EMPLOYEE CO-OWNERSHIP BUSINESS MODEL

[Design]
[Implementation]
[Administration & Support]

SHFM OVERSEAS SWEDEN FILIAL

Employee co-ownership: the concept and advantages

✓ **Employee co-owned businesses** have **significant employee ownership** either through *direct shareholdings* or *shares held in foundation (or trust)* on behalf of and for the benefit of employees **aiming to essential impact on organizational performance and individual wellbeing**

INSPIRE
PARTICIPATION
PROGRESS
INTEREST
CONFIDENCE
WELFARE
OWNERSHIP

Effects, Impact & Outcomes:

- Financial incentives
- Collective Voice
- Involvement & Participation

→ **Motivation & Commitment** → **Greater Productivity & Profitability**

Employee co-ownership is a proven and most prominent alternative ownership model

Employee co-ownership: reasons and benefits

Founder / Major Shareholder

✓ Greater **entrepreneurship, innovation, talent attraction and retention**

✓ Employee co-ownership is a way to preserve the **integrity and continuity** of the business, a good way to **prevent a takeover**

✓ Employee **buy-out** is one of the main business **succession** options for company owner

✓ Employee buy-outs tend to have a **better record of sustainability**

✓ A durable solution in case of **handing over the family business to the next generation**, acknowledging the contribution of employees

Employee

✓Ownership with **people who know the business** and **helped to build it up**

✓Owning company makes employee:
- **less likely to quit**
- more **committed** to work
- more **motivated and involved**
- **work harder**

✓ Higher levels of **job satisfaction,** feel a greater **sense of achievement** and **increased wealth**

✓ **Improved job security**

✓Employee co-owned business tend to be **better place to work**

Sustainable business performance and improved customer confidence

Employee co-ownership: different models

Direct co-ownership

Employees become **individual owners** of the shares in their company

Indirect co-ownership

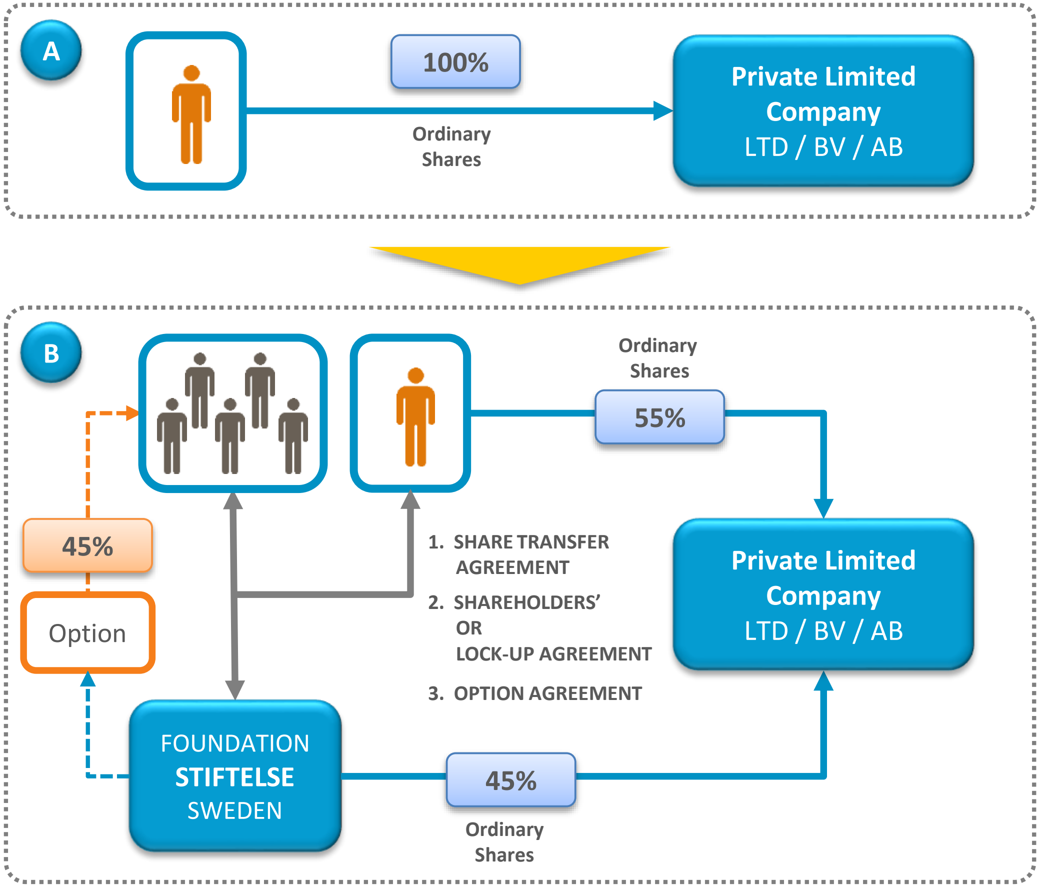
Shares are held collectively on behalf of employees through a foundation or trust

Hybrid co-ownership

A **combination** of **individual** and **collective** share ownership

Setup a foundation or trust is the easiest way to arrange employee co-ownership, because in general it is not practical to transfer shares to employees directly: they may not have funds for purchase and may not immediately wish to receive free shares due to different reasons

Employee co-ownership case:
Swedish foundation as ownership entity



In order to **bring the spirit of entrepreneurship and innovation**, the owner decides to **sell shares to employees**, acknowledging their contribution to the company

✓ Consider **how many shares should be transferred to employees**
✓ Setup a foundation or **engage the service provider with established operational foundation**
✓ Company transfers funds to the foundation and foundation **purchase shares from the owner** (or subscribes for new shares in the company) and **issue the call options** for employees
✓Employees are **entitled to receive income** from their shares through a foundation and **have a right to receive shares** at any convenient time **by exercising the call option**

Why Swedish foundation?

According to current legislation (Foundation Act SFS 1994:1220),

✓ A FOUNDATION (STIFTELSE) is a legal entity formed by a written deed of foundation signed by the founder or founders which direct their assets to permanent administration as independent capital to pursue a specific purpose of foundation. The foundation assets are considered to be separated from the founder(s) when a third party managing them in accordance with the deed of foundation

✓ A FOUNDATION :

○ has no owners or members, the foundation assets are managed as an independent capital

○ is not a form of a commercial enterprise, but can carry out commercial activities either directly on its own name, or indirectly through the subsidiaries in order to achieve the objectives set by the deed of foundation

○ can be administrated either by the Board consisting of natural person(s) - "own management ", or by a legal entity as foundation administrator - "attached management"

○ must maintain the accounts, submit reports and tax returns

○ must have at least one auditor - officially certified accountant

○ cannot be established for a period of less than 6 years

✓ A FOUNDATION usually receives tax exemptions in case:

○ a public benefit is stated as a purpose and the income applied mainly to achieve this purpose

✓ Corporate PENSION FOUNDATIONS are exempted from the income tax

Swedish FOUNDATION as a legal entity with an independent capital
can be an effective business vehicle for corporate governance,
asset structuring and protection

SHFM OVERSEAS Sweden Filial:
Business Structuring & Asset Protection in Sweden

- ✓ **Employee co-ownership program:**
  design, implementation, administration and support

- ✓ **Fiduciary ownership services providing through the established operational Swedish foundation - *no need to form a new one***

OR

- ✓ **Formation of a brand new Swedish foundation**

- ✓ **Other corporate and fiduciary services**

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