



Enterprise Management Incentives

Call for Evidence 2021

2021
edition

Introduction

Vestd built the UK's first SME-focused platform for launching and managing share schemes, so we are very well placed to contribute to this call for evidence.

In addition to providing you with data relating to our own internal EMI scheme, we will also provide insight into our commercial intelligence.

One of our core products is EMI, and as such we have one of the biggest caches of EMI data anywhere in the country. It sheds light on the whole lifecycle of EMI.

You will quickly see that **the response from our customer base and beyond is uniformly positive.**

Do get in touch with me if you have any questions about the report, or would like to discuss how equity can be used as a lever for growth.

Ifty Nasir
Co-founder and CEO at Vestd



So how are EMI schemes helping businesses?

Our responses to the questions in Box B are particularly pertinent. They show that companies are emphatically choosing EMI to attract and retain talent, and to help develop their businesses.

The numbers affirming that EMI has *actually* helped in these areas are even more profound.

	Percentage of prospective customers aiming to improve this area with EMI.	Percentage of customers affirming that EMI has helped in this area.
Recruitment	22.2%	92.9%
Retention	43%	95.2%
Development	16.8%	92.9%

Our complete dataset numbers over 5,000 companies and includes UK senior leaders and managers, as well as employees.

We can demonstrate that **employers are using EMI to retain and recruit**, and one third of **jobseekers are also actively looking for roles with equity** included as part of the compensation package.

EMI breeds **cohesiveness, performance, alignment** and **belonging**. It promotes wellbeing and sets a gold standard for working benefits.

The figures contained in our response comprise a holistic endorsement of EMI and demonstrate the value of the scheme to small businesses across the country.

Our exclusive data comes from the following sources:

- **3Gem/Vestd survey.** May 2020. Research specialists 3Gem canvassed opinions about share schemes from 500 UK-based founders, owners and senior managers.
- **YouGov/Vestd survey.** Dec 2020. YouGov asked 2,000+ employees across the UK about their workplace preferences.
- **Vestd customer survey.** March 2020. We asked our existing EMI customers for feedback on how their EMI schemes are working out for them.
- **Internal sales data.** We started asking every prospective customer for their motivation for seeking to implement EMI. This dataset now contains the feedback from over 2,500 companies.
- **We've also included external data** from the University of Manchester and Cass Business School's seminal 2017 report on 'The Ownership Effect'.



Q1. If you are a business owner or manager, what is your business activity, when was your company created, what is the value of your company's gross assets and how many employees do you have?

Vestd is the UK's first, most advanced and only regulated digital share scheme platform for SMEs.

We incorporated in 2014 and currently have 25 employees (we're scaling up fast and are likely to be twice that number by the end of 2021).

Over the past year we've seen double-digit growth month-on-month. Our success is underpinned by our equitable work culture in which EMI plays an enormous role.

We have helped hundreds of customers to set up, access and manage their EMI schemes, and have guided/consulted many thousands.

Q2. If you are a business owner have you used EMI? If so, how many employees did you offer it to and why?

We currently have 25 team members enrolled on the scheme, with a further eight to enroll over the coming months (100% of the team).

All team members are enrolled after they have completed their three month probation period.

We strongly believe that **the benefits of equity inclusion are manifold** and our key reasons for making EMI a vital part of our benefits package are:

- To attract the best talent.
- To retain our talent.
- To foment an aligned and motivated team.

We know that EMI helps us to achieve our company goals and that's why it's such a fundamental part of our operating strategy and compensatory package.

Q3. If your business does not qualify for EMI, are you using any other tax-advantaged employee share scheme?

Not applicable.

Q4. Has your company benefited from other forms of government support, such as R&D tax credits or investment schemes?

We have utilised the government's R&D Tax Credit Scheme but EMI is far more powerful as it engages and impacts the whole team at a very personal level.

These schemes are fundamentally different because:

- R&D Tax Credit provides real time support against costs for the business along the journey.
- EMI provides the share of the prize at the end of the journey and helps to align everyone's endeavours over the long term.

Q5. If you are responding on behalf of a representative body or think tank, please describe the body.

We are not a representative body but will provide insights from our customers (a large cross section of UK SMEs).

Q6. To what extent do you agree/disagree that the EMI scheme is fulfilling its policy objective of helping SMEs recruit employees?

In terms of recruitment, we can share the following key statistics:

Source	Demographic	Key statistic
Sales data	Prospective customers	22.15% were motivated to implement EMI to improve employee recruitment.
Vestd survey	Existing customers.	92.9% confirmed that EMI has helped recruitment efforts.
3Gem	Founders, owners and senior managers.	Nearly half agreed that their share scheme had strengthened their company culture (a key determiner of recruitment potential) and 44.7% agreed that their scheme had made it easier for them to attract talent.
YouGov	General UK employees.	When choosing one identical job over another, one third told us that a company

University of
Manchester
and Cass
University

N/a.

share scheme would tip the balance for them. In terms of 'workplace desires', share schemes came in second place, second only to 'flexibility'.

