NCEO NATIONAL CENTER FOR EMPLOYEE OWNERSHIP

An Introduction to the Employee Ownership Trust

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Anyone deciding what type of employee ownership business model works best for a business needs to understand the employee ownership trust (EOT). This article provides an introduction to the EOT.

Two Big Questions

Anyone, anywhere in the world, planning employee ownership (EO) has two big initial questions to answer. First, are you really interested in EO, rather than employee share ownership (ESO)? Second, what type of EO works best for your business?

EO or ESO?

If you're considering EO, that suggests you've already answered the first question positively. EO means a significant-sized shareholding held by or on behalf of all employees, a shareholding that supports genuine employee engagement and other elements of good work. So, to have EO, all employees must have a significant and meaningful stake in their business. This contrasts with, say, executive-only share plans and even all-employee plans over an insignificant minority percentage of shares that only deliver financial benefits to employees. Carefully implemented employee share plans work well, but it is clear from research that EO is more likely to boost business performance, increase employee well-being, and deliver wider benefits.

What Type of EO?

The second question is: what type of EO works best for your business? The employees' shareholding can be owned (a) directly by employees, (b) indirectly by an entity on their behalf, or (c) you can have both types of ownership.

Direct ownership means shares are allocated to individual employees, who each then have a beneficial interest in their shares.

Indirect ownership means shares are held collectively on behalf of all a company or group's employees, without any personal allocations of shares.

In summary, would you like direct, indirect, or hybrid EO? In order to answer this second question, you need to understand the EOT.

The Purpose of an EOT

The purpose of an EOT is to provide permanent or long-term EO of a company through holding a significant proportion of a company's shares on trust for the benefit of all the company's employees. This usually means holding over 50% of the shares in this way. And, unless there's a hybrid EO model, most EOTs will hold, or build the holding up to, 100% of a company's shares. In the UK, the government provides tax benefits when an EOT acquires and holds a controlling interest.

An EOT is an indirect ownership model; as such, individual employees do not get allocations of shares, nor do they have beneficial ownership of any of the EOT's shares. The trustee of the EOT holds the EOT's shares on a discretionary trust for the benefit of all present and future employees, as an ever-changing class of beneficiaries. Alternatively, in a country where non-charitable purpose trusts are permitted, shares may be held on a trust with the purpose of providing long-term employee ownership of that company. And countries without trust law may be able to reproduce the EOT concept using an equivalent entity to hold shares on behalf of a company or group's employees.

Practical Advantages of an EOT

An EOT has practical advantages over most forms of direct EO. These advantages can be summed up as "fewer moving parts." EOT ownership neatly side-steps the upfront and ongoing administrative complications and communication issues around individuals acquiring and selling shares.

Moving to EO is easier if the only parties to the transaction are the sellers, the trading company, the trustee, and perhaps a financial institution (if there's external finance involved).

Furthermore, once the EOT's share purchase price has been fully paid, the trustee does not need to finance and manage an internal share market. The trustee's role is focused on ensuring the trading company operates as a successful, professionally managed trading enterprise with an EO ethos.

From a practical point of view, including minimizing ongoing costs and financial burdens, an EOT has advantages over direct EO.

Strengths as an EO Model

The next element of understanding the EOT is to appreciate its strengths as an EO model. It's designed to provide EO over the long term through the trustee's custodianship of the trading company, ensuring employees have informed individual and collective voice, share in the financial success of the company (normally through cash bonuses), and generally have a good work experience.

Once the consideration for an EOT's shares has been paid, profits that would formerly have gone out as dividends to previous owners can be paid as all-employee bonuses or used to support employees in other ways. Employees can leave and join without worries over whether they are buying high or selling low, as happens with direct EO.

The trustee can resist a takeover attempt—even though it might be financially attractive to a current generation of employees—because that change in ownership would be contrary to the purpose of the EOT and the trustees' duties as a fiduciary.

Hybrid EO

Some will prefer the dynamics of direct EO: the incentive effect of employees watching the price of their shares go up (if it does) and the ability to vote personally at a general meeting. These effects can be captured through a hybrid model, with, say, an EOT holding a majority stake and all employees owning some shares personally that can be sold on an internal market.

Trustee Board Composition

Clearly, the choice of trustee and the composition of the trustee board are paramount. Good practice in the UK is to have your own trustee company with a "paritarian" board—one comprising senior management representatives and the same number representing employees as a whole. Each group can appoint and remove its trustee directors, and there is usually an independent chair.

