A Share Incentive Plan (SIP) can help smaller, quoted companies reduce illiquidity, whilst also offering a flexible way of incentivising staff.

Just under 30% of the companies that have been admitted to AIM this year have a market cap of under £5m, many of them driven to the market by the need to raise finance. Whilst a listing, can help companies achieve fund raising requirements, many small companies don't generate sufficient awareness to ensure ongoing buy side demand once their shares are quoted. Whilst employing a PR agency and ensuring analyst coverage can help, both are expensive and time consuming and consequently aren't always viable.

Lack of buy side demand can lead to illiquidity in a company's shares, which in turn creates wide bid/offer spreads. Whilst liquidity amongst smaller company shares is improving, thanks to increasing numbers of market makers, there remain a large number of companies on AIM with spreads of over 15%. Wide spreads will deter the savvier private investor, who will have to see a rise in the value of their holding in excess of the spread before they can make a profit. Commenting Graham Spooner of The Share Centre's Advice Team said, 'We would always point out to retail clients the disadvantages of buying a stock with a wide bid/offer spread.' Ironically since institutional investors often ignore smaller companies, the private investor is a valuable source of liquidity, so a 'vicious circle' can easily develop.

By introducing a SIP, a company ensures monthly buy side demand, which can help reduce spreads. Approximately 15% of the companies trading on AIM with a market cap of between £2m and £20m, have a spread of over 10% and more than 50 employees. These companies could all introduce a SIP without incurring any significant costs over the long term. Providing the Company uses a reasonably priced administrator, and does not incur high set-up costs, a SIP for 50 staff where the average amount saved by each member of staff is £50 a month will cover its costs within 5 years through savings on employer's National Insurance Contributions.

Add the SIP's ability to increase liquidity to the fact that they are one of the most flexible employee share plans available and the fact that they are not affected by the recent introduction of FRS20 (International Financial Reporting Standard 2) which requires quoted companies granting share options to estimate the fair value of those options and to recognise that value as an expense, and the SIP looks like an increasingly attractive option.

End

For further information on The Share Centre's range of services for smaller companies, including Share Incentive Plan Administration, please contact Emma Vigus, on 01296 439 435.