shipleys LLP
Godalming Business Club

Meeting Summary

14 June 2013

Employees as shareholders

Task 1: Advantages and disadvantages

Advantages

- Can be targeted at key employees Locks / tie people in
- Motivates people to work hard, contributing towards a sense of worth / security and helping to make sure their objectives are aligned with those of the business.
- Helps focus people on performance / targets, thereby improving the businesses financial results.
- Can provide an exit route for the owner through a transfer of the business to employees. This can be done using an employee benefit trust where the company makes contributions to the Trust which subsequently buys shares from the existing owner for the employees. The retiring owner potentially benefits from a 10% tax rate on the shares sold to the Trust.
- The original owners retained (reduced) shareholding can become worth more than the original full shareholding.
- There is no cash cost to the employer as compared to salary / bonuses
- Tax advantages
- In a start up situation employees may be prepared to work for nothing if they own some shares, reducing the need for start up capital.

Disadvantages

- Share schemes are perceived as complex to set up and understand, but some had recent positive experience.
- Some value, present or future is being given away and the percentage held by existing shareholders reduced. This can lead to loss of control. Employees have little or no risk.
- If the employee leaves the shares may need to be bought back which is likely to mean a valuation exercise and cash cost to the company, or having former employees as ongoing shareholders when they may now work for a competitor.
- Increased administration dealing with an increased number of shareholders.
- For unquoted companies, unless dividends are paid so that the shareholder receives a regular distribution of profit, there may be no or a very limited market for the shares, blocking access to any value. This may not be an issue if the business is being built up for sale (to a competitor for example) by all shareholders, or the company has made contributions to a Trust resulting in a market for the shares.
- The shares can go down in value which can de-motivate rather than motivate.

- Problems from combining the role of employee and shareholder.
- Sharing financial information and some management matters with shareholders.
- Problems can ensure if minority shareholders do not rate the input of fellow shareholders, so it may be divisive.
- Minority shareholders believing they should be more involved in more management decisions than is appropriate or practical. Negative impact on the decision making process.
- Careful structuring is required to avoid encouraging a short term approach to the detriment of longer term business performance.

Shipleys comment

Employee shareholders can form a useful part of employee engagement and options can be used to access some of the benefits of employee shareholders and if these options lapse on leaving the company the potential problems with buying back shares from leavers may be avoided.

According to Government statistics, companies with employee shareholders have less absenteeism, are more innovative, have greater employee wellbeing and those formed in a buyout out perform and grow faster than their peers and are more resilient in difficult trading circumstances.

Task 2: Quiz

The correct answers are those highlighted

Question 1 The December 2012 ESOP (Employee Share Ownership Centre) report revealed that the number of companies offering all employee shares schemes has

A: Dropped for the fourth year in a row	18%
B: Dropped for the first time in four years	0%
C: Remained about the same	9%
D: Increased slightly	73%

Question 2 The number of companies implementing EMI schemes changed from 6,780 to?

A: 6,185	9%
B: 6,990	37%
C: 7,190	37%
D: 7,782	17%

Question 3 What is the income tax credit available to an EIS investor in 2013/14?

A: 20%	9%
B: 30%	64%
C: 40%	18%
D: 45%	9%

Question 4 What is the income tax credit available to an SEIS investor in 2013/14?

A: 20%	9%
B: 30%	9%
C: 40%	9%
D: 50%	73%

Shipleys Business Breakfast people

Please ask for a Godalming business breakfast team sheet or visit www.shipleys.com for more about our team and how they may be able to help you, and information about past meetings.

							
Mike Luckett	Simon Robinson	Stuart Dey	Jane Eden	Martin Frost	Cat Seddon	Carol Stevens	Wei Yin Taylor

Please also join our linkedIn group - Shipleys Godalming business club