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

SUMMARY OF MAIN POINTS

This submission makes twelve key points.

1. There is very little Australian research on the effects of employee share plans on 'workplace relations and productivity in enterprises'.

2. There is American research and some UK research on the effect of employee share plans; however much of this shows that there is a correlation between a company's having a general employee share plan and improvement in various indicators, rather than one being the cause of the other.

3. Whether we regard each individual piece of evidence as conclusive or not, taken in totality they support the conclusion that employee share plans are part of the way in which competent senior managements improve efficiency and productivity in their companies.

4. A properly managed general employee share plan provides an important focus for communication, and a key to enable a company to develop shared goals with its employees. This is most important in large businesses, because it is these very businesses which have the most complex structures, and where it is hardest to communicate the objectives of the business.

5. General employee share plans are an effective way of spreading share ownership in the wider community, and have proven to be an effective way of introducing many people to share ownership.

6. General employee share plans are also an effective way of increasing savings in the community.

7. General employee share plans cost money to establish, and they cost money to operate effectively and, although these costs are deductible for tax purposes, this does not, of course, completely offset them; but the companies that have introduced plans obviously feel that the costs they do incur are worthwhile.

8. Because many employees know little about share ownership in general, and because of the various other products competing for employee savings, there is merit in providing sensible tax incentives to encourage employees to participate in general employee share plans. These incentives must however be balanced against the need to maintain the tax revenue base.

9. Employee shareholders are only one type of shareholder and their rights and obligations should be no greater than the rights and obligations of other shareholders; however they should certainly be no less.

10 There is some evidence that employee share plans work best when associated with a degree of participation. ("Participation" means enabling employees to participate in aspects of their job in which they have a direct interest and involvement. It does not mean providing some social activist or union official with a seat on the board!)

11 These conclusions are true of general employee share plans. If senior executives are alienated from their company there is a major problem in that company, and one that will not be addressed simply by introducing an executive share plan.

However selective employee share plans, such as "executive share plans" do offer a means of providing variable income for the people concerned, and they are an essential element in a company's remuneration plan.

12. There are some minor changes that would make employee share plans more attractive to both companies and employees and would not have a major impact on either taxation revenue or the rights of other shareholders. These are

1. Providing for a "savings related share option plan".
2. Allowing capital gains tax on shares to be deferred until the gain (or loss) is realised when the shares are sold or disposed of in some other way.
3. Allowing the exercise of options to be restricted when an employee leaves a company shortly after the grant.
4. Removing the 'five per cent limit' on the grant of shares or options.
5. Making the prospectus provisions for small companies less onerous.

AVAILABLE RESEARCH

EXTENT OF PLANS IN AUSTRALIA

Information on employee share plans in Australia is limited; although it will be much more extensive once the AEOA research programme is finished next year.

Some information is summarised in the Australian Employee Ownership Association submission to the Committee, and I am unable to add to it.

Evidence from the ASX shows that general plans have played a significant role in spreading share ownership amongst people that did not directly own shares before they joined a plan. In particular after the 1987 market 'correction' more new investors were introduced to the share market by employee share plans than in any other way.[1]

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[1] Australian Share Ownership Survey, 1988. Australian Stock Exchange.

EFFECTS ON PRODUCTIVITY

Appendix B summarises a number of research projects, but the Australian information is fairly limited. Available research shows that there is a correlation between various measures of business improvement and the existence of an employee share plan.

Even the leftist writer Hyman[2] was compelled to concede:

> 'Measuring the consequences of schemes offers problems of attribution and of locating the direction of causality, complicated by the added dimensions of time scale; the germination time is an uncertain factor and effects attributable to financial participation may extend (or vary) over an indefinite period, making assessment at any time particularly hazardous. Nevertheless contemporary UK research suggests that financial participation is positively associated with company performance.'

EFFECTS ON WORKPLACE RELATIONS

As Appendix B indicates, there is strong evidence that general employee share plans improve the workplace environment. In particular employees become more committed to their company and its progress.

