



SHARE SCHEMES FOR NON-EMPLOYEES AND THE GIG ECONOMY

David Craddock, Founder & Director, David Craddock Consultancy Services

Webinar

Tuesday 14 September 2021 15:00 BST

A Word From Today's Chairman



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Today's Agenda



- 15:00 – 15:05 Chairman's Introduction
- 15:05 – 15:25 Keynote Presentation – David Craddock
- 15:25 – 15:45 Questions & Answers

Today's Speaker



David Craddock

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DAVID CRADDOCK CONSULTANCY SERVICES

Specialist in Employee Share Ownership and Reward Management,
Share Valuation, Management Buyouts,
Employee Ownership Trusts (EOT)
& Investment Education

Founder, Principal and Director:
David Craddock, MA(Oxon)
Consultant and Lecturer

Author of **“Tolley’s Guide to Employee Share Schemes”**

★ *Expertise and Experience* ★

Share Schemes for Non-Employees and the Gig Economy

What is the gig economy in the UK?

Publicised by the BBC for a documentary

“The gig economy is a labour market characterised by the prevalence of short-term or freelance work, as opposed to permanent jobs. It is work that does not have the characteristics of employment such as pension arrangements or holiday pay or sick pay”

Developed jointly by the Institute of Employment Studies and the Department of Business, Energy and Industrial Strategy of the British Government

“The gig economy involves exchange of labour for money between individuals or companies via digital platforms that actively facilitate matching between providers and customers, on a short-term and payment by task basis”

Taken from the Gig Economy Statistics UK 2021 Industry Report

“The gig economy is a large and growing section of the working population where short-term flexible workers are paid on completion of tasks (known as gigs) instead of being paid for the amount of time they work“

Share Schemes for Non-Employees and the Gig Economy

The Key Statistics that Support the Gig Economy in the UK

Based on historic population and 2022 demographic projection figures from the UK Office of National Statistics:

- ❖ There were 2.3 million gig workers in the UK in 2016.
- ❖ There were 4.7 million gig workers in the UK in 2019.
- ❖ There is projected to be 7.5 million gig workers in the UK in 2022.

Gig-based freelancers contribute £20 billion to the UK economy.

48% of gig workers in the UK also have a full-time job and for 71.5% of them gig work makes up less than half of their income.

16.5% of the UK's male population are gig workers which compares with 14.1% of the UK's female population.

31.5% of the UK's gig workers are aged 16 to 24 while some 16.4% are aged 25 to 34; gig working is found in all age groups although the gig working phenomenon is driven mainly by younger people.

74% of gig workers who work full-time and see their work as significant are satisfied with the situation although that tapers to 48% for those operating more casually as gig workers.

Share Schemes for Non-Employees and the Gig Economy

How did the gig worker emerge? and What are the reasons for going gig?

- Although there has always been gig working, it emerged from the 2008 financial crisis as, for some, a decision of choice of independence and, for others, a choice of necessity arising out of the redundancies of the time.
- The single most widely reported motivation for wanting to work as a gig worker is to introduce flexibility into their lives. The reasons for wanting flexibility are many: individuals caring for family members, students wanting flexible work alongside their studies and individuals who want greater control over how their time is spent.
- The BEIS Report of February 2018 reports six key reasons for an individual choosing to work in the gig economy:
 - ❖ A belief that the gig economy is the future of work.
 - ❖ An attempt to pursue a dream job.
 - ❖ An opportunity to earn additional income while pursuing a specific goal.
 - ❖ An opportunity to gain work experience.
 - ❖ A desire for working conditions better suited to their own health conditions.
 - ❖ A determination to transition to a positive experience from redundancy.

Share Schemes for Non-Employees and the Gig Economy

Are we at the End of the Employment Era? Not really but interesting to explore!

