

Quoted Companies Alliance Employee Share Schemes Survey **(November 2018)**

In November 2018, the QCA Share Schemes Expert Group commissioned the QCA executive team to poll small and mid-size quoted companies on employee share schemes. The focus of the survey was to pinpoint why smaller quoted companies offered employee share schemes to their workforce, the schemes they operated and their reasons for doing so.

Overall, 56 small and mid-size quoted companies (not all were QCA members) completed the survey.

Executive summary

- Of the 56 survey participants, 54 confirmed that their quoted company operated an employee share scheme.
- The top three most popular schemes used by small and mid-size quoted companies were: Enterprise Management Incentives [41%]; non-tax advantaged share options [37%]; and in joint third place – Company Share Option Plans, Save As You Earn and Long Term Incentive Plans [28%].
- The top three reasons for operating an employee share scheme given by companies were to (i) reward employees [75%]; (ii) recruit and retain staff [73%]; and (iii) encourage employee ownership of the company [67%].
- 56% of companies said they used the QCA Corporate Governance Code to help them design their employee share scheme.
- Understanding the range of employee share schemes [68%]; and understanding the concept of share performance and risk [51%] were cited by companies as the two biggest challenges they faced in operating a scheme.

Action recommendations for QCA Share Schemes Expert Group in 2019

- Discuss at the February 2019 and April 2019 meetings what materials could be provided to educate employees at small and mid-size quoted companies regarding different employee share schemes, as well as the connection between participating in an employee share scheme, the company's share performance and associated risk.
- The Share Schemes Expert Group could write an article with respect to how the QCA Corporate Governance Code can help small and mid-size quoted companies design an effective employee share scheme.
- Future QCA proposals for taxation reform regarding employee share schemes should continue to focus on how **EMI** can be made more attractive for smaller quoted companies. Due consideration should also be given to **CSOP**, **SAYE** and **SIPs**.

Results

Of the 56 survey participants, 54 confirmed that their quoted company operated an employee share scheme.

Reasons for not operating a share scheme

Of the two which didn't, one stated that an employee share scheme was not appropriate for their business; and the other explained that they had previously operated an employee share scheme in the past, but due to the shares underperforming, they had not vested.

Reasons for operating a share scheme

Small and mid-size quoted companies gave a variety of different reasons for operating an employee share scheme. Three-quarters wanted to reward employees, seven in ten (73%) offered an employee share scheme to recruit and retain staff; and two-thirds operate an employee share scheme to encourage employee ownership of the company.

Employee share schemes offered

Small and mid-size quoted companies operate a range of employee share schemes. No one scheme was operated by a majority of companies surveyed.

Nonetheless, Enterprise Management Incentives were the most popular (41.3% of companies surveyed). This was followed by 37% of companies, who said that they operate non-tax advantaged share options.

Company Share Option Plans (CSOP); Save As You Earn (SAYE); Share Incentive Plans (SIP) were then clustered around the 25%-30% mark.

Among the 21 companies which answers *Other*, three in five (62%) stated that they operated Long Term Incentive Plans (LTIPs).

Employee participation

Interestingly, with respect to employee participation, the answers 63% of companies provided answers on opposite ends of the spectrum. That is – one-third of companies stated that less than one-quarter of their employees participated in the employee share scheme offered, while 30% of companies said that more than three-quarters of the employees participated.

Ownership

Of the companies that answered the question, 74% of companies stated that less than 10% of total shares were owned either through an employee share scheme, or directly by employees themselves.

Corporate governance guidelines used to support share scheme provision

Of the 45 who answered the question, over half (56%) said that they referred to the QCA Corporate Governance Code to design their employee share scheme.

At the same time, a quarter said that they followed the UK Corporate Governance Code, while just over 1 in 6 companies (13%) refer to no corporate governance best practice guidelines when designing their employee share plan.

Challenges faced in offering share schemes

Regarding the challenges faced by small and mid-size quoted companies when operating employee share schemes, understanding the plan itself was cited as the most significant test (68% of answers). Comprehending the connection between share performance and the perception of risk was also noted by a little over a half of companies (51%). Just over one-third of companies (34%) noted that an employee share scheme's affordability was a big challenge faced.

Among the other reasons provided by companies, two companies commented that the SIP's time horizon of five years was likely too long for participating employees.

Changes sought

Below is a summary of the collection of changes that companies would like to see, which would encourage them to use employee share schemes:

- Adjusting the time commitment to schemes: 3-5 years was seen as quite a long time for encouraging younger members of the workforce to participate.
- Clearer information of the benefits of participating in a scheme, as well as the costs if you leave before a scheme matures.
- Increasing the SIP partnership shares limit.
- Increasing the thresholds for EMI eligibility to allow research companies to participate more easily.
- Making the filing of returns through HMRC less onerous.
- Simplifying some employee share schemes.
- Making SIPs more flexible – for example, providing longer 'holiday periods'.
- Creating a tax advantaged schemes for employees/consultants who work part time.

Annex – Full results of the QCA Employee Share Scheme Survey conducted in November 2018

Q1 Does your company operate an employee share scheme?

Yes	96.43%	54
No	3.57%	2

Q2 If not – why not?

- Inappropriate for my business
- We have one employee share scheme before but our shares are hugely under water and the shares did not vest.

Q3 If so – why?

Shareholder/employee expectations	43.14%	22
Encouraging employee ownership	66.67%	34
Recruitment or retention of staff	72.55%	37
Rewarding employees	74.51%	38
Other – Employee engagement in the business	1.96%	1

Q4 Which employee share scheme does your company offer?

Company Share Option Plan (CSOP)	28.26%	13
Enterprise Management Incentives (EMI)	41.30%	19
Save As You Earn (SAYE)	28.26%	13
Share Incentive Plan (SIP)	26.09%	12
Non-tax advantaged share options	36.96%	17
Other e.g. Long-Term Incentive Plan (LTIP) – 13 = LTIPs – 3 = Restricted share awards – 1 = Stock Appreciation Rights Scheme – 1 = Performance Share Plan (PSP) – 1 = Shares as part of a deferred annual bonus plan	45.65%	21

Q5 Do you follow any corporate governance best practice guidelines in designing your employee share plan(s)?

No	13.33%	6
UK Corporate Governance Code	24.44%	11
QCA Corporate Governance Code	55.56%	25
PLSA Corporate Governance Policy and Voting Guidelines for Smaller Companies	2.22%	1
Other <ul style="list-style-type: none"> – Not known as developed over 10 years ago – Adhere to best practice – unaware of any support in the QCA guide 	4.44%	2

Q6 What proportion of your workforce participates in your employee share scheme(s)?

0%-25%	15	32.61%
26%-50%	9	19.57%
51%-75%	5	10.87%
76%-100%	14	30.43%
Don't know	3	6.52%

Q7 What proportion of your company's shares are owned either through an employee share scheme, or directly by employees themselves?

0%-10%	34	73.91%
11%-20%	6	13.04%
Over 20%	2	4.35%
Don't know	4	8.70%

Q8 What are the biggest challenges you / your employees face when participating in your employee share scheme(s)

Understanding of plan(s)	68.29%	28
Affordability	34.15%	14
Competing benefits offering (pensions)	2.44%	1
Ability to readily apply to join the plan	7.32%	3
Share performance / perception of risk	51.22%	21
Other <ul style="list-style-type: none"> – Setting meaningful key performance indicators (KPIs) for LTIPs – The tax treatment of schemes – The time horizon of SIPs is too long 	17.07%	7