Unfortunately many surveys of share plans rely solely on the views of managers; however one that did not was a survey conducted in the UK by Cadbury Schweppes to gauge the effectiveness of its savings-related share option plan.[3]

The results of this research are discussed in Appendix B

In summary, of those who participated in the Company's employee share plan
85 per cent agreed that owning shares in the Company encouraged them to follow the share price regularly,
67 per cent agreed that owning shares in the Company encouraged them to improve the Company's profits,
53 per cent agreed that owning shares in the Company encouraged them to try to reduce operating costs and overheads,
82 per cent agreed that owning shares in the Company encouraged them to be more aware of annual results,
80 per cent agreed that owning shares in the Company encouraged them to promote the Company to their friends and family and
85 per cent agreed that owning shares in the company encouraged them to follow the share price.

There was also strong evidence that the existence of a share plan encouraged greater interest in the Company, although this was a natural corollary of the other factors.

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[2] Hyman J, Ramsay H, Leopold J, Baddon J and Hunter L C. 'The Impact of Employee Share Ownership' Employee Relations Journal 1989. Vol11 No 4. P10.
[3] Cadbury Schweppes Sharesave Scheme Survey. 1995. Unpublished results analysed by ProShare, London.

The 1987 Toronto Stock Exchange study[4] found that almost 98 per cent of employees surveyed felt that employee share plans had increased their interest in their firm's financial success.

It is a big step to claim, on the strength of this and related evidence that employee share plans also improve the workplace environment; but there are two steps in this process. It is clear that employee shareholders are better informed and more aware of how their company is progressing. In such an environment, employees take a more realistic view of the impact of restrictive work practices, and industrial disputation. Having a share plan will not eliminate them; but it will provide strong reasons to consider the merits of management and union proposals before acting, and that is all that most managers would ask!

EFFECTS ON THE ECONOMY

Apart from the net beneficial effects of their impact on individual businesses, employee share plans impact the economy in two ways.

First, they tend to increase the savings in the community to the extent that the money employees invest in the company employing them is additional savings financed by consumption foregone. Doubtless not all of it is; but the fact that employees see employee share plans as a form of savings, and that this is an important reason for participating suggests that there is a significant proportion who do. This is not of course true of plans where the employee is not required to advance money to purchase shares, and there is a lot to be said for the UK type of plan known as a 'savings related share option plan' because it helps to create additional household savings.

I understand that .in the UK some people are arguing that this form of plan is deficient in that employees sell their shares as soon as they acquire them, and I make two points on this

First, this view has been put forward from time to time in the past, particularly by sections of the press which want a story –any story, and by some sections of organised labour which see employee share plans as a threat to their control in the workplace. Although it has been true that some individuals sell shares when they have financial problems and there are others who sell them to make a quick profit, it is far from true of employee shareholders at large.

The view that employees dispose of their shares as soon as they can is not new. In his book 'Shared Ownership' Copeman gives the following example.

> 'In Britain it was particularly important to demonstrate that employees could and would hold shares, given a period of introduction to them. Many stories had been spread, though they were largely false, of ICI employees selling shares at the factory gates. To help kill the mythology of employees selling shares as soon a they were acquired, ICI conducted a survey of its share register seventeen years after the company's employee share scheme was started. They found that 37 per cent of all the shares ever issued to employees

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[4] Nightingale and Laroque. 1987. Employee Share Ownership at Canada's Public Corporations. The Toronto Stock Exchange.

> during this time were still in the same hands. Nevertheless a tax incentive for employees to hold shares could be useful to counter the image of factory gate sales.'[5]

Secondly, they still represent an important way of introducing people to direct investment in the share market. This is more important in some times than in others. As I pointed out above, in the year after the 1987 stock market "adjustment", it was the biggest single factor in bringing people to the stock market to invest for the first time. It is probably less important now because of the increase in direct shareholding due to privatisations and de-mutualisations.

Other evidence on the impact of employee share plans is quoted in Appendix B

EMPLOYEE SHARE PLANS AND WORKPLACE COMMUNICATION

Given that competent employers actually want to talk to and consult with their employees about aspects of work that the employees know about, employee share plans are a critical part of the communication process. In a lot of companies the employer only talks to employees when either

> there is bad news such as redundancies, or
>
> the employer is trying to persuade the employees to refrain from industrial action or change work practices.

