

The Case for Employee Share Ownership

INTRODUCING DAVID CRADDOCK CONSULTANCY SERVICES

David Craddock is the founder and the CEO of David Craddock Consultancy Services, an independent consultancy specialising in employee share ownership and reward management. David personally is a recognised authority, in the UK and also worldwide, on employee share ownership and, among other books and publications, he is the author of *The Tolley's Guide to Employee Share Schemes*. He is also the author of *The ESOP Institute Course Study Notes for The Certificate in Employee Share Ownership Studies*.

Since establishing David Craddock Consultancy Services in 1997, David has developed a varied clientele ranging from major public limited companies with international considerations to smaller private companies where the requirements are for Enterprise Management Incentives, tax-unapproved share scheme arrangements and market-making employee share trust structures. David has successfully established employee share schemes and employee benefit arrangements across Continental Europe, the Americas, the Far East, the Middle East, Australasia and Africa as well as in the

U.K. and Ireland and to date has travelled into over 30 countries to personally facilitate their introduction including the launch communication to employees. He enhances his service to clients through a long experience in share reconstructions and expert share valuation.

The specialist consultancy skills that David offers through his company cover all aspects of scheme design, share capital restructuring, tax-efficiency, legal compliance, implementation, administration, communication and the on-going maintenance of the schemes. Significant success has been achieved with client companies – both quoted and unquoted – in developing innovative strategies based on bespoke tax-efficient solutions in employee share ownership programmes and the design of schemes to achieve optimum response from participants at all levels in terms of performance and motivation.

THE DESIGN AND STRUCTURE OF THE EMPLOYEE SHARE SCHEME

Employee share ownership is truly a multi-disciplinary subject, requiring from the expert employee share schemes practitioner an awareness of a whole plethora of laws and regulations: securities laws, financial services laws, tax laws, employment laws, trust laws, data protection laws. When designing or reviewing an employee share scheme, it is often helpful to the analysis to appreciate that an employee share scheme will, in broad terms, always fall into one of three categories: a share gifting scheme, a share purchase scheme or a share option scheme.

The UK, through the tax-advantaged schemes, previously referred to as tax-approved schemes, and the USA, through the tax-qualifying schemes, are the two countries in the world that embrace comprehensive tax reliefs for employee share schemes, either in the form of deferring the tax liabilities, or substituting the income tax regime for a less punitive capital tax regime, or, best of all, providing tax exemption provided certain conditions are met.



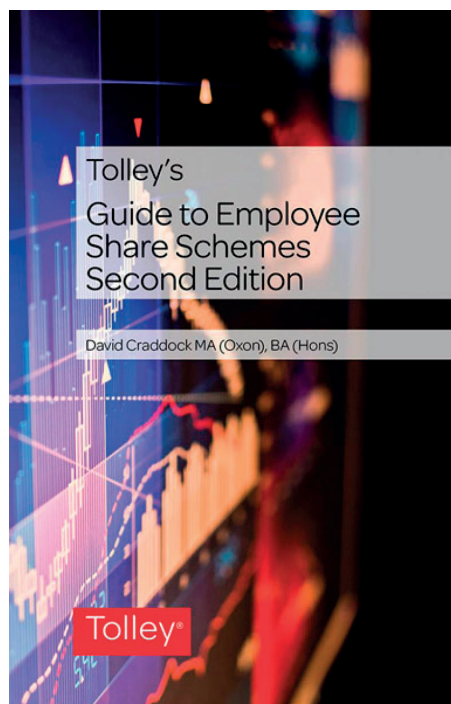
THE CORE PRINCIPLE FOR EMPLOYEE SHARE SCHEMES

So: what is achieved through employee share schemes? The answer is the establishment of an entitlement for the employees to participation in the benefits that flow from a share interest in the share capital of the company in which they are employed and, for the company, enhanced productivity, profitability and corporate growth.

The key is always to remember this core principle, that the employees will be more motivated to produce value for the shareholders if they themselves have a stake in the value that they are creating.

If you have a company worth, say, £100,000, and you want to build your company to be worth, say, £1,000,000, you will need some help. This is where the motivational quality of the employee share scheme steps in to deliver that capital incentive for your employees, whether key employees only or on an all-employee basis. Question: do you prefer having 100% of a company that is worth £100,000 or, say, for example, 75% of a company that is worth £1,000,000. The answer is, as they say, "a no-brainer" and, at 75%, you keep full control of your company!

The employee communication strategy, coupled with effective human resources



management and strong administrative structures, is the lubricant that connects the employee workforce to the employee share scheme. The approach to these elements taps the very heart of the matter, recognising that at root the success of the scheme initiative depends upon the human response from the employees. How does the human brain think and the human heart beat in response to the employee share ownership initiative? This is where the smart owner-manager gives detailed thought and application to the communication of the share scheme incentive to the workforce.

The most basic distillation of the research into the reasons why companies introduce employee share schemes is: (1) identification and involvement with the company, (2) motivation and incentive to higher levels of productivity, and, (3) recruitment and retention to mark out the company as a high-quality employer in the workplace. The research on the effectiveness in the UK and the USA is extensive, based on a combination of using causation and correlation techniques applied to credible empirical evidence.

THE HUMAN POTENTIAL DYNAMIC

The release of the entrepreneurial spirit within companies is best fostered through a meaningful employee share scheme strategy. The evidence is that, when properly introduced, share schemes encourage each individual employee to think like an entrepreneur within his or her employment, contributing their ideas and creativity to the business in a thoroughly accountable way and driving forward the company through enhanced productivity.

Employee share schemes provide for the realization of the human potential



of the employees through an appeal to natural human instinct in an environment that encourages co-creation with other employees at all levels of the business. Remember the thesis projected by Aristotle of enlightened self-interest compared with the sacrificial model projected by Plato: Aristotle wins every time because of the appeal to natural human instinct! Enlightened self-interest is the fuel that drives the car.

Always, employee share schemes work best when operating alongside progressive employee empowerment policies that facilitate self-regulating behaviour in the interest of company order and organisation and, indeed, productivity and performance, policies that breathe life and vitality into the business. These sister policies will typically be some form of profit-sharing, company investment in personal training and development, involvement of the

employees in decision-making and a true commitment from the company-owners to regular corporate communications to employees on company results.

In summary, the success of employee share ownership comes from establishing "identity of interest" between shareholders, management and employees, i.e. an identity around the totem of the developing share value, in generating cooperation between all those who have an interest in the success of the company.

DAVID CRADDOCK

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Specialist in Employee Share Ownership and Reward Management

Management Buyouts, Share Valuation and Investment Education

Please feel free to contact David Craddock who will be very pleased to discuss with you your employee share scheme initiative

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