COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON EMPLOYMENT, EDUCATION AND WORKPLACE RELATIONS

Reference: Employee share ownership in Australian enterprises

WEDNESDAY, 8 SEPTEMBER 1999

MELBOURNE

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON EMPLOYMENT, EDUCATION AND WORKPLACE RELATIONS

Wednesday, 8 September 1999

Members: Dr Nelson *(Chair),* Mr Barresi, Mr Bartlett, Dr Emerson, Ms Gambaro, Mrs Gash, Ms Gillard, Mr Katter, Mr Sawford and Mr Wilkie

Members in attendance: Mr Barresi, Mr Bartlett, Ms Gambaro and Dr Nelson

Terms of reference for the inquiry:

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 enterprises; and

(b) the economy.

WITNESSES

Committee met at 9.06 a.m.

SPATHIS, Mr Phillip Arthur, Industrial Officer, Finance Sector Union

CHAIR—Welcome. The union obviously has an interest in this matter and we thank you for taking the time to come along this morning. The committee proceedings are recognised as proceedings of the parliament and warrant the same respect that proceedings in the House of Representatives itself would demand. Witnesses are protected by parliamentary privilege in respect of the evidence that they give before the committee. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as contempt of parliament. The committee prefers that all evidence be given in public, but if at any stage you have got something that you wish to remain confidential please ask us about it and we would be very happy to consider that request. Perhaps you could give us a precis of your submission and an overview of the FSU's position on this. We will then have some discussion about it.

Mr Spathis—I noted last night, when reading the transcript from the committee's deliberations in Sydney, that some members of this committee might be a bit shared out on the issue. So I thought I would take a different approach in my opening remarks and not repeat what has already been said on complicated design and taxation issues which have come through some very good submissions from a number of organisations. I thought I would give a human dimension to the impact of employee share plans on productivity in the finance sector.

With regard to employer share plans, the members of the Finance Sector Union regard employee share plans as potentially financially rewarding. However, it is less clear that employee share ownership has a significant influence on levels of employee job satisfaction, increased commitment to work and overall improvements to work outcomes. Based on our extensive workplace experiences, I will talk to you about a Maryanne who works as a part-time teller in a country branch. She could be working for any of the four major banks in Australia, perhaps in one of your electorates.

Maryanne represents a growing number of part-time employees who make up 40 to 60 per cent of front-line customer service staff at the bank. Typically, her hours range between 15 and 20 hours per week and she is on a salary which, at a full-time rate, would be $27,000 to $30,000 per year. However, when you translate that to part-time hours, it is around $15,000 to $16,000 per annum.

She cares about her customers and the business, but is frustrated with compromising good service because of huge queues in the branch. Despite this, she manages to squeeze in a bit of cross-selling with customers to satisfy the requirements of a rigid performance management system. There is a real threat that they will be closing down her branch, perhaps transferring part of the function to the next door newsagency. She could therefore lose her job and face retrenchment, like the 23,000 employees in the finance sector who have lost their jobs in the last few years. She may be redeployed to another vacancy, given the sort of attrition rates of 20 to 25 per cent that are currently prevalent in financial sector institutions.

In the meantime, management have asked her to consider a further reduction in her part-time hours. It is called reconfiguration of the branch network, according to the glossy overheads of the area manager. To her it simply means a further loss in pay. The bank has done well, though. It has posted a $1 billion, $2 billion or $3 billion profit, depending on which bank we are talking about, after tax and abnormals. According to another memo, if she is attacked by customers about the bank’s huge profits, she can hit back by pointing out to customers that this was necessary to keep the bank’s share price buoyant so that it would not be taken over by a foreign bank.

How is she rewarded for her efforts? I am trying to set a bit of a context here to understand what impact it does have on people in the workplace. Of course, through enterprise bargaining, she has received regular salary increases that have, in more recent years, amounted to real wage outcomes. She and fellow union members have been cautioned, however, not to ask for too much during enterprise bargaining because, despite the huge profit growth of the bank, they could be overstepping the Reserve Bank’s comfort zone on wage increases and thereby inducing inflation. She also received some increases based on the performance based outcome.

The enterprise agreement that covers Maryanne refers to employee share schemes that will provide employees with the free allocation of shares of up to $1,000, depending on whether the bank has met certain financial imperatives. Some agreements refer to a return on assets as a measure or a trigger; others refer to a profit growth measure. Of course, any allocation will be subject to board and shareholder approval.

Unlike part-timers in two other major banks, she will receive the same number of shares as full-time staff. She will also take advantage of improved loan mechanisms available to her to purchase a further tranche of shares. In the past, the take-up rate of this loan facility by staff in her bank was previously as low as 25 per cent, but now it is close to 85 per cent. This follows negotiations between the bank and the union arising out of an enterprise agreement that resulted in an arrangement that reduced the downside risk of taking up this loan facility for staff.

Her participation essentially reinforced the results of a study undertaken by the Remuneration Planning Corporation that found union involvement in the development of share schemes improved the levels of participation of employees in such schemes, particularly the complicated loan arrangement mechanisms.

Maryanne has never supported trading in part of her wage increase for an allocation of shares, however, she is happy that she has accumulated close to 75 shares in the last three years through the free allocation of shares and she has purchased an additional 50 shares through the loan arrangement. Has share ownership contributed to increased levels of productivity in her workplace? How is productivity measured in the finance sector? Bank economists cannot even agree about what an appropriate measure should be. I have gone through some of the books and through submissions that have been made to the Reserve Bank and other forums and they argue about whether it should be input efficiencies operating costs net to income or operating costs to average assets or whether to refer to output efficiency, cost recovery and transaction accounts or to refer to net interest income or average assets as an appropriate measure of financial institution productivity.

In other bank publications, productivity has often been measured in terms of share price and profits and earnings for shareholders, coupled with the reducing cost to income ratios. To Maryanne, and to most of us, however, productivity in the finance sector has unfortunately meant cutting jobs and reducing services to low profit customers, while her hours are reduced, her job is threatened and many of her colleagues work longer hours, a lot of it unpaid.

According to ABS figures, it is estimated that almost a million hours of overtime is worked in the finance sector every week. Sure, she feels happy that she does own a small parcel of shares that she regards as a long-term investment outcome, and takes an interest in the All Ordinaries report on the Channel 9 news every night and feels satisfied that in recent years the real value of her shares have increased in the order of 25 to 30 per cent. However, she is mindful of the precarious nature of this reward, given that her colleagues in another financial institution have not done so well, where they experienced a significant decrease in the share price compared with the original purchase price.

Maryanne recognises that senior executives need to be paid reasonably well. It is a good way to attract good leadership. But is it reasonable that, only a few years ago, the chief executive of her bank was paid 84 times her part-time wage and is now paid 206 times her part-time salary, and that the executive salary is also supplemented by an extremely generous share option scheme that provided some chief executives with a profit of up to $35 million? The calls for restraint and moderation rang pretty hollow to Maryanne when a small group of senior executives in a major financial institution recently collected $29 million after converting options into shares and selling them on the market. As an aside, much to our dismay, there are now calls to even reduce the reporting of executive salary packages in annual reports at a time when more and more scrutiny is being applied to non-executive wage outcomes.

It is a concern that these increasingly generous and sometimes obscene share option arrangements are linked to the very strategies that seek to drive share prices up, including destroying the very certainty and security of the employment of our members. It is hardly a consolation for Maryanne to hold a bundle of shares that experience, let us say, a 50c or $1 increase in their value in response to the chief executive announcing to the financial press that they will be cutting 2,000 or 3,000 jobs over the next few months in the branch network. It should, therefore, come as no surprise that Maryanne tells us during enterprise bargaining negotiations that issues like staff shortages, work intensification and job security are as important as wage and remuneration outcomes.

So the question must also be posed as to the capacity of executives to strike an appropriate balance between the interests of the various stakeholders, including employees, when there are strong incentives and share option schemes to bump up the share price through cost reductionist strategies that ultimately impact on job security. Maryanne’s heightened feeling of job insecurity has been the point of some research by the Melbourne Institute of Applied Economics and Social Research. It found that only 56 per cent of Australian workers in 1996-97 felt fairly or very secure in their jobs, in contrast to the 73 per cent who felt secure 10 years ago.

In the context of the finance sector, the effect of employee share ownership on non-management staff should not be overstated. The modest employee share arrangements for non-executive employees should not be confused with the more financially lucrative arrangements offered to senior executives. It is a very tenuous link to attribute improved levels of job satisfaction and commitment to work on the basis of share ownership alone for their staff.

Finally, can I just take you to page 7 of my submission, where there is an omission in the middle of the page. The second last dot point should actually read:

84% of respondents indicated that they would not like to.

That refers to whether they would consider trading off part of some future salary increases for CBA shares. I think my final words before questions and further discussion should go to some of the feedback that we received from our members in our extensive surveying processes in the lead-up to enterprise bargaining. One of our members in New South Wales summed it all up when asked what his view and position was regarding employee share plans. He said, pretty succinctly and probably better than most of us would, that ‘Shares are good, but they won’t pay for those groceries my family needs at Woolies.’ Employee share ownership plans should not be regarded as an alternative to proper wage outcomes. So I will leave it there and open it for some discussion.

CHAIR—Thank you very much, Phillip, for putting it in those terms. It provides a different perspective on the same problem. The FSU essentially supports the position of the ACTU. The ACTU told us, amongst other things, that they do not support tax expenditure being used to encourage employee share ownership plans: is that a view that is shared by your members?

Mr Spathis—We have not asked that specific question of our membership. However, as a result of some of the taxation changes that accompanied the division 13A legislative changes, we can say that the take-up of employee share plans has increased significantly. In some enterprises, prior to that legislation, you had about 50 per cent of employees actually participating in share ownership programs. In banks now you would find that close to 98 per cent of employees do participate in those share schemes. There is that tangible outcome as a result of the legislative change.

With regard to taxation, it is a complex issue. The cake is a finite cake. There are strong arguments regarding improving savings and saving mechanisms through superannuation and other mechanisms. There is a strong argument to say that there should be better incentives put in place with regard to that form of saving. However, in the finance sector, given that people are in the business of money, prudential issues and so forth, people are very mindful of share outcomes and what value shareholders are receiving for the organisation’s progress. But we cannot ignore the fact that many of our members do favourably look at employee share ownership.

CHAIR—But if there was not a $1,000 tax-free threshold, presumably your Maryanne would not have 750 shares?

Mr Spathis—She perhaps would not be in the same position as she is today. However, again it depends on the sort of framework that is put in place by the employer.

CHAIR—Sure, and both employer and employee advocates who have spoken to us have said you cannot look at a share plan in isolation from the whole culture in the workplace. I certainly accept that.