In many situations this provides the opportunity for a union or a cynical employee to say "Well they would say that wouldn't they."

On this point some of the less relevant employee organisations have sought to alienate large companies from their employees. They have possibly done this so that they can boost their membership numbers in businesses where large work sites make major recruitment efforts well worthwhile and management is hampered because of the communication difficulties inherent in large organisations.

It is a common employee complaint that employers do not consult them about wider issues and important decisions affecting employment. It is a fact of life that, where major issues are involved, employers are restricted by the need to ensure that the market is adequately informed through releases to the Australian Stock Exchange Limited before they can be discussed with employees.

Employee share plans provide an ideal way for companies to introduce employees to the wider issues of company management as well as giving them a stake other than wages in the businesses for which they work. The writer has had direct experience of employees who were unaware of their company's profitability because they had never learned the difference between "sales" and "profits". This should not surprise us because they have never had reason to learn until they came to buy shares.

Just as importantly, many are unaware of the sort of actions that they can take, which will have a direct effect on profit. Through employee share ownership they become

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[5] Copeman G H, Moore P G and Arrowsmith C. 1984. Shared Ownership. Gower Publishing Co Ltd. Aldershot. P11.

aware that waste costs money, and that as shareholders they need to take action to overcome management errors.

From a number of studies concerned with the point it is clear that employee share plans have made employees more aware of their company's results and increased their interest in the company's progress.

APPROPRIATE PLANS FOR AUSTRALIA

At present companies employ a number of different sorts of employee share plans, and this range should not be restricted in any way, because different plans meet different needs. For example a company which is looking at a return of capital should not be prevented from buying its employee shares on market. Similarly a company may use an option plan at one stage of its development and a plan using shares at another.

There are two exceptions to this.

1.Plans, which are merely designed to avoid taxation, should not be allowed, and this is particularly true of executive plans. I also have major reservations about the US 'ESOP' structure which allows businesses providing finance to companies for employee share plans to obtain a measure of taxation relief. Ideally employee share plans should only involve employees, their companies and regulatory authorities.

2.Employee share plans that are tyrannical or unjust should be prohibited. For example, employment should not be related to share ownership.

Given that employee share plans offer a way of improving the savings ratio, there is merit in introducing a savings related employee share plan similar to the UK plan.

However three changes should be made to the UK plan

1. Interest accrued on the plan should not be tax deductible if the option is not exercised and the principal and interest is not used to purchase shares in the employing company.
2. Any discount to the share price should be subject to taxed on disposal if the shares resulting from the exercise of options are sold or otherwise disposed of within a year of the exercise; taxed as to two-thirds if the shares are sold or otherwise disposed of after a year, but within two years; and taxed as to one-third if the shares are sold or otherwise disposed of after two years, but within three years.
3. A limit of $5,000 should be imposed on the value of the options (before any discount) that can be covered by this provision in any one year.

MAKING THE PRESENT SYSTEM WORK BETTER

There are four ways in which the present system could be improved.

First, any capital gains tax should be related to the sale or other disposal of the underlying shares. It is a nonsense that employees should be forced to sell shares in order to pay tax on them, and this is particularly true where the shares may subsequently drop in value, and the employee be left out of pocket. This does not happen to ordinary shareholders who may acquire a right at a discount, and it should not happen to employee shareholders.

Being granted a right is undoubtably a benefit and there are complex and arcane ways of valuing the right at the time it is granted; but if rights granted to shareholders are not taxed until the resultant shares are disposed of, why should an employee be treated any differently? Any increase in the value of shares should be subject to tax on ultimate disposal in the same way as other shareholders are taxed. Yes! The employee receiving an option may have been given something that has a value, but this is true of the ordinary shareholder who is granted a right to shares which enable them to be purchased at a discount to the market price. The value of the right for any shareholder can only be ascertained on disposal, any dividends will be taxed, and there is no other value. It is not as if the employee is being provided with a house to live in or a boat for leisure.