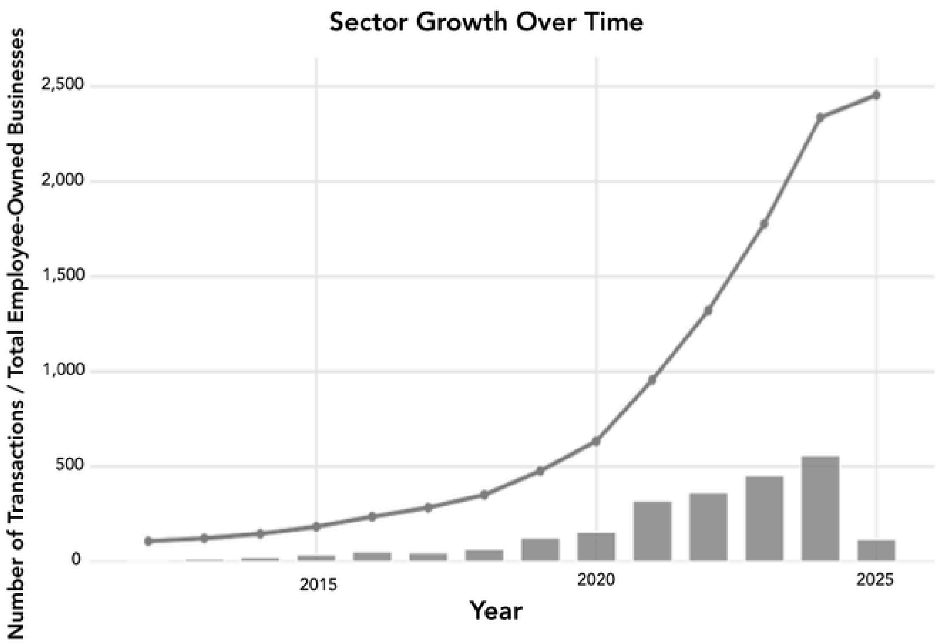
Employee Engagement

Day-to-day management remains with the trading company's management team, which may include directors specifically selected or elected to represent employees' interests. There is also likely to be an employee council that interacts regularly with the trading company board. In this way, the trustee board is free to act as custodian of the company's EO ethos.

The UK Answer

How is the question of direct, indirect, or hybrid EO being answered in the UK? Overwhelmingly, it's answered as indirect EO (or, sometimes, hybrid EO).

The UK's long-standing employee trust model was recognized in tax law as the EOT in 2014. Since then, the UK EO sector has had accelerating annual growth practically every year. This growth is a result of the EOT. In the decade following the enactment of the UK's EOT legislation, some 1,800 companies transitioned to employee ownership using the EOT model. This growth is set to continue, with 560 transitions to EO recorded in the UK in 2024.



UK employee ownership sector growth over period 2012 – (year to date) 2025

Source: The EO Business Register, updated and maintained by the Employee Ownership Association (EOA) and the White Rose Employee Ownership Centre

EO as a Business Succession Solution...

The main driver behind the ten or more new EOTs created each week in the UK is that it provides a business succession solution for private company owners. Any owner considering a move to EO will quickly appreciate the advantages this offers compared to, say, a trade sale. It avoids sharing trade secrets with competitors and gives control over timing.

...Especially Using an EOT

If you explore motives more closely, you will find specific aims among those choosing EO as an exit solution—securing a company's legacy, preserving its independence and ethos, and achieving the right sort of stable long-term new ownership. These are all aims that the EOT can help fulfill, and more so than with direct EO, because these aims can be written into the EOT's constitution.

Wider corporate purpose is important to many businesses. This is also something that the EOT can support.

A Flexible Solution

It is worth emphasizing that companies moving to EOT ownership have previously been owned in a variety of ways, ranging from listed company ownership through to directly employee-owned companies that have switched to EOT ownership. EOT ownership can apply to companies of different sizes. It can cope well with seasonal workers and an international workforce. The EOT model is proven to work regardless of the nature of a company's business—whether it supplies goods, services, or both.

Example EOT-Owned Companies

The following are examples of some early UK conversions to EOT ownership (with the number of employees at the time of conversion).

Company	Date	Former Owners	Business	Employees
Allford Hall Monaghan Morris	2017	Founders	Architects	>250
Beta Valve Systems	2017	Family	Solenoid valves	10-49
E. A. Gibson	2015	Listed company	Shipbrokers	50-249
Paradigm Norton	2019	Founders & investors	Financial adviser	50-249
Quintessa	2014	Founders & employees	Scientific consultancy	10-49
Riverford Organic Foods	2018	Founder	Organic veg boxes	>250
WATG	2014	Management	Design consultancy	>250

Other Factors

Obviously, other factors must be considered when deciding on an EO model. Certain design features may be priorities. If a business wishes to belong to the international cooperative movement, then a worker cooperative is the usual model to adopt. If a business wants to provide what may be a significant financial benefit to employees on retirement, then the US employee stock ownership plan (ESOP) can deliver this. Other factors include financing and the relevant tax or other regulatory regime.

In some countries, tax rules can get in the way of a move to EOT ownership. A sale to an EOT is possible in the UK and US. There's a workaround in Australia. There are tax problems in Ireland.

Tax rules can provide a powerful incentive to change your plans, particularly if it's much more tax effective for a company to finance the transition using one model of EO than another. It is important to have a clear idea of the type of EO you want commercially (and why) and to try to achieve that rather than allowing tax to decide the future ownership model of your business.

Summary

In summary, if you're interested in EO, weigh the merits of the different models (including the EOT) so you can answer the big question: what type of EO is best for your business? Almost always in the UK, and increasingly in the US, the answer is the trust model, the EOT. Hopefully, this article has encouraged you to look more closely at the EOT.

Further Reading

Nuttall, G. (2012). Sharing success - The Nuttall review of employee ownership. (UK Department for Business, Innovation & Skills)

Nuttall, G. (2020). EO v3.0 - Employee ownership with added Gandhian purpose. (Fieldfisher)

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