

Why Employee Share Ownership Matters



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 **EsoCentre**
employee share ownership

Why Employee Share Ownership Matters

A Recap of the Case in 2026

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Introduction to the 2026 Update

Successful enterprise is the foundation of wealth creation. Businesses create value through innovation, investment, entrepreneurship and the productive use of skills and capital. The challenge for modern market economies is not only to encourage successful enterprises, but also to enable more working people to participate in the value those enterprises create.

Employee share ownership provides a practical, market-based mechanism for widening that participation. By enabling employees to acquire shares, options or other equity interests in the businesses where they work, it can create a clearer connection between individual contribution and the long-term success of the enterprise.

For companies, employee share ownership can form part of a broader approach to attracting and retaining talent, rewarding contribution and aligning employees with long-term objectives. Its contribution is most likely to be sustained where share plans are accompanied by effective communication, participation and a culture in which employees understand how the business creates value.

For employees, share ownership offers an opportunity to build capital alongside earned income and to participate in the growth of the enterprises they help to develop. This does not remove investment risk, and it should not replace diversified saving, but it can broaden participation in productive ownership.

Employee share ownership takes different forms. Tax-advantaged schemes such as Enterprise Management Incentives (EMI), Company Share Option Plans (CSOP), Save As You Earn (SAYE) and Share Incentive Plans (SIP) provide direct shares or share-linked rights. Employee Ownership Trusts (EOTs) provide collective ownership through a trust.

Employee share ownership is not a substitute for successful enterprise, effective management or sound business strategy. Rather, it provides mechanisms through which more people can share in the rewards of successful businesses. By connecting enterprise, ownership and participation, it can contribute to stronger relationships between companies and employees and support wider participation in economic growth.

For almost four decades, the Employee Share Ownership Centre has provided an independent forum bringing together companies, advisers, trustees, policymakers and practitioners. Through dialogue with HM Treasury, HMRC and market participants, the Centre combines strategic insight with practical experience of how employee share arrangements operate.

This booklet examines the societal case for Employee Share (Stock) Ownership. It is intended to inform readers about a movement that, while several decades old, connects precisely with current societal concerns such as environmental, social, and governance (ESG) issues.

As this booklet is intended as an introduction to employee share ownership, it covers a broad range of topics at a high level. It recaps and summarises why employee share ownership continues to matter and identifies areas for further research.

Editorial support for this booklet has been provided by the Employee Share Ownership Centre, ProShare and Equiniti. The principal authors, Professor Michael Mainelli and Simon Mills, take responsibility for the contents. They would like to thank Malcolm Hurlston, Fred Hackworth and Juliet Wigzell for their substantial contributions and support, and Robert Pay for updating the text and references for the 2026 edition.

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Foreword

Explaining the benefits of employee share ownership over many years has made me realise how easily a big concept can be pigeonholed in a small box. Too often, employee share ownership is viewed simply as a matter of tax policy or remuneration. Yet the concept ought to start from a broader perspective: sharing risks and benefits with fellow economic agents. The benefits attach at several levels, from the micro to the macro.

At a micro level, employee share ownership seems fair, helps attract and retain talent, creates a sense of ownership and cohesion, rewards achievement of business objectives, promotes productivity, and provides financial security. At a macro level, employee share ownership encourages longer-term thinking, promotes national productivity, and supports wider participation in economic growth.

Successful enterprises create value through innovation, investment, entrepreneurship and the productive use of capital. However, in many modern economies, the relationship between economic growth, productivity and wage growth has become an important public policy challenge. The benefits of successful enterprise are not always shared as widely as they might be, particularly where ownership of productive assets remains concentrated.

Employee share ownership can provide a missing bridge between enterprise creation and wider participation in wealth creation. It enables employees to build capital alongside earned income, allowing them to participate directly in the growth of the enterprises to which they contribute. It does not replace wages, remove investment risk or substitute for other forms of saving, but it broadens access to productive ownership and helps more people share in the rewards of successful enterprise.

At an international level, anyone promoting forms of ‘caring’, ‘compassionate’, or ‘stakeholder’ capitalism should take a long, hard look at providing more fervent support for employee share ownership. The ability of joint-stock companies to share ownership more widely remains one of the most powerful mechanisms available for connecting open market economies with social progress.

Yet too often the pigeonhole becomes ‘tax’. Employee share ownership is worth promoting even if one does not believe that tax is a necessary promotional tool. Where tax advantages are appropriate, they should be seen as supporting a wider objective: enabling more people to participate in ownership.

That is why I welcome this updated edition of *Why Employee Share Ownership Matters*. It seeks to restate the widest case for employee share ownership and to reconnect the movement with its deeper benefits: strengthening the relationship between enterprise, ownership and participation.

Malcolm Hurlston

Malcolm Hurlston CBE, Life President, Employee Share Ownership Centre

1. What is Employee Share Ownership?

Employee share ownership is usually enabled via employee share or stock ownership plans. These are formal structures that allow employees to acquire shares in the company they work for.

Esops can encourage employees to purchase shares in several ways:

- **Direct Purchase Plans** - Direct purchase plans are intended to encourage employees to buy shares in their company with their own money. To facilitate this, several countries have established tax-qualified plans that allow employees to buy stock either at a discount or with matching shares from the company. For example, in the USA, employee stock purchase plans enable employees to save money over a specific period (typically 6-12 months) then use the accumulated funds to buy shares at up to a 15 percent discount (either the price at the time of purchase or the time when they started putting aside the money, whichever is lower). In the UK, share incentive plans allow employees to purchase shares that can be matched directly by the company.
- **Stock Options** - Stock options give employees the option to buy a number of shares at a price fixed, for a defined number of years, into the future. With limited exceptions in various countries, options can be given to any employee under whatever rules the company creates. The aim is that if the share price increases over that time, employees can profit by buying shares below current market rates.
- **Restricted Stock** - Restricted stock, and restricted stock units, give employees the right to acquire or receive shares (by gift or discounted purchase) once certain restrictions have been met. These restrictions may include working a certain number of years or meeting a performance target.
- **Share Gifting Schemes** - These are where the company gives shares to the employees free of charge. These shares normally must be held in a trust structure for a period.

There are two other stock-linked staff reward frameworks, Phantom Stock and Stock Appreciation Rights:

- **Phantom Stock** - Phantom stock is a contractual agreement between the employer and employees to bestow a cash payment at a designated time or in association with a designated event in the future, tied to the market value of an equivalent number of shares of the corporation's stock.
- **Stock Appreciation Rights** - Stock appreciation rights (SARs) and phantom stock – which may also be called 'Equity Appreciation Rights' or a 'Phantom Share (Option) Scheme' - are similar. SARs provide the employee with a cash payment based on the increase in the value of a stated number of shares over a specific period.