Secondly, Division 13A of Part III of the Income Tax Assessment Act provides, amongst other things, that in order to gain concessional treatment a plan cannot contain a provision which would result in a recipient forfeiting ownership of rights or shares. Technically this could mean that an employee who leaves the day after he or she is granted an option (right) to a number of shares could not be prevented from exercising that right.

Options are intended to help retain employees and this provision should not apply in such a way as to prevent the grant of shares resulting from an option being reduced pro-rata when an employee leaves between the date when the option is granted, and the first date on which it can be exercised. For example, an employee granted an option over 9,000 shares exercisable in three years time and who leaves the employment of a company one year into this period, should only be allowed to exercise the option over 3,000 shares. (This provision would also meet the concerns of the Federation of British Insurers which has in the past expressed considerable concern about companies which gave their executives an enormous swag of options on retirement, and thereby watered down the capital of the company concerned).

Thirdly, at present Division 13A provides that to qualify for plan approval, after they are acquired employee shares or rights cannot result in the employee's legal or beneficial interest exceeding five per cent of the company's shares or the employee's controlling more than five per cent of the votes at a general meeting.

This is reasonable in large companies; but in a company with small capital; for example less than $1 million, it is an unreasonable restriction. Many small entrepreneurial companies in, for example, the information technology industry may have less than this level of capitalisation, yet they are amongst the very businesses that might well benefit from their (few) employees having a close involvement. Where a company has an issued capital of $1 million or less and prior approval has been obtained from shareholders at a general meeting, the 'five per cent limit' should not apply; although it would be reasonable to apply a 30 per cent limit in its place.

Fourthly, prospectus provisions are quite onerous for many small companies, and they could well be relaxed. They should simply allow for the employee to be supplied with annual accounts plus a directors' statement of significant changes since the last balance date, provided that the form of plan is such as to offer the employee complete downside protection for, say, three years from the date of grant and the plan is approved by shareholders at a general meeting before it is implemented.

CONCLUSION

If the Committee would like further information on any of the points raised in this submission I shall be happy to provide it.

Appendix A

DEFINITIONS

The following definitions have been used in this submission.

Discount means
the extent to which the asking price of a share is or will be below its market price.

Employee share plan means
a scheme to enable the employees of a company to obtain a stake in the company by acquiring shares in that company without using the services of a stockbroker.

Executive share plan means
an employee share plan open only to senior management; that is, it is a particular type of selective employee share plan.

General employee share plan means
an employee share plan open to all employees except temporary, casual and short term employees, or those with short service.

Loss of control means
the situation arising where the shareholding of a shareholder or group of shareholders falls below the level sufficient to control the voting at a meeting of shareholders.

Option means
a form of right where an individual may purchase a specified number of shares at a set price at some time in the future. If options are not exercised they lapse.

Participation means
providing a way in which employees may obtain information , and provide feedback to their employer about matters that impact their work. For example it could mean telling sales representatives about the way in which a sales manager proposed to organise their territories and seeking their comments and suggestions,
letting operators know about a new layout for their line and finding out what they saw as problems with this,
talking to fork lift operators about the purchase of new fork lifts that they would be expected to drive and obtaining their views about the proposed purchase, and
discussing new call centre procedures with the operators at the centre.

It does not mean discussing everything with every employee. For example, it would not involve discussing new accounting standards with the company's maintenance fitters, although it may well involve discussing them with the accountants.

Participation does not mean "worker-control", nor does it mean allowing the workforce to elect a representative, or representatives to the company's board. Company boards should be unitary boards, and unitary boards have a fiduciary duty to all of the shareholders of the company, and not merely to one or more groups of them.

Replicator share plan means
a scheme under which the stock in a company is not actually acquired by an employee. Indeed no stock in the company need be held at all, -even by a trust. However the benefits the employees receive under a replicator scheme copy the benefits which they would have received had they held shares in the employing company, or in a division or branch of that company where they work.

Rights means
the entitlement of existing shareholders to take up new issues of shares at a specified prices. For example existing shareholders may be able to take up new shares at a set price, often in proportion to their existing shareholdings.

If an individual does not want to exercise a right it may often be sold on the stock exchange if it has a value, or allowed to lapse if it has none.

An option is a particular type of right.

