

Enterprise Management Incentives
(EMI) Evaluation Survey: Use of
EMI and its perceived impact

Executive Summary

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Executive summary

This report contains the findings from two quantitative surveys; one among employers (in most cases represented by the Financial Director, or equivalent) and the second with employees who have been granted Enterprise Management Incentive (EMI) share options. Both surveys were undertaken by Ipsos MORI Social Research Institute (Ipsos MORI) on behalf of HM Revenue & Customs (HMRC). This research project sought to measure the benefits of EMI as seen by both employers and employees.

Ipsos MORI Telephone Surveys (MTS) interviewed 926 employers between 11 June and 25 July 2007 and a total of 1,189 questionnaires were completed by employees between 20 June and 25 July 2007. Employer data is unweighted, while employee data has been weighted to adjust for slight differences in the age profile between survey respondents and the known population of EMI recipients.

Below we draw out the key findings from the research.

Knowledge of EMI

- The overwhelming majority (93 per cent) of employees said that they knew at least a little about share options in general, while fewer, but still a substantial majority (65 per cent), said the same about EMI share options in particular.
- Employers were more knowledgeable than employees about the specific features of EMI. For most of the features, the majority of employers said they knew about them in detail.

Reasons for adopting EMI

- EMI's function as an employee retention tool was seen as its most important feature, with 92 per cent of employers mentioning this as the key reason for adopting EMI. Only two per cent mentioned recruitment as the most important reason – this was most likely to be micro-sized companies who also said that employees expect to be offered share options.
- EMI's associated tax advantages were also seen as an important benefit for employers. Other key reasons why employers decided to use EMI were to improve staff motivation and engender a feeling of ownership.
- The views of employees lend further support to the finding that EMI share options have tended to be used with the aim of improving employee retention more than helping with recruitment: the majority (62 per cent) of employees said they were not made aware that the company offered EMI share options until they had been in their post for a while.

- In the context of EMI being used more for retention than as a recruitment tool, it is interesting to note that employers found it more difficult to recruit than to retain key or skilled staff. The main reason cited for difficulties experienced in both areas was that there were not enough applicants with the right skills.
- When employees were considering whether or not to work for a company, it seems that EMI did not feature very highly as a deciding factor, which is consistent with the fact that many employers have chosen not to use EMI as a recruitment tool. The factors that were key to employees' decision were: interesting work, a good basic salary (rated as most important when asked to pick one factor only) and the level of job responsibility.

EMI in practice

- Employers were divided over whether EMI was easy or difficult to set up, but more found it easy (46 per cent) than difficult (31 per cent). Help from external advisors was key in making employers feel EMI was easy to set up, while those who found it difficult cited difficulty in understanding the rules and finding the forms difficult to fill in as the main reasons.
- Since first granting EMI share options the majority of employers (61 per cent) had found it easy to use, mainly because the forms were easy to fill in and the rules easy to understand once they had been through it the first time.
- More employers felt that EMI share options had been used as a supplement to salary (48 per cent) than those who felt it was in lieu of a higher salary (15 per cent). Employers that were more likely to be offering EMI in lieu of higher salaries tended to have potentially greater cashflow restrictions, namely micro-sized businesses, high or medium risk employers, or those established less than ten years.
- Employers who introduced EMI to help with recruitment of key employees, to enhance salaries or to help with cash flow problems were more likely to be using EMI in lieu of salary than as a supplement to salary. On the other hand, employers that introduced EMI for the tax advantages, to improve staff motivation or to help with retention of staff were more likely than average to offer EMI as a supplement to salaries.
- The majority of employers (63 per cent) had granted EMI share options to between one and ten employees and the overwhelming majority had granted them to some rather than all of their employees. The most common criteria used to select employees were level of seniority and individual performance.
- In terms of the timing of grants, two-fifths of employers did not grant EMI share options to staff at any particular point and a further quarter granted them on the successful completion of a probationary period.

Enterprise Management Incentives

- Just over half of employers had granted, on average between £1,000 and £30,000 worth of share options per employee. However, around two-fifths of employers had come close or already reached the £100,000 employee limit. By contrast, the majority of employers had come nowhere near hitting the £3 million company limit.
- The majority of employers (65 per cent) said that their employees had not exercised any EMI share options (and the employee findings affirm this) – the majority place the value of the outstanding options held by their employees at below £250,000.
- Those employees who had exercised some EMI share options had mainly done so because the company had been sold or they had waited for the vesting period to expire or performance conditions to be met. Most employees exercised their EMI share options one to five years after being granted them.

Impact of EMI

- According to employers, EMI had been most successful in helping their companies retain key or skilled employees and improve staff motivation (79 per cent agreed with each). The majority also felt that EMI had improved their overall company performance (71 per cent).
- The perception among employees who specified at what point they were first granted EMI options was that EMI's main impact was in engendering a feeling of ownership as well as retention. In keeping with opinions expressed elsewhere, the offer of EMI share options was not key to employees' decision to work for a particular company: the majority of employees (65 per cent) would consider working for a company which did not offer EMI.
- Employers seemed to value the benefits EMI brings them: the majority (78 per cent) said they will keep using EMI in the future. Those who said they will not cite the company no longer being eligible for EMI and having achieved what they wanted from it as the key reasons. A considerable minority (44 per cent) of employers said they would offer other tax-advantaged share options or share-based incentives if EMI was not available, while a minority would offer personal bonuses to employees instead.

