

Entrepreneurship

Shares and share alike?

I am considering offering shares for rights to our employees under the new government scheme. However, we're worried about undervaluing our shares and if issuing more shares will decrease the value of our existing shares. Is there anything we can do to combat this?

I am not convinced how many businesses will take up the new government scheme. In the current climate, most employees want security and pay and are not keen to give up employment rights.

However, if you do decide to offer shares under this scheme, issuing more shares will not in itself decrease the value of existing shares although, of course, if the value of the business does not increase then you will be spreading the existing value more thinly. It should be perfectly possible though, by taking appropriate advice, to ensure that you don't undervalue the shares you offer.

Traditionally, many employees preferred bonuses to shares but there is increasing awareness of and interest in share schemes across a range of business sectors and a well-advised ambitious business needs share options as part of its employee reward structure.

The existing enterprise management incentive (EMI), which is tried and tested, is in many cases a better route to offer shares to employees. EMI doesn't involve any loss of rights on the part of employees and allows them to benefit from generous tax breaks previously only available to major shareholders. With an EMI option scheme key employees are given a right to acquire shares in the future, commonly only exercisable on a sale of the business.

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