



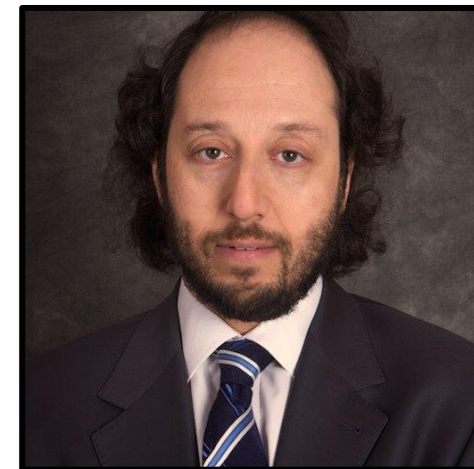
Employee Share Schemes, Levelling-Up And Social Mobility

David Craddock, Founder & Director, David Craddock Consultancy Services

Thursday, 8 December 2022, 16:00 GMT

A Word From Today's Chairman

Ian Harris
Managing Director
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Today's Agenda

- 16:00 – 16:05 Chairman's Introduction
- 16:05 – 16:25 Keynote Presentation – David Craddock
- 16:25 – 16:45 Questions & Answers

Today's Speaker

David Craddock
Founder & Director
David Craddock Consultancy
Services



DAVID CRADDOCK CONSULTANCY SERVICES

Specialist in Employee Share Ownership and Reward Management,
Share Valuation, Management Buyouts,
Employee Ownership Trusts (EOT)
& Investment Education

Founder, Principal and Director:
David Craddock, MA(Oxon)
Consultant and Lecturer

Author of *“Tolley’s Guide to Employee Share Schemes”*

★ *Expertise and Experience* ★

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A Webinar Presentation on

**Employee Share Schemes,
Levelling-Up And Social Mobility**
for
The Esop Centre and The FS Club
by
David Craddock, MA(Oxon)

Specialist in
Employee Share Ownership
and Reward Management,
Share Valuation,
Management Buyouts,
Employee Share Trusts (EST),
Employee Ownership Trusts (EOT)
& Investment Education

Thursday, 8th December 2022



Employee Share Schemes: Levelling-Up and Social Mobility

The Levelling-Up Agenda of the British Government

The Conservative Party Manifesto for the General Election of 12th December 2019

Levelling-up represented a fundamental element within the Conservative Party Manifesto for the 12th December 2019 general election. As a concept, it is widely understood by political commentators to be credited for the success of the Conservative Party in winning seats in previously-held Labour areas in the North of England and in previously-recognised Liberal Democrat strongholds in the South-West of England. The commitment to levelling-up was presented to the British electorate as affordable in the context of a financial dividend that it contended could be secured through Brexit.

The White Paper dated 2nd February 2022

The British Government published its policy through the White Paper as a “moral, social and economic programme for the whole of government” and is designed to explain how the programme “will spread opportunity more evenly across the UK”. The intention is to execute the programme as a means of reducing imbalances across the UK by levelling-up areas of deprivation and decline – urban, rural and coastal – without any corresponding detriment through levelling-down of the more prosperous parts of the country, notably the South-East of England. The implication, therefore, is that the levelling-up policy is predicated on increasing the GDP of the country as a whole through economic growth.

Employee Share Schemes: Levelling-Up and Social Mobility

The White Paper: “The Missions to Level-Up the UK”

The Mission Statements (MS) to which Employee Share Schemes can contribute

MS No.1: By 2030, pay, employment and productivity will have risen in every area of the UK, with each containing a globally competitive city, with the gap between the top performing and other areas closing.

MS No.6: By 2030, the number of people successfully completing high-quality skills training will have significantly increased in every area of the UK.

MS No.7: By 2030, the gap in Healthy Life Expectancy (HLE) between local areas where it is highest and lowest will have narrowed, and by 2035 HLE will rise by 5 years.

MS No.8: By 2030, well-being will have improved in every area of the UK, with the gap between the top performing and other areas closing.

