EMPLOYEE SHARE PLANS – FUNDING THE GROWTH OF A BUSINESS
Craig West, FBA Accredited Adviser

The exit rate and preferred exit options are key issues to family businesses. The quickening approach of the baby boomers bubble and the fact that family owned businesses represent $1.6 trillion in value correlates to a large number of business owners searching for an exit strategy to ensure the return on their equity in their business.

Employee share plans (ESOP) provide an effective equity extraction strategy for the business owner in terms of:

- Funding an exit;
- Compliance and corporate governance issues;
- Delivering improvements in performance; and
- Achieving business continuity after the owners exit.

An ESOP provides a practical solution to an exit strategy fraught with incompatible timetables, lack of funding and inadequate structures. It is the structured approach for transferring ownership whilst facilitating the smooth exit of current owners. A study conducted by KPMG in 2006[i] on family businesses indicated that selling businesses to employees, management and other owners was the second most popular choice following selling in the open market. There is thus a great need for the use of ESOPs as a vehicle for transferring ownership to facilitate smooth exit of current owners.[ii] This tool is very popular in the United States, with nearly half of all ESOPs there used by private firms to buy out an owner. It also positions the business as a more competitive employer and attracts and retains key staff. 50 % said securing the right talent / finding competent staff was the number one issue and retaining them was also highly ranked with 16 %.

How does it work?
The decision to implement an ESOP is not for every business, however, if found to be suitable, provides a viable exit strategy for the business owner and enables the business to continue operation. The plan provides a structure and mechanism for a profit share to be provided to staff solely for the purpose of purchasing equity in the business with those funds being reinvested into the equity of the business rather than taken as cash payment.

"The succession plan offers another dimension and long term outlook for key staff that they seldom get. The result is truly a WIN / WIN outcome for exiting owners who want the best for the business and to achieve the best sale price for the asset, and for their employees – the people they need to make the results consistently improve." LJ Hooker Commercial Central Coast has had a Peak Performance Trust (ESOP) in place for four years and was recently awarded 2010 Employee Share Plan of the Year by the *Australian Employee Ownership Association*. This plan operates over an extended period and has considerable success in attracting, retaining and motivating key staff within the business who now have a vested financial interest in maximizing the value of the business for the owners and the staff.

The preference of implementing an employee share plan as opposed to other exit strategies (or in fact as stage one of an overall exit strategy) is gaining momentum in

Australia and is equally gaining popularity amongst SMEs. The reason - great benefits are realised to the business owner, the employees and the business through improvements to retention, motivation, performance, productivity and profitability

---

[i] KPMG, *Survey of Family Business Needs* (2006)
[ii] O Connell Ann, *Employee share ownership in unlisted entities: Objectives, current practices and regulatory reform*, *(2009) 37 ABLR 211*