Mr Spathis—The banks are making significant profits. It would not be a huge dent in their balance sheet, notwithstanding taxation arrangements, to be able to put forward share schemes that are a bit more lucrative.

CHAIR—More attractive.

Mr Spathis—Yes, more attractive, to non-executive employees. They have not been prevented from pursuing those things for executives.

CHAIR—Can you illustrate that? For example, and let us look at the big four banks, what would the FSU like to see them do to make share ownership more attractive to the Maryannes of the work force?

Mr Spathis—The issue relates more to the underpinnings of why organisations wish to introduce share ownership. The overheads and the glossies that come from the banks indicate that they introduce share plan ownership to encourage employees to build up a shareholding, or to introduce a greater alignment of employees' interests with that of shareholders and to provide a tangible expression of desired management style and reinforcement of organisational values. I would like to see banks put in place structures and back them up with processes that give their employees a more significant say about how the organisation ought to be run.

CHAIR—Do employee share owners in our big four banks have voting rights like ordinary shareholders?

Mr Spathis—Yes, they do.

CHAIR—So Maryanne could go to a shareholders meeting and ask questions of the CEO of the bank and the chairman of the board. Is that correct?

Mr Spathis—That's right. It is a different issue regarding her overall weight of vote and so forth.

CHAIR—Sure, and she is probably working too hard to have time to go.

Mr Spathis—We support solid consultative frameworks that arise out of enterprise bargaining and we have in place mechanisms that allow consultation and change to occur. Employee share ownership is only one aspect of the overall work relationship. At a time when on the industrial relations front we are dealing with award simplification issues and consultative mechanisms being stripped out of awards, we are having to insert them back into enterprise agreement provisions. We have had to essentially reinforce a process in those financial institutions to ensure that there is a way to address the concerns of our members through a collective framework.

There are significant studies from the University of Melbourne—and I cite that in the submission—that talk about the dual commitment of employees in a major bank. In a longitudinal study over three years, 3,000 to 4,000 employees indicated that they would like to see an employer who performs well on all fronts, but they also wished to see a strong union that works together with management in dealing with specific workplace concerns and outcomes. When we were confronted with the employee share ownership program through enterprise bargaining with this organisation, we dealt with it in a manner that was consistent with the feedback we received from our membership.

CHAIR—In your sector, is it true to say that generally employee share plans have been seen as a bit of a wages trade-off? I know you do not accept that, but is that what has been happening?

Mr Spathis—We have been confronted with that scenario across many enterprise bargains. The smart employers, and I will not name them because then you will ask me who the dumb employers are—

CHAIR—It is always good to encourage people who are smart.

Mr Spathis—The smart employers, when dealing with enterprise bargaining and wage outcomes, accept that people want a proper remuneration outcome relating to wages and do not put in place a wage trade-off scenario in the course of negotiations.

But we are confronted by many other employers in the sector who say to us, ‘If we are going to allocate X shares, then we will have to reduce our wages bill by that amount.’ We have then sought advice from our members regarding that sort of posturing and positioning and our response has been unequivocal, we have said, ‘We will not talk to you about employee share ownership if it means diminishing the proper wage outcomes that should reward people for their contribution.’ There is a tension there.

CHAIR—But in some circumstances it may apply. For example, we had the example of Greyhound buses. The company was really looking at the financial abyss and part of the rescue package was a share ownership plan. Cathay Pacific, for the first time in 25 years, is looking at a loss, and the negotiations with the pilots involved share ownership as part of a wages reduction deal. There are some circumstances where employees say, ‘Basically, we are prepared to go into it.’ As a matter of principle you would say this is generally not something you think is desirable, but there might be some circumstances where you would say—

Mr Spathis—I understand what you are saying, but our experience in the finance sector is very specific. When times are good and the profits are up, the banks still cry poor and do not want to pay significant wage outcomes. When times are not good they go into significant cost cutting initiatives and reduce staff numbers drastically. Of late, despite profits being good, despite exponential growth in business, they do both, they cry poor and they cut staff.

CHAIR—But in your sector, you are a little different in the sense that it is performance relative to your international competitors, I presume, at least for the majors. I am not trying to defend them, Mr Laws does a lot of that, but—

Mr Spathis—And the banks have done themselves a disservice with that approach. The winds of deregulation and its impact on the finance sector has been enormous. The union has not shied away from some very difficult issues. When some of those financial institutions were going through some heady times and were technically insolvent, as stated by one ex-treasurer, the union played a significant role in a recovery program. There are tangible enterprise agreements that ensured that that did occur.

Mr BARTLETT—Just pursuing the issue of enterprise agreements, clearly your view is the same as the ACTU that ESOP should not have any part of formal negotiation. Is there any sort of suggestion or evidence that this happens more subtly or more indirectly, not obviously as part of a negotiation? Behind the scenes employers might hope that because there is a reasonably generous share ownership arrangement employees would not push as hard in the context of enterprise negotiation.

Mr Spathis—It is a good question, Mr Bartlett. We were one of the first unions that embarked on enterprise bargaining back in 1991 and we have noticed an interesting progression about the sorts of issues our members want addressed. Wages are always there at the forefront but more and more our members are more concerned about workplace dysfunctions, staff shortages and job insecurity and so smoke and mirrors underpinning employee share ownership does nothing or little to appease the sorts of concerns our members have with regard to those bread-and-butter issues. At the end of the day, whilst our members do have a strong commitment to the organisation and its customers and are pleased about how it is tracking on the share market, they have to confront the longer bank queues and the irate customers who are dissatisfied with them.

Mr BARTLETT—So you are not aware of any companies in your sector that even indirectly try and sort of trade off employee share ownership for perhaps less enthusiastic wage bargaining?

Mr Spathis—Yes. I guess I have got more direct experience across the negotiating table with that experience and some employers have sought to play that game.

Mr BARTLETT—Have sought to do that?

Mr Spathis—And we have had to be pretty unequivocal with our response to it. We have not put our head in the sand with regard to employee share ownerships. We think they are a good vehicle for long-term investments and savings, if the shares actually track in the right direction. They do not always track in the right direction. In the last few months in the finance sector we have had a seesawing effect and in fact in some organisations we have had a significant drop in the share price because of factors outside of the control of employees. One needs to look at re-insurance for instance.

Mr BARTLETT—Do most organisations in your sector have a loan arrangement? Is that the way it usually works and that is paid for out of dividends?

Mr Spathis—Yes, there is. There is a loan arrangement to allow employees, depending on their salary rate, to be able to purchase a further tranche of shares. There are not that many financial institutions though that have in place a mechanism that ensures that there is no downside risk for employees in a loan arrangement.

One of the majors, through discussions with the Finance Sector Union, introduced an arrangement where, notwithstanding the purchase price of a share that has to be paid off through a dividend, if an employee were to leave or resign from their employer and if the share price had dropped below that original purchase price, the employer is prepared to meet the difference. We see that sort of mechanism as a way that ensures that the risk for employees is minimised and the 25 per cent of staff in that organisation that took up the loan arrangements has now increased to 85 per cent across the organisation. They have a bigger stake.

Mr BARTLETT—Do you see that sort of mechanism as spreading through the financial service sector?

Mr Spathis—It is hard to say just yet.

Mr BARTLETT—Is your union pushing for that sort of mechanism?

Mr Spathis—Our policy has endorsed that sort of approach, yes.

Mr BARTLETT—You cast significant doubts on the link between employee share ownership and productivity. Is there any evidence in your mind that there is a negative correlation in view of the profits that executives seem to make out of the share options that you mentioned earlier on?

Mr Spathis—Broadly speaking, you have received submissions from various organisations that say contradictory things regarding the linkage with productivity. I guess it sticks in the throats of our members like fishbones when they see the significant publicity around executive share option schemes that are linked to share price outcomes and see senior executives posturing to the financial market and announcing significant cuts and outcomes to jobs. That is consultation through the press. It is not direct consultation with staff and our members are deeply troubled by that sort of approach. It happens, so if you measure labour productivity by some form of cost to income ratio where there is a reduction in employee numbers, then you would say, yes, there is a direct correlation between the very design of those sorts of schemes and certain behaviours. That is putting it crudely. Chief executives have to balance the interests of a whole range of stakeholders across the organisation, but it poses the question: if they are so motivated to bump the share price up, what is a quick way of doing that?

Mr BARTLETT—But don’t the employees also benefit from a rise in share price if they are participants in the scheme?

Mr Spathis—Correct, but if they are one of the 2,000 or 3,000 who lose their jobs—

Mr BARTLETT—Those who lose their jobs obviously do not. Yes, that is right. Do you see any way around that problem? Would giving employees more access to options help?

Mr Spathis—I see it as an issue not related to share options. I see it for banks and financial institutions to take a broader HR strategy. They should be not looking at cutting jobs as an end in itself but looking at issues like training, better redeployment opportunities and upskilling, not deskilling, of staff and not making jobs much more narrowly based and crude with reduced job design. These are real and tangible issues that affect the working lives of finance sector employees. I would say the priority should be putting in those sorts of mechanisms. That would be a tangible way for those executives and institutions to indicate a long-term commitment to investment in their employees.

Mr BARRESI—On page 15 you say that 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. Therefore I sense that there is an incentive for those who have the shares—the executives in that stakeholder component—to pump up the price of their shares by making that announcement. If we are to have a genuine employee share ownership program in this country, would you see that there needs to be regulations to avoid that situation taking place and how would it work?

Mr Spathis—As I indicated in the course of the submission, as a first step you ensure that you do not dilute the reporting arrangements that are in place in annual reports regarding the reporting of executive salary and remuneration packages which include executive option schemes. With regard to regulation, I am not sure whether reregulating or regulating is the way. For the very same reasons that I addressed to Mr Bartlett, the behaviour of chief executives and senior executives of banks should be one where they do pay more than lip-service to that notion of consultation and take a more significant role in HR strategy. I really could not answer you on that issue.

Mr BARRESI—Those who have worked in the finance sector have often talked about the 'golden handcuff' because of the other remunerations which they have traditionally received. I do not know whether it is still so prevalent these days. Putting yourself in the position of the employee as much as you possibly can—and we will have an opportunity to talk to employees, as well, through this inquiry—do you sense that there is an emerging attitude amongst employees that those traditional remunerations which they were receiving, such as lower interest rates and all those sorts of things, are not as important to them as participating in a share scheme? Perhaps FBT has had something to do with that as well. I do not know.