MS No.9: By 2030, pride in place, such as people’s satisfaction with their town centres and engagement in local culture and community, will have risen in every area of the UK, with the gap between the top performing and other areas closing.

Employee Share Schemes: Levelling-Up and Social Mobility

The Recent Usage of the Term Levelling-Up in Public Affairs

Tony Blair, Prime Minister from 1997 to 2007, in the run-up to the 1997 general election stated on 24th April 1997 that it was his intention to engage in the process of levelling-up in the context of his preference for low taxes in support of upward social mobility.

Theresa May in an education debate in the House of Commons in 1997 described conservatism as levelling-up and socialism as levelling-down. Additionally at various times during her time as Prime Minister she referred to “The British Dream”, a clear attempt to imitate the concept of “The American Dream” in the UK.

Boris Johnson pledged through the Conservative Party Manifesto in 2019 to “use this investment prudently and strategically to level up every part of the United Kingdom, while strengthening the ties that bind it together”.

Justine Greening, Member of Parliament for Putney from 2005 to 2019, and Education Secretary from 2016 to 2018, while in office and since departing the House of Commons, has consistently linked levelling-up to social mobility, stating that she pledged her focus to “making sure we have levelled up Britain where everyone can achieve their potential wherever they start, wherever they’re born”.

Employee Share Schemes: Levelling-Up and Social Mobility

Why has the need for levelling-up arisen? Some of the reasons:

1. The **deindustrialisation** of the previously-recognised powerhouses of the Industrial Revolution, identified in the movement away from primary and secondary industry to tertiary sector services industries.
2. The **globalisation** of world markets that, without an effective tariff protection policy, have exposed staple British industries to low-cost overseas competition, and contributed to undermining wages through the loosening of the labour market.
3. The **centralisation** of business decision-making around the activities of the City of London at the expense of developing equally competitive centres in the regions, compounded by the absence of a consistent form of regional government.
4. The **secularisation** of British society arising from the decline of faith as a basis for developing community, inspiring inner belief systems in people of the younger generations and encouraging traditional family life.
5. The decline and decay of **local infrastructure** – transport, notably rail, and otherwise – through a failure by successive governments to encourage sufficient private investment into the regions except on a selective basis through the freeports.

Employee Share Schemes: Levelling-Up and Social Mobility

What is the American Dream?

Can we learn lessons from the American Dream that can be implemented in Britain?

The concept of the American Dream derives from **The Declaration of Independence** of 1776:

“We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are Life, Liberty and the pursuit of Happiness.”

The idea is that upward social mobility achieved through hard work in a society that embraces free enterprise and believes in equal opportunity based on rights given by God (not government, so they cannot be taken away) to “life, liberty and the pursuit of happiness”.

The Key Principle for the American Dream

The rights cannot be taken away, because they are given by God, with all the inner attributes to activate them in your life for success, so with that assurance all things are possible.

The term “The American Dream” was first referred to by the historian, James Truslow Adams, in 1931 in his book, “Epic of America” as “a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement”.

So, can there be a British Dream that assists upward social mobility?

America is not an imperialist power as to be so would run contrary to the principle of independence and self-determination on which the USA was founded. Rather, America is a protector power in its foreign policy and was intended in the organisation of its society by the Founding Fathers to be an example for other nations to emulate and follow.

Employee Share Schemes: Levelling-Up and Social Mobility

So, there can be a British Dream, and Employee Share Ownership has a role to play!

Yes, there can, but recognise that on the historical context, there are distinct differences between the Britain and America:

1. In America, the role of government is not to give the rights, which are already given by God, but to protect the rights and the values that support them to make America attractive for people with aspiration. There is, therefore, a faith-based element.
2. American society historically built upwards from the immigrant entrants who were seeking that equal opportunity to aspire and achieve whereas British society historically built downwards from the feudal landlords favoured by the monarch.
3. The historical context for the Americans has always been sharing, primarily land sharing in different forms as through immigration the land claim became exhausted, but the immigrants kept arriving. As the immigration continued, the frontier moved further west, so rather than fight over land, sharing arrangements were introduced. It is, therefore, no coincidence that employee share ownership took root earlier in America than in Britain and, yes, contributed to social mobility!