However, the argument could be made that Phantom Stock and Stock Appreciation Rights are not employee share plans but are other forms of performance-linked bonus schemes. Furthermore, if they are tied to boardroom remuneration, they could provide perverse incentives (such as encouraging unprofitable mergers and acquisitions which drive up share prices only temporarily) that run counter to the spirit of employee share ownership.

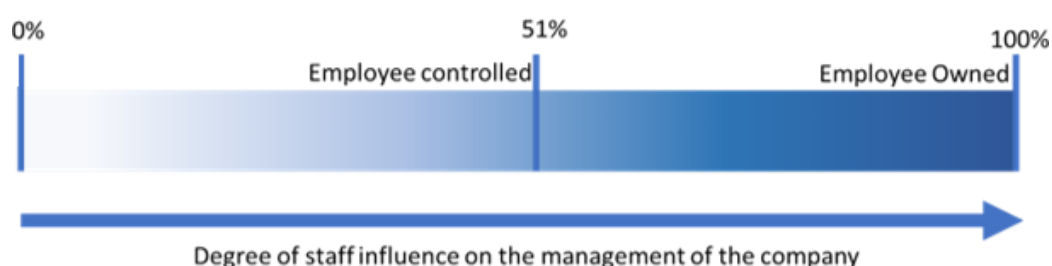
Stock options create a different ownership experience from direct share ownership because they provide a right to acquire shares in the future. Their effects depend on scheme design, including the exercise price, performance conditions, vesting and holding periods. Carefully designed arrangements can support alignment between employees, managers and long-term shareholders.

2. What is an Employee-Owned Company?

An employee-owned company is a business in which employees have a significant and meaningful stake (see figure 1). A company with an employee share ownership scheme is not necessarily employee-owned; much depends on its capital structure, control mechanisms, listing rules and option arrangements. Employee ownership may be direct or indirect:

- **Direct employee ownership** means that employees hold shares which give them the same rights as other shareholders in directing how the company is managed. These rights include:
 - Attending general meetings or appointing proxies to exercise any relevant rights to attend, speak, and vote at a meeting of the company
 - Voting on company affairs – and where employees own more than 50 percent of a company's shares they may pass ordinary resolutions
 - Inspection of directors' service contracts.
- **Indirect employee ownership means that a company is owned** (in full or in part) by a trust on behalf of its employees. The trust represents the interests of employees in directing how the company is managed.

Figure 1: Employee Share Ownership and Staff Influence on Management



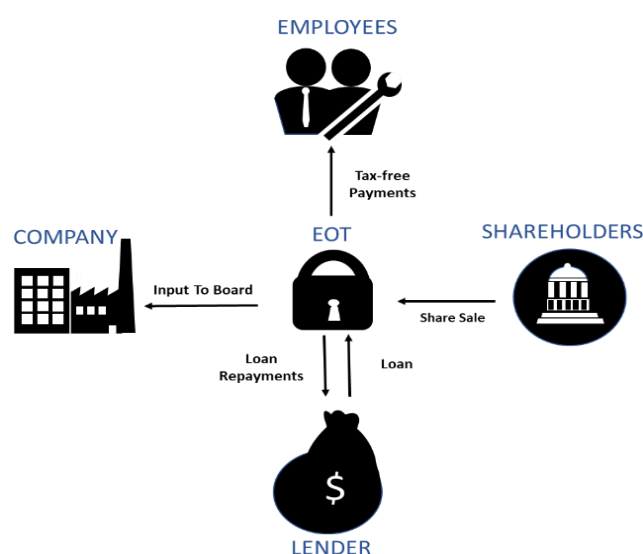
In both models, the interests of employees may be guarded through representation, such as an employees' council or other consultation group, and a constitution defining the company's values and its relationship with employees may be drawn up. This may result in the appointment of employee-directors to the board of the company, with the same responsibilities as other directors.

3. Why Would a Company Choose Employee Share Ownership?

There is no limit on the size of firms choosing to implement employee share schemes, although small and medium-sized firms are particularly well represented. There are two primary reasons for an organisation to choose to implement a share scheme:

- **Enhancing employee recruitment and retention** – This can be a motivation for larger organisations and can also help start-ups attract and retain key staff when cash flow is constrained. Employee share plans may support recruitment and retention where they form part of good employment practice, effective communication and sustained employee engagement.^{1,2}
- **Succession planning and ownership transition** - For smaller, privately owned businesses, when an entrepreneur is seeking to retire, they may wish to reward the employees who have contributed to the success of their venture. Rather than winding a business up, or selling a business to a competitor, they may choose to sell the business to their staff. Various mechanisms exist to facilitate this, one of the most common being the establishment of an Employee Ownership Trust (see figure 2).

Figure 2: Simplified Model of an Employee Ownership Trust



¹ Saylor T. (2017) *Esops Help Some CPA Firms With Retention, Succession*, Journal Of Accountancy <https://tinyurl.com/pkv6e54t>

² Adebisi, Oritsemolebi & Adeoti, Mayowa & Mupa, Munashe Naphtali. (2025). *The use of employee ownership structures as strategies for the resilience of smaller entities in the US*, International Journal of Science and Research Archive <https://tinyurl.com/5h26uwdc>

4. Why Would Staff Choose Employee Share Ownership?

Employee share plans can offer several potential advantages to staff. They may provide an additional form of remuneration, sometimes on a tax-advantaged basis. Companies may also offer discounted or free shares or match shares purchased by employees. These arrangements can support a savings culture and help employees provide for their families or retirement, although the value remains tied to the success of the business.

One potential advantage, which some research indicates may be more attractive than the financial incentive, is that employees who acquire shares become co-owners of their company.

Share ownership may give employees additional channels through which to understand or influence company decisions, including participation at general meetings and, where the governance arrangements provide for it, employee representation on the board.