The top fifty businesses sharing equity saw workforce growth of 15% over three years, compared to growth in the UK's general workforce of just 5.8% over the same timeframe.

We also received anecdotal data from our customers, such as this from **Mehul Patel of Newsquawk**:

"Every employee is a part of the EMI and we are recruiting more people based on EMI."

And the following from **Simon Adcock from Atec-Security**:

"In late 2019 our commitment to an EMI scheme was instrumental in securing the services of two new leadership team members who have since made a critical difference to our business performance."

Q7. To what extent do you agree/disagree that the EMI scheme is fulfilling its policy objective of helping SMEs retain employees?

Our data tells us that EMI is fulfilling its policy objective to help SMEs retain employees.

Source	Demographic	Key statistic
Sales data	Prospective customers.	43% were motivated to implement EMI to improve employee retention.
Vestd survey	Existing customers.	95.2% agree that EMI has helped with retention.
YouGov.	General UK employees.	A third report that share schemes help to retain staff. This was about share schemes generally but clearly, with EMI as the most popular scheme, this would speak to the attraction of EMI.
3Gem.	Founders, owners and senior managers.	60% report that share schemes help with retention. This was about share schemes generally but the highest percentage of respondents operated an EMI scheme (40% of respondents vs. Ordinary Shares at 35%, CSOP at 10% etc.).

Benedict Wheatley from Lazy Susan Furniture said:

“Since the implementation of the scheme we have had 100% retention of staff.”

Q8. To what extent do you agree/disagree that the EMI scheme is fulfilling its policy objective of helping SMEs grow and develop?

We would strongly agree that EMI fulfils its policy objective of helping SMEs grow and develop.

Source	Demographic	Key statistic
Vestd survey	Existing customers.	92.9% feel that EMI has helped them to grow and develop.
Vestd survey	Existing customers.	92.9% confirmed that EMI enhances their company culture and team alignment (key ingredients for growth).
Sales data	Prospective customers.	17% were motivated to implement EMI to align their compensation with company philosophy, or because they'd been told to by a NED and/or business advisors in order to fulfil their business objectives.
3Gem	Founders, owners and senior managers.	Nearly half of business leaders are actively interested in share schemes.
3Gem	Founders, owners and senior managers.	56% agree that shared ownership increases productivity and nearly half agree that share schemes strengthen company culture.
3Gem	Founders, owners and senior managers.	Of the half of business leaders that are interested in share schemes, the highest percentage of the vote (40%) indicate that they are specifically interested in

Cass/Manchester Study

N/a

EMI. The remaining 60% of the vote was split between Ordinary Shares, Growth Shares, Unapproved Shares, SIP, SAYE, CSOP and 'Other'.

EMI is the most popular option by a long way.

The top fifty firms that offered their teams equity posted growth of 10.2%, compared to the UK GDP growth over the same period of just 7.7%.

Gary Luke from Connexica told us that,

"I needed to get buy-in and have a reward system for my new directors. The EMI scheme ensures the management team has the same objectives. We all have an incentive and reward to do the best for the business and not just as an individual. We are all aligned in our aims."

Antonius Wubben from Kaizen Furniture was even more emphatic:

"There is nothing better to retain your staff than to recognise their talents and by providing them with EMIs that will make them feel proud and more part of the business."

Q9. In your views, what aspect of the EMI scheme is most valuable in helping SMEs with their recruitment and retention objectives?

We know firsthand that EMI strengthens our internal company culture.

Everybody is invested in the success of the company and therefore, **trust and confidence permeates our entire team.**

It is our firm belief that EMI drives individuals to work the best of their abilities in their own responsibility areas.

This hypothesis is supported by the respected 'Ownership Effect' theory, and is evidenced daily and weekly by the enormous growth of our business.

The effect of EMI in contributing to that success is twofold.

Firstly, many of **our customers have told us that they couldn't justify pay rises** throughout the pandemic, but they could offer EMI instead.

Equally, those who were recruiting found that EMI offered an excellent incentive to new recruits, particularly if they were unable to **compete against market leading salaries** in the current climate.

Secondly, we are undergoing our own rapid expansion and accelerating our own recruitment.

We know from our own experience that **we've been able to attract top quality candidates** with our offer of salary and equity. Each of our 14 advertised roles over the past year attracted hundreds of responses respectively.

Consequently, we have been able to recruit elite candidates eager to work for a progressive and rewarding company.

Q10. Is there evidence to suggest that high growth companies that are no longer eligible for EMI are finding it difficult to recruit or retain employees? Please explain your answer. If your answer is yes, what in your view causes these difficulties and which jobs and kinds of companies are affected?

We have had a number of enquiries from people who are interested in EMI to support their recruitment/retention but **no longer qualify**.

A **staged taper-off on net assets and number on the employees** would probably help.

EMI could also be **extended to part-time employees**, broadening the whole **philosophy of equity inclusion**. There will clearly need to be only one scheme available for each individual (e.g. if they have several part-time roles).