Savings related share option plan means
a type of employee share plan in the UK under which an employee enters into a contract and is given an option to purchase a specified number of shares at a specified price, fixed in relation to the market price of the shares The employee saves this purchase price over a fixed period and is then able either to exercise the option and acquire the shares or to allow the option to lapse. The employee normally saves by way of a deduction from pay each pay period and the money deducted is held in an account in the employee's name, traditionally in a building society. Interest is credited to the employee's account, and this interest is not subject to income tax.

Savings related share option plans are sometimes called "sharesave" plans.

Selective employee share plan means
an employee share plan where the right to participate is confined to certain specified employees; usually senior executives.

Share means
a stake in a company representing part ownership of that company.

Appendix B

SUMMARY OF SELECTED RESEARCH

Much of the research in this area is now somewhat dated as it was undertaken in the 80's and early 90's when there was a lot of interest in whether employee share plans actually improved company performance. This now seems to have been largely accepted. However the research does suffer from two major difficulties.

1. It cannot do more than show that there is a correlation between the existence of employee share plans and a particular situation; for example, it may show that companies with employee share plans are more profitable than those without. This falls a long way short of scientific proof that having an employee share plan causes the company to be more profitable. It could be that profitable companies tend to have employee share plans.

2. Where employees have been consulted about the impact of share plans, this consultation has often been restricted to managers, or even senior managers. Their views may well be quite different to those of employees who are not managers, although this is not necessarily so.

Nevertheless a number of the studies quoted have been ones where there is little doubt that the views of typical employees were represented.

Having said this, the thrust of the research is that a company's having an employee share plan has a strong correlation with improved efficiency, and an improvement of the industrial relations climate in the company concerned.

Note that many of the US company studies date from the 1980's and tend to focus on the numbers of jobs created. As much as anything this reflects the nature of the debate in the community then.
The following studies are relevant.

1. A 1978 study by Conte and Tannenbaum[6] found that in a sample of 30 employee ownership companies, profits were 150 per cent of those in conventional companies. In addition, as the percentage of stock that the employees owned grew, the percentage difference became greater.

2. A 1980 study by Marsh and McAllister[7] found that companies with employee share plans had twice the annual productivity growth rate during the 1976-79 study period as comparable conventional firms.

3. A 1983 study by Rosen and Klein[8] found that companies with a majority of their stock owned by employees generated three times more net new jobs per year than

[6] Conte M and Tannenbaum A. 'Employee Ownership'.1980. University of Michigan Survey Research Centre. Ann Arbor.
[7] Marsh T R and McAllister D., 'ESOP's Tables'. Journal of Corporation Law. Vol 6, No 3 Spring 1980.

comparable non-employee owned firms. (See also the comment on job growth under research study 4 below.)

4. A 1984 study by Trachman[9] found that companies in the computer and electronics industries that offered ownership to more than 50 per cent of their employees had annual sales growth twice as fast, and annual employment growth four times as fast as comparable non employee ownership companies.

(This does not, of course, mean that productivity in employee ownership companies was less than in other companies. The numbers involved may well have been low. For example, if the average employment growth in the non employee owned. companies was two people, growth in the employee owned companies need only be eight people for it to be four times as great.)

5. A 1984 study by Wagner and Rosen[10] covering 13 publicly traded companies that were ten per cent or more employee owned, found that these firms outperformed 62 to 75 per cent of their competitors, depending on the measure used. These measures included net operating margin, return on equity, sales growth and book value per share.

6. A 1985 study by Cohen and Quarrey[11] found that companies that set up an employee share plan in order to buy out a principal owner outperformed their competitors after this original owner retired. The study included 28 companies where the owner had been retired from the active management of the business for at least one year.

The same study found that employee participation programmes at the workplace were positively related to economic success in ESOP companies. Companies that allowed their employees to exercise greater judgement about how to organise their own work and encouraged employees to accept greater responsibility performed significantly better on eight measures of success.

7. A major study in 1986 by Michael Quarrey[12] analysed the performance of companies before they introduced employee share ownership plans and after they introduced such plans. He looked at 45 companies with employee share ownership plans, and compared each of these companies with at least five companies without them. For each of the firms introducing such a plan he also looked at how the company had performed relative to its competitors before the plan was introduced, and for the five years after it was set up.

