

LEAP 100



City A.M. has teamed up with Mishcon de Reya and other expert partners to identify 100 of the most exciting, fast-growing firms in the UK. They operate at a range of scales and across many sectors, but all are in the process of making the leap to the next level in terms of revenue. We will track the challenges and hopes of this brave and economically vital group, sharing the collective portrait that emerges on this monthly page and at cityam.com/leap-100

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Exclusively for high growth entrepreneurs

Meet the tech chief executive with an unusual formula for building great teams

RATED People, an online marketplace for connecting homeowners with local tradespeople, isn't your normal tech company. Its chief executive Celia Francis is pushing boundaries in the world of work, as she explained at a recent Leap 100 roundtable.

The US-born chief executive has had a textbook career – BA from Harvard, MBA from MIT Sloan, leadership roles at some of the world's top firms – and now runs a company employing 120 with £2bn of job flow through the marketplace every year. But Francis has also had a lot of experience in teams that weren't functioning properly. "I know what it looks like to be in a really vile team, and I also know what it looks like to be in a team that's extraordinarily successful."

Francis has a playbook for building a high-performing team. "You come into a company. You hire incredible people – as best as you can get for all the senior functions; you make sure you can fully delegate to those people so you're never micromanaging... As a team, you create a vision, a strategy and make sure that translates into what Google calls OKRs, completely measurable targets that everyone is clear on. You execute that, celebrate all your successes and discuss all the things that aren't going well openly. That's how you scale a company."

But Francis is now focused on the next stage. "Often, when you talk to people about teams they've been successful in, they talk about how 'five years later we were amazing,' I'm thinking five years, dude, life's too short. I cannot wait five years to bond with this group of people who I've just met."

Francis believes psychological safety is what matters. "The magic formula to get to a performant team is to create a sense of confidence that a team will not embarrass, reject or punish someone for speaking up." So how do you know if you run or work in one of these teams? She



GREG SIGSTON/CITY AM

says you see everyone speaking equally around the table. You'll also see a higher than average sense of social sensitivity. "Sometimes you have people who are in the lower quotient of this capability but it's still cool because they can get into the vibe of it."

As Francis didn't want to wait to get there, she has started to experiment: "Let's break some norms to see what's possible to get somewhere really quickly." She encourages employees to share embarrassing moments from their lives, for example. She also encourages people to share weaknesses: "There's a huge usefulness in imperfection."

As well as a massage therapist to "help with the chill", Francis employs what sounds like a guru for mindfulness and breathing exercises. "Some of this is a little bit crazy," she acknowledges, "so not everyone will be comfortable with this,

Francis: "In some ways I like to do things that are just a little wack"

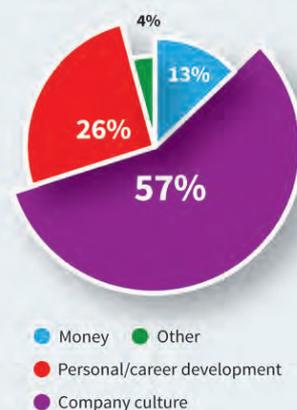
but in some ways I like to do things that are just a little wack." The whole company has also sung and done high performance athlete breathing exercises together. "The change has been amazing. When I came into the company we did six software releases a year. Now we do two a day. We've gone from being a company that was highly unprofitable to a company that's pretty much breaking even. And the growth that we are seeing now in terms of profitable revenue and sales is great."

Ultimately I think this is about more than the bottom line for Francis. "Really the biggest change is going from a culture that was depressive to one that's really energised and where people have fun coming into work every day. And that in and of itself is a worthwhile achievement."

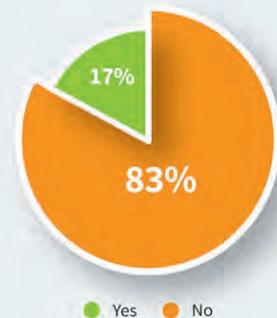
Philip Salter

LEAPPOLLING

What do you find most effective for retaining the best staff?



Have you offered your staff shares in your business?



What entrepreneurs must consider when designing staff incentives

UNTIL robots replace workers, entrepreneurs will need to think about how to keep their employees happy. But there's no one-size-fits-all solution. While some are best inspired by cold, hard cash, others may react better to beanbags and PlayStations.

Most entrepreneurs use a variety of incentives. The first step is to work out what's valuable to the owners and employees. Without doing this, entrepreneurs may well be trying to solve a problem that doesn't exist or offer an incentive for which there is no demand.

Coming out of the financial crisis, we saw growing interest in employee incentives and equity. Large firms wanted to ensure that the incentives of the workforce were better aligned with the long-term success of the company. Alongside the rise of entrepreneurship in the UK, we have seen a lot more interest in employee ownership, particularly among growing companies.

MISHCON COMMENT

Stephen Diosi



There has also been a drive to improve the legislation around employee incentives and equity. It's always a balance for the Treasury – after all, tax benefits may also mean a loss of revenue. Employee Shareholder Status (ESS) is an example of when things haven't worked out. The understandably popular arrangement had to be scrapped, as the ability for tax free gains was used in unintended ways.

However, successive governments have been open to consultation and have tried to support and encourage

employee ownership, and we have seen some helpful legislative changes to facilitate demand. There was a drive around 2010 from the industry to reform and provide more opportunity for equity based incentives – sometimes in subtle ways, but ways that have been helpful to allowing entrepreneurs to give equity in a more tax-effective way.

These schemes fall into two broad categories: those that deliver shares and equity immediately, and those where employees receive them in the future under an "option" arrangement. The former helps to provide more immediate alignment with management while the latter is more forward looking – it's a promise that if certain things happen, employees will receive equity. Under these circumstances, it's important for both sides to think about exactly when the value can be realised. It shouldn't just be a dangling carrot that's always out of reach; and it should be tied to the

success of the company.

Within the options world, the Enterprise Management Incentive (EMI) is the most widely used plan for small and medium-sized businesses. It allows entrepreneurs running companies with assets of £30m or less to let employees buy shares of up to £250,000, without paying Income Tax or National Insurance on the difference between what they pay for the shares and what they're actually worth when they buy them. The shares are subject to Capital Gains Tax, rather than Income Tax, at rates as low as 10 per cent.

Some founders think an employee-owned business provides the most appropriate framework to drive the right culture, engagement, and performance, and will operate this in conjunction with the government-backed Employee Ownership Trust (EOT). An EOT has the added benefits of being able to pay tax free bonuses of up to

£3,600 each year to employees and of founder shareholders being able to sell their equity into an EOT free of tax.

There are very important commercial aspects that entrepreneurs must consider when designing a scheme. It's not just about the company achieving a big target in the future, it's also about personal targets – how to link an equity programme to how individuals are performing so it can be translated into a three-year (or longer) timetable for the firm. There's also the issue of what happens if the employee leaves. Do they lose everything? For a founder, allowing yourself flexibility and discretion is key, so you can react to decisions based on different circumstances and protect the company. For employees, it's important to understand the likelihood and hurdles until these incentives are realised.

Stephen Diosi is a partner in Mishcon de Reya's employment department.

Entrepreneurs
ignore the status quo,
challenge the rules
and change the game.

We should know.

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