The Key Principle for Employee Share Ownership linked to Social Mobility

Working together and sharing rewards through employee share ownership and profit-sharing is central to the American Dream and, yes, the British Dream. Creating the leverage through shared working assists the upward social mobility for all individuals.

Employee Share Schemes: Levelling-Up and Social Mobility

Levelling-Up and the Connection to Social Mobility: “Jonathan Livingston Seagull: A Story”

The book, **Jonathan Livingston Seagull: A Story**, is a narrative written by the American author, Richard Bach, first published in 1970, portraying Jonathan, a seagull aspiring to a better and higher life that is different from the lives led by the seagulls in the community where he lives in which the seagulls seem preoccupied with fighting each other for scraps of food – a drab life indeed.

Jonathan develops a passion for flight and drives himself through a combination of observation of mentor seagulls who he meets on his life journey, trial-and-error and self-education to a more satisfying life that he discovers through the perfection of knowledge. He demonstrates a determination in his quest for improvement which comes through his passionate desire to learn and his preparedness to take risk.

Jonathan becomes aware that he has found something very special and in all humility he resolves to find other seagulls who aspire just as he did. He does indeed find other seagulls with a similar spirit and teaches them, thereby achieving his mission of spreading his love of flight. His first student, Fletcher Lynd Seagull, becomes a teacher, just as Jonathan is, allowing them both to teach others and develop societies of seagulls in which aspiration to achievement is encouraged and life satisfaction is taught to have a strong spiritual dimension in rising above conformity, boredom and limitation. Jonathan is the exemplary seagull, described as “pretty well a one-in-a-million bird”.

Employee Share Schemes: Levelling-Up and Social Mobility

Levelling-Up and the Connection to Social Mobility: “Jonathan Livingston Seagull: A Story”

What do we learn from this narrative about Jonathan?

That personal individual social mobility leads to the communal levelling-up of society

1. Jonathan takes personal responsibility for his own future

Jonathan follows his heart with an innate inner belief and seeks out his opportunity to aspire, achieve and develop success in his chosen profession of flying.

2. Jonathan pursues a combination of education and self-education

Jonathan builds increasing levels of self-confidence as he benefits from the guidance of teachers which he combines with self-education.

3. Jonathan chooses to contribute to the society from which he came

Jonathan’s natural instinct, arising from his own success in social mobility, is to help others likewise and contribute to the society from which he came.



Employee Share Schemes: Levelling-Up and Social Mobility

Employee Share Schemes: The Contribution to Social Mobility

The case for employee share ownership relies on two key principles:

1. The employee will be more inclined to contribute to the growth of the company if he or she has a stake in the growth that he or she is being incentivised to create.
2. The business owner can distribute some of his or her shares to other people, thereby enabling the creation of higher level of value creation overall. For example, would the business owner prefer to have 100% of a business valued at say £100,000 or 75% of a business valued at £1,000,000? The answer is self-evident.

How is the business owner who introduces a share scheme of the same mind as Jonathan?

1. The business owner takes personal responsibility to first develop his own skills and based on the acquisition of those skills develops a company. He expands and extends.
2. The business owner engages in a process of education and self-education to support the development that enables him to aspire. Again, he is expanding and extending.
3. The business owner who is wise and shrewd knows that the enlightened approach to take that benefits himself and others is to apply the principles that support the case for employee share ownership and share part of his shareholding with others alongside his knowledge and understanding as he mentors others. More expansion and extension.

Employee Share Schemes: Levelling-Up and Social Mobility

Employee Share Schemes and Social Mobility

1. Employee share schemes, properly implemented and communicated, develop an incentive entrepreneurial culture that is conducive to both personal and corporate value creation based on productivity that is achieved before the reward is dispensed.
2. Employee share schemes create a victory mentality (as opposed to a victim mentality) as employees receive a more substantial and fairer reward from their involvement with the company as a return for their achievement.
3. Employee share schemes deliver more substantial funds to employees earlier in their career, thereby contributing to house purchase, family development and domestic harmony.
4. Employee share schemes contribute to community cohesion as employees learn a mindset of personal responsibility to the wider community of their company and beyond.
5. Employee share schemes develop a sense of co-partnership in the company that encourages the enquiring mind that is conducive to learning and self-education and personal development.

