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# Founder looks to future with employee ownership

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Robert Palmer wanted to ensure RPV Group remained in his home town of Mildenhall, Richard Tyler writes

There is something wonderful about a career spent in the company of the same people, committed to the same goal. It's what Robert Palmer has enjoyed at his business, based just outside of Mildenhall, the town in Suffolk where he was born. He set up RPV Group, a specialist industrial

valve distributor, in 1994 and he and his team, now numbering 35 people, has built it into a £25 million venture that counts Shell, BP and Chevron among its customers.

Last year Palmer, 56, started to worry about the future. He wanted to find a way to ensure that RPV remained in Mildenhall, that his team's jobs were safe, with their wages supporting the local economy and their children playing in its sports teams.

He came across the idea of employee ownership and in January, on RPV's 30th anniversary, revealed that he had agreed to sell a 51 per cent stake to his employees as a "thank you" for their efforts and loyalty.

Interest in employee ownership as a way to pass on private companies to new owners has been on the rise in recent years, helped by generous tax breaks granted in 2014 for both the original owner and the employees, who typically benefit through a trust set up on their behalf. There are now more than 1,800 employee-owned businesses, up from only 152 ten years ago, according to the Employee Ownership Association.

What is unusual about RPV's employee ownership is that Palmer has structured the deal in such a way that his longest-serving employees receive the most benefit. His senior team was already paid competitively, he said. "The way I wanted to do it was not to reward the highest-paid people, but to reward everyone based on how long they have been part of this family, this team. This way you get paid [a salary] we think is fair, and also a 'thank you very much for doing it for 15, 20 and 25 years.'"

Such an approach runs contrary to convention. According to Randall Peterson, a professor of organisational behaviour at London Business School, those who contribute the most in companies typically benefit the most. Sometimes those who stay the longest are doing so because they don't have other options. Yet Peterson acknowledges that loyalty is an undervalued asset.

"What you are after is the person who is really committed to the organisation and its success and will interact with others in a way that facilitates it, rather than makes it harder. If you have been working in the same organisation for 20 years, you can see what the issues are," he said.

"We seem to [think] everyone should look after themselves, but there is a flaw in that Adam Smith [the economist] logic, that if everyone looks after themselves that somehow the whole will be taken care of. I am not convinced that is true. Yes, everyone needs to look after themselves and to do their part, but you can make choices where it is equally as easy to do it X or Y way, and if Y makes it easier for others [to do their jobs], you should definitely do that."

Palmer set up RPV with a £6,000 redundancy payment he had received when a local company run "by an ex-girlfriend's uncle" let him go just before Christmas. "That evening I went to the local hotel and had several to drink and one of the owners said, 'Why don't you start your own company?' I woke up the next morning and thought, 'I'm pretty young and if it doesn't work out I can go and do something else.'" He had



Robert Palmer, front left, owner and

seen an opportunity to stock and distribute the best industrial valves for the European operations of the oil and gas companies after talking to a business that did the same thing for the American market.

Today RPV is called upon in an emergency, when a valve has failed, or during the planned maintenance of refinery facilities, where wear and tear means that parts need replacing.

"Hopefully, we have got what they need, when they need it. We can pull it off the shelf, put it on the back of a vehicle, with all the documentation ready, and it can leave our place in 15 minutes," Palmer says. The valves range in size from a bore hole of a quarter of an inch to 48 inches.

"That's the size of the flow passage. If you measure it from a 48-inch bore you have probably got another 16 to 18 feet [of casing] above it."

As it built its reputation over the decades that followed, Palmer started to receive approaches from larger companies keen to buy his business. He explains: "I didn't want a trade sale, as what tends to happen is that the [acquirer] then fires X amount of people and relocates things to where they are located. I wanted to be loyal

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# US-China divide comes down to an issue of perception

**Martin Sorrell**



Of the most significant geopolitical issues in the world today, the disconnect between the United States and China is arguably the most important. A week spent in Beijing recently, including absorbing meetings with senior ministry, party and regulatory officials, has made me feel that there is no obvious way to resolve the differences between America and China, whoever is elected to the Oval Office in November.

At the heart of the issue is a kind of branding or perception problem: the Americans' view of China is not how the Chinese see themselves; and China's image of the United States is similarly at odds with that country's perception of its own standing. Americans see China as expansionist, but from what we heard the Chinese say that's not their objective. They want to be an equal and respected partner. The Chinese think that the American policy is to build strong military power and political alliances and partnerships that exclude and surround them, such as the "quads" grouping with India, Australia and Japan.

Americans, in my experience, are super-competitive by nature and see everything as an NFL game that they have to win, even to the extent of an inexplicable scuffle between American and Chinese agents in 2018 in the Great Hall of the People. China sees that as overly aggressive, whereas the US defines the relationship as one that is structurally competitive. It's hard to see a way through to some form of resolution. I left the People's Republic feeling more concerned about the potential outcome than when I arrived.