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[8] Rosen C and Klein K. 'Job Generating Performance of Employee Owned Companies'. Monthly Labour Review. August 1983.
[9] Trachman M 'Employee Ownership and Corporate Growth in High Technology Companies'. Report to the National Venture Capital Association. 1985. The National Centre for Employee Ownership. Arlington Va.
[10] Wagner I and Rosen C 'Employee Ownership. Its effect on Corporate Performance.' Employee Relations Today Spring 1985.
[11] Cohen A and Quarrey M. 'Employee Ownership Companies after the Founder Retires', Journal of Small Business Management. June. 1986.
[12] Quarrey M Employee Ownership and Corporate Performance. 1986 .The National Centre for Employee Ownership. Arlington, Va.

He found that the companies with plans had an employment growth rate improvement of 3.84 per cent a year and a sales growth rate improvement of 3.51 per cent a year.

8.In December 1986 the US General Accounting Office issued a report entitled 'Employee Stock Ownership Plans: Benefits and Costs of ESOP Tax Incentives'[13] The report was based on a survey of 4174 plans covering more than seven million employees.

In a sample of 3657 of the 4174 plans the following advantages were reported.
66 per cent reported improved morale,
36 per cent reported higher productivity,
33 per cent reported reduced labour turnover and
23 per cent reported improved profitability.

The percentage reporting an increase in productivity appears to understate the true position. Many small firms reported that productivity was difficult to measure and could not respond.

To give the other side of the equation, a sample of 3636 of the 4174 plans surveyed reported the following disadvantages.
16 per cent reported dilution of the value of their stock,
16 per cent reported a repurchase liability,
4 per cent reported loss of control of the company,
3 per cent reported poor performance of their stock,
1 per cent reported difficulty in obtaining a loan to fund their plan,
15 per cent reported other problems and
57 per cent reported no disadvantages.

At first examination the first two, and most significant disadvantages appear to be more related to choosing an inappropriate plan than inherent in employee share plans as such.

9.In 1988 Peetz[14] undertook a study under the auspices of the then Department of Industrial relations, and concluded that
'On balance, there is more evidence supporting the notion of a positive link between financial participation and performance than suggesting that there is no link or a negative link. The results appear to vary between forms of financial participation, and are on the surface contradictory even when dealing with particular forms of financial participation.'

10.A 1992 Study conducted by Remuneration Planning Corporation[15] provided some evidence that companies with employee share plans achieved a better performance on selected ratios than companies without them.

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[13] Employee Stock Ownership Plans: Benefits and Costs of ESOP Tax Incentives. 1986. US General Accounting Office. Washington DC
[14] Peetz D. 'Financial Participation by Employees (1). A Review of Theoretical and Practical Issues. 1988.D I R Policy Paper No 8'. Industrial Relations Policy Division. Department of Industrial Relations. Canberra
[15] 'Australian Employee Share Plan Report'. 1992. Remuneration Planning Corporation. Sydney

11.During 1994 Cadbury Schweppes plc designed a survey for use in the UK to see how well its savings related employee share plan used there was working[16].

After pre-testing, in October 1994 the survey was sent to a stratified random sample of 3,000 of Cadbury Schweppes 12,846 UK employees. The Company hoped that about 750 (25 per cent) would respond, although when the results were collated the response rate was 1,189 or just under 40 per cent.

Forty-eight per cent of the respondents were in manufacturing and engineering and engineering; while 17 per cent were in sales, marketing and commercial. These two areas are where the bulk of employees worked at the time.

Of critical importance was that the Company sent survey forms both to employees who took part in the share plan and those who did not. Although a higher percentage of those who took part in the plan responded than those who did not take part in the plan, the outside expert analysing the results advised the Company that this did not materially affect the results.

Of the respondents
90 per cent earned less than thirty thousand pounds a year,
69 per cent earned less than twenty thousand pounds a year and
19 per cent earned less than ten thousand pounds a year.

Forty-five per cent of those who accepted the offer of savings related options said that they did so in order to buy shares at a discount and keep them.

