

The wider context of employee share ownership - high time for a better understanding in Australia?

(Submission to the Senate Inquiry into the operation of Employee Share Ownership Schemes - Economics Reference Committee)

Addendum

This is an addendum to the submission I sent you yesterday. Below are a number of significant findings from the recent comprehensive Research Report by the University of Melbourne Law School on employee share ownership in Australia. It is important that the Senate Committee is made aware of these comments from researchers. What it means is that much more can be done by Corporate Australia and the Government to achieve the objectives of ESO - especially that employee share ownership develops to cover greater numbers of blue collar workers.

This will require specific development work by agencies such as the AEOA to achieve change in this area. The University of Melbourne Law School's research shows that employee share ownership is largely confined to the white collar workforce and to the higher paid who work for listed companies. The Federal Government needs to provide support/resources to ESOP educational and development agencies to undertake service provision and technical and advisory assistance to reverse these trends. Otherwise, the Government is not getting the "bang for its buck" in terms of the objectives of the ESO tax concession program.

Also, ESO will not achieve the predicted productivity benefits if management practices are not changed to combine employee share ownership with increased - and structured - employee participation. The evidence of poor performance in these two areas was also recently produced in the University of Melbourne Law Schools research on employee share ownership. Practices in Corporate Australia have been found by this research to be poor in terms of generating the supposed productivity 'payoffs' from employee share ownership. This is because only a minority of corporations actually treat their employees like owners, share information with them and establish formal participation structures for them to become involved in the decision-making within their businesses. Again, agencies like the AEOA would be very keen to assist with the development of employee share ownership in this country so that it can go forward and achieve the dynamic impacts that such programs have achieved in other developed - and not so developed -

economies.

ESO is also not achieving anything much in the area of "employee savings" - it could be a very useful tool in this area as well.

The following are direct conclusions from the ARC funded research:

Employee Share Ownership Advantages the Better Paid

The view that ESO is "only for the well off in the work force" was certainly confirmed by the data and this constitutes a problem for the agenda of "broad and deep" coverage by ESO of the workforce.

Of the ESOP companies involved, professional, technical and scientific staff constituted the largest average percentage of the workforce (57.2 percent), followed by clerical and secretarial (17.2 percent), craft and skilled manual (10.4 percent), sales and personal service (8.9 percent), and semi-skilled and unskilled manual (6.5 percent).

Employee Share Ownership Increases Productivity

Three quarters of companies viewed ESOPs as a means of encouraging increased productivity. This was interesting given the absence of any convincing evidence of a direct link between the broad-based ESOPs and productivity. While companies with broad-based plans were significantly more likely to have structures for communicating directly with employees, the findings suggested that the existence of an ESOP does not automatically lead to increased employee participation in corporate or workplace level decision-making.

International studies have shown that it is the link between employee share ownership and employee participation that generates the productivity impact. Without this occurring in Australia, the case for employee share ownership built on 'increasing productivity' is undermined.

Respondents were asked which of a number of employee participation practices were used within their company. 39 percent of companies had a formal structure for sharing company information with employees and 35

percent of companies had a formal structure for communication between all levels of employees and management (e.g. employee surveys). Over a quarter of companies (27.3 percent) reported that their company had a joint committee of managers and employees primarily concerned with consultation: for example, a joint consultative committee (JCC). Only 4.9 percent of companies in the sample offered business literacy training to their employees.

Over one third of companies (37.2 percent) in the sample employed none of the above employee participation practices.

Respondents were also asked to indicate the extent to which employee shareholders were involved in corporate decision-making. In the majority of companies (72.4 percent), employee shareholders enjoyed the same voting rights as ordinary shareholders. Very few companies showed any form of innovation in terms of collective representation of employee shareholders, eg: employee board representation etc. Just over 17 percent of companies indicated that employee shareholders were involved in corporate decision-making through 'other' mechanisms. The survey instrument did not provide them with an opportunity to specify what 'other' mechanisms these included.

The study is the first to examine the extent of employee involvement in the design and administration of ESOPs in Australia. The study found that broad-based employee share ownership in ASX-listed companies is overwhelmingly a management initiated and driven phenomenon. Employees and/or their representatives are rarely involved in decisions relating to the introduction of a plan or its design and administration, with only one in five companies having any consultation at all in the design, implementation or administration of their share plans.

Employee Share Ownership Increases Savings

Less than a third of companies (31.1%) identified 'assisting employees generate additional savings for retirement' as an objective in implementing their ESOP.

The potential contribution of ESOPs to employee savings has been identified as a key rationale for employee share schemes by the AEOA. *Shared Endeavours* has also identified this as one of four public policy rationales for promoting ESOPs.

The report states "this policy rationale does not appear to have much purchase at the company level. This is not particularly surprising given the \$1000 tax exemption available."

END of ADDENDUM

Klaas Woldring, Ph. D.
Associate Professor, Management and Politics (ret)
Southern Cross University.

Dr. Woldring is a founder member and currently Secretary of the Australian Employee Ownership Association. However, this submission is that of an individual AEOA member. The AEOA is making its own corporate submission to the Committee.