Research cited here associates employee ownership with positive outcomes in pay, training, health and safety, and working conditions. Where employees are effectively engaged, performance and job satisfaction may improve and absenteeism may be reduced.^{3,4,5,6,7,8,9,10}

³ Bernstein J. (2016) Employee Ownership, Esops, Wealth, And Wages, ESCA <https://tinyurl.com/arja5hpk>

⁴ Foley, W., Eaton, A., Kruse, D., Blasi, J., & Schur, L. (2024) *Employee ownership for union workers: positive outcomes and negative perceptions*, International Review of Applied Economics <https://doi.org/10.1080/02692171.2024.2433432>

⁵ Costa, G. and Levine, D. (2024) *Employee Ownership and Worker Outcomes: Evidence from ESOPs* <https://tinyurl.com/yw58p5eb>

⁶ Kruse, D. (2022) *Does employee ownership improve performance?* IZA World of Labor <https://tinyurl.com/mrwhw938>

⁷ Pendleton A & Robinson A (2011) Employee Share Ownership and Human Capital Development: Complementarity in Theory and Practice <https://journals.sagepub.com/doi/abs/10.1177/0143831x10387650>

⁸ Foley et al. (2024)

⁹ Weissbourd, J., Conway, M., Klein, J., Chang, Y., Kruse, D., Hoover, M., Leverette, T., McKinley, J. and Trenholm, Z. (2021) *Race and gender wealth equity and the role of employee share ownership*, Journal of Participation and Employee Ownership <https://tinyurl.com/3cyvhcaa>

¹⁰ Rutgers School Of Management & Labor Relations (2020) *Employee-owned firms in the covid-19 pandemic: How Majority-Owned Esop & Other Companies Have Responded to the Covid-19 Health and Economic Crises*, The Employee Ownership Foundation <https://tinyurl.com/8vjmwt4u>

Start-up companies typically have very limited funds and cannot offer their employees the same job security as established firms, as a result they often find it challenging to attract and retain talented employees.

In developed economies, such as the US and UK, employee share ownership is a commonly used tool to aid in the attraction and retention of employees and studies have shown that this has met with some success.

Employee ownership can give staff a stronger voice in the future of their company, although the extent of that voice depends on the ownership and governance arrangements. Employees may be able to influence investment and procurement decisions and help the company respond to issues affecting its local community. Equiniti reported that 83 percent of employee share plan participants check their company's share price monthly, indicating sustained attention to company performance.¹¹

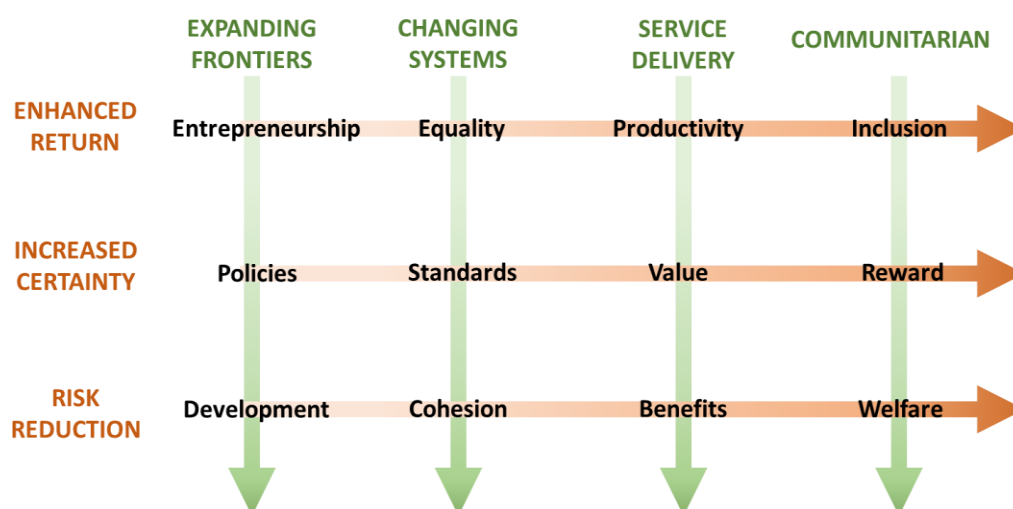
¹¹ Equiniti (2025) *Breaking Down Barriers - Impact Report*, <https://tinyurl.com/4rc35xdx>

5. How Does Employee Share Ownership Benefit Society?

The societal benefits of employee share ownership are summarised in figure 3. This diagram draws on a classification technique from ‘Evidence of Worth’¹² developed by Z/Yen Group for assessing organisational impact. Evidence of Worth assesses the delivery of benefits through four types of desired outcome – Expanding Frontiers, Changing Systems, Service Delivery, Communitarian – contrasted with three types of risk/reward information – Enhanced Return, Increased Certainty, Risk Reduction.

A number of studies associate employee ownership and participation with stronger performance, although outcomes vary and ownership structures are not, by themselves, proof of causation. Inclusive organisations may be more likely both to adopt employee ownership and to sustain the communication and participation practices that support performance.^{13,14,15,16}

Figure 3: Employee Share Ownership Evidence of Worth



¹² Harris I, Mainelli M & O’Callaghan M (2002) *Evidence of Worth in Not-For-Profit Sector Organisations* Journal of Strategic Change, Volume 11, Number 8, John Wiley & Sons, pages 399-410
<https://tinyurl.com/hny97est>

¹³ Kruse, D. (2022) *Does employee ownership improve performance?* IZA World of Labor
<https://tinyurl.com/mrwhw938>

¹⁴ Lampel J, Bhalla A & Jha P (2010) *Model Growth: Do employee-owned businesses deliver sustainable performance?* <https://tinyurl.com/4a773ykh>

¹⁵ Beatty A. (1995) *The cash flow and informational effects...* <https://tinyurl.com/58ujmbxy>

¹⁶ Freeman S. (2007) *Effects of Esop Adoption and Employee Ownership: Thirty years of Research and Experience*, University of Pennsylvania Working Paper <https://tinyurl.com/sm9r2z78>

Expanding Frontiers

Some of the evidence on employee share ownership company performance is dated and would benefit from renewed research. The employee ownership index compiled by Fieldfisher LLP (2012) reported that listed companies with at least 10 percent employee ownership outperformed the FTSE All-Share Index by an average of 10 percent from 1992. Research cited from the Employee Ownership Association reported that employee-owned businesses were 8–12 percent more productive, measured by Gross Value Added per employee. Other cited studies associate employee share ownership with longer-term thinking, lower failure rates over a 12-year period in the US and greater resilience during the Covid-19 pandemic. These findings are associations and should be interpreted with appropriate caution.^{17,18,19,20}

Changing Systems

Employee share schemes can be attractive propositions for senior managers as they provide a means to enhance employee participation while at the same time maintaining ‘conventional’ management hierarchies and patterns of control. For unions the collective nature of shareholding in employee ownership allows employees greater influence in management decision-making.

The research cited here associates employee ownership with positive outcomes in pay, health and safety, and working conditions. There is also some evidence of improved inclusion and equality measures, including representation of ethnic and religious minorities and women in senior management, and progress towards equal pay. However, the available research is insufficient to conclude that firms with employee share ownership that have stronger inclusion and equality measures necessarily perform better financially or have higher survival rates than comparable firms with no employee share ownership at all.

