

Quoted Companies Alliance Employee Share Schemes Survey 2020



In February 2020, the QCA's Share Scheme Expert Group commissioned the QCA to poll its member companies on employee share schemes. The purpose of conducting the survey was to find out why smaller quoted companies offer employee share schemes to their workforce, the schemes they operate, their reasons for doing so and the difficulties they encounter.

Overall, 61 small and mid-size quoted companies completed the survey.

Executive summary

The key findings from the survey are as follows:

- Of the 61 participants, 56 confirmed that their company operated an employee share scheme.
- The three most popular schemes used by small and mid-size quoted companies were: Enterprise Management Incentives (44.23%); in joint second – Company Share Option Plans (30.77%) and Long-Term Incentive Plans (30.77%); and finally Save As You Earn (28.85%).
- The top three reasons for operating an employee share scheme given by companies were to (1) reward employees at 87.27%; (2) recruit and retain staff at 67.27%; and (3) encourage employee ownership in the company at 65.45%.
- Over half (53.85%) of the respondents indicated that they used the QCA Corporate Governance Code to help them design their employee share scheme.
- The understanding of plans (55.77%) and share performance/perception of risk (53.85%) were cited as being the two biggest challenges that small and mid-size quoted companies and their employees face when participating in employee share schemes.
- The key change sought after for small and mid-size quoted companies was in relation to EMI, and in particular, expanding its scope.

Results

Operating a scheme or schemes

Of the 61 participants, 56 confirmed that they operated an employee share scheme, with 5 participants confirming that they did not.

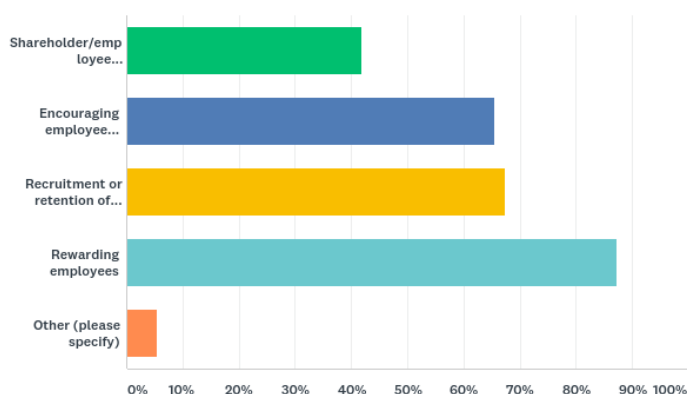
Reasons for not operating a share scheme

Of the five companies who do not operate an employee share scheme, one indicated that their reason for doing so was due to cost; one indicated that it was due to time; one stated it was because they were ineffective; one stated that they were about to implement; and one did not answer.

Reasons for operating a share scheme

It is evident that small and mid-size quoted companies operate employee share schemes for a variety of different reasons. Over 85 per cent (87.27%) of companies indicated that they operated a scheme in order to reward staff; two-thirds (67.27%) of respondents operate a scheme for recruitment or retention of staff; 65.45% operate a scheme to encourage employee ownership; and one in four (41.82%) companies offer a share scheme due to shareholder/employee expectations.

Q3 Why? (tick all that apply)



Three respondents selected “Other” as the reason for operating an employee share scheme, stating the reason why was to:

- Compete with expectations raised by the offerings of US-based companies in a similar industry segment;
- Align shareholder and employee interests; and
- Enhance the sense of participation and ownership.

The type of 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 the companies surveyed.

Enterprise Management Incentives (EMI) were the most popular option, with 44.23% of companies surveyed stating they operated this scheme.

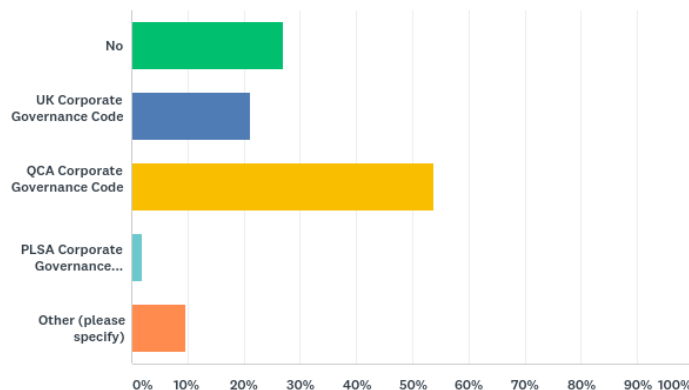
Company Share Option Plans (CSOPs) were the next most popular with 30.77%, then Save As You Earn (SAYE) with 28.85%, then non-tax advantaged share options with 25% and finally Share Incentive Plan with 21.15%.