- James Robertson in his book “The Sane Alternative: A Choice of Futures”, heralds the transition away from “the consumer economy” to the so-called “conservative economy” with higher expectations for personal fulfilment. The characteristic of this new economy is on spending less based on a new lifestyle that does not require previous spending and consumption levels. The key lesson to learn from this book is that the business psychology of employees today in 2021 is dramatically different from that of previous generations.
- The employee share ownership culture is both a response to and a facilitator of changing expectations within society. It operates best with its infrastructure of human resource policies that enable employees to develop as creative, motivated and productive employee entrepreneurs within the business that employs them. Ironically, it is individuals with these characteristics who are motivated to become gig workers. However, their forward-thinking and energetic mindset can be harnessed by the enlightened employer to become high-contributing employees, the entrepreneurial mindset operating within the employing company.

Share Schemes for Non-Employees and the Gig Economy

The Challenges of Introducing Share Schemes for the Gig Workers: Slide 1

Question 1

Available shares are usually rationed to a particular percentage of the share capital so is allocating shares to a gig worker share scheme the best use of shares?

Answer

A decision has to be made on the balance of share allocation to employees compared with the share allocation to gig workers. The decision must always be driven by the expectations of contribution to productivity through involvement in the share scheme. If headroom on available shares poses a problem, then a phantom share option scheme, effectively a deferred bonus scheme linked to shares, will meet the requirement, and can be an effective motivator.

Question 2

Gig workers do not conform to a homogeneous model, with a wide variety of life aspirations and work preferences so how does the company design a share scheme to be suitable for them all?

Answer

The share scheme structure for the gig worker must be kept simple, based on the direct communication of the simple message.

Share Schemes for Non-Employees and the Gig Economy

The Challenges of Introducing Share Schemes for the Gig Workers: Slide 2

Question 3

Gig workers are not subject to company training programmes, performance management procedures or internal decision-making committees so how can the sister policies to employee share ownership that are required to make worker share ownership work be implemented for the gig worker?

Answer

It is true that the secret to a successful employee share ownership implementation is to ensure that the programme operates alongside a compatible set of policy initiatives based on employee participation in different forms. All the research in the UK and in the USA supports this position. The share ownership sister policies that remain for the gig workers are: (1) profit-sharing and (2) corporate communications which, when shared with both employees and the gig workers alike in the same meeting, can operate as a powerful unifier behind the company's vision.

Share Schemes for Non-Employees and the Gig Economy

The Challenges of Introducing Share Schemes for the Gig Workers: Slide 3

Question 4

Gig workers and employees can easily be categorised as separate groups of workers so how can the attractions of employment be preserved if gig workers have share schemes which have previously been the privileged preserve of the employed workforce?

Answer

The employment attractions of pension schemes, holiday pay and sick pay remain together with a perceived safety in employment and the sense of belonging to an entity larger than themselves that they believe mitigates against the risk associated with self-employment.

The downside of the perceived categorisation is the development of a defensive form of protectionism by the employee contingent. The company must always guard against the development of protectionism within its ranks as its effects can be corrosive and potentially, if left unchecked, threaten the very existence of the company.

Employee Ownership Trusts (EOT)

Understanding the Gig Worker's Mindset and Approach to Work

- The gig worker is typically a motivated energetic individual who has mastered to varying degrees, depending on the individual, the integration that is necessary to run “a one-person one-owned business”, solving their own problems and managing their own business finances. If the gig worker is running the business through a small company, then the argument can be made that the share capital of the gig worker's own small company is the gig worker's share scheme.
- The motivation for the gig worker is to grow the value of his/her own company and to invest its profits in credible investments that will prepare for his/her future. The question then becomes the following: what is the best way to support the gig worker who has found personal freedom in running his/her own company? The answer in most cases is a gig worker profit-sharing scheme.
- The gig worker's energy and motivation is usually harnessed to an efficiency and a discipline that the company also needs to see in its employed workforce. The gig worker is an entrepreneur, and respect shown by the company's senior management to the gig worker can be a powerful element to bind the gig worker to the company, even without offering a share scheme arrangement.

Share Schemes for Non-Employees and the Gig Economy

When will a share scheme be suitable for a gig worker?

The key question to ask is the following: is the primary relationship of the gig worker with the customers or with the supplier?