Mr Spathis—The other remuneration type benefits, like discounted loans and other facilities like that, are important to employees. I would not talk about a 'golden handcuff'. Traditionally, back in the old days—

Mr BARRESI—That is what they used to say to me when I was in the work force. They used to talk about the 'golden handcuff' of working for NAB or—

Mr Spathis—The very reason why those arrangements were in place was because there was a view that the salaries and wages of those employees was low and that the way to compensate for that was to introduce those sorts of other arrangements. We have done our best to improve remuneration outcomes through enterprise bargaining, and we have experienced some real wage growth in the last few years to improve relativities and so forth. Employees still put a high value on loans and other arrangements to that effect. Also, with regard to employee share ownership, they are happy that they are able to receive a tranche of shares that improves their long-term investment outcomes, rather than a tangible, immediate way of utilising that remuneration mechanism for their everyday use. It is more of a long-term perspective they take with regard to how share ownership is applied in their specific organisation.

CHAIR—In your submission you talked about the disadvantage conferred on employees who resign before they get to the qualifying period. Does the FSU believe that the qualifying period ought to be changed and, if so, in what way?

Mr Spathis—The difficulty we have is that, where people spend a significant amount of the performance year with a specific finance sector organisation, if they leave earlier than the specific date nominated by the organisation and wish to indicate an interest in an allocation of shares, they forgo any entitlement. In our negotiations with some of the organisations, they have been able to overcome that by providing some form of cash outcome or remuneration payment. But, on the whole, we have reached a brick wall.

To be fair, there are some corporate law requirements regarding when an allocation of shares can occur, and it is subject to director and shareholder approvals. It is very difficult to make those sorts of changes. We would support an overall streamlining of the processes to ensure that employees who have spent a significant amount of time in the performance year at an organisation have access to some form of value as a consequence of their contribution to the organisation.

CHAIR—Are individual productivity targets appropriate for, say, the Maryannes that you represent?

Mr Spathis—They already exist. You have the across-the-board increases that come through enterprise bargaining, but then you have the various performance management processes that underpin the—

CHAIR—So they are superfluous in relation to share ownership plans in the financial services sector generally—

Mr Spathis—That is right.

CHAIR—other than for the ones at the top of the tree. Thank you very much, Phillip. We appreciate that. If you have any comments to make on any of the other submissions that are put to us or things that are said, please feel free to send us a letter and say that you agree with this or disagree with that.

Mr Spathis—Thank you.

[9.46 a.m.]

O'CONNELL, Mr Justin, Director, Leadership and Organisation Effectiveness, Telstra

CHAIR—I must say that, for such a large organisation, your submission was brief. Welcome, and thank you for taking the trouble to come in and speak to us directly about this. The committee proceedings are recognised as proceedings of the parliament and warrant the same respect—some would suggest even more—than proceedings of the House of Representatives. Witnesses are protected by parliamentary privilege in respect of the evidence that you give before the committee. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as contempt of parliament. The committee prefers all evidence to be given in public, but if at any stage there is anything you would like to talk about in camera, please ask us and we most certainly would agree to do that. I invite you to give us an overview of Telstra's perspective on employee share ownership and we will have a bit of a chat about it.

Mr O'Connell—As Director, Leadership and Organisation Effectiveness, Telstra Corporation, I have responsibility, amongst other things, for remuneration policy, and share plans and the like fall within that. As you say, Telstra has made a short submission to the inquiry. If there are any aspects that we are asked to comment on that are not covered, we would certainly be happy to go back and make submissions on them. For example, we have not made any lengthy submissions around matters of tax regime. We anticipated they would be fairly well covered by other organisations and specialists in that field. I do not see myself as a specialist in that area, but if the committee feels that it would like to hear more from Telstra on that or on any other aspect, we would certainly be happy to make submissions on it.

We are relatively new players in the game of share ownership, having been a public owned organisation and not having had shares. In the past, as part of remuneration, we have had dummy plans, if you like, but, until the T1 float of Telstra, we were not able to offer employee shares. We did in 1997 and had a very successful introduction to share ownership in terms of take-up. That was a plan that was jointly funded by the government, as the shareholder, and Telstra as well. We achieved a 90 per cent take-up rate by our staff in that plan. So that was judged to be quite successful, and that rate has come down over the years with just normal attrition and new people coming into the organisation, but it still runs in the mid- to high-80s of Telstra staff who are shareholders in the company.

With the second float—T2—of Telstra, there will be another offer. I think that indicates that both the government and the board of Telstra feel that the share ownership plan is of value to the organisation and to the staff of the organisation, and they will be supporting another offer.

We have conducted some research in the intervening years. It is fair to say that we went in, in 1997, on a prayer and a hope, not with a great deal of evidence but a belief that share ownership was of value. We have had the opportunity in that time to be able to do some research, both within our organisation and externally, on the value and worth of share ownership plans. I would be happy to talk to that or to answer questions. I will leave it to you.

CHAIR—We would like to hear about it.

Mr O'Connell—We have done two forms of research. We commissioned Professor Bob Wood from the Australian Graduate School of Management to conduct what in essence is a literature search on the relationship between share ownership plans and productivity. The first result of that research, I am pleased to say, is that there is absolutely no evidence to suggest that share ownership plans contribute to a decrease in productivity. I am sure the committee will be pleased to hear that.

CHAIR—It is not much the other way either.

Mr O'Connell—I have been able to read some of the proceedings of the committee, and on the question of whether there is a direct link that can be established between share ownership and productivity—the answer to that is no. There is no direct causal link that has been able to be established across the board between the single factor of a share ownership plan and productivity. I do not think that is a surprising result. You have probably heard many people say that organisations, when striving to improve productivity amongst other things, generally do not engage in single-factor approaches; they generally engage in multifactor approaches. It is always extremely difficult to go back and attribute a direct causal relationship, to say, for example, that the share ownership plan contributed to a five per cent increase in productivity. Indeed, the research from Bob Wood bears that out.

It goes further, though. There does appear to be a very strong link between the success and contribution to productivity of share ownership plans in organisations that have introduced, what I might call, a high-involvement or participatory environment with their work force. For organisations that do not have a high involvement culture, there is very little evidence of share plans contributing to productivity. Where that general culture exists, which usually is associated with a number of other initiatives, it has been established that there is a link to productivity but it is not a direct causal link, if you like. That is essentially the summary of the research. Intuitively, that probably lines up fairly well with the understanding of managements. Generally, the purpose of introducing share ownership plans is to promote an alignment between people who work in the organisation and the goals of the organisation in the belief that, when you have that alignment, other initiatives will be able to get traction and work, whereas, if you do not have that alignment, other initiatives generally are more likely to fail. That research accords fairly well with the sort of intuitive understanding that managements have who favour share ownership plans.

The other bit of research we were able to do was some internal research to look at whether there were different behaviours amongst the people who took up the Telstra T1 share offer and those who did not. That is a difficult bit of research because, clearly, the group that did not was a fairly small group—only 10 per cent. The result of that research—which we had conducted externally through the University of Adelaide so that there was respect for privacy of people—was that we did not get, again, a marked difference in productivity between the two groups in terms of improvement. In fact, productivity improvement in the organisation has gone very much across the board.

But the two groups are quite different. The separation rate for people who did not take up the share offer is about three times that of the population who did take up the share offer.

And that goes across virtually every measure of organisational wellness. If you took absenteeism, turnover, workers compensation, sickness and the like, the group that did not take up the offer tended to be in the worst performing—if I can use that word—group. They are quite different populations of people.

Again, these are just correlations and all the caveats apply. You cannot associate causation just with correlation, but they are quite discernibly different groups, which tends to indicate that there is a degree of self-selection taking place in the take-up of share ownership plans.

Again, it is hard to draw a direct causal link but it would suggest to us that if the purpose of a share ownership plan is to promote alignment then we think it is probably doing it. We think it is probably sending a signal to those people who are inclined to want to become involved in the organisation and play a stronger role in it that that is the will of the organisation, that there is an implicit contract there that can be entered into.

Mr BARRESI—Of the 10 per cent who did not take it up, what does your survey show about the reasons they give for not taking it up? I do not want to be picky, 90 per cent is fantastic, but from our point of view it would be interesting to know why the 10 per cent did not take it up considering the publicity and the hype that took place surrounding the float.

Mr O'Connell—I can certainly go back and provide that to you. There was a mixture of reasons. Sometimes it was intent to leave. Sometimes it was people saying that they did not see that there was necessarily going to be a future for them in the organisation and so they did not necessarily want to take up the share offer. If you look factually at the offer, that should not have made any difference. In most senses it was a no brainer; it was a very good offer. In some cases there were matters of personal belief, that people did not believe in share ownership.

CHAIR—There were people who were stridently opposed to privatisation as a matter of principle and they would not buy shares.

Mr BARRESI—The reverse took place too.

CHAIR—Of course.

Mr BARRESI—There were those who were strongly against privatisation yet did buy shares.

CHAIR—Yes, of course.

Mr O'Connell—There were also some religious and cultural factors in there as well. There was quite a range of reasons that people gave. While there was a lot of promotion of it, there was also a reasonable amount of counter-promotion from people who did not favour privatisation.

Mr BARRESI—From what you just said, one of the reasons could be that they were intending to leave the organisation and take up your redundancy package offer because at that time, if I recall, there was a redundancy program in place as well as the share ownership offer.

Mr O'Connell—Yes.

Mr BARRESI—In retrospect, would it be better to separate the two activities from an organisation? Would it be better not to have them coincide so that you could maximise the take-up rate of share ownership?

Mr O'Connell—I have no doubt that if there were not redundancies taking place the take-up rate would have been higher. I am not sure how feasible it is to separate them, practically. They were both in the tide of events that were occurring. But you are quite right that, if there had not been a redundancy program going on, then the take-up rate probably would have been higher.

CHAIR—Is it possible for us to have a copy of the literature research done by Professor Wood, and also your internal research, or is that something you wish to remain within the domain of Telstra?

Mr O'Connell—I certainly do not see that we would have any difficulty around the AGSM research. Essentially, it was research of information that was on the public record. Can I take advice on that one, I am not sure whether—

CHAIR—Yes, we fully understand. If there are parts of it which you feel you can provide to us, that would be appreciated. What you have done is precisely what I put to a witness yesterday from a large company. I said to him, 'One section of your work force does participate and you have another section which does not. Why haven't you done research to compare absenteeism, occupational health and safety, the churning effect, and a whole range of things?' You have done that, although I fully understand that in a sense you have a self-selecting group. It may be that one of the indicators, in terms of a better relationship with employees, is that if they are interested in employee share ownership then they might be employees who have more desirable qualities. We do not know that.

Mr BARRESI—In your submission you make the point that the survey results show that employees who are shareholders consider they are more focused on providing customer satisfaction. This may be difficult to answer, but in those work situations where you have got shareholder employees and non-shareholder employees working side by side in a customer interactive situation, what are the dynamics that are taking place there? Are you able to identify that? Are you finding that because of that increasing level of satisfaction and willingness to serve that that is putting pressure on the others? From an organisational effectiveness point of view, what is the result?

