Postlethwaite
Prepared by Kysen PR

Date	27 October 2015
Publication	Real Business
Type of publication	Business Press

realbusiness

ADVICE & GUIDES

Employee ownership: Five key questions to decide if it's right for you

27 October 2015 · By Robert Postlethwaite

What is employee ownership? Why introduce it? Is it right for your business? Find out the answers to these questions – and more.

Is there any business that doesn't want to maximise productivity and provide goods or services of the highest quality? Where these universal goals are shared with employees, with both founders and staff attaching high importance to them, a company will be well placed to achieving them.

Increasingly SMEs are looking to employee ownership to help them achieve outstanding results, with many owner-managed businesses also seeing this as a more attractive succession route than selling to a third party.

What is employee ownership?

SME ownership has been evolving. While founders or families continue to be the main owners, key employees are increasingly also becoming shareholders, often through share option schemes.

Employee ownership extends ownership to all company employees, often involving them holding a majority or 100 per cent stake. Companies such as John Lewis are longstanding pioneers. Others that have chosen employee ownership more recently include the booksellers Blackwells, the architects Make (designers of the gherkin building in the City of London) and manufacturers Gripple.

Why introduce it?

Companies choose employee ownership because they see it as good for their business, helping to achieve excellence and high profits, with those rewards being shared with everyone involved in creating them. Often it also encourages longer term employee commitment.

Government is so persuaded of these benefits that it has introduced two new tax reliefs to encourage more companies to adopt employee ownership.

The first is aimed at existing company owners, granting them full exemption from capital gains tax (CGT) if they sell a controlling interest to an employee trust.

The second allows bonuses paid to employees of a company controlled by an employee trust exemption from income tax, up to an annual limit of £3,600 per employee. National Insurance remains payable.

Tax incentives should not be the reason for introducing employee ownership but their availability may tip the balance in its favour compared with alternative ownership forms.
How to introduce employee ownership?

For an existing business employee ownership is likely to be central to an ownership succession plan. Most commonly an employee trust acquires the company, agreeing to pay the retiring owners an agreed purchase price over a number of years, funded from the company's profits. That said, it is perfectly possible to create employee ownership in a new business, or in an existing one without the current owners necessarily retiring.

What's in it for employees?

Once an employee trust has acquired company shares, it can retain them indefinitely or allow employees to acquire their own personal shareholdings.

With the former, the main financial benefit to employees is that profits are shared between them (some of which is income tax free) and that the company is managed in a way that maximises employee engagement. Also, no employee has to make any personal financial commitment.

With the latter, employees may have the opportunity to invest their own money in shares (or be given free shares), with the potential for enjoying an increase in share value if profits grow.

Does it change how the company is managed?

An employee-owned company needs professional and effective management like any other business.

Being an employee-owner does not turn an employee into a manager but it does lay a strong foundation for encouraging employees to become more engaged in what makes the business tick. How to do this may be a new management challenge, but the result will be employees committed to their company's success because they have a stake in it.

Is it right for your business?

Employee ownership is not for every business. If increased employee engagement could lead to significant improvement and a company is willing to share ownership to achieve this, it may be worth considering. If a business owner is contemplating retirement, it should also be considered along with any other alternatives.

Robert Postlethwaite is managing director of solicitors Postlethwaite.

http://realbusiness.co.uk/article/32024-employee-ownership-five-key-questions-to-decide-if-its-right-for-you