

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

The following discussion highlights the main issues regarding employee share ownership schemes (ESO schemes) and their effect on the economy:

International research indicates that companies realise increased productivity and innovation from employees as a result of employee share ownership schemes. The resultant effect on the economy would therefore be increased performance of Australian companies. Survey's conducted in the US indicate that employee owned firms far outperform other competitors on the Dow Jones and other US stock market indices (Financial Times: 1998).

Investment in private enterprise may be stimulated through ESO Schemes. For many investors, their introduction to the sharemarket is via employee share ownership. As employees' confidence around the equity market increases, they are likely to invest more of their earnings into Australian stocks. The UK Government's central economic package is focused at sustaining high, stable levels of growth, and improved global competitiveness. Part of the multi-point budget includes a new Employee Share Ownership scheme that will encourage employees to take part in the success of their companies

Research also indicates ESO schemes encourage long term commitment to the organisation, and long term saving (Proshare:1999). They provide a valuable tool to help employees save for their future retirement. ESO schemes may impact the current structure of superannuation and retirement planning in Australia. Australian employers can provide alternative benefits to superannuation via ESO schemes. This may be a particularly attractive option for employees with fully funded superannuation.

***The extent to which employee share ownership schemes have been established in Australian enterprises and the resultant effects on workplace relations and productivity in enterprises***

The use of ESO schemes provides the opportunity for a position change in the relationship between employee and employer in the employer bargaining process. Shares directly owned by company employees build strong links with industry and direct interest in the overall company performance. As a result this boosts individual productivity. Evidence suggests that employees feel more responsible for the performance of the company when they own shares, and directly benefit from increased company performance, reflected in the share price.

There are increasing instances of bargaining related to substantial share packages in lieu of salary/wage increases. Such an arrangement avoids cost incurrence for the employer and rewards employees for the achievement of profit objectives at a growth rate consistent with that enjoyed by the shareholder at large.

From a research perspective, shareholder returns are likely to increase in proportion to CEO ownership of share capital. As Executive Stock ownership increases, CEO's

are less likely to take “unnecessary” risks, and are more likely to achieve stable economic growth. High levels of Employee Share Ownership, especially at more senior levels of the organisation, improves performance, expressed as an increase in share price (Compensation & Benefits Review, 1999).

ESO schemes increased staff innovation and global competitiveness, according to UK research. Mitie building services, where employees own more than half the shares, has more than 40 worker millionaires and a growth rate in excess of 30% over the past nine years. FI Group, where mainly female staff own 40% of the business, have made gains of nearly 600% in their shares since listing on the stock exchange (Sunderland & Pengelly, 1998).

### **Colonial Ltd- Employee Share Scheme**

The Colonial staff share plan commenced in 1997. Eligibility involves 12 months continual service with Colonial applicable to all staff in all countries of operation. The benefit to staff includes \$1000 of free shares- limit set by FBT legislation, and loan plan shares to the value of a percentage of annual remuneration. Shares must be held for three years before trading. Offers are made regularly to 12 months qualifying

#### **The notable effects of the shareplan include:**

- Commitment to Colonial performance enhanced
- Day to day interest in results and share price very high
- Increased understanding of merging from Mutual to listed company
- Sense of belonging- receipt of “gift” from employer
- Australian brand company- staff part of one company, regardless of positioning around the globe

*References*

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