

EMPLOYEE OWNERSHIP: AN ALTERNATIVE SUCCESSION STRUCTURE FOR FAMILY BUSINESSES

Family business owners often face the challenge of succession and this can be especially difficult for owners who have invested a lot of time and emotion in their business. When family members are considering selling their shares, it can be often hard to find a suitable buyer, especially one who will maintain the company's culture, identity, core values, and employment levels.

Employee ownership can offer a less obvious solution, that many former family businesses have successfully adopted. It allows owners to start planning their exit on their own terms and avoid the disruption of a traditional sale.

A particularly attractive structure for an employee ownership transition is the Employee Ownership Trust ("EOT"). An EOT is a type of employee benefit trust that will hold the shares in the company (between 51% and 100%) on behalf of the employees (who are the beneficiaries of the trust). Employees become indirect owners of the company through the trust, but it is the trust that will continue to hold the shares (so employees can come and go as the business evolves without there being an impact on the shareholding). Anecdotal evidence from the sector suggests that employee turnover tends to be lower in employee owned businesses.

Here are some of the benefits of employee ownership for family businesses:

- **Smooth succession:** Employee ownership can help family businesses to transition to new ownership smoothly and without disruption.
- **Maintained culture and values:** Employee owners are more likely to maintain the company's culture and values, which is important to many family business owners.
- **Improved employee engagement and productivity:** Employee owners are more engaged and productive, which can lead to better financial performance.
- **Tax advantages:** Employee ownership can offer significant tax advantages to both the business and the owners.
- **Family members can continue to be employed in the business and can continue to be shareholders up to 49% ownership.**

Overall, employee ownership is a viable and attractive option for family businesses that are considering succession. It can help owners to achieve their goals while also ensuring the long-term success of the business.

EMPLOYEE OWNERSHIP MODELS

Direct Ownership

Employees own the company's shares themselves.

Indirect Ownership

Shares are held collectively – normally in an Employee Ownership Trust (EOT)

Combined

A combination of direct and indirect ownership

Example

A subsidiary of a multi-national faced closure. The employees bought the company through pooling their redundancy pay and a loan from the multinational.

The share capital of the company is held by the employees in equal proportions to ensure that no employee has more or less influence over the company. Other companies may choose to allow varied shareholdings.

Example

A retiring owner of a family firm attended a seminar on employee ownership. She liked the idea and persuaded the employees too! The owner sold the business to an Employee Ownership Trust (EOT). The EOT borrowed the money from a bank, the same managers run the business and the employees as a whole use the profits of the business to repay the loan. One day the business will be paid for and dividends will go to staff as a bonus. Only the EOT holds shares, so there is no need to buy shares back from employees after they leave the business.

Example

A public service is identified for 'spin-out'. The employees want to run the service as a 'Public Service Mutual'. Advisers are found to set up the mutual structure, train the employees on bidding for public contracts and running the new company.

An EOT owns 90% of shares on the employees' behalf, and employees own up to 10% directly. Employees are allowed to increase their stakes but never beyond 10% collectively to ensure that the business remains employee owned forever.

HOW CAN WRIGLEYS HELP?

We have been advising on the legal, trust and tax aspects of employee ownership for over 30 years and can offer a wide range of services bespoke to the individual needs of any business or owner. This can range from simple legal advice on structuring, ongoing governance and succession planning, through to project management, advice and guidance on the complete employee ownership journey.

For more information about Employee Ownership please contact a member of our team:



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