

The Response of Employee Share Schemes to Covid-19, Civil Unrest and More

David Craddock is a recognised authority in the UK and worldwide on employee share schemes. In his book, *The Tolley's Guide to Employee Share Schemes*, David shares his expertise drawn from over 35 years as a practitioner in the subject to explore and expound upon the many aspects of employee share ownership with practical application that is grounded in a comprehensive understanding of the relevant laws and regulations and a profound insight into how to maximise the employee share scheme initiative to the benefit of the company.

EMPLOYEE SHARE SCHEMES AS A GROWTH-ORIENTATED SUBJECT

The enduring strength of employee share schemes lies in its flexibility to respond to any set of economic circumstances, based upon an understanding of the human instinct and the capacity of the human condition to first survive, then improve and in time to prosper and find victory. Faced with a contraction in the UK economy of some 25% and the worst economic situation for 85 years, the motivational incentive that employee share schemes is proven to ignite must be the instinct that the government appeals to at this low ebb in the country's history. The evidence accumulated over some 60 plus years from universities, institutes and businesses in the USA and the UK supports this position. The subject of employee share schemes has demonstrated itself to have a perennial fascination among politicians of all persuasions and a permanent relevance to solving economic conundrums through the facilitation of an incentive-based economy.

The debate has already started to rage about whether this is the time for higher taxes in order to repay the borrowing that has funded the parachute for Covid-19 or, alternatively, the time for lower taxes which will avoid putting extra burden on individuals and businesses seeking to recover and already burdened by depressed markets and borrowing of their own. Employee share schemes



answers this question by offering an economic system that promotes growth that is based on higher levels of productivity and enhanced profitability. The answer, therefore, to the tax question is that employee share schemes facilitate lower tax rates through the more-than compensating economic growth that this unique motivational share incentive generates. To embrace employee share schemes, therefore, is to recognise that taxation reduces the efficiency of the economy and that growth is required to emerge intact from the current predicament.

THE CURRENT ECONOMIC AND SOCIAL PREDICAMENT

First, businesses must get back to work which can only be achieved through education on how to live with the prevalence of Covid-19 in our midst. The practice of social distancing, diligence over all aspects of personal health and hygiene and protection for the vulnerable

and those advanced in age can be assisted by government guidelines. However, ultimately, it will be the exercise of personal responsibility by each-and-every individual citizen that will combat the onset of this pernicious virus and rid the threat of its consequences from our land!

Here again, the subject of employee share schemes plays its part: an employee share scheme, properly implemented and communicated, fosters personal responsibility in the workplace, encouraging disciplines that reinforce the entrepreneurial spirit within employees and which can be replicated in the home and in social settings. Always the employee share scheme will produce its best when accompanied by human resource policies that encourage responsibility. Notable among these policies is delegated decision-taking through self-regulating quality management, proactive management by employees of company health

and safety procedures, company commitment to training and development and approaches to performance management that revolve around employee participation.

As witnessed through daily media reports, the national and, indeed, international predicament now extends beyond Covid-19 to serious questions about racial discrimination, the nature of policing and civil unrest, homelessness and mental illness, all undoubtedly exacerbated by the frustration of lockdown with the pent-up feelings that enforced isolation and confinement brings. Add to all that the spectre of mass unemployment and many of the challenges of the 1970s and 1980s have once again raised their ugly head! As then, the very economic survival of communities has become threatened. Now is the time for government to reflect and to reassess its economic strategy and its plans for social harmony. It is the case, though, that employment economics in the modern era represents a complicated subject that is impacted by many interacting variables. Partly through Brexit and the retreat from globalisation, with the trend to organise world economics into regions, and partly through the growing mistrust of China as a consequence of the origins of Covid-19, the return to our shores of supply chain companies may act as a positive force in creating new employment opportunities.

THE POWER OF EMPLOYEE SHARE OWNERSHIP FOR ECONOMIC SUCCESS

The role of government in a developed market economy is to create the conditions in which businesses can be established and be successful. Thankfully, with substantial cross-party support in parliament, successive UK governments since 1978 have embraced employee share schemes. This in itself is testimony to the unifying nature of employee share schemes as a policy that is known to have no serious opposition and which in the UK is well-advanced with a set of schemes on the statute book for which significant tax-efficiencies are available.

When communities can unify around economic success that does not discriminate on the basis of race, creed or gender, many of the social problems that have produced rioting and looting will disappear. Employee share schemes do have the capacity to generate individual personal wealth whilst contributing to social cohesion as all in the company unite around the totem of the developing share value. For Margaret Thatcher, employee share schemes were part of the recipe for quelling the industrial unrest that had plagued British industry in the 1970s while for Gordon Brown the appeal of employee share schemes was its capacity to redistribute wealth not by the traditional method of social security but by actually rewarding hard work and endeavour.

The present government is committed as part of its December 2019 general election manifesto not to return to austerity and, indeed, has restated its commitment to delivering prosperity to the forgotten communities of the north and the south-west. So, what role will employee share schemes play in that programme and what uses will companies make of the tax-advantageous legislation? Surely employee share schemes will provide part of the business prescription for the country's economic survival and revival.

Employee share schemes do indeed have a role in alleviating the effects of new unemployment and, at the same time, providing incentive for jobs arising from new employment. Alleviating the consequences of new unemployment comes from the ability of employee share schemes to introduce a capital share incentive alongside a lower basic wage position that may be necessary to enable the company to survive in these testing times and, at a macro-economic level, to maintain employment levels. Economic history shows that hiring people declines both during and immediately after a recession, so the need is to reduce the cost of employment. In this situation, the introduction of the employee share scheme will enable a restatement of the remuneration base in the form of a capital return element that has the longer-term capacity to produce dividends and capital

gains co-existing alongside the traditional wage income element.

The key sister policy to employee share schemes is cash profit-sharing and bonus schemes which enable the company to embrace variable pay, a crucial element in maintaining employment levels in any economic system. In this current situation where cash preservation will be a business priority, the profit-sharing and bonus awards can be partly or all in shares; and any element paid out in cash through profit-sharing is self-funded anyway out of the profits that have given rise to the profit-sharing in the first place.

The incentive for jobs arising from new employment opportunities will make returning supply chain companies competitive in the recruitment and subsequent retention of new employees. Blending into the economic fabric of our nation will be the priority of the returning companies, and that will require an economic response that understands the social predicament that the nation now finds itself in with the requirement to embark upon a rebuild that accommodates diversity, avoiding any form of discrimination but, at the same time, maintaining meritocratic responses to promotion and career progression for all employees who prove their worth.

Looking to the immediate future for longer-standing private companies, there may be fewer full management

buyouts as existing owner-managers require time to rebuild value following recent events. However, there may be more partial management buyouts as existing owner-managers extend the shareholder base to senior employees to generate a cooperative incentive for that value rebuild.

This year of 2020 to date has seen major threats to the core of our democratic institutions. The Roman civilisation collapsed from within because the people lost their virtue and good intent. For our western form of democracy to survive, opportunity must exist for all, the chance to truly live the dream, and that requires available pathways for anyone to generate wealth through genuine reward for genuine work. Employee share ownership is a unique tool, a powerful ally for both economic success and social cohesion. Remember that "incentive" breeds "inventive" and in these tumultuous times it is economic rebuild, indeed economic rebirth, that is of the essence for our economic prosperity. As a dictum taken from the scared writings going back generations, where there is prosperity there is peace. Economic success is the path to social cohesion and employee share ownership has a substantial contribution to make to the realisation of this aspiration.

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