More than half of those respondents who did not exercise their options said that this was because they had other financial priorities, and this is understandable in an environment here the employees concerned had to continue to save for at least five years before they could exercise their options. (The UK government later reduced the minimum time for which options had to be held before they could be exercised to three years, and this change was partly on the basis of this evidence.)

Employees were also asked why they thought that Cadbury Schweppes had a sharesave scheme.
78 per cent thought that it was to encourage employees to buy and keep shares,
67 thought it was as an employee benefit,
46 per cent thought that it was to encourage employees to improve profits,
30 per cent thought that it was to encourage regular saving,
19 per cent thought that it was so that employees could profit from selling shares and
8 per cent thought that a plan had to be offered by law.

13. A 1998 study conducted by Hewitt Associates in conjunction with Professor Hamid Mehran, formerly of the J L Kellogg Graduate School of Management[17] concluded that companies with employee share ownership plans had an average return

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[16] Cadbury Schweppes Sharesave Scheme Survey. 1995. Unpublished results analysed by ProShare, London.

[17] Hewitt Associates LLC and Mehran H. 'Unleashing the Power of Employee Ownership. 1998. Hewitt Associates.

on assets over four years of the study 2.7 percent above companies that did not have plans. This was after adjusting results to allow for superior performance before the plan was introduced.

Using the measure of total shareholder return the study found that companies with employee share ownership plans had a cumulative total shareholder return 6.9 per cent above companies in the sample without a plan.

The study makes the very valid point that there is more to securing improvement than merely introducing a plan. There has to be a change to the company environment to go with the plan. This point is also relevant when we consider that some of the US plans of the 1980's failed because they were merely tax driven. Many of these plans were introduced to facilitate borrowing funds at rates lower the rates generally prevailing in the market, and the plans were all but invisible to the employees who participated.

Appendix C

ABOUT THE AUTHOR

Richard Stradwick is currently a member of the Board of the Australian Employee Ownership Association, of which he is a former President. He developed the Association's current research project on employee share ownership in Australia, and will be responsible for its execution.

Richard Stradwick worked with the Australian Public Service for 25 years, and left the position of General Manager (Industrial Relations) in what was then Telecom Australia to join Cadbury Schweppes (Australia) as Personnel Director. In this capacity he was a Director of Cadbury Schweppes Pty Ltd in Australasia, and later of the Board of Cadbury Schweppes (Australia) Ltd as well. (This was before the minority shareholding in Cadbury Schweppes (Australia) Ltd. was acquired by Cadbury Schweppes plc.). He was a National Vice President of the Australian Chamber of Manufactures, which was one of the parents of the Australian Industry Group, and was Chairman of the Confectionery Manufacturers of Australia Industrial Relations Committee

When he was with the Australian Company, he:
introduced a general employee share plan for employees of Cadbury Schweppes (Australia) in Australia and New Zealand,
undertook research on the effectiveness of this plan,
introduced a general employee share plan for Australian and New Zealand employees of Cadbury Schweppes plc, following the purchase of the Australian minority shareholding.

From 1991 until 1996 he was the Group Personnel Director for Cadbury Schweppes world wide, and was a member of the Board of Cadbury Schweppes plc, the international confectionery, beverages and food public company.

Amongst other things, in this capacity he:
introduced a general employee share plan to the Company's United States businesses,
planned the introduction of general employee share plans to the Company's French, Belgian and Spanish businesses,
revised the Company's worldwide share plan for senior executives to make it more effective,
undertook a major investigation into the Company's UK "savings-related share option plan", and some results of this are quoted in the submission, and
worked with ProShare on a number of aspects of employee share ownership in major UK plcs. (ProShare is an organisation established with funds from the Government and the London Stock Exchange to foster wider share ownership.)

Richard holds the degrees of Bachelor of Commerce and Master of Business Administration from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors and a member of the Australian Shareholders Association. He is the Author of

Employee Share Plans, Edition 1 Longman Professional, Melbourne 1992, Employee Share Plans, Edition 2 Pitman Publishing, Melbourne, 1996 and Management Pay and Benefits Manual, Business and Professional Publishing, Sydney, 1998.