The Customer-Focused Gig Worker

By “customer-based” is meant that the gig worker is serving a multiplicity of customers from the base of his own operation. For example, the gig worker has set up a self-employed business providing book-keeping accounting services from home, primarily on a virtual basis. The gig worker will not expect to be involved in a share scheme with his customers although in some circumstances this type of worker is invited to participate in a share scheme arrangement.

The Supplier-Focused Gig Worker

By “supplier-focused” is meant that the gig worker is focused and dependent on one major supplier for their work. In these circumstances, there is a propensity for a natural sense of identification with the one supplier company, thereby potentially making some form of share scheme a natural fit. Examples of this type of relationship are with Uber Technologies, Inc. and Deliveroo Holdings Plc, both of which are quoted companies with shares that have a daily public display of their share movement.

Share Schemes for Non-Employees and the Gig Economy

The Purpose of an Employee Share Scheme

The research conducted in the UK and in the USA can be distilled into the following as the reasons for a company introducing an employee share scheme:

- Identification and involvement of employees
- Motivation and incentive of employees
- Retention and recruitment of employees

In the light of the analysis provided in this presentation, how do these reasons align with the introduction of a share scheme for gig workers who are not employees of the company?

Answer

For the supplier-focused gig worker, yes, a real possibility, and if the customer-focused gig worker is part of the integral team of the business then in those circumstances also a share scheme may be appropriate.

Share Schemes for Non-Employees and the Gig Economy

The Tax Treatment for the Gig Worker: Slide 1

Services Provided through a Service Company

- If the individuals provide their services through a service company, then they may be taxed on shares or share interests that they receive as employment-related securities, even though their employment relates to the service company rather than the company that has provided the employment-related securities.
- In these circumstances, the obligation to account for the tax will lie with the individual and the service company rather than with the company that has provided the employment-related securities.

Share Schemes for Non-Employees and the Gig Economy

The Tax Treatment for the Gig Worker: Slide 2

Services Provided through Self-Employed Status

- If the individuals are self-employed, then they may benefit from a more favourable tax regime. To date, HMRC offices have been prepared to accept that the grant of a market value option or a premium-priced option to a non-employee will not trigger a tax charge at the date of grant. This approach is on the basis that the option has no intrinsic value.
- When the option is subsequently exercised, a charge to income tax will arise on the income gain as though that gain was part of the individual's business profits. On the basis of recent and current experience in dealing with HMRC offices, it would appear that HMRC is continuing with this interpretation.
- Subsequent rise in share value after exercise will be subject to capital gains tax. Early exercise, therefore, gives the advantage of earlier gain subject to the less punitive capital gains tax regime.
- If there is a commitment to real shares for the gig worker, then thought should be given to direct issue although it is advisable for forfeiture provisions to be in place to apply in circumstances in which the gig worker ceases providing services to the company.

Employee Share Schemes

All Best Wishes for Your Business Initiative
from David Craddock MA(Oxon)
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Questions And Answers



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The Esop Centre's *newspad*, edited by Fred Hackworth, is a monthly publication providing in-depth coverage of the main international news in the employee share ownership field.

NB Reminder: The email address of Fred Hackworth, editor of *newspad*, has now changed to: fred_hackworth@zyen.com (please note the under-score). Please send all press releases, company bulletins and news items for *newspad* to the above address. Thank you.

September 2021

In this month's edition:

- Roadchef tax battle goes to mediation
- Employees ignored in Morrisons takeover battle, says Tory peer
- Sanne accepts Apex takeover bid
- Revolut creates 76 employee shareholder millionaires
- Top pay troubling in state sector
- Cricket bosses bounced over huge LTIP bonuses
- COMPANIES: Admiral; AUS; BP; Citi Group; Fraser Group; JP Morgan Chase; John Lewis; Lebus; Lisle Design; Milk & Honey; Oakwood Corporate Services; Persimmon; Smiths Group; Sumo; Target Components; Willis Towers Watson.
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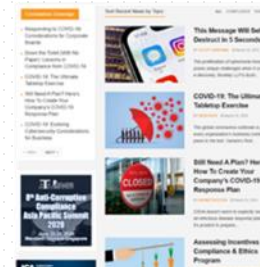


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(LF.10) Reduced inequalities

In September 2015, 193 world leaders agreed to 17 Global Goals for Sustainable Development. If these Goals are completed, it would mean an end to extreme poverty, inequality and climate change by 2030.

