13 May, 1999

The Committee Secretary
House of Representatives Standing Committee on Employment,
Education and Workplace Relations
Suite R1 116 Parliament House
Canberra, ACT. 2600

Dear Secretary,

Re: ***Submission into employee share ownership in Australian enterprises***

Please find attached a submission from the Finance Sector Union of Australia to the House of Representatives Standing Committee on Employment, Education and Workplace Relations to inquire and report of employee share ownership in Australian enterprises.

We are available to appear before the Committee to discuss the matters contained within this submission should that be deemed appropriate.

Yours sincerely

Barry J. Hirt
National Assistant Secretary

Finance Sector Union of Australia

Submission to the House of Representatives Standing Committee on Employment, Education and Workplace Relations

May 1999

Finance Sector Union of Australia

SUBMISSION TO THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON EMPLOYMENT, EDUCATION AND WORKPLACE RELATIONS

to inquire and report on:

The extent to which employee share ownership schemes have been established in Australian enterprises and the resultant effects on:

(a) workplace relations and productivity in enterprise; and

(b) the economy.

INTRODUCTION

The Finance Sector Union recognises that employee share ownership is positively regarded by employees as financially rewarding that can positively contribute to an employee's long term investment outcomes. It is less clear that employee share ownership is a significant influence on levels of employee job satisfaction, increased commitment to work and overall improvements to work outcomes. This submission will discuss a range of relevant issues that will be considered under three broad considerations.

1. CONTEXTUAL CONSIDERATIONS

a) Understanding the finance sector

b) Types of employee share plans in the finance sector for non-executive employees

c) Reasons for introducing employee share plans

d) Employee attitudes towards share plans

2. POLICY AND DESIGN ISSUES

a) Finance Sector Policy one employee share ownership plans

b) Design issues

c) Relationship with wages

3. ENTERPRISE BARGAINING AND EQUITY ISSUES

a) Relationship with Enterprise Bargaining

b) Disparity with Executive Share Plans

c) Relationship with Job Security

d) Individualistic employee share ownership and collectivist industrial relations systems

1. CONTEXTUAL CONSIDERATIONS

a) Employee share ownership in a sector in upheaval: understanding the finance sector

The impact of employee share ownership schemes on finance sector employees and the resultant effects they have "on workplace relations and productivity in enterprises" cannot be considered in isolation of other significant industry and enterprise factors that impact on the working lives of finance sector employees.

The finance sector has undergone enormous change and transformation in the last decade as a consequence of deregulation, increased globalization, competition and technological change.

Across banks, insurance companies and credit unions, finance sector employees have experienced significant merger and takeover activity, restructuring and centralization of operations, retrenchments and massive changes to their duties. In the last three years, 23,000 jobs have been cut from the industry through retrenchments.

The finance sector is entering a period of significant transformation, which will impose major challenges on all stakeholders in the finance sector. This is a result of a range of factors including:

- increased competition,

- the emergence of new entrants to the industry,
- changing customer demands,
- new distribution and service channels including a greater utilization in electronic trading service, rationalization and redirection of retail networks,
- banks and insurance companies entering each others markets thereby blurring the sector boundaries.

The impact of these changes have a profound impact on our members. In addition to the massive job losses there is the constant restructuring and increased pressure to reduce costs, work intensification and increased unpaid work and a move away from permanent and full time workforce. Precarious forms of employment have been increasingly utilised and accompanied by inadequate levels of investment in training and re-skilling of employees.

In the midst of these changes, the major financial players continue to record significant profit and income growth. The four major Banks posted in the last financial year $6.29 billion profits- before abnormals.

Against this industry setting, employee share plans for non-executive staff have been introduced in publicly listed finance organisations and differed markedly to the types available to finance sector executives. In recent years, executives have attracted significant publicity in light of their massive remuneration increases including extra-ordinarily generous share option plans.

The modest employee share arrangements for non-executives employees should not be confused with the more financially lucrative arrangements offered to executives in finance sector organisations.

b) Types of employee share plans in finance sector

The main types of employee share schemes for non-executive employees in the finance sector are comprised of loan scheme arrangements and the provision of partly/fully paid shares to employees.

