- There was no minimum or maximum limit on the amount of shares that could be purchased; some employees purchased £100 worth of shares, others £40,000.
- 82.5% of the company was owned by the employees with the rest owned by Barclays bank.

[1] The detailed and interesting story of how NFC came to be employee-owned is recounted elsewhere; we need only be concerned with the facts that are relevant to our analysis of the reasons why NFC ceased to be employee-owned.

- Of the £53.5m needed to purchase the company, the employees needed to provide £4.125m.
- On average, employees purchased £700 worth of shares.

Post buy-out performance

The financial performance of the company improved dramatically over the next seven years. Productivity, measured in sales per employee and adjusted for inflation, rose by 70% between 1982 and 1989. Similarly, pre-tax profits rose consistently throughout those years, as evidenced in the table below. During those seven years, the company also managed to significantly reduce the debt it incurred as a result of purchasing the company. All of this combined to dramatically increase the company's share price. For the first seven years of employee ownership, the company's shares were traded quarterly on an internal market. On August 1982, a £1 ordinary share at the time of the buy-out was now worth £1.65. By November 1988, the value of one share had risen to £74.

Table 1-Pre-tax profits

	Year	**£m**
Pre-employee ownership	1976	(3.5)
	1977	2.0
	1978	11.1
	1979	10.0
	1980	0.4
	1981	4.3
Employee ownership	1982	17.7
	1983	20.0
	1984	26.0
	1985	41.8
	1986	53.8
	1987	66.3
	1988	87.7
	1989	109.4

Post-employee ownership	1990	108.2
	1991	98.8
	1992	91.1

Improvements were also made to the company's culture, with a number of initiatives designed to increase levels of employee participation. Firstly, quarterly employee shareholder meetings were held concurrently throughout the UK, as well as efforts to generate increased interest in the company's AGM.

Perhaps most significantly, senior management introduced an initiative whereby employees could oppose and veto the sale of a subsidiary business. This was not just a cursory attempt at granting some measure of control to employees. In the mid-1980s, NFC was offered a considerable sum for one of its subsidiaries, Waste Management Limited (WML). Despite the board's willingness to sell the company, the overwhelming majority of WMLs employees opposed this decision and the proposed sale was scrapped.

The flotation and why

In November 1988, 60% of the company's shareholders voted to authorise the board to seek a flotation on the stock exchange. The main reason behind this decision was the pressure to realise capital gains on the value of the company. Despite the best efforts of the internal share market, the shares in the company were worth much more on a public stock market. It became apparent to the company's owners as well that it would be prohibitively expensive to pass ownership to a future generation of employees; from initially being worth £7.5m, the equity of the company was now worth £950m. On the February 29th 1989, NFC was floated on the London Stock Exchange (LSE).

Anticipating the effect the sale of the company's shares would have on employee participation, the board fought vigorously for certain conditions from the LSE. Firstly, NFC secured an agreement with the LSE that 15% of the company's pre-tax profits were allocated to a profit-sharing scheme. Perhaps most significantly, as long as the employees held at least 10% of the shares in the company, one employee share carried two votes as opposed to a non-employee share which only carried one vote. These concessions were designed to preserve the financial and cultural employee participation the company had built up in the preceding seven years of majority employee ownership.

After the floatation

By the spring of 1993, only 20% of the equity in the company remained with the employees. By early 1995, employee ownership in the company almost ceased to exist due to the discontinuation of the profit sharing scheme and the removal of an extra vote for employee shares. The company suffered during the recessionary years of 1992 – 1995 and numerous changes of personnel in the upper echelons of the company resulted in the erosion of the special employee-owned character of the organisation. The sale of WML, who we discussed earlier, in 1992 without any consultation with the employees, is perhaps a microcosm of the decline of employee ownership in NFC.

Lessons from NFC

Employee ownership, from a financial participation perspective, could be considered highly successful for those employees who opted to purchase shares. As we have seen though, not all of the employees participated in the buy-out (only 35%) and the bank had placed restrictions on the amount of new shares that could be subsequently issued to new employees. Therefore, those employees who were influenced by the TGWU not to purchase shares during the buy-out received very little opportunity to do so at later intervals i.e. the quarterly share deals. Coupled with the fact that the range of shareholding in the company varied wildly between employees at the time of the buy-out (between £100 and £40,000), the vast majority of employees saw limited or no financial gains from the flotation of the company. It is reasonable to conclude that the employee ownership stake in the business would have been stronger if more employees had subscribed to the initial share purchasing and that the range of shareholding had been narrower.

It has been posited that NFC is not so much a shining example of employee ownership than of privatisation. None the less, the company successfully transferred ownership to employees, secured the support of both financial advisors and banks, and implemented initiatives that sought to increase levels of employee participation. Perhaps with more employee-owners and a trust that held at least 51% of the company's shares, NFC would have remained employee-owned and generated even further benefits for its worker-owners.

Reference

Source: R. Oakeshott, *Jobs & Fairness: The Logic and Experience of Employee Ownership (*Norwich: Michael Russell Ltd, 2001) pp. 301-31.