- Goal 10: Reduce inequality within and among countries.
- If the distribution of income, assets owned, and talent does follow CBO's projections, **income inequality** will be greater in 2030 than it was in 2010.
- **High growth over the past decade** has been based on unsustainable resource exploitation, allowing the **existing growth in inequality** and environmental cost will be critical to ensure social stability and to ensure **strong sustainable growth** in the coming decade.
- The increase in **inequality** observed in the last 20 years is a warning to future's social contract.
- America's **glove-grip** position in providing a top tier that will further increase **income inequality** at a faster rate **income and wealth gaps** are already widening.
- A failure to give the **world's poorest women control** over their bodies **will widen inequality** in **developing countries** and **slow progress** towards global goals aimed at ending poverty by 2030.
- Under French leadership the G7 group of the 7 largest advanced economies plus the European Union will have to **stop on fighting inequality**, including poverty, **induced by climate change**.
- Leadership might require companies to take **proactive and adaptive** for **change on global inequality** including **work practices, reduced inequality and more** - could open a market opportunity of **\$1 trillion** by 2030.
- The next decade offers an opportunity to address **African urban poverty** and **inequality** and shape development priorities to ensure that urbanisation helps **lower** **well-being**, **livable** and **sustainable cities**.
- In Africa and in the LDCs, **reducing poverty** by 2030 will require **both double-digit GDP growth** and **decade declines in inequality**, **shortening** the **width** of the **income** **challenges** **have**.
- The **income** **width** of **the** **top** **10%** **will** **continue** **to** **increase** **despite** **reducing** **global** **inequality** **using** **various** **and** **using** **world** **efforts**.

(FS.3.05) Employee Share Ownership

Considering 75 percent of the 2021 global workforce will be Millennials and Generation Z, it's critical that organizations keep a pulse on **employee engagement** and in a way that's consistent with how the emerging generation communicates.

- They will see a **continued emphasis** on designers' understanding of **workplace optimization** with designs that **boost office morale** and **employee wellness** while **facilitating a remote work environment**.
- By 2026, **Customer Profile** (over as **Users**, **Employee** **On-road** **Service** **Cloud** **the** **Work** **that** **the** **Enterprise** **On-road** **Service**, **With** **proposed** **envisions** for the **UK** **Corporate** **Governance** **Code**, **from** **2019**, **companies** **will** **be** **required** **to** **report** **on** **employee engagement**, as announced earlier **this year** by **Financial Reporting Council**.
- For HR leaders looking to better determine the attitudes that drive employee turnover and increase retention, using AI to provide **insights into employee engagement** will be critical.
- By 2025, **Artificial Intelligence (AI)** will **drive** the **rate** of **innovation** in **New Zealand** to **double**. **Employee productivity gains** are expected to increase 1.5 times.
- **Artificial Intelligence** will **double** the **rate** of **innovative improvements** and **improve employee productivity gains** by 1.5 times in **New Zealand** by 2025.
- US health benefits costs per employee will increase 4.7% next year - slightly higher than inflation and less than the double-digit increases seen in prior years.
- With a tight labor pool, small businesses will face 2021 in the face of **employee engagement** and **loyalty**.
- Nearly 20 percent of respondents also expect that automation will lead to some reductions in their **full-time workforce** by 2025, based on the job profiles of their **employee base** today.
- **Employee wellness** has been on trend for years, but expect to see some high-tech changes in 2021.
- By 2025, **automation** and **artificial intelligence** will **reduce** **employee requirements** in **business shared-service centers** by 15 percent, which sets the **B2B** market will up \$1 billion by 2025.
- **This year**, **many organizations** will **look** to **employee scheduling software** to **solve** **problems** around **creating**, **publishing** and **managing** **employee schedules** that include **rotations** to **cover shifts** to **reduce** **turnover** and **increase** **flex** as well as **help** **identify** **employee** **turnover** to **optimize** **worker** **retire**.

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