Mr O'Connell—I would love to be able to answer that question, but one of the boundaries on our research is that we have to respect the confidentiality of people's private information.

Mr BARRESI—There may be anecdotal information coming through.

Mr O'Connell—There probably is, but it is not coming through strongly enough for us to make any conclusions, and we cannot really do empirical research on it in terms of the actuality in the work place. For example, like many organisations, we have performance measures where we could theoretically identify which staff are the best performers and then identify whether they were shareholders or not, but I do not think we could do that and still fully respect the privacy of individuals. That would be very interesting information.

Mr BARRESI—My second question is in regard to employee shareholders taking a more active interest in a company's financial performance. We were having this discussion in Sydney a while ago with—

CHAIR—It was Mr Doug Cameron of the Australian Manufacturing Workers Union.

Mr BARRESI—Are we likely to see a situation where because of that interest pressure will be put on the management team to ensure that a company remains viable? He disputed that. It may be early days at this stage for Telstra, it has only been very recent, but is there any evidence emerging that that is taking place? If it is, perhaps it has nothing to do with shares; it might have something to do with your other programs.

Mr O'Connell—The other bit of data I could share with you is our employee opinion survey. We asked three questions: (a) as a Telstra shareholder am I less tolerant of poor performance in my branch; (b) am I more focused on customer satisfaction; (c) am I more interested in Telstra's financial performance?

We have now asked those questions two years in a row. Concerning (a), 'Am I less tolerant of poor performance?', a year ago 52 per cent of our staff who replied to the survey said yes, they were less tolerant of poor performance. This year 56 per cent have said they are less tolerant of poor performance. By the way, the converse is not that 40 per cent said they were not less tolerant of poor performance, we have about 25 per cent saying they are not sure, undecided. And, incidentally, we get very high response rates to our survey; this year it was a 78 per cent response rate, which is very good.

Are they more focused on customer satisfaction? Last year 61 per cent said they were more focused as a result of being a shareholder. This year 67 per cent said they are more focused on that. Last year 73 per cent said they were more interested in Telstra's financial performance. This year 74 per cent said they were more interested as a result of being shareholder. The staff's perception in those three key areas is that it is a strong factor.

Mr BARRESI—What does management make of that?

Mr O'Connell—It goes to the point you are making. The people who run the survey for us are an international organisation called ISR. They surveyed the banks, the retails and BHP in Australia. They also do the Microsofts and Hewlett Packards around the world. They are probably the world's major employee survey research group. Their comment to us is that the way that our staff are now responding to questions—and again it is not a single factor; it is not just the share thing—is that in the areas where they are describing what they want to see done better, where they think there is improvement needed, the 'me' factors are going down—'my working conditions' or 'my pay'. In fact, they generally say their pay is very good. The things that are affecting them as an individual are going down.

In the words of ISR, they are now responding to a questionnaire like 'customer advocates'. Of course, all our staff are customers. We are in the unique position of being probably the only company that can say that. They are virtually all shareholders and/or customers. But they are now responding to the questionnaire less like employees and more like customers. That is a very healthy sign. So it is not so much perhaps the upward on the financial performance; they are becoming very focused on our service and quality performance and saying, 'We really need to improve these areas.' The share plan has definitely contributed to that different perspective that is growing in our organisation.

Mr BARTLETT—Could you outline for us the arrangement under T1 of employee participation? Was it a discounted loan arrangement? Was it a bonus arrangement? Will T2 be the same?

Mr O'Connell—T1 was a combination of the government scheme and the Telstra scheme. Again, we can provide you with the details of the schemes. Essentially it was the combination of an interest free loan from Telstra that enabled staff to buy up to 2,000 shares on an interest free, non-recourse loan. So no downside on that—if the share price fell then the employees did not have to take up the shares. The shares were bought out of the dividends and a proportion of the dividend was set aside to meet the tax obligation of the employer. So no loss, no money up front, fully financed by the company.

Mr BARTLETT—So if the employee leaves before having paid off the full value of the share they are protected against loss?

Mr O'Connell—At that point they could elect to either leave the share or take it up.

CHAIR—And pay any outstanding debt on the share?

Mr O'Connell—Yes.

CHAIR—So if they lose it is through choice.

Mr O'Connell—Yes. Essentially the only point at which anyone could lose is the point at which they elect to take up the share, or if the price went down.

CHAIR—So that is an informed decision that they will make.

Mr O'Connell—Yes. But they could, on leaving, leave the share in the trust or at the point at which the share is fully paid off—two months. Tied to that was that up to the 2,000, the government would issue a grant of free shares on a one for four basis. So the 2,000 could become 2,500 shares. There was a restriction of three years in being able to take those up. There is also a loyalty component associated with the public offer so that staff who took up to 2,000 shares could get a one for 10 loyalty offer as part of that. It was a hybrid—a joining together of the government and Telstra. The Telstra part of it essentially was the interest free loan for the 2,000 shares. Provided people took that up, the government then weighed in with the one for four offer.

Mr BARRESI—What do you expect to be the take up of the T2?

Mr O'Connell—In T2 they are separated now. That was T1. In T2 the company will again offer an interest free, non-recourse loan, for up to 400 shares. That is a discrete offer. Staff can take that up again—quite simple, no recourse, no loss. Again I will seek help on this, but the government offer is separate. It is also separate to the public offer. There is a discrete government offer to Telstra staff. The first part of that is that all staff have a guarantee that they can take up to 5,000 shares at the offer price. So they are guaranteed access to 5,000, but they have to use their own money to buy them. For the first 800, which they have to buy with their own money, there is a one for four offer. So if they take up to 800 shares, they will get an extra 200 for free. There is a loyalty one for 10 also associated with that if they hold those shares for 12 months.

CHAIR—The same as last time?

Mr O'Connell—Except that the government and the Telstra ones last time were combined and this time they are separate. If somebody took up their fully subsidised entitlement out of the share offer this time they would most likely take up the Telstra ones. Then they would go and take up probably 800 government subsidised ones, which then get another 200, and then another 80, which is the loyalty offer.

Mr BARRESI—What do you expect the percentage would be in terms of take up?

Mr O'Connell—I think the take up of the two will be quite different. I would expect the take-up rate of the Telstra non-recourse loan to be in the same territory as T1.

Mr BARRESI—Ninety per cent?

Mr O'Connell—I would expect it to be above 90 per cent. In a lot of these areas there is a 10 per cent factor. I know when we do our surveys the experts say that you never get 100 per cent. You can walk in an offer for free ice-creams, but you will always get about one in 10 who will say, 'No, I'm not quite sure about this.' I do not expect to get 100 per cent, but I expect around the 90 per cent mark for the Telstra offer for the non-recourse loan. For the government part, where people have to put in their own money, I think general industry experience is that most people, say over 30 per cent, would be happy with it. I think somewhere around 30 to 35 per cent is probably a pretty good take-up rate.

Mr BARTLETT—What sort of union involvement was there was in discussions around the arrangements for the Telstra offer?

Mr O'Connell—The first one or the second one?

Mr BARTLETT—Both.

Mr O'Connell—In the second one, virtually nil. In the first one the discussions were not terribly productive in that essentially the largest union, the CEPU, was firmly against the privatisation of Telstra and saw the share offer as being tied to that. Therefore, they had an ideological problem with it. It was not a subject on which we could have a constructive discussion.

Mr BARTLETT—Do you anticipate that will change? Do you see there being an avenue for union discussion regarding the ongoing operation of the ESOP?

Mr O'Connell—In a sense it is probably an agree-to-disagree on the worth, value and need for it. Essentially the unions have stayed out of it. That does not seem to have bothered the staff terribly much. They are still taking it up independent of that. It is probably seen as a non-industrial issue. It is just something that the staff do. As adults, they make up their own minds about what they want to do.

Mr BARRESI—Yet we heard from the industrial officer from the FSU that it is vital that the union movement be part of the introduction of an ESOP in order for it to be successful.

Mr O'Connell—Clearly, it is not. It is good to see a union taking a positive view of them. I applaud that. Adults make decisions in terms of their own position. They are able to make decisions independent of membership of organisations, and did so.

Mr BARTLETT—What percentage of your work force is unionised?

Mr O'Connell—It is difficult to say. We do not keep statistics on it but in our technical work force, which would have the highest membership, it would be certainly well over 50 per cent. I would judge it is probably up around 70 per cent, 80 per cent, something like that. In our call centre environment it would probably be around 20 per cent or 30 per cent and the other white-collar areas would mirror the general community—quite low.

CHAIR—Have you been tracking—it sounds like you have not been—union membership alongside share ownership?

Mr O'Connell—No.

CHAIR—One of the concerns naturally that unions have, although it has not been expressed in these terms to us, is that any moves to further entrench share ownership plans in the workplace could be seen by some to be an attempt to marginalise the influence of unions in workplace arrangements. That is certainly not the case from our point of view.

Mr O'Connell—No, we have not tracked it. Again, we do not know, necessarily, which people are in a union or not. It is not, particularly, information we think an employer should be focusing on. It is private information. But again, it is clear that our staff see that as a different issue. Obviously, a large number of our staff are union members. Their unions advised them not to take up the share plan. They did so and they did not seem to feel that it was a great problem for them. They are able to distinguish quite well between the two. I do not think we see it in a design sense or in a participatory sense as an industrial issue really, either way.

Mr BARTLETT—So you do not see the concern that some of the unions have that it will become part of the enterprise bargaining process and possibly used as a tool to bargain off against pay rises as an issue within Telstra?

Mr O'Connell—The stance that Telstra would take would be quite clear. I do not think we would see it at all as part of an enterprise bargaining process. We would see that as a backward step.

CHAIR—Our friend and colleague Mr Neville was recently campaigning for a phone box out in the middle of nowhere that served 40 people. Telstra wanted to get rid of the phone box. It clearly was not a profitable exercise. Anyway, the end result has been that this phone box is going to remain there. So thank you; it is wonderful. Do you have share owning employees starting to question decisions being made by the company which clearly are likely to have a detrimental impact on the bottom line?

For example, say you have share-owning Telstra employees working in downtown Melbourne and the company has decided to keep a phone box open in the middle of nowhere that is costing the company X thousand dollars a year—and, in fact, has a whole string of these things across the country. Are you getting experiences with employees saying, 'What the blazes are you doing? You are going to bugger up the share price.'

Mr O'Connell—I have to say honestly that I cannot give a reliable answer to that in the sense that there are 50,000 employees, and the extent to which they are targeting in on financial issues and bringing that up is difficult to gauge. Seventy-four per cent of them say that they are more focused on the financial performance of the company. It would be very unlikely that, in that environment, staff are not critically examining these issues from that point of view, saying, 'Does this make sense?' I have to say quite honestly that I do not know what conclusion they might come to on that.