Employee Share Schemes: Levelling-Up and Social Mobility

Employee Share Schemes and Social Mobility

Employee share schemes always operate best when implemented alongside their compatible sister policies:

1. Education, training and development, qualifications and credits
2. Accountable performance management
3. Fair pay systems based on objective criteria
4. Devolved decision-making through responsible delegation
5. Employee consultation bodies in the form of works committees and councils
6. Corporate sharing of information through regular employee communications
7. Company health checks and the provision of health insurance
8. Quality circles and suggestion boxes to tap into jobholder ideas
9. Quality management schemes: quality assurance and quality control
10. Voting powers attached to the employee shares

Employee Share Schemes: Levelling-Up and Social Mobility

Employee Share Schemes and their Contribution to the Wider Society

The Governmental Use of the Tax Bait: The Corporation Tax Deduction

The point is that involvement in employee share schemes when encouraged to be introduced responsibly along the sister policies, with suitable incentives and education introduced by government to do so, encourages responsible citizens who have the capacity to make a wider contribution to the community.

Example

Suppose a policy, say through a form of corporation tax deduction, to encourage companies to become involved in the wider community.

This approach is thoroughly consistent with **Section 172 Companies Act 2006**, as explained on the next slide.

Employee Share Schemes: Levelling-Up and Social Mobility

Employee Share Schemes and their Contribution to the Wider Society

The Compatibility with the Directors Duty to Promote the Success of the Company

Section 172(1), Companies Act 2006:

The duty to promote the success of the company that includes:

The impact of the company's operations on the community and the environment

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so, have regard (amongst other matters) to –

- The likely consequences of any decision in the long-term
- The interests of the company's employees
- The need to foster the company's business relationships with suppliers, customers and others
- **The impact of the company's operations on the community and the environment**
- The desirability of the company maintaining a reputation for high standards of business conduct
- The need to act fairly as between the members of the company

Employee Share Schemes: Levelling-Up and Social Mobility

Employee Share Schemes and their Contribution to the Wider Society

The Summary of the Idea of an Employee-Owned Company as a Community Company

- The employees identify with the company
- The company identifies with the community

Therefore, the employees identify with the community through accepting local civic responsibilities, contributing to self-help and local community groups, participating in health and other local cooperatives, and engaging with local environmental groups.

The Implementation of the Idea of an Employee-Owned Company as a Community Company

1. The employees are identified with the company through the operation of the employee share schemes and their compatible sister policies.
2. The company is identified with the community through a purposeful decision of the Board of Directors to apply **Section 172 Companies Act 2006** in a meaningful way that respects the duty to have regard to the impact of the company's operations on the community and the environment.

Employee Share Schemes: Levelling-Up and Social Mobility

Social Enterprises in the UK – Something different from the previous slide but worth a mention

The concept of **Community-Based Enterprises** that are often referred to as **Social Enterprises**.

The British Government defines a **Social Enterprise** as:

“businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners”

This type of organization is different from a shareholder-owned or employee-owned company:

1. It is community-owned such that its assets belong to the community and cannot be sold off for private financial gain.
2. It is led by local people who represent stakeholders in different elements of the local community.
3. It exists for the reinvestment of its profits into local community projects and activities.

Although social enterprises do not facilitate employee share ownership, they represent an example of an organizational-type that in any given community can work alongside employee-owned businesses.

Employee Share Schemes: Levelling-Up and Social Mobility

Employee Share Ownership Supports the Levelling-Up Mission Statements

The characteristics of employee share ownership:

1. Redistributive:

Employee share ownership is openly redistributive and fosters fairness in business

- The market approach of employee share schemes facilitates redistribution as a reward for hard work, effort and endeavour and introduces the ethic of fairness into the business. As a redistributive mechanism, it is self-funding and more effective than the traditional redistribution methods based on social security and government hand-outs that over-burden government, stifle enterprise and undermine incentive.