Inclusion and equality may increase in importance as larger corporates seek to manage reputational risks through their supply chains. In turn, inclusion and equality measures appear to be increasing in importance to investors.

¹⁷ Fieldfisher LLP (2012) *Employee Ownership Index* <https://tinyurl.com/43w4arbf>

¹⁸ Dudley, T. and Rouen, E. (2021) *The Big Benefits of Employee Ownership*, Harvard Business Review <https://tinyurl.com/mv2pa7ak>

¹⁹ Park, R., Kruse, D. and Sesil, J. (2004) *Does Employee Ownership Enhance Firm Survival?* Advances in the Economic Analysis of Participatory & Labor-Managed Firms, Vol. 8 <https://tinyurl.com/3r3ff9au>

²⁰ Rutgers School Of Management & Labor relations (2021) *Employee-Owned Firms in the Covid-19 Pandemic* <https://tinyurl.com/8vjmw4u>

From a political perspective, certain policymakers see share plans as a useful mechanism to generate employee commitment to 'enterprise culture' and the market economy which weakens employee attachment to traditional trade unionism. Other policymakers see employee ownership as an opportunity for workers to benefit from the fruits of their labour²¹ and have a greater say in their employment terms.

Some studies associate employee share ownership with fewer industrial disputes, closer scrutiny of management remuneration and a longer-term managerial perspective. These findings should be treated as associations rather than proof that employee ownership alone cause the outcomes described.^{22,23}

Service Delivery

Managers in companies with employee share schemes may share more information and consult staff more frequently than managers in companies without employee share ownership. The research cited here associates information sharing with improved productivity. Employees with a stake in the firm may also have stronger incentives to manage their own time and support effective working within their teams.²⁴

Other studies associate employee share ownership with innovation and entrepreneurship, particularly where information and employee voice flow effectively between the workforce and the board.²⁵

Communitarian

This last factor is difficult to quantify and remains sparsely researched, but it may be important for policymakers who are considering employee share ownership programmes. A Social Market Foundation study reported a wealth premium among employee shareholders, including within lower-income groups; the finding is an association and should not be read as proof that share ownership alone caused the difference.²⁶

²¹ **Murphy M (2005)** *The Esop at Thirty: A Democratic Perspective* 41 Willamette L. Rev. 655
<https://tinyurl.com/dpyhw74>

²² **Jiraporn P (2007)** *Esops and earnings management: an empirical note* <https://tinyurl.com/44ttyhys>

²³ **Syariati, N.E., Subroto, B. and Andayani, W. (2017)** *The Role of Employee Stock Option Plan to Reduce Earnings Management Actions*, Jurnal Keuangan dan Perbankan <https://tinyurl.com/2dpxvj4y>

²⁴ **Javed T. (2018)** *Impact of Employee Ownership on an Organizational Productivity: A Mediating Role of Psychological Ownership* Academy of Accounting and Financial Studies Journal 22(2):1-12
<https://tinyurl.com/2prt5zaz>

²⁵ **Garfatta R. & Zorgati I. (2021)** *Employee Stock Ownership And Value Creation: Evidence from System GMM Estimates*, Managerial Finance <https://tinyurl.com/y59hnaxc>

²⁶ **Corfe, S. (2021)** *A stake in success Employee share ownership and the post-COVID economy*, The Social Market Foundation <https://tinyurl.com/nvux75nn>

Market economies have been engines of human development and prosperity. Financial exclusion, financial crises, poverty, inequality, and the rising tide of environmental problems challenge societal confidence in the ability of market economies to deliver a better tomorrow.²⁷ The World Economic Forum addresses this tide of disillusion with the concept of '*Globalization 4.0*'.²⁸ *Globalization 4.0* refers to the breaking down of trade barriers driven by technology and the movement of ideas, people, and goods. The concept of *Globalization 4.0* refers to the linking of waves of globalisation to three phases of industrial revolution – steam, oil, electronics - and finally the fourth, data. *Globalization 4.0* aims to look beyond stockholder capitalism to stakeholder capitalism and places inclusion at its heart.

Stakeholder capitalism is the concept that corporations should be oriented to serve the interests of all stakeholders, not just shareholders but customers, suppliers, employees, and local communities. Under this philosophy, a company's purpose is to create long-term value and not to maximise profits and enhance shareholder value at the cost of other stakeholder groups.

This esoteric concept, once the purview of Marxist economists, has found fertile ground as issues that were once considered secondary for CEOs and boards have become important determinants of firms' capacity to create and sustain economic value. Climate change, water management, child labour, ethical treatment of suppliers and other 'soft' issues are increasingly recognised as bottom-line issues in a world of widespread speedy communication where a public image can change quickly.

The research cited here associates employee share ownership with positive environmental and social indicators. One possible explanation is that firms with deeper employee participation may also invest more in their workforce and local communities, which can reduce reputational risk.²⁹

²⁷ Newport, F. (2018) *Democrats More Positive About Socialism Than Capitalism*, <https://news.gallup.com/poll/240725/democrats-positive-socialism-capitalism.aspx>.

²⁸ Schwab, K. (2018) *Globalization 4.0 - what does it mean?* World Economic Forum, <https://tinyurl.com/d2m6umm2>

²⁹ Stranahan S. & Kelly M. (2020) *Ownership design for a sustainable economy*, Fifty by Fifty <https://tinyurl.com/2drdr62f>

Concern for environmental performance is reflected in more innovative approaches to tackling issues such as air pollution, water quality, waste management, traffic congestion, biodiversity, and climate change, as well as education, and other social concerns across the Environmental, Social and Governance (ESG) spectrum (see figure 4).

Figure 4: Environmental Social & Governance Issues



From a strategic perspective, employee share ownership may contribute to several SDGs (see figure 5), with particular relevance to SDG 10 – Reduced Inequalities. Employee share schemes do not solve or attain any SDG, but they may support incremental progress, including through the development of sustainable, resilient communities.³⁰

Figure 5: Employee Share Schemes and Delivery of SDGs



³⁰ Beck, D. and Ferasso, M. (2023) *How can Stakeholder Capitalism contribute to achieving the Sustainable Development Goals? A Cross-network Literature Analysis*, Ecological Economics <https://tinyurl.com/jnx3pkzz>

6. What are the Disadvantages of Employee Share Ownership?

For Employees

For employees, important risks include share-price volatility and liquidity, particularly where shares in a private company cannot readily be sold. Employees should also consider qualifying periods and the tax consequences of leaving before the period specified in the plan. Waiting for an opportunity to sell may discourage an employee from leaving a job, potentially affecting both the employee's morale and that of colleagues.