As an organisation, we are very conscious of the wishes of our customers and our shareholders. We have broad universal service obligations. I think our staff will be balancing those and saying, 'Does this make financial sense?' But, again, these are not single-factor things. One of the things that is contributing to it is that we are getting a fairly sophisticated work force in terms of being able to look across those issues. There is no doubt that they are looking more at our financial and service performance and our quality.

Mr BARRESI—This question is similar to the one I asked the FSU representative: what are the other benefits which you provide to the mainstream work force, and how are those benefits rated in comparison to share ownership?

Mr O'Connell—We do not have the range of things that perhaps some of the financial services people have in terms of loans and things like that. We have reasonably standard employment offers in terms of the range of things: it is the normal range of benefits, plus the share ownership. Within that we have, by general standards, quite generous employment relationships, so we tend to have longer long service leave, better leave arrangements and better maternity arrangements than the standard out in the community. How are they rated by our staff? It is difficult to make a comparison between that and the share plan. I do not know that we particularly target that in terms of our research.

Mr BARRESI—I know you try to separate share ownership from the general benefits that employees receive. From an attitudinal point of view, though, are employees putting it all into the same bucket—in terms of saying, 'I get free pay TV access, discounted phone lines and shares'—or are they actually distinguishing between the two?

Mr O'Connell—We think they discriminate between them. For example, on questions in our survey around pay or benefits—depending on which sort of terminology you use—the 'above the line', which is pay and cash, people report as being very good. They believe that they are better paid than most other people. On the benefits side, that is not as strong; and yet we know that, factually, a lot of the other benefits were quite a way ahead of the general market. So the share benefit looks as though it is more up in the pay category. It looks as though it has a higher impact than, for example, staff discounts, free phones and those things, which tend to be below the line. There is some evidence that staff do not place a value on those that reflects their true worth. There may be some evidence that share plans—if you use that horrible language of the market—have, perhaps, a bit more leverage than just the cash value.

CHAIR—Do you run a different plan at the executive end of the work force?

Mr O'Connell—We haven't—but for some time there was an incentive plan for about the top 25 executives. At the last board meeting, it was approved that the cash based plan be replaced with a share option plan. It was a form of dummy plan to try to replicate a share plan—but, of course, until recently we could not operate a senior executive share plan. So we have not run one but it is being set up at the moment.

CHAIR—Are you encountering problems in your growing IT division—attracting and retaining staff—because of Australia's tax treatment of stock options?

Mr O'Connell—Yes. I said before that I certainly do not fancy myself as a tax expert in this area, but I think there has been strong evidence growing for a while that capital gains tax is becoming an impediment to the establishment of small businesses—particularly small IT businesses which could be set up here or in California with little difficulty. We have been hearing for quite some time—often through academia—that this is a real impediment. We are getting bright people moving offshore—not necessarily to the States. They may even be going to Ireland.

CHAIR—I have been told, for example, that they are as interested in options in the company as they are in the salary they are being paid, if not more interested.

Mr O'Connell—Yes. The capital gains tax issue is being recognised, and I think action is under way to try and address that. To us, it looks like the options plan is already on the radar screen as being, if you like, as significant as that. It is certainly now a well-established part of that industry that, in start-ups, people expect to go into these industries with option plans set up. If it succeeds, that is the way the value comes. I could not say that we have got a lot of historical evidence about that. It is just emerging, but it is really starting to come through very strongly.

CHAIR—Could you talk to the appropriate person in that Telstra division: put that issue to them and ask them if they could send us a letter, perhaps, saying, ‘We are not having a problem,’ or, alternatively, ‘We are encountering a few problems and this is what they are. This is what we think the government should do to fix it.’

Mr O’Connell—Yes, I would be pleased to. In fact, they have been raising it internally with us, saying, ‘This is starting to emerge as an issue.’ I think it is, and I think it will become, a national issue.

CHAIR—Company tax rate and capital gains are critically important, but so too is the other legislation that governs stock options—particularly vis-a-vis the US.

Mr BARRESI—Could I ask one last question which has not been asked. It may sound silly, but what was the objective of Telstra in having a share ownership plan?

Mr O’Connell—It is the obvious question, isn’t it?

Mr BARRESI—Apart from participating in one of the great floats of all time.

Mr O’Connell—The government, of course, was an equal party in this one. This is an interesting one. Our objective, if you have to put a word to it, is about alignment. The plan was about providing a further basis of alignment for the staff so that their interests were aligned to the company and to the shareholders—but in particular to the company.

Mr BARRESI—Alignment of what—remuneration?

Mr O’Connell—Goals. There are many different theories about motivation, but what we do know about it is that goal-directed behaviour tends to achieve more than non-goal directed behaviour. If you can put in place things where you have a sharing of goals, then you are more likely to get coherent behaviour directed at a single thing. That is the purpose.

CHAIR—I have got a medical background. I remember treating a young fellow who worked for a forklift company that was being besieged by another company. I remember saying to him, ‘You must be worried about what’s happening in the forklift industry,’ as this other company seemed to be getting a lot more market share. He said, ‘Oh, that’s not my problem. The bosses can worry about all that.’ I thought, ‘If you had shares in the company, you might feel differently.’

Mr O’Connell—I think it is true to say that that is one of the things that Australian companies have to do. For many years we were probably content to have employees who were just like passengers on a bus: they got on, they travelled for a while and then they got off. You just know intuitively that that is not the most constructive relationship to have.

CHAIR—Thank you very much. That is a great quote. We will put that in the report.

[10.36 a.m.]

TURBERVILLE, Ms Sarah Louise, Lecturer Level A, Department of Management, Monash University

CHAIR—Thank you for appearing here today and for coming early, given that we had to change our program. The committee proceedings are recognised as proceedings of the parliament and warrant the same—some would suggest even more—respect that proceedings in the House of Representatives itself demand. Witnesses are protected by parliamentary privilege in respect of the evidence that you give before the committee. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as contempt of the parliament. The committee prefers that all evidence be given in public, but if at any stage you want to give any evidence in private, just indicate that that is the case and we will be happy to accede to your request.

Could you give us a precis of your submission and then we will discuss it. I probably should also say that today those of us who are here are all government members. Yesterday I had all Labor members around me, but they are not here today.

Ms Turberville—As a submission, I have given you a conference paper that I presented last week at the British Academy of Management Conference at Manchester Metropolitan University. I stress that it is also work in progress. It is 75 per cent complete. It is not a completely well-crafted piece; nonetheless, I think there is some data there drawing from the Australian workplace industrial relations survey of 1990 and 1995. So there are two levels of analysis, descriptive statistics and three models of workplace, distinguishing between those workplaces with profit sharing alone, those workplaces with just an employee share scheme and those workplaces with the combination of a profit share and employee share scheme, and comparing that with those workplaces with no form of financial participation.

Just to define my terms, I take financial participation to mean the collective forms. Financial participation can sometimes mean they are more individualised, or performance related pay types. I am talking about the collective profit sharing or employee share schemes.

The aim of the paper which is before you is to examine financial participation and its relationship with other human resource management practices as they apply to the Australian workplace. I think this is especially important because financial participation, notably in the academic literature, industrial and employee relations literature, has actually been neglected.

I, for the moment anyway, have been drawing mainly on British literature, particularly the work of Pendleton and others. Their most recent work makes a distinction between the form and combination of types of financial participation schemes and their relationship with other human resource management initiatives.

Evidence from the British equivalent of AWIRS—and there is some comparative work that could be done there—has indicated that those workplaces with profit sharing and employee share schemes combined or operating concurrently are actually quite distinctive and far more sophisticated. Conversely, those workplaces with profit sharing alone cannot be strongly distinguished from workplaces with no form of employee financial participation. So, in simple terms, there is nothing terribly special about those workplaces with profit sharing alone in terms of sophisticated human resource management or contemporary human resource management thinking.

You can also draw some conclusions about management style. That is the work of Purcell, who is quite a senior industrial relations academic in Britain. Purcell draws the conclusion that workplaces with profit sharing and employee share schemes are indicative of a sort of consultative management style rather than of sophisticated human relations. With sophisticated human relations there is this idea of union avoidance, or at least union marginalisation.

What I have attempted to do here is to draw out the contingencies of employee financial participation using AWIRS 1990 and 1995 and assessed against those other HRM practices to test this notion of distinctiveness with those workplaces with both profit sharing and employee share schemes. My conclusion is that, clearly, there is an overall growth in employee financial participation in Australia post-1989 where employee share schemes, in particular, appear to be predominantly a management initiative and where employee share schemes are not approximating the ACTU best practice and where they have a particular policy. Most notably and most distinctively, they are actually not appearing on the enterprise bargaining agenda at all. There are some very special cases, but for the most part they are not.

Turning to the workplace models of financial participation across those three forms—profit sharing alone, employee share schemes alone and profit sharing/employee share schemes combined—they are generally similar to the British findings. The sophisticated form of profit share and employee share combined does not appear to coexist with other, what I call, representative forms of participation—things like joint consultation committees and representatives on boards of management. That is quite profound, and in fact it has a negative effect. Those workplaces with representatives on the board of management are not employee share scheme firms, for the most part.

The forms of participation that do have a strong association with profit sharing and employee share scheme workplaces combined are what we could call upward problem solving techniques, and those are the sorts of continuous improvement, total quality management, quality circle practices—that sort of Japanese lean production model.

I am also saying something about management style after Purcell, and I think there is what I would call the divergence between human resource management practices that are premised on, say, other participatory forms, or what is called soft HRM, and management commitment to collective bargaining. I think there is a divergence into the more sophisticated remuneration systems such as employee share schemes and profit sharing combined. We are not getting representative mechanisms plus financial participation. We are getting financial participation plus those continuous improvement and total quality management mechanisms. In summary, that is what the paper is about.

CHAIR—Thank you very much. Given your Manchester connection, what do you think of what the Blair government has announced for UK 2000?

Ms Turberville—I saw that. The millennium ESOPs?

CHAIR—Yes.

Ms Turberville—The word is that it is a development, but that they are not as fabulous as they are made out to be. Obviously, share schemes in Britain are far more developed and have been in place for far longer as a central HRM practice.

CHAIR—I suppose we have heard assertions from employers that share ownership plans improve productivity and employee loyalty, reduce churning rates and industrial disputation, et cetera. But what you are saying to us is that you cannot prove that because those things are often part of other initiatives that have been taken?

