Committee Secretary
Senate Standing Committee on Economics
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Parliament House
Canberra ACT 2600
Australia

Dear Committee Secretary

Having read the submissions to - and transcripts of the public hearings on - the above enquiry, I thought I would provide a few comments based on my 30 years of experience working in the employee ownership arena (including as public officer of the Australian Employee Ownership Association (AEOA ) since its inception in 1986).

The problem with the current debate on the public policy aspects of employee share ownership is that it is failing to get to grips with the expected 'outcomes' - those results that would be beneficial to society and the economy and the reasons why Governments should support it - of employee share ownership. Instead the debate is mostly about the 'process' of employee share ownership and who gets what or who pays what as a result of this process.

There are two results that drive public policy support for employee share ownership throughout the world.

1. Cutting all the employees into the ownership of the business that employs them is good for democracy.

Spreading the ownership of productive assets is a key policy issue for all Governments. Giving employees a 'stake in the system' encourages trust in that system. It also encourages participation - the use of all talents towards the goals of that system. In Australia unfortunately, the benefits of employee share ownership have become less focussed on 'owning piece of the pie' and more on the short-term benefits of owning shares - most employees convert their shares to cash as soon as they can. There is no encouragement therefore to long term stakeholding to meet the public policy objectives. The other major problem is that the great bulk of the benefits under the current employee share ownership legislation in Australia go to the higher paid - the only country where this is so. This latter fact (backed up by the latest research from the University of Melbourne Law School) is driving the debate on employee share ownership legislation here because the higher paid - as a vested interest group - are exerting pressure to ensure that they do not lose their benefits. The general employees meanwhile are provided with very little incentive to become employee owners and to stay employee owners. The "workers scheme" - The "Exempt Share Plan" - is a very small incentive and unlikely to achieve the policy goals of broadening and deepening employee share ownership in the long term. It will never be as successful as employee ownership programs in other economies have been in achieving these goals because of its lack of incentive and support towards achieving the objective. There is virtually no Government supported education program to encourage broad and deep employee share ownership in the economy, and - given Treasury's view that ESO is only a remuneration exercise favouring the wealthy - no motivation to do so.

2. Cutting all the employees into the ownership of the business that employs them is good for the business (and hence the economy).

The very comprehensive research around the world in the last 30 years on employee share ownership shows that there is a clear link between the level of employee ownership in any firm and productivity (and usually profitability) in that firm. This is so however only if the employee share ownership is combined with formal employee participation structures which enable the "employee owners" to provide their knowledge and talents towards improving productivity and business results. Increasing productivity in the economy is a policy goal of the Australian Government. They are not achieving this policy goal through their support for employee share ownership however because corporate practices in Australia are doing nothing to combine employee share ownership with employee participation (probably because they see employee share ownership as nothing more than simply another way of paying employees). This situation has been confirmed again by the latest research by the University of Melbourne Law School. Where "all employee share schemes" operate, hardly any corporations do anything to assist employee participation - though "one way" communication programs are popular. One third of companies that have broad-based employee share ownership have no employee participation at all. Only one in twenty have financial literacy programs which encourage employees to undertsand the results of the business. While businesses acknowledge the 'productivity objective", few believe that it is being attained. With these results (which are discussed in one of the submissions - the addendum to Dr Klaas Woldring's submission) it is no wonder that the Government would want to question why it need support employee share ownership further. Again, the issue comes back to a lack of support and education from Governemt institutions towards programs which would encourage ways to see their policy objectives being achieved in the business sector through employee share ownership.

For more details on the research results o employee share ownership, I have attached an excellent recent US report summarising the 30 years of research in this area around the world. I hope you can make use of it.

The other comment I would make is that the Government is trying to make employee share ownership fit the needs of three different policy angles - executive remuneration, spreading employee ownership amongst general employees and assisting start-up ventures. The needs of these three aspects are different and not attainable in the one piece of legislation. In the case of the first, other jursdictions (eg: theUK) are looking to tax executive remuneration on the total "dollar outcome" of executive packages, rather than the bits and pieces (eg: cash salary, bonuses, share schemes and other incentives, and benefits) that make up the package. The needs of start-up companies are also totally different. In the UK, this has resulted in a different employee share scheme being legislated for which is specific to start-up companies. It is called the "Enterprise Management Incentives" scheme and can be seen at: http://www.hmrc.gov.uk/shareschemes/emi-new-guidance.htm .

I hope you find these comments useful.

Alan Greig