Significantly, 24 respondents indicated that they operated a different scheme. Of the 24 companies that selected “Other”, 16 indicated that they operated a Long-Term Incentive Plan (LTIP).

Corporate governance guidelines used to support share scheme provision

Of the 52 respondents who answered the question, over half (53.85%) stated that they referred to the QCA Corporate Governance Code to design their employee share scheme. Just over a quarter (26.92%) of respondents stated that they did not use any guidelines. Around a fifth (21.15%) of companies stated that they used the UK Corporate Governance Code. One respondent indicated that they used the PLSA Corporate Governance Policy and Voting Guidelines for Smaller Companies.

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



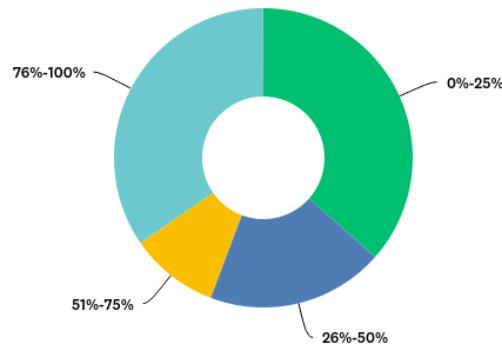
Five respondents declared that they use alternative guidelines. Of the five that selected “Other”, four answered, stating that they used the:

- 2 = Investment Association Guidelines.
- FIT FTSE Small Cap Remuneration Guide
- Scheme was put in place before listing

Employee participation

The participation of employees of small and mid-size quoted companies in share schemes varies significantly. 36.54% of companies had between 0-25% of their workforce participating in an employee share scheme. 34.62% had between 75-100% of their employees involved with their share scheme. 19.23% indicated that between 26-50% of employees participated in a scheme and 9.62% of companies suggested that 51-75% of their employees utilised a share scheme.

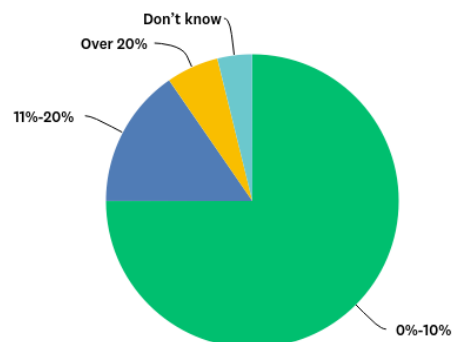
Q6 What proportion of your workforce participates in your employee share scheme(s)?



Share ownership

Of the 52 companies that answered the question, exactly three-quarters stated that between 0-10% were owned either directly by employees themselves or through an employee share scheme. 15.38% indicated 11-20%, 5.77% indicated over 20% and 3.85% didn't know.

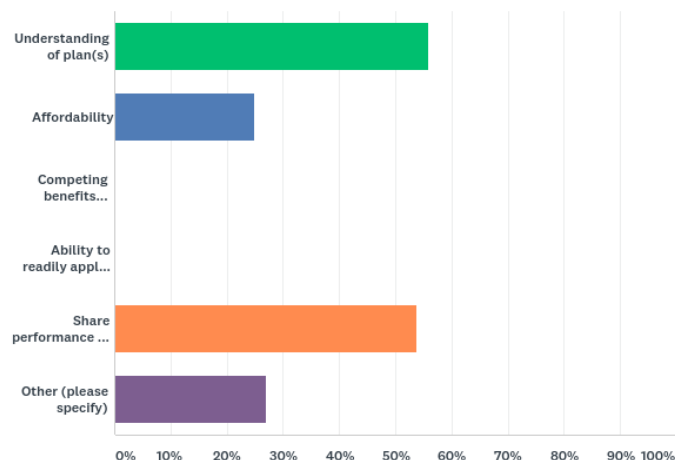
Q7 What proportion of your company's shares are owned either through an employee share scheme, or directly by employees themselves?



Challenges faced in offering share schemes

In terms of the challenges companies or their employees face when participating in employee share schemes, the understanding of plans (55.77%) and share performance/perception of risk (53.85%) were the two most selected options. A quarter (25%) of those who responded to the question indicated that the biggest challenge they faced was affordability.

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



A significant number of respondents selected "Other" as their biggest challenge when participating in schemes. Of the 14 who selected this, two companies specified that the challenges were due to the EMI limits.