For Businesses

For all companies setting up an Esop there are short-term costs drawing it up and getting it approved, plus the long-term costs of managing the scheme and record-keeping over time. Cash flow management can also become more complex if there is a need to buy back the stock of departing employees.^{31,32}

Some programmes borrow to finance the scheme (e.g. an American leveraged Esop, or an Employee Ownership Trust in the UK). Leveraged schemes add debt to the company's balance sheet and may have an impact on how others view the creditworthiness of the business.^{33,34} Where company shares are purchased with borrowed funds, a company may find it difficult to service the additional debt if business declines.

For small firms, dilution of share ownership requires careful consideration: as more shares are issued, each share represents a smaller percentage of the company, which may affect control in family-owned businesses. Very small companies should assess whether the expected benefits justify the costs and administrative requirements; the balance will depend on the company's circumstances.

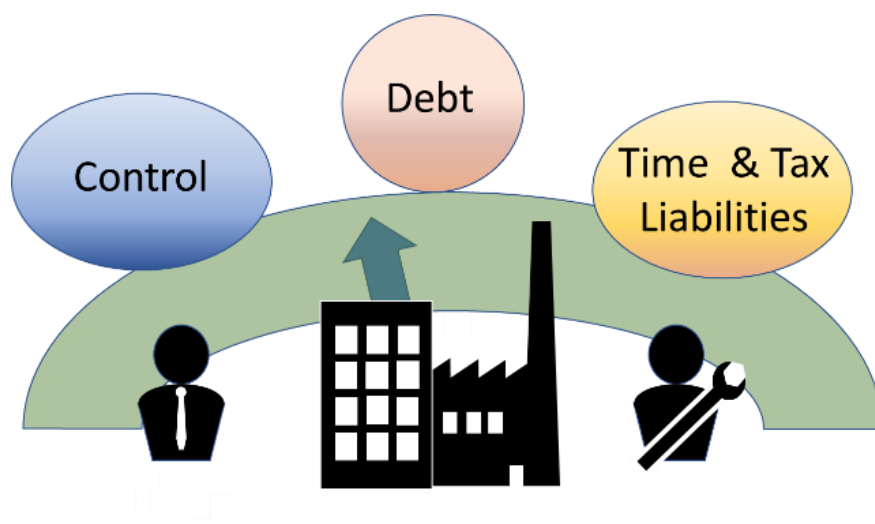
³¹ Buxton D & Gilbert R (2005) *Esop: A Four-Letter Word? Liquidity and Perpetuation: Pros and Cons* World Business Academy Viewpoint Issue 19 Volume 3 <https://tinyurl.com/4tkf8v92>

³² Kayode Akinsola (2025) *Risk Mitigation Strategies in ESOP Transactions* <https://tinyurl.com/u3yc6ku>

³³ Tararsi R (2012) *Esops Butcher Joseph Hayes Merchant Bankers* <https://tinyurl.com/2fmk9r7v>

³⁴ Blasi, J., Scharf, A. and Kruse, D. (2023) *Employee ownership in the US: some issues on ESOPs – overcoming the barriers to further development*, Journal of Participation and Employee Ownership <https://tinyurl.com/3ktrsdps>

Figure 6: Achieving the Right Balance



7. Public Policy Frameworks for Encouraging Employee Share Plans

From a public policy perspective, employee ownership can support participation in the market economy, capital formation, constructive labour-management relations and productivity. As employees build capital, there may also be longer-term implications for financial resilience. Policymakers have four principal levers for encouraging implementation of Esops: education, taxation, legislation and research, particularly benchmarking and statistics.³⁵

Education

In addition to informing employers and employees about the benefits of employee share plans, policymakers should ensure that participants are aware of the associated risks and benefits. The Centre has been vocal in support of the UK signing up to the OECD's PISA Financial Literacy benchmarking programme.

Taxation

While not a precondition for the formation of share plans, there are some key building blocks in developing tax policy that can encourage and support their formation. Most pertinent are:

- **Capital Gains Tax (CGT)** - CGT is charged on gains that accrue when chargeable assets are disposed of by an individual. A sale or a gift of shares is normally treated as a disposal and a taxable gain or loss will accrue accordingly, so a shareholder who sells shares – for instance to an Employee Benefit Trust – may be liable to CGT on his or her gains. CGT relief will provide an incentive for the creation of employee share schemes.
- **Income Tax** – Providing a partial exemption from income tax (and related employment taxes) on a certain amount of a bonus or equivalent payment made by an entity within an indirectly employee-owned structure to employees of a company within that structure enables employee-owned companies to deliver a higher post-tax income to their employees at no extra cost to the company.

³⁵ Blasi J. & Kruse D.(1991) *The New Owners: The Mass Emergence of Employee Ownership in Public Companies and What It Means to American Business* Harper Business ISBN-10 : 0887305091
<https://tinyurl.com/2y4y7k9v>

Legislation

UK Policy Update

EMI: Finance Act 2026 expanded the principal company limits for most options granted on or after 6 April 2026. The gross assets limit is now £120million, the employee limit has been increased to fewer than 500, the aggregate company option limit is £6million, and the maximum qualifying exercise period is 15 years. The individual limit remains £250,000 over three years.³⁶

PISCES: Private Intermittent Securities and Capital Exchange System enables shares in private companies to be traded on an intermittent basis within a regulatory framework, blending characteristics of the public and private markets. This will facilitate trading in private companies to the advantage of employee shareholders amongst other investors. The FCA 'sandbox' – a beta testing phase - started in June 2025 and runs until June 2030³⁷. Finance Act 2026 permits qualifying EMI and CSOP options granted before 6 April 2028 to be amended so that a sale on a PISCES platform can be an exercise event, subject to statutory conditions.³⁸

EOTs: for qualifying disposals to an Employee Ownership Trust on or after 26 November 2025, 50 percent of the gain is treated as chargeable for Capital Gains Tax purposes; the balance is held over in accordance with the revised rules.³⁹

International Overview

Legislative support for employee share schemes varies greatly from country to country; however, common features include strictures on qualifying periods for participation; structures to hold shares on behalf of employees; and listing rules. Table 1 on the following page is meant to provide a flavour of the legislative regimes of selected countries while not purporting to be up to date.