Loan schemes were introduced in a number of financial institutions in the early 1980's and were accompanied with issued shares at discounted prices i.e. 10%. There were, however, different conditions of repayments for management and non-management staff. In many instances pre-management staff had onerous requirements of paying off loans within 12 month periods. The take up rate of share plans under such arrangements for non-management was not surprisingly very low. For instance, staff participation in loan scheme arrangements at the National Australia Bank was at 20%, reaching a high in the early 1990s of 35% on the basis of slightly varied loan schemes that allowed loans to be extended to a period of twenty years.

In more recent years, permanent workforce employees at the National have been able to purchase shares which correlate to a certain set value in accordance with their level of remuneration. Dividends are utilised to pay of the loan. Some finance sector organisations have also introduced 'risk free' loan arrangements, whereby staff who resign and must pay off their loan are guaranteed bank coverage of any outstanding amount should the share price fall below the original purchase price. The total effect of such arrangements has clearly made such arrangements more attractive with significant improvements in employee participation.

As a consequence of legislation that allows for shares worth up to $1,000 to be awarded to employees in any one tax year free of tax, major financial providers introduced arrangements that allocated a 'free' gift of shares to all employees at no cost to them. Staff in these organisations have overwhelmingly elected to accept these shares that attract no tax to the $1,000 limit. A number of these organisations have stated an intention to provide for an annual allocation to employees of such shares and are held by the company under a trust structure, for three years or until the cessation of employment of an employee.

c) Reasons for introducing share schemes-what have employers in the finance sector stated

Finance sector employers have articulated a number of reasons for introducing employee share ownership programs. According to finance sector employer publications and other communication, employee share ownership schemes have been introduced to:

- encourage employees to build an ongoing shareholding in their organisation;
- introduce a greater alignment of employee's interests with that of shareholders to work towards the common goal of organisational success;
- utilise such schemes as a vehicle for saving and wealth creation for employees;
- provide tangible expression of desired management style and reinforcement of organisational values;
- reinforce the links between efficiency improvement, excellent customer service and shareholder value.

d) Attitudes of finance sector employees on share ownership program

The following is a brief consideration of a study into employee share ownership programs at the Commonwealth Bank of Australia undertaken in 1996[1]. It provides a useful insight into the impact employee share ownership has on attitudes towards various aspects of work.

The main findings are summarised below:

Employee share ownership increasing employee commitment to the organisation

- 37% of respondents indicated that in general, owning shares increased employee commitment. 63% of respondents did not believe this was the case with the result evenly shared between owner and non-owner respondents. It was determined in

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[1] Rudge, Lisette. Resear*ch report on Employee Share Ownership at the Commonwealth Bank* for a Masters of Business and Employment Relations at the University of Technology Sydney in 1996. The study sought to examine the attitudes of staff towards employee share ownership programs as a 'financial investment amongst owners' and sought to ascertain 'patterns of share ownership with gender, employment status, classification (i.e. salary) no of dependents'. The design of employee share ownership scheme was also examined in the context of how this influences staff participation. The attitudes of staff towards their employment was also examined in the context of how employee share ownership programs interrelate with salary and wage outcomes, particularly in the context of enterprise bargaining. The primary tool of determining staff attitudes was through a survey questionnaire that was distributed to 300 randomly selected award based, FSU members employed at the Commonwealth Bank.

the study that "the figures suggested that share ownership alone was unlikely to increase an individual employees commitment/motivation to the work environment.

Owning CBA shares influenced employee commitment or work performance?

- 42% of total employee share owners believed that owning shares increased their levels of commitment to the organisation. It was suggested that the respondents who believed that they hadn't changed their behaviours may consider that were already working longer hours and increasing their effort because of work intensification, rather than improving their performance as a consequence of share ownership.

Whether CBA shares were considered to be a good investment

- 98.3% of owner respondents considered that shareholding in their organisation was a good investment, reflecting the high level of confidence in CBA shares at the time.

Whether employees would consider trading off part of some future salary increase for CBA shares

- 84% of respondents indicated that they would like to. Only 23.3% of existing shareholders indicated that they were willing to trade off some of their wage increases for additional shares.

Why employees didn't own shares

- 51% of non-owners indicated that more immediate financial commitments were the reason why they did not own shares. This survey was conducted before the Commonwealth Bank introduced a free gift of shares to employees.