Ms Turberville—That is right. The academic thinking on HRM is that it is hard to unpick the different HRM practices. That is actually quite logical, because it is premised on this idea that employee performance is actually overdetermined in the sense that no one factor will actually affect performance. So you have to bundle your practices together, and that bundling is actually dependent on your particular business strategy. For example, if you were taking a quality enhancement strategy, you would have particular forms of HRM, and probably employee share schemes would be part of that bundle along with other sorts of quality improvement mechanisms.

CHAIR—Do you think it is possible to design an academically valid research model where you could actually prospectively look at whether an employee share ownership plan introduced into a workplace would, in itself, have a positive or, indeed, a negative effect?

Ms Turberville—Yes, in theory. In practice it is hard, but in theory you can. You really are talking long-term research. You actually track a company—for example, Telstra would be an obvious one. You could actually go in for a series of interviews and employee surveys and actually track every six months or every year any changes that are going on. You could also then track those changing employee relations and perspectives in terms of what is going on in the economy anyway. Clearly, if you take a systems approach to organisations, obviously what is going on outside is going to have a real impact on the internal employee relations environment or climate.

CHAIR—Do you have any comment on what Telstra just told us about the behaviour between those who did have their shares and those who did not?

Ms Turberville—I was a little surprised, actually. There has been quite a bit of work on whether it does actually change employee attitudes and whether it makes them more like owners. I think the thinking is that there may be a slight change but really it is not terribly significant. We have this notion of dual commitment—for example, you can be committed to the company but you also have a commitment as a union member.

What I was hearing from the Telstra representative was that the share scheme was actually quite a benign thing. I was quite surprised to hear that the FSU—and I am presuming that it was the FSU—had actually actively disencouraged the employees. I am not hearing that from the FSU. I think the feeling is that, yes, this is fine; it does not change very much; yes, we will have it; of course, this is fabulous.

There are industrial relations issues in the sense that unions are not really getting actively involved in the implementation and the design of the share schemes, and possibly they should be. For example, the BHP case and that particular type of share scheme, the loan based plan, actually had quite negative consequences for employees because, as the share price fell, they were left with a share price below the purchase price plus their loan to be paid back. So there is a real transferring of risk there. If you take, for example, the Lend Lease share plan, which is seen to be best practice from a union perspective, an employer funded plan, employees are earning up to 30 per cent of the equity. It is a very successful company with very good relations with their unions.

CHAIR—Just to put it into perspective, Telstra were dealing with the CPU, not the FSU.

Ms Turberville—Of course.

CHAIR—The FSU are generally supportive of plans but not as a wage trade-off.

Ms Turberville—Yes they are.

Ms GAMBARO—You spoke about the need for employee share ownership to have a greater emphasis in enterprise bargaining agreements. Table 7 states ‘Union not party to the agreement’. What reasons are given when unions are not supportive of particular share schemes? Are there any main obstacles or main reasons given, or is it seen to be detrimental to other entitlements?

Ms Turberville—It is not actually terribly clear. I think that trade unions are predominantly seeing them as being quite benign, if I can put it that way. I think there are some issues about participation and equity and making sure that they are offered to all employees, which is no surprise.

I just get the feeling that trade unions have not really had an active participation. There is an opportunity there for active participation. But I do not think it is necessarily detrimental to employees that they are not actively involved.

Ms GAMBARO—When you say ‘active participation’ do you mean in the implementation of them?

Ms Turberville—Implementation, the design, the ongoing administration and maybe a re-engineering of the design plans over time if particular problems arise. The evidence is that with any form of HRM practice, whether it be employee share schemes or something else, if you have active union involvement you are getting better quality HRM. That seemed to be the constant theme.

Ms GAMBARO—You have said that it is rather benign. Do you think a lot of the reason is that superannuation entitlements are pushed more as a secure method of entitlement for employees—

Ms Turberville—I do believe the trade union movement sees superannuation as very much their baby and their real achievement in the 1980s. In the 1990s they could be similarly involved in employee ownership. I do not think superannuation cancels out employee ownership. They are two different things, but obviously they have a relationship.

Mr BARTLETT—I am interested in your comments about economic democracy and that extensive and equitable access to ESOPs is essential for that. In some ways I am inclined to agree with that. What do you see as the more significant issue in terms of promoting economic democracy: the ability of employees to share in the profit of the organisation or to participate in the decision making process?

Ms Turberville—It is actually both. I was drawing on Pendleton's work. I must put that in context when we are talking about economic democracy and the different forms of employee ownership. That was drawing on a British study of the UK bus company buyouts, and they were employee buyouts, so it is a very special case—it is an exception, really. But if we want to talk about economic democracy, the thinking is that you have to have both—the high level of decision making plus some form of ownership.

Mr BARTLETT—How do you see that the government could be encouraging the expansion of ESOPs in order to enhance economic democracy?

Ms Turberville—The particular types of schemes that are promoted clearly has an impact. The employer funded plans are probably the best. Again, the Lend Lease model is the organisation that is held up as the one with the biggest potential. With 30 per cent equity it is quite unusual. Interestingly and anecdotally, I do not believe that Lend Lease has workers or employees on the board of management, which is a paradox.

Mr BARTLETT—Can that happen, though, through the voting rights of shareholders?

Ms Turberville—Yes, it can. I believe Coles Myer have had employer representation that actually has changed the dynamics of shareholders' meetings.

Mr BARTLETT—Given the benefits of expanding ESOP participation, how do you respond to the ACTU assertion that the government ought not to be providing tax benefits to participants because that is discriminatory vis-a-vis those who are employees in the public sector, for instance?

Ms Turberville—I can understand why they are saying that. They are probably throwing the baby out with the bath water a little, I suspect. I am not a tax expert, that is not why I am here, but employee share schemes in themselves are not going to diminish the tax base. Obviously, you have the whole array of taxation mechanisms in place—

Mr BARTLETT—I think they were looking at it from an equity point of view.

Ms Turberville—In terms of the public sector? I cannot really answer that. I cannot really help you there.

CHAIR—It is a philosophical argument, really. The people working their tails off in the private sector—

Ms Turberville—That is right.

CHAIR—are actually paying the taxes that are funding the public service.

Ms Turberville—In another guise I have done some work on performance related pay in the public sector. I think the feeling was that it was not working terribly well. I cannot cite the quote but the feeling was that if you had some form of collective financial participation that would be more appropriate for the public sector. I just do not know how you would actually work that into the public sector, but it would probably theoretically, or even philosophically, fit better.

Mr BARTLETT—I suppose that happens anyway by all being taxpayers and participants in the benefits of government expenditure. You talk about ESOPs bringing the employee into the company and being part of the corporate family, if you like, and you suggest that this may lead to greater employer reluctance to using redundancy as a cost cutting measure. Do you see a possible tension there where executives have a share option plan and therefore the better the bottom line the greater the profit that they will make from their share option system, and the temptation that that might bring to use redundancy in order to enhance the bottom line?

Ms Turberville—Absolutely. It is a problem, and it is a problem with the mix of share systems within organisations. That is reflecting the history of share schemes in Australia anyway. They were an executive privilege and not a general employee privilege. We are moving into the general employee arena now, but we are going to have to rethink that relationship between senior levels of management and the shopfloor, if you like. Yes, clearly there is a tension there.

Mr BARTLETT—Have you done any research on that or are you aware of any research?

Ms Turberville—No, I am not aware of research. I could come back to you on that one—I will have a think about it.

Mr BARTLETT—That would be useful. Thank you.

Mr BARRESI—Just to follow up on that, I would be very interested in seeing what evidence you have to give credence to that statement about employers being reluctant to use redundancies. I would have thought that redundancies take place no matter whether there is a share ownership plan in place or not.

Ms Turberville—I was just using that as an example. I think there would be a greater questioning, perhaps, on particular strategies.

Mr BARRESI—Which in essence is why I asked Telstra that question. If you recall, I asked if, in retrospect, they would have distinguished their redundancy program in terms of time frames from their share ownership because I think it is detrimental to do that.

Ms Turberville—Going back to that idea of tracking the life of an organisation, there is some evidence that employee share schemes are implemented post downsizing or post redundancies, that somehow they are a sweetener for the existing employees. We possibly see that with National Mutual. That is actually something I want to pursue, to ask that very simple question: why an employee share scheme and why now? That would be in terms of the history of what has gone before. That needs to be done.

Mr BARRESI—My major question is on your statement that the financial participation may be one mechanism whereby a company can deal with employees directly rather than through unions. You expand on that by talking about the second wave of industrial relations that the government is putting in place, almost implying that the objective is to freeze out unions so that a direct employer-employee relationship emerges. I am not sure whether it is the case in the second wave to make that so overt. Where is the evidence that that is going to take place and that share schemes are actually being used for that purpose?

Ms Turberville—I think the minister for workplace relations is often using—

Mr BARRESI—You quote Senator Chapman.

Ms Turberville—Yes, in *Hansard*.

Mr BARRESI—And Senator Chapman is Senator Chapman. He is not the government making that statement.

Ms Turberville—But he is a Liberal senator, isn't he?

Mr BARRESI—Yes, but we all have our own views and we all express our own views in parliament in various ways.

Ms Turberville—That is actually how I was going to respond to that question. I do not think it is completely seen as a trade union avoidance strategy. In certain cases it can be, but I do not think that, in every workplace where employee share schemes are implemented, they are used as trade union avoidance strategies. There is a possibility of that in certain industries and in certain cases if there are particular conditions.

CHAIR—I am sorry, I was talking to the secretary when Senator Chapman's name came up—I know it is a reference in your paper. Some people have said to me privately—a couple have come along to these hearings—that employee share ownership, if properly handled and encouraged, has the potential to change the face of workplace relations in our country. I notice from looking at the UK 2000 stuff that it is possibly also part of the agenda there. What impact do you think it is likely to have on workplace relations? For example, yesterday Southcorp gave us a very good presentation, and they have a highly unionised work force and what seems to be a very good employee share ownership scheme.

Ms Turberville—Yes. That is probably the best practice. Again, if that is combined with a whole range of best practice HRM and active union involvement, I think things can be fundamentally recast or turned around.

CHAIR—It is a part of a whole range of other things.

Ms Turberville—Yes.

CHAIR—As Tony Blair told the unions himself after he was elected Prime Minister, the best way to ensure the security of their members was to see them work in efficient and profitable industries. Perhaps employee share ownership is one part of a series of measures you would take.

Ms Turberville—That is right. I would agree with that. I think that is what this paper is trying to say.

CHAIR—In itself it is not a device for making unions irrelevant.

Ms Turberville—No, it is not. In particular cases and for particular reasons, it can be, but for 70 per cent to 80 per cent of the time, it is not. In the absence of other best practice, it can be; in the absence of a union that is quiescent and holding back, it can be. But, for the most part, it is not.

