Is your company ready for an

EMPLOYEE SHARE PLAN?

Your free guide to determining if a value-sharing mechanism is right for your company at your unique stage of business

The Reward Practice
Performance. Remuneration. Incentives.

What is an Employee Share Plan?

An Employee Share Plan or Employee Share Scheme is a way to grant employees partial ownership in your company as part of their remuneration package. It's based on the premise that if an employee can make key contributions toward business success, they will be rewarded with their equity increasing in value.

While Employee Share Plans in a listed environment are common, private companies are increasingly looking at ways to enhance their reward programs to create "skin in the game".

Our work with private company clients in this area cites a number of specific reasons for looking at employee equity as a long-term incentive plan (LTIP), including:

1. Owners wanting to sell down their shareholding and transition toward retirement

2. Companies seeking to increase productivity and engagement from employees

3. Companies seeking an equity alternative for payments based on fluctuations in the economy or market

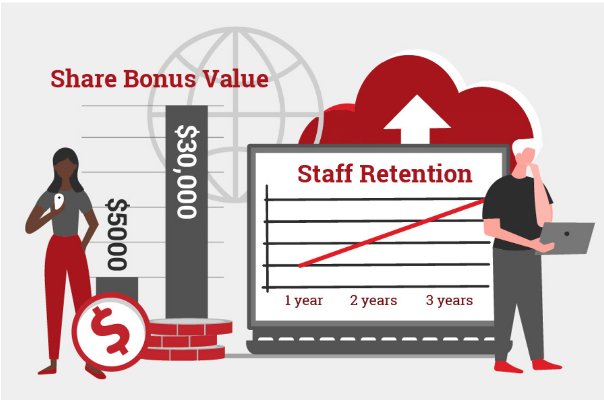
Designed effectively, equity incentives for employees of private companies can achieve the desired 'ownership mentality'

Changes to Australian legislation make Employee Share Plans more viable for private companies

In late 2021, the Australian Federal Government conducted an inquiry into the tax treatment of Employee Share Plans. The inquiry found that Employee Share Plans are critical for Australia's success in attracting, incentivising and retaining key talent, encouraging entrepreneurship and driving higher workforce productivity.

The inquiry also noted significant weak points in the legislation surrounding Employee Share Plans for non-ASX listed companies. This has unfortunately resulted in a historically low prevalence of employee share ownership when compared to other countries such as the UK and US.

Thankfully, some major changes have since been implemented to ESS tax legislation making it a much more viable option for companies. We won't go into listing the specific legislation changes here, but if you would like to know more about them, you can read more on our blog.



2022 Employee Share Scheme Changes

› Read on our blog

With Australia now catching up to other international players regarding what they can offer industry talent, companies are seeking more guidance on how to identify if an Employee Share Plan is right for their company and if so, how to implement one.

The benefits of introducing an Employee Share Plan at your company

1. It encourages employees to think like owners

Adding an Employee Share Plan to your company's remuneration strategy introduces the concept of 'shared value'. In a shared value reward system, employees are viewed as 'business builders' rather than individuals who simply fill roles. When employees are promised reward based on the outcomes of their key contributions and the success of the business in the same way the business owner is, it creates the ideal mindset for long-term wealth generation.

2. It encourages employees to stick around long-term

Business owners and leaders understand how costly it can be to lose and replace an employee. Introducing long-term incentives such as an equity share plan that vests after a number of years can encourage employees to invest themselves in the long-term success of the company.

3. It can improve company culture

When employees are offered the opportunity to actively participate in the success of the company with commensurate reward, company culture stands to blossom. They are likely to view themselves as what we like to call "business builders" rather than "button pushers". Rewarding employees for the quality and outcomes of their work improves attitude and morale, and fosters an environment where creativity, innovation and focus increases

Is an Employee Share Plan right for your company?

There are many factors to consider when determining if an Employee Share Plan is right for your company and the following questionnaire will provide high level guidance on whether you should consider it at this stage.

Click the boxes which best describe your company's current situation

1. What is your organisational structure?

Sole trader	Partnership	Private Company	Public Company	Count
☐	☑	☐	☐	2

2. How long have you been in business?

1-5 years	6-10 years	11-14 years	15+ years	Count
☑	☐	☐	☐	1

3. What is your company's current annual revenue in AUD?

Under $5m	$5-50m	$51-100m	$100m+	Count
☐	☑	☐	☐	2

4. What's your expected revenue growth over the next 5 years?

Expected to be sold by then	0-50%	51-100%	100%+	Count
☐	☐	☑	☐	3

5. How do you expect your profits to behave over the next 5 years in relation to your expected growth?

Diminish	Stay the same	Improve	Improve dramatically	Count
☐	☑	☐	☐	2

6. How many employees do you have who are essential to the achievement of your growth plans?

Under 10	11-30	31-50	50+	Count
☐	☐	☑	☐	3

7. How available is key talent in your industry?

Easily available	Somewhat available	Limited	Scarce	Count
☐	☐	☑	☐	3

8. Thinking about your key talent, what's your company's general rate of employee turnover?

Minimal	Average for the industry	Higher than I'd like it to be	High for the industry	Count
☐	☐	☐	☑	4

9. Again thinking about key talent, how would you describe employee engagement?

Excellent	Satisfactory	Neutral	Poor	Count
☑	☐	☐	☐	1

10. How would you describe your current incentive plan and/or bonus structure?

Don't have one	Could be improved	Industry average	Above average	Count
☐	☐	☐	☐	3

Check your total score and read on for our suggestions

Total 24

Your results

If your total was...

31-40

An Employee Share Plan is likely to be perfect for your company.

Based on your answers, your company is likely to be well established and shows promise for a strong future. Adding an Employee Share Plan to an existing incentive scheme may be the solution you have been looking for. Especially if your goal is to improve retention and engagement. Introducing value sharing into a company like yours can result in growth acceleration and help you take your company to the next level.

Get in touch with us for a chat about how you can begin now.

21-30

An Employee Share Plan is likely a great solution for your company, but you may want to check in on a couple of things first.

Your answers indicate that you're likely ready to introduce an Employee Share Plan at your company, but you may want to check on a few things first. Before you delve further into a value sharing environment, make sure that your existing incentive plans are working to their full capacity and your attraction and retention strategies couldn't use a bit of tweaking.

For assistance in determining where you're at with incentive plans, talent attraction and retention, **contact us today** for a no obligation chat.

10-20

An Employee Share Plan could be an appropriate choice for your company, but we think there might be other options to consider first.

While an Employee Share Plan can certainly achieve great results for companies like yours, your answers indicate that you may be in a stage of business growth that could benefit from including or updating some other remuneration strategies first. Consider what it is you want to achieve. Is there another way to secure talent in your industry? Could changes to your performance evaluation methods improve employee engagement? If you're not sure, we can help.

Give us a call to discuss your unique situation. With a little bit more information, we can provide our honest opinion on the best solution for your company at this time.

The Reward Practice is an independent Australian remuneration consultancy.

We specialise in the design and implementation of Board, Executive and employee remuneration and reward solutions for public, private, non-profit and government organisations.

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