2. Productive:

Employee share ownership enhances the productivity of businesses

- The employees will be more inclined to produce value for the company if they know that they have the potential to share in the developing value of the business, whether through income return in the form of dividends or, more especially, through capital return at any exit event or through an employee share trust acting as a market for the shares.

Employee Share Schemes: Levelling-Up and Social Mobility

Employee Share Ownership Supports the Levelling- Up Mission Statements (Continued)

The characteristics of employee share ownership:

3. Incentive:

Employee share ownership motivates through a meaningful and tangible incentive

- On the basis of strong and credible evidence researched by multiple institutes and universities over the last 40 years in the UK and in the US, the employee involvement in a share interest either through direct ownership of the shares or an option that gives the potential for real ownership of shares establishes a motivational intent in the minds of the employees to incentivise and solder employee interest to the company.

4. Individualist:

Employee share ownership generates an individual reward for the employee

- The capacity to deliver actual financial reward to each individual employee scheme participant appeals to the enlightened self-interest of the employee and encourages an entrepreneurial mindset within employees while still operating as employees. All the research demonstrates that the potential for individual reward identifies the employees with the business, with the ownership of shares giving the sense of ownership of the company.

Employee Share Schemes: Levelling-Up and Social Mobility

Employee Share Ownership Supports the Levelling-Up Mission Statements (Continued)

The characteristics of employee share ownership:

5. Collectivist:

Employee share ownership welds together the team under the common incentive

- The subtle beauty of employee share ownership is that at the same time it is both individualist and collectivist for the reason that it delivers the individual reward through the team working together as a united team, working with a common sense of purpose towards a defined aim and developing value under the common totem of the developing share value that they can celebrate together.

6. Educative:

Employee share ownership encourages and supports a training and learning culture

- The ability of employee share ownership to encourage the spirit of discovery and growth within the workforce and assisting in personal development through on-site training and learning is a powerful element in innovation and, also, in being able to handle the change that is inevitable in a developing and evolving business that is seeking to achieve ambitious growth targets.

Employee Share Schemes: Levelling-Up and Social Mobility

Employee Share Ownership Supports the Levelling-Up Mission Statements (Continued)

The characteristics of employee share ownership:

7. International:

Employee share ownership can operate effectively across national borders

- The employee share ownership programme can act as a unifying force across a global multinational corporate group that operates in countries with diverse cultures, establishing the common purpose around the developing share value as the totem that unites everyone who has a share interest in the company.

8. Voluntary:

Employee share ownership works best when involvement is voluntary rather than compulsory

- The desire to introduce the employee share ownership programme should stem from a genuine belief in the expected benefits to flow to the company although often it will be the bait of the tax relief that first alerts the company to the opportunity. South Africa is a case in which courtesy of the black empowerment legislation employee share schemes are in a sense compulsory and companies resent the requirement to introduce and the associated costs.

Employee Share Schemes: Levelling-Up and Social Mobility

The Final Summary Position

1. Encouraging the Rewards and the Instincts towards Social Mobility

Employee share schemes, operating both as a means for delivering employee reward, based on the capital development of the company, and as a motivational policy that impacts on the mindset that the employee develops towards the business, encourage the instincts and the rewards that lead towards social mobility.

2. Using the Tax Bait as an Initiative from the British Government

Once established as a means of facilitating social mobility, the natural consequence is to contribute towards the levelling-up process which can be encouraged through government-led incentives, primarily through the corporate tax system, i.e., the corporation tax deduction.