³⁶ Finance Act 2026 <https://tinyurl.com/bdzzv28t>

³⁷ Employment related securities bulletin 62 <https://tinyurl.com/384dc4ha>

³⁸ FCA PISCES Sandbox guidance <https://tinyurl.com/y9eczex9>

³⁹ HMRC Capital Gains Tax - Employee Ownership Trusts relief reduction <https://tinyurl.com/2s45v5m2>

Table 1: International Legislative Frameworks

Country	Legislation	Year
Australia	There is no single piece of legislation regulating the establishment or administration of Esops in Australia. Companies proposing to offer securities to employees must ensure they comply with the Corporations Act 2001. Changes to the tax treatment of Esops took effect on 1 July 2015. https://tinyurl.com/3uywtuu7	2015
Austria	The Worker Participation Foundation Act 2017 developed Employee Participation Foundations to hold and purchase shares, exercise shareholder's rights and transfer returns to the employees. https://tinyurl.com/ysfs42sz The Startup Promotion Act 2024 created further tax benefits for employee ownership https://tinyurl.com/58tbf8kb	2024
Belgium	Stock options were first specifically provided for in Belgian income tax legislation in 1984 (qualifying stock options), amended in 1999. This income tax law stipulated that the benefit of stock options was, under certain conditions, free of income tax. https://tinyurl.com/25ftnxhs	1984
Canada	Bill C-59, facilitating the creation of employee ownership trusts, received royal assent on 20 June 2024. https://tinyurl.com/3y4mxtbw	2024
China	The China Securities Regulatory Commission (CSRC) issued the Circular on the Interim Administrative Measures for Employee Stock Ownership Plans of Listed Companies on 4 August 2012, in order to regulate and guide the listed companies in implementing the Employee Stock Ownership Plans and other related activities. https://tinyurl.com/496bxb9x	2012

Croatia	The Croatian Law on the Transformation of Enterprises Under Social Ownership 1991 (Transformation Law) gave employees, including managers and former employees, the right to buy shares at a discount proportional to their years of employment, starting at 20 percent and adding one percent for every working year up to a maximum of 60 percent. https://tinyurl.com/yj2fw9ay	1991
Denmark	Provision is made for the issuance of shares to employees under The Tax Assessment Act (Consolidated Act No. 1017 of 28 October 2011). Share options are granted on either a discretionary or all-employee basis. https://tinyurl.com/2p8jtvr4	2011
France	'FCPE de reprise' (employee buy-out mutual funds) were introduced into the French system of employee financial participation (EFP) in 2006 to allow employees to take over their employer company under preferential conditions. https://tinyurl.com/auvmyecb Another share scheme aimed at start-ups is the BSPCE (<i>Bon de Souscription de Parts de Créateur d'Entreprise</i>), in effect an employee stock option plan. https://tinyurl.com/ee7h3jxv Effective from 1 January 2025, the French Act No. 2023-1107 generalises value-sharing within companies and encourages adoption of employee shareholding https://tinyurl.com/2tz6tsjs	2025
Hungary	Hungarian Esops are US patterned, based on the Law on Esops of 1992 (Act XLIV of 1992), amended in 1995. Amendments by Act CLXXXVII of 2015 established a new form of Esop. https://tinyurl.com/5kp6ram3	2015

Ireland	There are four Revenue-approved employee share schemes: Approved Profit-Sharing Schemes (APSS), Employee Share Ownership Trusts (ESOTs), Save As You Earn (SAYE), and Key Employee Engagement Programme (KEEP). These are tax-advantaged employee share schemes introduced by the Taxes Consolidation Act 1997 and the 2017 Finance Act.	2017
	KEEP was extended in the 2023 budget until the end of 2025. https://tinyurl.com/bdx6pkkf	2023
Kenya	The Kenyan legislation governing share schemes includes: The Companies Act 2015 section 446 (b)(c), the Income Tax Act, The Finance Act, the Trustees Act, Capital Markets Authority Collective Investment Schemes Regulations 2001 with United Kingdom's statutory schemes regulations provide necessary guidance as to the structure of the main schemes used today. https://tinyurl.com/2a443je3	2015
Republic of Korea	Shortly after the Korean War, in 1958 the Yuhan Corporation established South Korea's first employee stock ownership plan to resolve labour disputes. The Capital Market Act of 1968 established employee ownership requirements and created the legislative environment surrounding Esops. Esops were originally intended for public companies and required 10 percent of newly issued shares to be allocated to employees. https://tinyurl.com/4u5p24yh	1968
New Zealand	The Securities Act 1978 made it difficult for employers to offer share or option schemes to all but the most senior executives without a prospectus and investment statement, with severe penalties for non-compliance. These complexities were largely swept away by the Financial Markets Conduct Act 2013 (the FMCA). https://tinyurl.com/2s2z83z8	2013

South Africa	As part of its strategy to enhance the economic stake of its citizens, the South African Government enacted the Broad-Based Black Economic Empowerment Act. A key plank in this strategy was the encouragement of employee share plans. To do this, the government passed the Revenue Laws Amendment Act in 2004. The Act changed the State's taxation of amounts derived from broad-based Esops in favour of employees and employers. Previously, tax treatment did not encourage the transfer of free or discounted shares within the confines of broad-based plans. https://tinyurl.com/mrxn4txm	2004
United Kingdom	The UK has four tax-advantaged employee share schemes: CSOP, SAYE, SIP and EMI. Finance Act 2026 expanded most EMI company limits from 6 April 2026 (gross assets £120million; fewer than 500 employees; £6million aggregate company options; 15-year exercise period). https://tinyurl.com/yjn3efh8 The FCA's PISCES sandbox opened in June 2025 and runs to June 2030; qualifying EMI and CSOP options can include a PISCES sale as an exercise event. For qualifying EOT disposals from 26 November 2025, 50 percent of the gain is chargeable to CGT. https://tinyurl.com/55vm8ewf	1978 - 2026
United States	The United States is credited with being the originator of the modern employee stock ownership movement with legislation that encouraged the creation of Esops under ERISA. Employee Retirement Income Security Act of 1974	1974

A key aspect of the development of a legislative framework that supports the development of employee share ownership plans is not the creation of new legislation but ensuring that existing financial legislation does not impede their creation. Quite often listing rules and/or restrictions on voting rights for employees or their representatives unnecessarily constrain Esop development. With respect to voting rights, information needs to flow in both directions, and employees who own company stock should have good access to information on the state of the company, either through employee representatives or trustee meetings on the board or by regular newsletters.

Research

While there is a reservoir of international research examining the economic and financial cases for employee share schemes, international comparison and benchmarking is not easy, and longitudinal research is patchy. A number of national centres have been established which seek to encourage the establishment of employee share ownership within their jurisdictions, including:

- Australia <https://employeeownership.com.au/>
- Canada <https://www.esopcanada.ca/>
- Europe <http://www.efesonline.org/>
- France <https://www.fondact.org/>
- Germany <https://agpev.de/>
- India <https://www.esopdirect.com/>
- Japan <http://jeoa.org/>
- Korea <http://www.esop.kr/>
- South Africa <http://www.saeoa.org/>
- UK <https://esopcentre.com/>
- UK <https://proshare.org/>
- USA <https://esopassociation.org/>

These organisations, alongside the large body of published research, enable policymakers to explore the performance of policy and legislative approaches to employee share schemes. Benchmarking and statistics also provide a common good for companies with employee share ownership and the support industry of scheme providers.

