Employee share ownership in SMEs – Great Britain's success

It is well known that the transfer of a company represents the most favourable moment in time and the most efficient operation for multiplying employee share ownership in SMEs.

This is what convinced the USA to implement the ESOP technique in 1974.

In Europe, the first country to act in the same direction was Great Britain, with the launch of the Employee Ownership Trust (EOT) formula in April 2014.

Question: Is it a success?

2020 *	89
2019	66
2018	56
2017	43
2016	33
2015	27
2014	19
TOTAL	333

* 11 months

- From 19 transfers in 2014, it rose to 27 in 2015, then 33, 43, 56, 66 and finally 86 in the first eleven months of 2020 (see Table 1). A total of 333 companies were thus transferred to more than 30,000 employee shareholders.
  To reach a comparable number of employee owners, it had taken France more than a hundred years, thanks to the formula of the workers' cooperative - the SCOPs (and even more in Italy with the *cooperative di lavoro*).
- In a very large number of cases, as with the ESOP plan, these are 100% business transfers to employees. In other cases, it is a question of partial transfer.

Number of companies	
Business development	59
Architects & design	49
Engineering	43
Manufacturing	41
Leisure & entertainment	18
IT services	15
Trade & distribution	14
Environmental	13
Construction	12
Legal & Accounting	11
Transport & deliveries	11
Finance	10
Hightech	10
Health & personal care	8
Social services	8
Real Estate	7
Hotels & catering	4
TOTAL	333

- The average size of the transferred companies is 91 employees, which is very representative of the size of the average SME. In a small number of cases, these are micro-enterprise transfers, with an average size of 7 employees. The average size of the "small" companies transferred is 25 employees, and the average size of the "medium" companies is 100 employees. Finally, there are 806 employees for large unlisted companies. All these figures are very much in line with the average size of the populations of companies of all sizes. The formula therefore shows a very high degree of adaptability, without bias in terms of the size of the companies.
- The sectors of activity concerned are mainly high value-added and high-tech sectors (see Table 2). Here again, the wide range of business sectors is a sign of the formula's great adaptability.
- In short: a remarkable success!

Thus Great Britain is the only European country so far to have been able to set up an effective policy of employee share ownership in SMEs.

Yet it could be even better.

Thus in 1980, a few years after its launch in 1974, the ESOP plan already had some 5,000 business transfers to its credit in the USA. At the time, the population of Great Britain was one third of that of the USA. On the scale of Great Britain, the ESOP plan had therefore enabled a little over 1,500 companies to be transferred, compared to the 333 company transfers observed today with the EOT formula.

Why the difference in efficiency between the two formulas?

The EOT formula is a simplified derivative of the ESOP plan. It seems that in this case, as often, the original is better than the copy.

Indeed, there are two main differences between ESOP and EOT:

1. EOT is based on a tax exemption on dividends (distributed as bonuses to tax-exempt employees up to £3,600 per year), under special legislation.

In comparison, the ESOP plan allows for the exemption not only of dividends but also of the company's profits. The ESOP formula therefore avoids both profit tax and dividend tax. And this, not by virtue of any particular legislation, but by virtue of the simple fiscal engineering of employee share ownership.

2. In the ESOP formula, employees can cash in their shares and sell them when they leave the company (usually upon retirement). In the EOT formula, they cannot, the trust holds the shares for an indefinite period of time, in perpetuity.

These two differences probably explain the much greater success of the ESOP plan.

Today, however, there is a worldwide debate on the respective advantages of the two formulas. ESOP or EOT? The question is being asked in Great Britain as well as in the USA, Canada and Australia.

Two formulas are better than one! It might be appropriate in the USA to add the EOT formula next to the existing ESOP model. And it would no doubt be wise in Great Britain to introduce the ESOP formula in addition to EOTs.

In both cases, it should be easy to leave the choice of formula to the new shareholders. Once the trust has been set up, the choice of formula would be left to the new shareholders, allowing it to materialise either in the form of an ESOP or an EOT. There is no doubt that employee share ownership would find even more legitimacy and support.