Q11. If your answer to the previous question is yes, in your view, would expanding EMI help with these issues? Do you think that other forms of remuneration or employee benefits could achieve similar results?

Not many other forms of remuneration can have the same impact and power of alignment as equity, but with EMI the cut-offs are quite binary. Once you get to a certain number of staff or certain net asset level, the opportunity for EMI just switches off.

We previously supported the campaign to **increase the limits of EMI** to 500 employees and £100m of net assets.

Q12. Are you aware of the other tax-advantaged employee share schemes offered by the Government (CSOP, SIP, SAYE)? Do you use or have you previously used any of these schemes?

We are aware of these but don't offer them to our customers as yet, given our initial focus on startups and smaller SMEs.

We do not use any of the other Government schemes outlined. Given our own philosophy, and scale of team, EMI is easily the best fit.

Q13. In your view, do the other tax-advantaged employee share schemes offered by the government (CSOP, SIP, SAYE) provide enough support to high growth companies that no longer qualify for EMI?

The other schemes provide some incentive, but are often **too generic** to allow for the differentiated recognition provided for through EMI.

For example, the number of options available to say a senior executive, can be **aligned with their actual delivery** (e.g. sales targets, or tenure, as is the case with most, particularly for middle ranking and junior staff).

Q14. How could the government improve the other tax-advantaged employee share schemes to help support high growth companies?

Create a mechanism by which the benefit of an 'exit only' scheme can be continued to be held by someone leaving a company as a **good leaver**.

Question: why does HMRC only wish to support 'high growth' companies through EMI? What about a mechanism for 'steady safe' growth, such as **extending the time horizon** from 10 years to 15?

Q15. How does the tax-advantaged employee share schemes' offer in the UK compare with other countries?

We have limited experience with non-UK schemes, so would not be able to comment, other than to say that many of our customers, with multi-jurisdiction interests / operations, have praised the simplicity of the EMI scheme both conceptually and administratively.

16. Should the EMI scheme criteria be extended to include more companies? Please explain your answer.

Criteria for eligible companies that may benefit from review include:

- **Receiving License Fees** - what about software utilisation, often through 'licence fees'?
- **Managing forestry and woodlands** - new technology and approach required.
- **Steel production** - we need to invest in developing hi-tech and high grade steels.
- **Residential care** - we need new, positive thinking on how to solve this growing problem/challenge.

The **EMI scheme criteria should be expanded**. It doesn't make sense (from our perspective) to exclude so many sectors and we'd like to see more SMEs supported.

It would also be good to make the criteria easier to understand. Our 3Gem survey showed that a fifth of business leaders find share schemes too confusing and/or don't know how to implement them.

We also know from this survey that there are large variances industry to industry when it comes to serious consideration of EMI.

Generally, **40% of companies considering a share scheme are considering EMI** but much of that forty percent is taken up by a select group of industries. For example, 71.4% of automotive businesses surveyed are considering EMI, as are 57.9% of manufacturing companies and 54.5% of health based business.

However, some sectors such as professional or business services, or property based businesses show minimal interest in the scheme and give greater consideration to other options, such as Growth Shares.

Q17. Do the current EMI scheme criteria have a distorting effect on companies' growth insofar as the companies try to remain within the scheme's limits?

It seems unlikely that a company growing at pace would have the ability to decelerate or stop growth when it gets to c.250 employees.

The impact of having this 'hard-line' cut-off means it is an abrupt point after which people join a company.

It could be that two individuals are hired just a few weeks or months apart, but will have **a materially different opportunity** to participate in the rewards of what they are part of building.

Again, some form of **taper mechanism** would be helpful.

18. In your view could widening the current eligibility criteria to support larger companies affect smaller companies' ability to recruit and retain employees?

In our view, not necessarily. Different companies may prefer to be at different ends of the risk profile associated with equity.

At the smaller end, it is usually high risk, high reward. At the larger company end, the risk may have diminished, along with the likely rate of share price growth.

As companies get larger, the need to rely on the risk-reward is tapered, as should be their access to the provisions of EMI.

Our recommendations would be to:

- **Open EMI to non-employees.** Many companies would like to reward contractors or those who work on a 'self-employed' basis (delivery drivers for example).
- **Support part-time / flexible workers.** Open EMI to those who work less than the current 25 hours threshold.
- **Maintain Entrepreneurs Relief** with respect to CGT.

About Vestd

Vestd is the first and only regulated share scheme platform for SMEs in the UK. Thousands of people use it to manage and monitor their equity.

Our customers benefit from best in class scheme design tools and ongoing access to our in-house team of specialists.

What makes Vestd so good?

- Choose from a range of share / option schemes, including: EMI schemes, Unapproved Options, Growth Shares, Ordinary Shares and Agile Partnerships™.
- Guided scheme design, setup and ongoing support from our team of equity specialists.
- Full two-way Companies House integration. Issue shares and options immediately via the platform.
- Regular company valuations from our analysts and industry standard legal docs provided.
- A personal dashboard for all of your shareholders and share scheme participants.
- 100% accurate real time and historic cap tables.