Tax is frequently an important consideration in share plan design, but this paper seeks to place it within the broader economic and social case for employee share ownership.

Although the case for employee share ownership is strong, further research could assist policymakers in better designing interventions that strengthen their impact. Significant research gaps exist, particularly on the communitarian impacts of employee share ownership and its impacts on the delivery of the SDGs. There are significant policy discussions underway that could provide valuable opportunities for research, such as:

- Employee ownership trusts – how might these be best structured and what have results been so far?
- Pay cuts & employee equity – how might proposals for employees to opt for equity in adverse circumstances be fairly designed?
- Employee voice – is there a case for identifying the employee vote as a separate category of voting result compared with institutional investor votes?
- Employee shareholder voting rights – how to provide voting, particularly in listed companies, when employee shares are being managed by trustees?
- Gig workers – how might gig workers best participate in shared ownership?

Appendix A – Esop Timeline

ESOP TIMELINE		
Employee Share Ownership	Year	The Eso Centre
First Esop launched in US by Louis Kelso.	1956	
Introduction of the tax-approved Profit-Sharing Employee Share Scheme by UK government.	1978	
The UK government introduced the tax-approved Savings-Related Share Option Scheme.	1980	
Government introduces the Share Option Scheme (tax-approved).	1984	
The UK's first Esop (Roadchef) is established.	1987	
	1988	Employee Share Ownership Centre created.
Margaret Thatcher introduced the Quest or qualifying esop to meet the Centre's request. In practice it built on Lib-Lab pact legislation created in the last year of the Callaghan government.	1989	Sister organisation, European Centre for Employee Ownership formed for events in Davos and Cannes.
Gordon Brown launched Enterprise Management Incentives (EMI), a tax-advantaged option plan for qualifying companies.	2000	Senior Centre members played a major role in the conception and development of EMI.
The UK government introduced the tax-approved Share Incentive Plan through the Finance Act 2000.		
	2008	Pathfinder event in Dubai establishes the World Centre for Employee Ownership .

The Con-Lib Coalition commissioned the Nuttall Review of Employee Ownership which culminated in the creation of the Employee Ownership Trust (EOT). Sir Norman Lamb was minister of state. Its merits lie most in business continuity and localisation of employment.	2012	Malcolm Hurlston receives the Rémy Schlumberger award from International Association for Financial Participation in Paris.
Finance Act of 2014 introduces the EOT	2014	
	2015	The Centre joins the OECD's Business Advisory Group.
	2016	Centre launched the first of its British Isles Share Schemes Symposium, with the aim of encouraging reform of broad-based UK employee share ownership schemes.
	2002-2018	Centre was the lead UK collaborator with the EU in driving at least half a dozen multi-national projects to improve employee take-up of financial participation schemes within EU member states.
	2020	Centre management passes to Z/Yen Group Limited .
The FCA PISCES 'sandbox' period starts. Budget 2025 announces EMI expansion and changes to EOT disposal relief.	2025	
Finance Act 2026 implements the EMI expansion and PISCES option-contract changes.	2026	

Two individuals, one American and one British, working together, have had an enormous impact on the development of employee share ownership thinking globally.



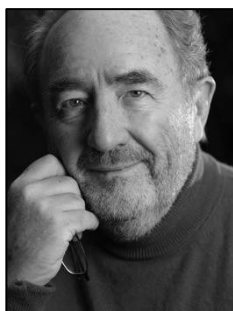
Louis Orth Kelso (1913–1991) was a political economist, corporate and financial lawyer, author, lecturer and merchant banker who is chiefly remembered today as the inventor and pioneer of the employee stock ownership plan (Esop), invented to enable working people without savings to buy stock in their employer company and pay for it out of its future dividend yield.

Kelso created the Esop in 1956 to enable the employees of a closely held newspaper chain to buy out its retiring owners. Two years later Kelso and his co-author, the philosopher Mortimer J Adler, explained the macro-economic theory on which the Esop is based in *The Capitalist Manifesto* (Random House, 1958). In *The New Capitalists* (Random House, 1961), the two authors present Kelso's financial tools for democratising capital ownership in a private property, market economy. These ideas were further elaborated and refined in *Two-Factor Theory: The Economics of Reality* (Random House, 1967) and *Democracy and Economic Power: Extending the Esop Revolution Through Binary Economics* (1986, Ballinger Publishing Company, Cambridge, Massachusetts; reprinted 1991, University Press of America, Lanham, Maryland), both co-authored by Patricia Hetter Kelso, his collaborator from 1963.

Kelso regarded the Esop and Consumer Stock Ownership Plan (1958) as pragmatic proof that his revolutionary revision of classical economic theory, and the financial techniques he derived from this new perspective, were sound and workable in the economic and business world.

In 1971, Louis Kelso founded Kelso Bangert & Company as a merchant bank advising on and investing in transactions involving employee stock ownership plans. The firm later became Kelso & Company and developed into a private equity investment business.

In a biographical summary written for the National Center for Employee Ownership in 1988, Kelso described 'the area in which first I alone, and then, beginning about 25 years ago, Patricia and I, have made our contribution to the world of economics and corporate (and other) finance. The Kelso contribution lies partly in the field of macro-economic discovery, and partly in practical ways to implement and make good use of those discoveries in human affairs.'



Malcolm Hurlston CBE is the Life President of the Employee Share Ownership (Eso) Centre, which he founded in 1988, and chaired till 2022. He is a serial social entrepreneur who brought credit counselling and employee share ownership plans to Britain. Inspired by a visit to the United States where he met Louis Kelso and studied the use of employee stock ownership plans in California and Colorado, he was instrumental in establishing the first UK employee share plan.

After national service in which he became a Russian interpreter and interrogator and was commissioned, and three years at Magdalene Cambridge as an open major scholar, Malcolm started his career in journalism. He moved into public affairs after two years, mainly to safeguard the insurance industry but also to promote Taittinger champagne. He conceived the Birmingham-based trades union financial institution 'Unity Trust' in 1980, later Unity Bank, and at the same time started his own consultancy firm, Hurlstons. In addition to insurance and drink, he was active in the co-operative sector, big pharma, oil and gas, retailing and television.