In broad terms, the study concluded that in terms of "extrinsic satisfaction, respondent owners do view employee share ownership programs as a financial, long term investment and have indicated that they see share ownership as financially rewarding". However, making linkages to improved levels of job satisfaction and commitment to work on the basis of share ownership alone is less clear and difficult to assert.

2. POLICY AND DESIGN ISSUES

a) Finance Sector Union policy on employee share ownership schemes

FSU generally considers employee share ownership as a positive method for employees to access long term investment strategies that have the potential to be financially rewarding. The Finance Sector Union, has contributed to and endorsed ACTU policy on proposals to issue shares to employees or negotiations on employee share ownership in specific enterprises. This policy had been drawn up with the assistance of the Association for Employee Ownership in Australia. It provides a useful overview of the espoused approach of trade unions when responding employee ownership proposals.

In summary A.C.T.U policy includes the following:

- Wage levels and conditions of employment are independent of share ownership. Award standards including wages, should not be discounted in return for rewards from financial participation;
- All employees in an enterprise must be eligible to participate;
- Plans must be structured to take account of the financial ability of lower paid employees and to enable their participation;
- Schemes should be self financing, minimising financial risk to employees;
- The preferred option for participation is a democratically controlled employee trust or company, with employees having access to, and control over his or her account (subject to deed considerations);
- Shares must be equitably distributed between employees. The preferred option is that rewards are to be distributed equally to all levels of employees;
- Plans must be subject to full consultation and decision-making by employees;

- Trade unions must be involved to provide advice on protecting and advancing employee interest;
- Plans must be part of a comprehensive approach to greater employee participation.

In deliberations with finance sector employers, the Union has asserted that employee share plans must be genuinely accessible and designed to maximise employee share ownership participation. The most effective means of doing so is by reducing or eliminating the exposure to risk for an employee. Given that employee share plans are frequently introduced to link employee benefits with corporate performance, then all employees regardless of their seniority, salary level, mode of employment (full-time or part-time) and general financial status must be able to genuinely participate in the scheme.

Our support for such arrangements however is qualified to the extent that employee share arrangements should not be a replacement in any part of existing wages, working conditions, benefits or rights of employees. Therefore employee share ownership should be considered as another means to reward employees and understood to operate in addition to organisation's existing remuneration systems.

In recent years, the Finance Sector Union has proposed that there be an introduction of employer funded allocation of shares and revised loan arrangements for staff to purchase additional shares, as a means of improving the employee access to share schemes.

While the Australian experience of employee share ownership reflects aspects of FSU and ACTU policy, there is a growing incidence of schemes in the finance sector and in the wider economy that are unilaterally introduced by employers with trade unions ignored in the development processes. Therefore there is often minimal consultation on the concept, design and implementation of employee share schemes. Such an approach, is often underpinned by an ideological view that these matters should remain within the exclusive domain of employers, particularly the Board of Directors and Annual General Meeting endorsement. It is asserted that such a narrow focus overlooks the potential for trade unions to influence the level of participation in employee share plans by employees. In a detailed study undertaken by a Sydney consulting firm Remuneration Planning Corporation and outlined in a 1992 Report "Australian employee Share Plan-Detailed Report", based on best practise international and domestic experience, it was found that union support was the most important criteria for a successful employee share ownership program.

b) Design issues

Inconsistent treatment of Part time employees

The majority of part-time employees in the finance sector are women. These employees may or may not have equal access to employee share plans. This will depend on who they work for. The National Australia Bank and the Commonwealth Bank provide an equal allocation of a gift of shares to all employees irrespective of their mode of employment.

This contrasts with arrangements pertaining to ANZ part-time employees who are issued shares on a pro-rata basis in accordance to their contracted hours. At Westpac, management have openly conveyed the view that despite legislation requiring that all participants have access to share offers on an equal basis, that "it would be inequitable to provide the same reward to all employees irrespective of the hours worked". The initial Westpac scheme introduced in 1996 provided that part-time employees who worked 22 hours or less were not eligible for an allocation of shares and received instead a cash payment. This was recently improved so that only part time employees working less than 10 hours were excluded from access to an allocation of shares". FSU submits that the arbitrary nature of determining which permanent employees have access to share plans is inequitable and at worst discriminatory and sends out inappropriate messages to a growing proportion of the Bank's workforce.
Such arbitrary requirements ensure that a significant proportion of permanent employees do not have equal access to a stake in the organisation's corporate success.