Mr BARTLETT—Rather than actually making unions irrelevant, do you see it as a means, through active union involvement in the establishment of an operation of ESOPs, of breaking down the tension between the capitalist and worker classes and changing what is seen as a remnant of that sort of class structure?

Ms Turberville—I do not know if it will completely destroy the class structure, but it will at least—

Mr BARTLETT—Will it reduce the tension that is there?

Ms Turberville—Yes. We have this notion of mutual gains, which is very much an American concept. It is has a dual focus: we can be focused on our interests as employees but to promote our interests we also need to take into consideration the aspects of the firm.

Mr BARTLETT—When the employees are also part owners of the capital, can you break down the distinction between the owners of capital and the non-owners of capital?

Ms Turberville—That is a question of how much they are actually owning. In Australia we are not talking about very large amounts—at best, a five per cent equity which, in the scheme of things, is not terribly large.

Mr BARTLETT—Do you think there is a case for raising that limit above five per cent?

Ms Turberville—I think so. That is really going to make the fundamental break—the actual how much—referring again to the Lend Lease model.

CHAIR—Most people have said that to us.

Ms Turberville—Yes. You keep coming back to Lend Lease, and it really is the model for human resource management in Australia.

CHAIR—Thank you very much. I appreciate you doing the work and also for coming along to talk to us about it. We are very grateful to you.

Ms Turberville—I appreciate it. Thank you.

Resolved (on motion by **Mr Barresi**):

That the committee receive as evidence, and include in its records as an exhibit for the inquiry into employee share ownership, a document received from Ms Sarah Turberville entitled *Mapping employee financial participation Australia: Evidence from AWIRS 90 & 95.*

Mr BARRESI—Ms Turberville, based on that motion, your paper here says that it is a work in progress and not to quote from it without the author's permission.

Ms Turberville—That is all right; that was for the audience last week.

[11.06 a.m.]

McKENNA, Mr David (Private capacity)

CHAIR—Thank you, Mr McKenna, for appearing here today and speaking to us. We appreciate it. It is a public hearing, but if you want to say something in private—that is, not on the record—just let us know and we will consider that.

Mr McKenna—I have worked as an organiser with a union for the past 10 years. I see some benefits for Australian workers in the spread of employee share ownership and I am a bit passionate about it. I wish some of my comrades at Trades Hall, and in the union movement generally, were as passionate as I am. That is the background from which I come.

CHAIR—Which union do you belong to?

Mr McKenna—It is a public sector union so, strangely enough, share ownership does not affect our members, although, with the privatisation of some of the government business enterprises, there have been small attempts at introducing share ownership as part of the privatisation and floating of those companies, Telstra being an example.

I might take the opportunity in my verbal submission to touch on the opportunity for the government in spreading employee share ownership through its privatisation programs, which, I have got to say, I am not terribly endeared to. But if they are occurring anyway—and both sides of the fence have been pushing the privatisation barrow—there is an opportunity for the government itself maybe to lead the way to the private sector in some of its privatisation programs by introducing innovative, progressive share ownership schemes as part of those privatisations.

CHAIR—Do you want to give us an overview of your submission?

Mr McKenna—Yes. There is one central point that I would like to touch on, and that is that, with the spread of universal superannuation over the past 10 to 15 years, there are some lessons and parallels—for instance, what we might be able to do with employee share ownership to make that more universal.

The trade union movement was brought into the 1980s by luminaries like Bill Kelty. Prior to that, the trade union movement saw superannuation as the executives' preserve. That was something the bosses had and we did not like the idea of having our wages put into this funny fund, speculating on the share market, the capitalist area of involvement. We wanted our money and we wanted it now; we wanted it in our fortnightly pay packets. In a blunt way, I think that was the trade union movement's view of superannuation until the mid-1980s. I think there were some battles within the ACTU on the spread and the move towards superannuation for all Australian workers. Some of those ill-informed myths had to be broken down and people like Kelty were able to do that.

It seems to me that employee share ownership has some parallels with the ill-informed debate at the time. I think it is fair to say now that the trade union movement sees employee share ownership as part of the speculative share market. It is something that might do over workers and it is all part of the game—a capitalist area of activity and something that we should not dabble in; we want our money and we want it now. I think there are still hang-over views very similar to the views on superannuation, which are still in the minds of trade unionists now.

There are also other parallels with superannuation. Excuse my ignorance on this fact, but I think there was a cap of 12 per cent employer contributions on the legislated superannuation scheme and the figures that I have seen—and I might be able to dig them out and provide them to you out of session—show that a worker who comes into the work force at the age of 18 or 20 and works for the next 40 to 45 years on 12 per cent superannuation for that entire working life will still have a significant drop in their annual income for the rest of their retired life, albeit having 12 per cent legislated superannuation to the max for their entire working life. There is a shortfall there which employee share ownership might be able to fill. So I put that on the table for consideration.

Superannuation was touted in the 1980s as being able to fill the national savings void. People were spending and not saving. You might remember that we looked at the Japanese as the big savers in the Asian community; Japan was the world's work horse. We had to save, save, save. Universal superannuation imposed national savings on workers. Employee share ownership has a measure of improving national savings attached to it.

The social security benefits of superannuation are fairly obvious. Down the track, workers retire. At the moment, many workers put their hands out to government and to the taxpayer to tide them over through their retired years. Full bottle superannuation has the potential to decrease that drain on the social security dollar. I put it to you that employee share ownership has a role to play in minimising the drain on the social security dollar if we can target it in such a way that it helps retirees' savings. In a nutshell, there are some parallels and lessons that we can learn from the introduction of superannuation 10 or 15 years ago. I think they have great relevance to what is a debate in its infancy about the spread of employee share ownership.

I will just take the time to refer to the Workplace Relations Act. This came up in the previous submission—I know someone referred to it; it might have been Mr Barresi. In the Workplace Relations Act—and I do not think the second wave is going to amend this particular part of the act—one of its principal objects says:

(a) encouraging the pursuit of high employment, improved living standards, low inflation and international competitiveness through higher productivity in a flexible and fair labour market;

I see employee share ownership as having some relevance to those very high principals and objects espoused in that very first objective in section 3 of the Workplace Relations Act.

Mr BARRESI—And yet we hear evidence consistently from those who come before us that there is no causal link between employee share ownership and productivity in the workplace.

Mr McKenna—I have seen studies—I might be able to dig them out again and provide them to you out of session—from the United States which show the top Fortune 500, or whatever they are, of workplaces with employee share ownership schemes and those without and the productivity they have been able to derive over what might have been a five-year span. It was quite starkly obvious that there were productivity improvements of those with share plans and those—

Mr BARRESI—What is related to the share plan being in place?

Mr McKenna—I do not know. The study was looking at that particular point and there was a stark difference in the productivity of those two. The researchers pointed to the fact that employee plans were in the high productivity companies and not in the lower ones.

Mr BARTLETT—The ACTU would dispute that.

Mr BARRESI—Can you make that available to us?

Mr McKenna—Yes. I am surprised it has not come up before.

CHAIR—It is a little bit like the link between smoking and death. We know that there is a link but it is very hard to do the research that proves it. If you take 10,000 people and tell them to smoke for 20 years and take 10,000 who do not—I think it is a little bit like that.

Mr BARRESI—I will kick off with your comment about making the comparison between share ownership and superannuation. Superannuation gave workers indirect ownership; shares lead to direct ownership. There is a concept of industrial democracy there. Can we really expect, from a practical point of view, that because 90 per cent of Telstra employees are shareholders or 60 per cent of Colonial Mutual employees are shareholders or whatever it may be, they will have a level of control and provide direction to management on such things as employee conditions, industrial practices and the wellbeing of the company? Can that really take place?

Mr McKenna—I think it could.

Mr BARRESI—Is that being idealistic?

Mr McKenna—I cannot point to anywhere in Australia. We have heard about the Lend Leases and the BHPs and some of the other large companies with these share plans but I do not know what occurs about industrial democratic practices within those firms. Telstra is maybe not a good example. I think less than one per cent of shares have been allocated to employees and they have been pretty much given on an unregulated sort of form, so once it is in your pocket you can sell it or you can hang on to it, there is no—

Mr BARRESI—But 90 per cent of the work force has taken it up.

Mr McKenna—As far as the share market concern of Telstra, it is a very small proportion of those shareholdings. One per cent of the shareholdings is employee owned. That is not a very significant proportion. I take the longer term view that if we are fair dinkum about employee share ownership and maybe taking a cut out of profits dedicated to funding employee share ownerships, in the Lend Lease model, then over time—and I am talking about a significant period of time—the democratic opportunity that share ownership offers will start to play a role. It is simply a matter of numbers; if people have got a significant proportion of the ownership of a company they will begin to have a say.

Mr BARRESI—I wanted to make that clear. It is not having a share plan in itself that you believe will create this, but it is the slice of the share that the employees are in control of, in terms of the company?

Mr McKenna—Yes.

Ms GAMBARO—You spoke about national savings and how employee share ownerships could be a method of adding to national savings. I would not mind you giving us a personal opinion. The trend is that national savings over generations has decreased. What in your opinion are the reasons for this? Younger people are saving less. In fact, people generally are saving less of their income. Are there societal trends that have changed or is it an attitude to saving for a rainy day? What in your opinion are the reasons for this lack of savings culture? You have quoted Japan. They are realising that they have gone to the other extreme where they have been saving too much and their government is trying to stimulate domestic consumption at the moment.

Mr McKenna—It is fair to say that increasing shareholdings is a form of savings. Employee share ownership, if it spreads in any significant way, will add to the national savings. My understanding is that national savings are increasing. I know we are living in a more and more materialistic society where people out there are told to buy, buy, buy but I would have thought that the younger generation is now getting much more into the share market. The mums and dads and retirees are getting into the share market in their own personal way rather than through large funds. I see a trend towards people jumping onto the share market generally and that has positive implications for national savings.

The brothers and sisters in the trade union movement are lagging behind the societal trend that people are not scared of the speculative share market and are jumping in hands and feet. The spread over the past five years of share ownership amongst Australians generally has been astronomical and the union movement is probably behind that societal trend by not coming on board and encouraging the take-up at the workplace level of those things.

I think it might have been the previous submission or the one before that that talked about these issues not coming on to the bargaining agenda at the workplace level, at least in the logs of claims provided by unions. I think that is fair comment and the union movement is probably lagging behind the debate. But I would have thought national savings certainly has positive implications if employee share ownership is spread. I would have thought national savings would be starting to increase, but the facts might not bear me out.

Ms GAMBARO—I thank you for that personal perspective; I appreciate that. You are correct in saying that share ownership is being taken up by younger people, so maybe that will have a significant impact on the future national savings as well. Can I just ask you about employee participation on company boards? How do you see an effective way of doing that? Would you suggest it being done through the election of a delegate or an employee representative to participate on company boards? Would that have significant benefit?