The first employee share ownership plan in the United Kingdom was launched in 1987 for Roadchef, the motorway services firm. Roadchef was fully unionised, and its owner Patrick Gee asked union leader David Basnett how he could transfer ownership. As adviser to the Unity Bank, Malcolm Hurlston was asked for his thoughts. He contacted lawyer David Reid of Clifford Turner who devised the twin trust approach (an employee share trust linked to a profit-sharing trust) which has remained at the heart of the structure. The main players involved in the transaction decided to increase the availability of employee share ownership plans and asked Malcolm to start the Employee Share Ownership Centre in 1988 to speed progress.

All staffers at Hurlstons spent some of their time in public interest activity, which included starting the Foundation for Credit Counselling now known as StepChange, Registry Trust which is responsible for the Registry of County Court Judgments, the Proof of Age Standards Scheme, Orbis and the Standing Committee on Reciprocity among many others, including the Centre.

Malcolm has served on the boards of Registry Trust and the UK Shareholders Association and has chaired the Financial Inclusion Centre and Action for Financial Inclusion. In April 2021, he joined the Pensions Minister's Midlife MOT Board. His contribution to financial services was recognised in the 2013 New Year Honours, when he was appointed CBE.

Appendix B – Significant Studies on the Case for Employee Share Ownership

Year	The Case for Employee Share Ownership Studies
1986 - 1987	'How well is employee ownership working' studies by Michael Quarry & Corey Rosen support productivity benefits from employee share ownership.
1988	US General Accounting Office study draws the link between employee share ownership and productivity.
1991	Peel and Wilson Study found that 'Shared Capitalism' aided reduction of absenteeism.
1998	Hewitt Associates study shows enhanced performance and productivity of companies with Esops.
2001	'Shared Modes of Compensation and Firm Performance in the UK' study by Professor Richard Freeman (Harvard & LSE) and Martin Conyon (University of Pennsylvania) found increased added value following the introduction of SIP free shares arrangements.
2010	The Matrix Evidence showed companies with employee share ownership are associated with higher productivity levels.
	Lampel Report (Bayes Business School) concluded that EO companies have greater capacity to create jobs and maintain consistency of performance.
2011	Davies Study (Napier University Business School) found that employee job satisfaction was higher in companies with Esops.
2012	Cass Business School Report (produced in conjunction with BIS) finding that employee-owned businesses performed better during periods of economic recession than non-employee-owned counterparts.
	Lampel Report identified causation between longer-term focus of EO companies and employee creativity/innovation.
2021	The Social Market Foundation, supported by ProShare and the Chartered Governance Institute of UK & Ireland, finds a 'wealth premium' for employee shareholders across income groups, encouraging government support of employee share ownership post-pandemic
2024	Equiniti and The Purpose Coalition reviewed the barriers to employees participating in share incentive plans, making the case for multi-channel communications and engagement to ensure inclusion and adoption.

Appendix C – Snapshot of Employee Share Plans in the UK

As noted in the Legislation review of this report, the UK offers four tax-advantaged employee share schemes: Company Share Option Plan (CSOP), the Save As You Earn (SAYE) or Sharesave Plan, the Share Incentive Plan (SIP), and the Enterprise Management Incentive Plan (EMI Plan).

HMRC's latest Employee Share Schemes statistics report that 20,650 companies operated at least one tax-advantaged employee share scheme in the tax year ending 2025, compared with 11,460 companies in 2013-14.⁴⁰

EMI remains the most widely operated of the four schemes: 90 percent of companies operating a tax-advantaged employee share scheme in the tax year ending 2025 operated EMI. HMRC also reports that 98 percent of EMI companies operated no other tax-advantaged scheme.⁴¹

EMI was introduced by the Finance Act 2000. The individual limit remains £250,000 over three years. For most qualifying options granted from 6 April 2026, the company limits are £120million of gross assets, fewer than 500 employees and £6million of aggregate unexercised EMI options; the maximum qualifying exercise period is 15 years.⁴²

⁴⁰ HM Revenue & Customs (2026), Employee Share Schemes statistics – commentary <https://tinyurl.com/2ysyxr3y>; Employee share schemes statistics 2013 to 2014: commentary, <https://tinyurl.com/57xj3c8s>

⁴¹ HM Revenue & Customs (2026), Employee Share Schemes statistics – commentary <https://tinyurl.com/2ysyxr3y>

⁴² Finance Act 2026, section 13 <https://tinyurl.com/bdz7e23y>; HMRC, Enterprise Management Incentives guidance <https://tinyurl.com/ve252mus>

In the tax year ending 2025, users received an estimated £1.23billion of Income Tax and National Insurance contributions relief across the four schemes. SIP was the largest contributor, at £470million. SAYE had the highest total value of options granted, at £1.75billion. The CSOP individual option limit has been £60,000 since 6 April 2023.⁴³

HMRC cautions that grants and exercises should not be compared directly because options may be exercised years after grant. In the tax year ending 2025, options were exercised in 3,390 companies. The data remain useful for monitoring participation and the operation of tax-advantaged schemes, but movements should not be treated as a direct measure of company performance.⁴⁴

Equiniti's recent Impact Report reviewed the SAYE scheme and found that existing SAYE options would be worth £1.97billion if granted now. If 60 percent participation in the SAYE scheme were achieved, they could be worth around £3.69billion.⁴⁵ HMRC's 2026 publication now includes expanded information on shares taken out of SIPs.⁴⁶ The published series should be used in place of the proposed-table discussion in the 2025 edition.

⁴³ HM Revenue & Customs (2026), Employee Share Schemes statistics – commentary <https://tinyurl.com/2ysyxr3y>

⁴⁴ HM Revenue & Customs (2026), Employee Share Schemes statistics – commentary <https://tinyurl.com/2ysyxr3y>

⁴⁵ **Equiniti (2025)** *Breaking Down Barriers - Impact Report*, <https://tinyurl.com/4rc35xdx>

⁴⁶ HM Revenue & Customs (2026), Employee Share Schemes statistics – commentary, <https://tinyurl.com/2ysyxr3y>

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The Employee Share Ownership (Eso) Centre is a non-profit subscription-based organisation which has, for almost four decades, provided an independent forum for companies, advisers, trustees, policymakers and practitioners interested in employee share ownership. It works constructively with government and market participants on policy development and the practical operation of employee share arrangements.

Members include listed and private companies operating, developing or considering employee share plans, together with professionals providing accountancy, legal, administration, design and trusteeship services. The Centre's conferences, seminars and other forums enable members to exchange practical experience, communicate policy concerns and build professional networks. The regular *newspad* publication is available to members and other interested readers at <https://esopcentre.com/esop-newspad-index-page/>.



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