Every company we saw during the visit shared that the economy is not in great shape. The second quarter was particularly tough. The challenges facing businesses and the population include falling real estate prices, a stock market in decline hurt by declining foreign investment and deflation, which means money kept in banks is losing value. The state-owned enterprises are heavily indebted and there is significant youth unemployment.

The Chinese are heavily indebted at the local level, but there's a little bit more wriggle room at the centre and they could reduce interest rates, at present about 2 per cent. With deflation of 2 per cent to 3 per cent, that means real interest rates are about 5 per cent. The general view is that the government is holding fire until it sees the result of the US election, since the former president

Donald Trump is threatening 100 per cent tariffs across a range of goods, which would put further strain on China's economy.

On the US side, the Americans see their policy as de-risking rather than de-coupling. The US embassy in Beijing, located just north of the Forbidden City, is symbolic of this attitude. Completed in 2008, it was constructed entirely with labour and materials, right down to the cement, shipped in from outside the country. Suspicious of any compromise to security, a senior executive from a leading US biotechnology company told me they were effectively barred by the US from buying raw materials from Chinese companies.

So what does this mean for global businesses based in the UK or elsewhere? If you have ambitions to operate globally, the first lesson is that you have to pick your geographies carefully in what is becoming a more fragmented world.

China represents \$18 trillion out of \$106 trillion of worldwide GDP, compared with \$28 trillion in the US; but that means \$60 trillion is outside those two countries. If you're already big in China, defined as 15 per cent to 20 per cent of your sales, you don't necessarily want to be bigger. Population forecasts from the United Nations suggest that China's population could drop from

1.4 billion to 770 million by the end of this century. India's population is forecast to continue increasing for several decades from 1.4 billion at present.

Many of the best opportunities will be in other Asian countries beyond India, including Indonesia, Vietnam, Thailand, Philippines, Malaysia and Singapore.

One thing made clear to us was that, if Trump wins the US election and those threatened tariffs are put into place, China

will further alter its trade flows towards non-US markets. The focus will be the global south and the Brics, the alliance of big developing countries including Brazil and India. The emerging seven (E7) economies already outdistance the G7 grouping of the world's advanced economies.

I looked at what Henry Kissinger had said about China. He thought you had to find areas where there were common interests and work on them. Climate change would be one example. Formulating rules for the governance of AI is another. So intense communication will be key and there's clearly room for other nations, like the UK, to act as mediators to bring closer relationships to the benefit of all.

There is not going to be any serious thaw in US-China relations any time soon, in the absence of any Nixon/Kissinger type of diplomatic initiatives, and that is going to make the economic going a lot more challenging in the years to come.

● Sir Martin Sorrell is founder and executive chairman of the digital advertising and marketing services business S4 Capital



founder of RPV, sold a 51 per cent stake in the company to his employees as a "thank you" for all their efforts and loyalty

to the people who had been loyal to me. I didn't want it to end unhappily for them."

After reading about employee ownership in a newspaper, he contacted Spencer Woolley, his long-term adviser at Cazenove Capital, the wealth manager, who took him through the pros and cons, and put him in contact with specialist tax and legal advisers. "Spencer emailed me once a week saying, 'Robert, are you sure?' There wasn't a plan B. If this hadn't worked out, we would have carried on as we were.

"It was a way of basically saying thank you to everybody for being unbelievably amazing for all those years. They would have had job offers within the industry and outside the industry and it was a way of saying thank you for staying, for being loyal and being amazing."

Under the ownership of the trust, RPV's employees now receive a bonus of up to £3,600 each year, free from income tax. Additional annual payments are possible as well, depending on global demand for valves from its oil and gas customers and as the trust pays the deferred consideration to Palmer for his 51 per

cent stake over the next five years. Palmer is careful about managing expectations of bumper payouts, but is bullish about the prospects for his industry. "For over 30 years I've been told we're in a twilight industry. But the massive players are leaving what we do alone. They don't want to play in our game. I think we have some great years ahead of us."

Since the change of ownership, some things at RPV have not changed. Palmer remains involved, dealing with key suppliers and deciding what they sell and buy, while other executives run the business day-to-day. But he has noticed small changes. "From what I have seen, people are skipping about the office, the warehouse. I overhear discussions like, 'If we did it this way, we would only need to send the lorry once.' It's lots of little things like that.

"I am really happy. I have ringfenced their jobs as much as I can, so they are not going to be relocated... It means they will be spending their wages in Mildenhall and their kids will be going through the cricket and football clubs. It ringfences [the business] for the community. I am a local guy. It seemed the right thing to do."

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