Minimum service requirements

Financial sector employers vary in their requirement for minimum service requirements before an employee is eligible to participate in a share plan. The range includes immediate eligibility, one year or two year service requirements. Given that incoming senior executives generally have the capacity to participate in share schemes at the outset of their contract, FSU asserts that non-executive employees should also have immediate access to employee share plans. In light of current employment turnover rates in the finance sector that generally oscillate between 20% - 25%, immediate access to employee share plans would make such arrangements more meaningful to a substantial proportion of the finance sector workforce.

Timing and acceptance of share offers

A number of employees who either resign or are retrenched, miss out on an allocation of shares despite having completed a significant proportion of a performance year. Even when they have "elected" to accept a gift of shares. This is often because the rules of the plan authorised by shareholders require a person to be an employee of the organisation at the date of issue of share in order to be eligible for these shares.

There are further accessibility issues that arise regarding employees who are on leave of absence for a period of time and are either not aware of a share offer or are unable to convey an acceptance to a share offer. For example, where an employee is overseas, organisations have been reluctant to issue any shares through representations made by an authorised representative of this person, because they argue that shares can only be accepted by the employee in their own right, given that they are issued in the employee's name.

In relation to issues outlined here, FSU has made representations to employers seeking that processes of election and share distribution should become streamlined to reduce scope for employees to miss out on an allocation because of a severance of employment. Furthermore, organisations should be capable responding to circumstances where an employee is on a leave of absence and has difficulty in conveying a personal confirmation of acceptance of a gift of shares.

c) Relationship with wages

Despite this lack of legal certainty regarding the delivery of shares to employees through Enterprise Bargaining, FSU encounters a number of employers in the sector who assert that wage outcomes should be discounted as a result of any future allocation of shares. As previously stated, the FSU accepts the financial benefits that may be derived by employees through a free allocation of shares, however this should not occur in lieu of proper wage outcomes.

Shares constitute forced savings often at a level beyond our members. Despite the benefits of contributing to improved savings outcomes, employees look for real wages growth, in a manner that reflects their increased contribution to the success of an employer organisation. In the course of recent enterprise bargaining negotiations, an FSU member concisely articulated that "shares are good, but they won't pay for those groceries my family needs today at Woollies". Consistent with this sentiment, FSU reiterates that employee share outcomes should not be regarded as an alternative to proper wage outcomes.

3. BARGAINING AND EQUITY ISSUES

a) Relationship with enterprise bargaining

Employee share plans are required by corporations law to be endorsed by the board of the company and approval by a general meeting of shareholders. Therefore a commitment to implement a share plan in an Enterprise Agreement is conditional upon corporate governance approval. As a result it is difficult to legally secure a commitment from an organisation to deliver certain share scheme outcomes to employees in an Enterprise Agreement registered under the Workplace Relations Act.

Enterprise Agreements in the finance sector usually contain general provisions referring to an intention to introduce share arrangements to employees. Employers have tended to hide behind the 'veil' of corporate law requirements to mask their general reluctance to make employee share ownership arrangements subject to negotiation with the Union and subsequently regulated by Enterprise Agreements.

Organisations at the board or shareholder level are able to override the intent of enterprise agreement provisions on share plan allocation. This inherent lack of legal certainty undermines an organisation's credibility in delivering additional and ongoing reward to employees for organisational performance with share schemes.

An example of this discretion occurred not long ago. In a major Bank Enterprise Agreement explicitly states *that "….. this benefit is not regulated by this agreement. The terms or continuance of this benefit may be varied from time to time by the Bank without reference to this agreement however, the Bank will advise the Finance Sector Union of any decisions or alterations deemed necessary. This is in no sense means explicitly or implicitly that the "Bank" Employee Share Plan will be the subject of negotiation but the benefit is a determinant of the Bank."*

In November 1998, this Bank posted a net profit after tax of $1,342 million. It had reduced its operating expenses by 5.1% and improved earnings to above 4%. Because the Bank achieved a 0.96 return on assets, just below the target 0.97 return on assets figure, that was unilaterally determined by the Bank as the trigger on which to allocate shares to staff there was no allocation of a 'gift' of shares to employees.