Changes sought

23 responded to the question on changes sought. Below is a summary of the collection of changes that companies would like to see, which would encourage them to participate in employee share schemes:

- Increase of the £250,000 EMI limit
- More certainty and simpler legislation for the criteria. Rather than at the time of issue, the last audited accounts could be used and rather than adding all the assets of the companies in the group together and netting the shares/holdings, using the group gross asset total instead.
- A simple "standard" tax efficient ESOP scheme would be helpful for small companies to broaden share ownership
- Reducing tax for longer term holdings of shares and less burdensome regulations
- There is a good deal of misunderstanding around aspects of UK schemes when compared with US schemes particularly around the concept of "vesting" and what that means in a UK context. More sophisticated general knowledge around share schemes, and particularly the tax aspects, would be useful for everyone concerned. The taxation of UK options on employees who are not tax resident in the UK can leave UK tax resident employees aghast.
- Shorter holding period for SIP shares
- Simplicity
- Lower tax rates would make awards more valuable, reducing dilution and encouraging wider application.
- The challenge for all employee plans is dealing with the tax and regulation in a number of overseas countries as well as the UK. The UK part is manageable.
- The investment guidelines suggesting a maximum of 10% dilution over 10 years are too simplistic and restricting. Higher levels of dilution should be fine they are if in return for superior performance

- An increase of the £3m EMI company limit
- Extension of £30k approved share option limit for beneficial tax benefits. The limit has been the same for many years and has not kept pace with inflation. A refresh of EMI management incentives to enable a larger proportion of the workforce in smaller entrepreneurial businesses to participate in them.
- Increase in partnership shares limit which has not changed for several years.
- There are many "annoyances" with regard to these schemes which make them more difficult to operate. The most frustrating is the lack of flexibility around quantum of equity to be released to a share scheme is restrictive for a micro-cap just at the time that you want it to be expansive.
- No, available EMI incentives work well, and scheme admin is straightforward
- Expand the level of EMI available to medium size companies
- Guidance/consistent approach on share retention in smaller companies
- Higher EMI allowance
- Change in accounting rules would help as would making schemes less costly to operate
- Simplified EMI compliance and reporting
- Greater support from institutional investors

Annex – Full results of the QCA Employee Share Scheme Survey conducted in February 2020

Q1 Does your company operate an employee share scheme?

Yes	91.80%	56
No	8.20%	5

Q2 If not – why not?

Cost	33.33%	1
Time	33.33%	1
Other	66.67%	2
<ul style="list-style-type: none"> • Ineffective • About to implement 		

Q3 If so – why?

Shareholder/employee expectations	41.82%	23
Encouraging employee ownership	65.45%	36
Recruitment or retention of staff	67.27%	37
Rewarding employees	87.27%	48
Other	5.45%	3
<ul style="list-style-type: none"> • Competing with expectations raised by the offering of US based companies in a similar segment • Aligning shareholder and employee interests • Enhancing the sense of participation and ownership 		

Q4 Which employee share scheme does your company offer?

Company Share Option Plan (CSOP)	30.77%	16
Enterprise Management Incentives (EMI)	44.23%	23

Save As You Earn (SAYE)	28.85%	15
Share Incentive Plan (SIP)	21.15%	11
Non-tax advantaged share options	25.00%	13
Other e.g. Long-Term Incentive Plan (LTIP) <ul style="list-style-type: none"> • 16 = LTIPs • 2 = Performance Share Plans • 2 = Restricted share plan for senior executives • 1 = Deferred Annual Bonus Plan • 1 = ESPP in US • 1 = AAA • 1 = N/A. 	46.15%	24

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

No	26.92%	14
UK Corporate Governance Code	21.15%	11
QCA Corporate Governance Code	53.85%	28
PLSA Corporate Governance Policy and Voting Guidelines for Smaller Companies	1.92%	1
Other <ul style="list-style-type: none"> • 2 = Investment Association Guidelines • FIT FTSE Small Cap Remuneration Guide • Scheme was put in place before listing • N/A. 	4.44%	5

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

0%-25%	19	36.54%
26%-50%	10	19.23%
51%-75%	5	9.62%
76%-100%	18	34.62%
Don't know	0	0.00%

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

0%-10%	39	75.00%
11%-20%	8	15.38%
Over 20%	3	5.77%
Don't know	2	3.85%

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

Understanding of plan(s)	55.77%	29
Affordability	25.00%	13
Competing benefits offering (pensions)	0.00%	0
Ability to readily apply to join the plan	0.00%	0
Share performance / perception of risk	53.85%	28
Other <ul style="list-style-type: none"> • 2 = EMI limits • Legislation • Liquidity of shares • Shares gifted so no problems of understanding • International employee base • Headroom • Shareholder understanding/complexity of admin • Performance criteria complexity • Restrictive tax regime • Notional P&L costs under IFRS, costs of managing the scheme • High fees charged by brokers to trade shares/retain shares post-vesting • No challenges • N/A 	26.92%	14