

**Senate Economics References Committee
Parliament House
Canberra ACT 2600
Email: economics.sen@aph.gov.au**

21 April 2015

Dear Senators,

Re: Co-operatives, mutuals and member owned firms Inquiry

The author appreciates the opportunity to tender to the Senate Economic References Committee, a submission on the operation of co-operatives, mutuals and member owned firms in the Australian economy.

In 2000, the Nelson Report - *Shared Endeavors*, (see attached) highlighted inter alia, the lack of comprehensive information on the nature and extent of a particular type of Australian mutual – Employee Share Schemes (ESS). In response, the Howard Government announced in 2003 the establishment of an Employee Share Ownership Development Unit (ESODU) within the Department of Employment and Workplace Relations.

The remit of the Employee Share Ownership Development Unit was to work with employers and employees to provide assistance with design, implementation and the provision of information, necessary to support employee share ownership plans (ESOPs) in Australia. It was accepted at that time that ESOPs would:

- *Facilitate an effective workplace relations strategy,*
- *Be a core tool for achieving organisational change, and*
- *Help establish common ground between Capital & Labour.*

Melbourne University also extensively researched Employee Share Scheme literature (see attached report) and concluded in 2007 *that....'the breadth and depth of the literature from the UK and the US, provides valuable guidance.....'* In 2014, the Abbott Government introduced legislation intended to create a **New Age of Enterprise**.

Notwithstanding the research findings of Melbourne University and the recommendations of the Nelson Report, the Employee Share Ownership Development Unit was discontinued in 2007. The closure of the ESODU seems regretful as both government and business routinely encounter considerable 'backlash' when attempting to:

- *Effect organisational change,(QLD Health Services)*
- *Privatise government owned assets,(Snowy Hydro)*
- *Lift workforce productivity,(Qantas Airways)*

Overseas experience in the UK and the USA is otherwise. Privatisation of British Royal Mail, turnarounds at Chrysler Corporation/United Airlines confirm unequivocally the ability of mutuals to create common ground and the global success of Microsoft is testimony to its innovative and creative culture.

The apparent reason for Australia's inability to make productive transformative change is, according to a Business Council of Australia article by CEO Jennifer Westacott in The Australian on 11 April 15, *'because 'changes over the past decade have been damagingly polarising because they have been driven by ideology'*. In that article, The Business Council also states that it *'stands ready to work collaboratively with all stakeholders to build a system that restores the trust of workers and employers'*.

Regretfully, it will take a lot more than the good intentions of the Business Council to rebuild a level of trust necessary to re-establish productive common ground between Capital and Labour.

As circumstance would have it, ESS development that was being carried out by the Employee Share Ownership Development Unit, was subsequently by and large continued in the UK. In 2012, the Nuttall Review (see attached) found that employee ownership is an arrangement that can help restore trust between workers and employers. According to the Nuttall Review, Employee Ownership:

- *Improves business performance;*
- *Increases economic resilience;*
- *Improves employee engagement and commitment;*
- *Drives innovation;*
- *Enhances employee well-being; and*
- *Reduces absenteeism.*

Notwithstanding, the author's past personal experience as; President of the Australian & International Pilots Association (AIPA), President of the Australian Employee Ownership Association (AEOA) and as a Director of the Australian Employee Buyout Centre (a federally funded entity), indicates that Australian ESS's have never been faithfully supported by either Business or the Unions. Business would appear to be quietly uneasy about the dilution of managerial prerogative and Unions seem to be unduly concerned that Employee Share Schemes will weaken their influence.

Whilst the lack luster performance of Employee Share Schemes in Australia can be defended in part by the premature closure of the Employee Share Ownership Development Unit and subsequent unhelpful ESS legislation; this alone does not adequately explain why ESOPs in Australia have never enjoyed the level of uptake evident in the UK and the USA.

Nevertheless, thanks to the efforts of the ESODU, ESS design and methodology is better known in Australian than it was in 2003 and the taxation barriers to the financial viability of Employee Share Schemes are soon to be removed.

What remains to be done I believe, is the generation of genuine support for ESOPs by Business Councils, Corporates, Unions and Institutional Shareholders. I.e. formulating and communicating with ESOP Stakeholders responsible for enabling a **New Age of Enterprise** in Australia, the transformative characteristics of Employee Share Schemes.

Whilst the task may at first glance appear daunting, the reach of the media and increasing public acknowledgement that 'more of the same' won't save Australia from years of low economic growth, suggests that enthusiastically promoting employee equity participation is likely to be publically viewed as a timely, farsighted initiative.

Recommendation

In order to; establish common ground between capital and labour, lift productivity, improve corporate cash flow and align strategic thinking necessary to reform government services, the author invites the Senate References Committee to recommend to the Federal Government that it give timely consideration to:

- *Establishing within Government and oversighted by a Minister, an Enterprise Development Unit (EDU) tasked, inter alia, with communicating the transformative characteristics of Employee Share Schemes to Business Councils, Corporates, Unions and Institutional Shareholders.*
- *Tasking the EDU to consider, review and recommend to Treasury, select recommendations of Nuttall's UK Report.*

Having the concept of ESS avidly endorsed and undertaken by 'Capital and Labour' will require concerted effort - change that would normally be championed by Business and Unions wanting to lift profits and prosperity for the benefit of shareholders and employees alike.

Regretfully, for reasons insightfully articulated by the Business Council of Australia, quarantined advancement of ESS philosophy in Australia by either Business or Labour autonomously, is likely to be *ideologically* viewed and the benefits thereof, left to languish on the fringe of the Australian economy.

In circumstances Australia now finds itself in, the task of effectively unleashing a **New Age of Enterprise** nationally, seemingly falls to the Federal Parliaments as bastions of bipartisan support for Australian mutuals.

The author sincerely thanks the Senate Economics References Committee for the opportunity to comment on the economic impact the operation of co-operatives, mutuals and member owned firms can have on the Australian economy. I trust that the Committee finds the information helpful.

Yours Sincerely

Ian Woods, B.Ec.
AEOA Past President

Attachments: (1) Shared Endeavors Report,
(2) Melbourne University ESS Review,
(3) Nuttall Review of Employee Ownership.