Staff were justifiably angry with the Bank and the lack of transparency with this 'trigger'. It was also unsatisfactory that staff were affected by this unclear measure of performance in contrast to other measures of performance applying to executive staff with regard to share arrangements. The subsequent allocation of a Christmas cash bonus of a couple hundred dollars to non-executive employees whilst generally welcomed, fell short of more generous arrangements available to the top tiers of the Bank who had access to the tens of millions of share options.

As a result of staff reaction and FSU lobbying the Bank has introduced a modified methodology regarding future share allocation to staff.

b) Disparity in employee share arrangements between executive and non-executive employees

The gap in remuneration arrangements between executive and non-executive remuneration continues to widen. In 1992 the chief executive of a major financial institutions was paid 42 times the wage of a first-year bank teller. Last year, the same position attracted a salary that was 103 times the salary of a first-year teller's income.

Executives wages are supplemented by share packages that are underpinned by generous share option schemes. It is difficult for employees to accept calls to moderate their wage demands during enterprise bargaining or experience the increased levels of insecurity in their own employment in light of the enormous windfall gains executive share options schemes deliver. Of course such schemes are also designed to minimise executive employee tax liability.

Last year, a group of senior executives in a major financial institution collected $29 million after converting options (issued three years beforehand) into shares and selling on-market. In another major financial institution, in the course of a few weeks it was reported that some 26 million shares went through the market, a significant proportion of which were exercised by executive employees.

FSU members cannot ignore the size of various chief executive remuneration arrangements that in some cases provides them with access to over $35 million profits available through converting in excess of a million share options.

Given that all executive remuneration is now linked to these huge share option arrangements, FSU along with other commentators questions whether there is an appropriate balance between the interests of different stakeholders by these senior executives.

c) Relationship with security of employment

According to research undertaken by Australian Employee Ownership Association there is a strong correlation with employees feeling that they are making a contribution to the 'good health' of their company and a reduced concern about their job security. Making such a linkage in the finance sector is extremely tenuous given that strong profit and income growth for an organisation does not guarantee security of employment.

Employees in the finance sector have been put in the unenviable position of being informed through the financial press that their employer intends to massively reduce costs by cutting staff. Such announcements are often timed to seek financial market approval and induce greater than exponential short-term growth in share values. There is little consolation for staff, even those who hold shares, when job security and increased workloads and pressure emerge with such short term managerial strategies.

d) Individualistic employee share ownership schemes and collectivist industrial relations systems

Despite the central premise underpinning the legislative changes to the current industrial relations framework, that individualism is the way to achieve greater productivity, there is a substantial and growing body of academic work showing the positive and innovative role which unions, through a collective bargaining framework, play in enhancing organisational performance. A study undertaken by the University of Melbourne Department of Management titled "Antecedents and Consequences of Dual and Unilateral Commitment: A longitudinal study", looked at a major financial institution with significant levels of FSU membership. It found tangible evidence over three year period that a "co-operative industrial relations climate was associated with significantly higher branch level productivity and significantly lower absenteeism". Furthermore, it found that "a collectivist work orientation was also associated with better performance outcomes". The researchers offered the following as an explanation of this finding:

- Effective unions can reshape and enhance management practices leading to improved organisational performance;
- Conflict resolution processes will be fairer and more transparent;
- Employees will have a means of airing discontent and channeling this into productive change.

In this financial sector organisation, employee share ownership programs that potentially benefit individual employees are not considered by the FSU as inconsistent with the collective method of problem solving of industrial relations issues. In this environment, collectively negotiated outcomes have genuinely contributed to enhanced levels of productivity and provided a platform on which to address skills formation and work design issues. Here, enterprise bargaining continues to be a significant mechanism to improve the quality of employee's working lives.

As part of enterprise bargaining processes, the FSU had been involved in discussions with this finance sector employer on the development of a revised employee share plan design. It was significant that this organisation cited union support as one of the important criteria for high participation of its staff. As a consequence of developing revised arrangements, the take up rate of shares by employees in this organisation has increased from a previous 50% to a current 98%. Although this may be attributed to the introduction of an allocation of 'free shares' to staff, it is pertinent to note that the revised loan arrangements for staff that had previously had a take up rate of 25% to 35% had risen to a high of 85%.

With regard to both schemes, the Finance Sector Union was involved in discussions leading up to their implementation and was extensively involved in the communication processes during the 'roll out' phase to employees.