Any further assistance required on your employee share scheme initiative then please do not hesitate to contact David Craddock:

Contact details on the next slide

Employee Share Schemes

All Best Wishes for Your Business Initiative

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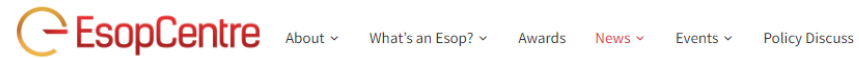
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December 2022

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EVENTS

- Newspad 2022 Awards: celebrate your achievements
- Webinar: Employee share schemes, levelling up and social mobility – December 8
- Employee Share Schemes & Trustees Conference Guernsey – January 27 2023
- British Isles Share Plans Symposium – March 30 2023

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(LF.10) Reduced Inequalities

In September 2015, 193 world leaders agreed to 17 Global Goals for Sustainable Development. If these Goals are completed, it would mean an end to extreme poverty, inequality and climate change by 2030.

Goal 10: Reduce inequality within and among countries.

- If the distribution of income, assets owned, resources, and talent were to follow CBO's projections, income inequality will be greater in 2030 than it was in 2010.
- High growth over the past decade has been based on unsustainable resource exploitation, allowing the resulting growth in inequality and environmental cost to be critical to ensure social stability and to ensure strong sustainable growth in the coming decade.
- The increase in inequality observed in the last 20 years is a warning to future's social systems.
- America's global-competitiveness is eroding as the gap that will further increase economic inequality at a faster rate increases and growth gaps are already widening.
- A failure to give the world's poorest nations control over their bodies could widen inequality in developing countries and divert progress towards global goals aimed at ending poverty by 2030.
- Under French leadership the G7 group of the world's largest advanced economies plus the European Union will have to step up fighting inequality, including poverty, by 2030.
- Leadership might require companies to take performance and actions for change on global inequality - including for work practices, reduced inequality and more - could open a market opportunity of \$1 trillion by 2030.
- The next decades offer an opportunity to address African urban poverty and inequality and shape development priorities to ensure that urbanisation helps lower middle-income, flexible and sustainable cities.
- In Africa and in the LDCs, reducing poverty by 2030 will require both double-digit GDP growth and dramatic declines in inequality, demanding the scale of the current challenges faced.
- The success with up-of-side with the West will continue in the coming decades - thereby reducing global inequality among countries and among world citizens.

(FS.3.05) Employee Share Ownership

Considering 75 percent of the 2022 global workforce will be Millennials and Generation Z, it's critical that organisations keep a pulse on employee engagement and do a way that's resonant with how the emerging generations communicate.

- 2023 will see a continued evolution to designers' understanding of workplace optimization with designs that boost office morale and employee wellness while facilitating a remote work environment.
- By 2026, Gen Zers will be the largest generation in the workforce. Gen Zers will be the most digital natives, with 90% of Gen Zers expected to be employed by 2025.
- For HR leaders looking to better determine the attitudes that drive employee turnover and increase retention, using AI to provide insights into employee engagement will be critical.
- By 2025, Artificial Intelligence (AI) will allow the rate of innovation to flow. Double-digit Employee productivity gains are expected to increase 1.5 times.
- Artificial Intelligence will double the rate of innovative improvements and improve employee productivity gains by 1.5 times in New Zealand by 2025.
- ES health benefits more per employee will increase 4.7% next year - slightly higher than inflation and less than the double-digit increases seen in prior years.
- With a tight labor pool, small businesses will feel the pinch in the year to come on employee engagement and happiness.
- Nearly 20 percent of respondents also expect that automation will lead to some reductions in their full-time workforce by 2025, based on the job profiles of their employee base today.
- Employee wellness has been on trend for years, but expect to see some high-tech changes in 2023.
- By 2025, automation and artificial intelligence will reduce employee requirements in business shared-service centers by 15 percent, which says the B2B market will top \$1 trillion by 2025.
- This year, many organizations will look to employee scheduling software to solve problems around creating, publishing and managing employee schedules that include options to cover shifts to select groups and improve data on when to hire identify customer traffic patterns to anticipate worker rates.

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- Mon, 12 Dec (16:00-16:45) Data Data Everywhere
- Tue, 13 Dec (10:00-10:45) Malaysia's Economic Transition: From Plantations & Palm Oil To Tech & Green Energy
- Wed, 14 Dec (11:00-11:45) Cash Is Not The 'Horse Cart' Of Payments. It's The Public Bicycle
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