EMI versus other schemes

- The majority of employers (62 per cent) offered their employees bonuses, while a sizeable minority offered health insurance (43 per cent) or a pension scheme (40 per cent). One-tenth of employers said that they offered no other benefits or bonuses apart from EMI.

- The majority (77 per cent) of employers had not awarded share options prior to EMI; of those who had, most (60 per cent) said EMI was not brought in as a replacement for other schemes.
- Fifteen per cent of employers said they offered share options or share-based incentives other than EMI to their employees. Non tax-advantaged schemes were mentioned by half of these employers, with a third mentioning CSOP. The main reasons why other share schemes were being used by employers was to provide an alternative to EMI for ineligible staff, to help with retention of key employees and to 'top up' EMI.
- The vast majority of employers who had experience of other share options or share-based incentives viewed EMI more favourably: the key reason cited was its more generous tax treatment. Only five per cent mentioned the simplicity of EMI, and none felt it was more favourable because it is targeted at small high-risk companies.

In considering all of the above, a number of key conclusions can be drawn out.

Awareness and knowledge: there was generally a high level of awareness of EMI amongst employers and employees, but lower knowledge of all the features of EMI. Employees in particular knew little about the detail of EMI: three-tenths were not aware they had been granted EMI options and only a fifth knew about the tax advantages of EMI in detail.

Reasons for adopting EMI: employers had mostly used EMI for retention rather than recruitment purposes, even though employers said they found it more difficult to recruit than retain key workers. In line with this, the majority of employees said that they were not made aware that a company offered EMI share options until they had been in their post for a while.

EMI in practice: employers were split on whether EMI was easy or difficult to set up. However, the majority of employers found EMI easy to run once it was set up.

More employers said they used EMI as a supplement to salaries than in lieu of a higher salary – especially medium or large sized companies. Employers that were micro-sized, defined themselves as medium or high risk or had been established for less than 10 years were more likely to have used EMI in lieu of higher salaries.

Small, higher risk companies: EMI was mainly used by smaller companies (small and micro). It is less clear from the research findings that EMI companies are "higher risk" (although there were some problems in defining and measuring "high risk" companies). Smaller EMI companies were more likely to be found in Computer and Other Business Activities sectors and also more likely to be younger businesses.

Small and low risk employers were most likely to have introduced EMI to help with retention. Employers that were micro-sized, high-risk or in the computer

and related activities sector were most likely to have introduced EMI to help with recruitment.

Overall, the research suggests there could be some room for tightening the focus of EMI on smaller, higher risk companies.

Grants of EMI options: just three per cent of employers said they have either reached the £3 million company limit on EMI options or expect to be very close to it in the next three years. By contrast, around two-fifths of employees had come close to or reached the £100,000 individual limit on EMI options.

Employees who receive EMI options: it is difficult to discern how tightly EMI is being used to recruit or retain “employees with the skills to help them grow”. According to employers, EMI is mainly focused on employees in senior and boardroom posts.

There is some evidence that skills and individual performance have been more important for newer companies and recent adopters (related to recruitment as a reason for introducing EMI), whereas retaining senior staff is more of a focus for older companies. However, some employers, particularly micro and small companies, also report that EMI has been used as a general reward scheme for all employees and has also been given to staff in lower level posts or with lower skills.

Other schemes: the majority of employers offered their employees bonuses, while some also offered health insurance or a pension scheme. Only a small proportion said they offered no other benefits or bonuses than EMI. The majority of employers had not awarded share options prior to EMI, while a minority said they offered other share schemes, mainly non-tax-advantaged schemes or CSOP.

Impact of EMI: the majority of employers said that EMI had helped them to retain key workers, improve staff motivation and improve company performance. Less than half said EMI had helped with the recruitment of key workers. This is consistent with what employees said, suggesting that EMI was mainly used to boost ownership and retention, but is not a key factor in employees’ decisions to work for a particular company.

Importance of tax benefits of EMI: the tax advantages of EMI were seen as an important benefit for employers and other key reasons why employers decided to use EMI were to improve staff motivation and engender a feeling of ownership. Almost half of employees felt that EMI would be pointless without tax relief. Similarly, most employers with experience of other share schemes viewed EMI more favourably due to its more generous tax treatment.

Additionality: the research suggests that EMI is a popular tool amongst employers (the majority say they will keep using it), particularly to help reward and retain key workers. Since the research did not include a control group, however, it is not possible to conclude with any certainty the extent to which EMI has helped small, higher risk employers to recruit and retain key workers or to improve company performance. It is possible, for example, that similar positive effects (such as on retention) could be achieved by employers through other means (such as other share schemes or personal bonuses) but without the tax cost of EMI. The key advantage that employers said EMI has

over other means of rewarding or retaining employees was its more advantageous tax treatment.

In summary, the research shows that the majority of employers report a range of positive effects from EMI, including helping to retain key workers. However, it is difficult to judge from the research the extent to which EMI has had any additional impact on helping smaller, high risk companies to recruit and retain key workers or to improve their performance. The research does suggest some areas where potential improvements to the (cost) effectiveness of EMI might be considered, such as raising awareness, particularly amongst employees, a greater focus on the recruitment aspects of EMI, and tighter targeting of EMI at small, higher risk companies.