Mr McKenna—My experience with elections of staff employees in various consultative forums at the workplace is that the workers themselves do not have a great deal of faith in an election which is conducted by the employer. They see the union coming in as an independent person to conduct the election, so there is more faith in the union conducted election as opposed to one that is conducted by the employer and management. That is my general experience.

Ms GAMBARO—There are some companies that have employee representation. Do you see a greater need to encourage that participation on company boards?

Mr McKenna—I think it would be fantastic.

Ms GAMBARO—As the chair mentioned, in the way that smoking and cancer are linked, what keeps coming up all the time is that employee share ownership schemes may have an effect on their own but it might also be all the other things bundled in together. Just on this issue about board participation, if people do have a significant share of a company and understand more about the company's performance and their objectives, that along with the share ownership makes it a more attractive prospect. Thank you for that.

Mr McKenna—In relation to having employee representatives on the boards, my experience is that decision making which includes employees is usually much better than the more authoritarian fifties model of management. Having workers directly on the board at the very senior levels of an organisation where important decisions are being made I believe would improve the quality of those decisions.

Ms GAMBARO—I tend to agree with you. I think I have seen some McKinsey studies that have shown that as well. Thank you very much for that.

CHAIR—Yes. It is interesting with this savings question. Probably unfortunately for you we are all government members here today. We had a few of your comrades here yesterday who were good guys but they could not turn up today. Vince Fitzgerald, who Mr Keating described at one stage as sucking a lemon every morning, did all the savings work for the previous government and he, amongst others, has said that if you put more resources in to encouraging employee share ownership you actually run the risk of replacing one form of savings with another. If the deputy chair, Mr Sawford, was here today from Port Adelaide, he would be saying that himself.

Our savings rate has actually declined in Australia. I think we are running at about 17 per cent of GDP, and our household savings ratio this year will drop from three per cent to one per cent. Four percentage points of our current account, which is currently 5½ per cent of GDP, is our net income deficit, which is investment in Australian companies by foreign interests. One of the things that I have been thinking about is what will happen if we have a very serious move into employee share ownership. We had Ansett employees here yesterday, for example, who were trying to take over their company—they were at least trying to get some controlling interest in it—because they are trying to stop Air New Zealand from getting control of Ansett. I wish them well. But the question is whether, if we go seriously into employee share ownership, that is going to perhaps help us with our national savings program and not be at the expense of superannuation or other savings vehicles. Could it, in the long run, give us perhaps the opportunity to have less reliance on foreign acquisitions and investments in Australian companies? Is that something that you are aware of? Is it something that people are talking about?

Mr McKenna—I am scratching back to my Economics I days at La Trobe University. I have to say that these macro-economic questions are above and beyond me—other than to say that what you are saying seems to make sense: that greater employee ownership, I suppose, leads to fewer overseas takeovers. It seems to make sense to me, but I cannot point to any evidence.

CHAIR—The FSU man who was here this morning was a very good advocate for his members. He said that, in a survey they had done, one of their employees had said of employee share ownership, 'It is okay, but it does not help me pay my Woolies bill next week.' In other words, 'I recognise the importance of saving, but it is income today that I particularly need.' If we were to encourage perhaps what you are obviously committed to—having more employee share ownership and enforced savings in a sense—we run the risk of upsetting workers and making the situation worse.

Mr McKenna—That was the debate they had in the middle 1980s with superannuation, although it was not as overt. In the middle 1980s we said, 'No, we are not going to trade off wages for the spread of universal superannuation,' but, in effect, that did happen. There was a period of two or three years where wages did not increase. In fact, they just stayed the same, with significant periods of inflation. There was a bit of a rip-off.

CHAIR—But you could argue that one of the reactions of householders has been to their moneys going into superannuation, as is their employers' contribution, but what they are doing is saving less themselves and spending more of their disposable income—and the ready availability of credit has probably not helped that. Is there a way of trying to encourage employee share ownership without making the situation even worse?

Mr McKenna—Is the point you are making about forgoing wage increases and having those wage increases siphoned off to a share ownership plan, rather than having the money here and now and going down to Woolies with a full pay packet rather than one that has been tapered off a bit?

CHAIR—In most circumstances, I think most people would say that employee share ownership should not be at the expense of wages, although there are some circumstances—Greyhound buses, Cathay Pacific, for example—where, in terms of ensuring the security of the company, they have actually had to offer such arrangements.

Mr McKenna—Preferably, I would say that it should be a small siphoning off of profit dedicated to funding the employee share ownership plan.

Mr BARTLETT—On the question of national savings, the impact of ESOPs is somewhat in dispute. The key question is whether it actually increases savings or simply transfers national savings from one form to another. It would seem to me that one of the key issues is whether or not participation in ESOPs leads to a reduction in consumption expenditure by the participants. If all you are doing is actually increasing the participants' savings but decreasing corporate savings, for instance, then you do nothing to enhance national savings. If we were to use this method to enhance national savings, we would need to be offering incentives for employees to actually forgo some of their consumption in order to take up further share participation.

Would you be supportive of a scheme, for instance, that said, 'For each quota of company shares made available, say, through a bonus scheme or a discounted loan arrangement or something, we would be encouraging employees to forgo some of their income in order to take up a further tranche of shares'? If we did that, then we would enhance national savings, and we would also increase the savings pool of those participants in terms of retirement. Would you be supportive of some sort of incentive system like that?

Mr McKenna—I would be supportive of that if it operated in conjunction with a profit sharing scheme.

Mr BARTLETT—Presumably, greater share ownership would involve greater profit sharing, simply by being larger shareholders and therefore participating in the dividend flow of the company.

Mr McKenna—If you dedicate a percentage of company profit to funding the share ownership scheme, as opposed to the employees funding it, I am supportive of that. But I hear what you are saying, and my response is: if it operated in conjunction with the profit sharing being dedicated to funding the employee share ownership scheme—and there is, if you like, a voluntary add-on to that where there are some tax breaks for people to dip into their own savings to add to the share scheme—that would be supported, yes.

Mr BARTLETT—Again, it is a parallel with the introduction of superannuation where some of the contribution came from forgone wage rises and some came from the employer's contribution in those early years of 1984-85 or whenever it was.

Mr McKenna—That is right.

Mr BARRESI—You mentioned in the implementation part of your submission a whole list of things the government should do. Some of them were consistent with other submissions that we have received. Towards the end you say:

. . . excluding employment conditions and 'no strike' clauses in employee share ownership schemes . . .

Is there an assumption there that that is actually included in employee share ownership schemes at the moment? I cannot recall anyone saying that their employee share ownership schemes are in place and are tied to employment conditions and no strike clauses.

Mr McKenna—I have got a feeling that my research on this is from the ACTU guidelines on employee share ownership. I do not know whether Bill Mansfield mentioned the ACTU's policy on the matter.

Mr BARRESI—They do want to separate employment conditions from shares. I am asking: is there evidence out there that companies are introducing employee share ownership schemes and specifically tying them in to employment negotiations and such things as industrial behaviour—the no strike clause?

Mr McKenna—No, not to my knowledge.

CHAIR—Thank you very much, David. It is commendable that you would put all this effort into it, and it is great to see someone who is passionate about something, even if you disagree with them. In this case, we happen to agree with you, but thank you very much. If there are any other comments you want to make, or if you hear of or read other submissions with which you disagree, then feel free to let us know.

Mr McKenna—I wish the committee well.

[11.41 a.m.]

STRADWICK, Mr Richard Charles (Private capacity)

CHAIR—Firstly, thank you very much, Mr Stradwick, for providing us with a submission and putting time aside in your day to come and speak to it. The committee proceedings are recognised as proceedings of the parliament and warrant the same respect as proceedings in the House of Representatives itself demand. Witnesses are protected by parliamentary privilege in respect of the evidence that you give before the committee. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as a contempt of the parliament.

The committee prefers that all evidence be given in public, but if at any stage there is anything that you would like to say in camera, then you should indicate that that is the case and the committee will consider your request, discuss the matter at length and then vote upon it. Could you give us a precis of your submission and then we can discuss it.

Mr Stradwick—I am appearing in a private capacity.'Why do you come here in a private capacity'? Because I have worked in both the public and the private sector for a fair proportion of my life. Also, I have been in jobs where I was involved in putting in employee share plans, both in Australia, back in 1983, when they were a bit more at the front edge than they are now, and also in the UK, where a firm for which I was the human resources director was introducing employee share plans country by country around the world.

The second reason for feeling that I may have something to offer is that, in Cadbury Schweppes, which is a consumer goods company, I tended to take a view that you ought to apply the same standards to the things you were doing for employees, the benefits, as you did for products. We used to research the hell out of products. If you bring out a new confectionary bar, you want to make sure that it is a goer before you stick $20 million into it.

We did not necessarily spend the same amount of time wondering whether things we were doing for employees had the same sort of benefit. Both when I was in Australia and when I was in the UK, we undertook research to find out what employees wanted; why they would join an employee share plan; what they thought was wrong with the models we had. From that research, we were able to extrapolate into what sort of share plans we should be introducing in countries like Belgium, France and Spain, where we were looking to do it when I retired from the company.

I do not wish to go far beyond the points I had made in my submission, but I might reiterate some of them. Research in this area is difficult because many variables affect business performance. Managers saying that an employee share plan improves performance does not mean that it does. It means that managers say that they think that it does, and they may be right.

A correlation between variables such as improved company performance and the company's having an employee share plan does not prove cause and effect. I am sure others have said this. No single factor can guarantee a firm's success. Businesses may fail for a variety of reasons, including reasons outside the control of the business, and an employee share plan will not stop this.

If you are in a company that relies on lamb exports, the action of the US government is going to have more impact on your business than whether you have an employee share plan or any other plan that comes along. So the good guys do not always win in this world.

Taken in totality, existing research does support the conclusion that employee share plans are part of the way in which competent senior managements improve efficiency and productivity in their companies. There is evidence that such plans work best when they are associated with a degree of participation. With all respect to David, participation means enabling employees to participate in aspects of their job in which they have a direct interest and involvement. It does not mean representation by someone at board level. That is a separate question. I am not saying that you should not have a trade union official on a board, or anyone else. That is not participation. Participation is asking some guy who is in the sales force how he thinks the territories ought to be organised, because he is going to know more about it than you are.

I know it is anecdotal, but I once had a storeman bail me up when I was down in Tasmania and say to me, ‘Why are you bloody asking me about what we should do?’ I have forgotten what the problem was, but it was an accounting problem. He said, ‘Come down and ask me about the forklifts, they are no good.’ To me, that is what participation is. He has got a lot of knowledge about forklifts. Maybe he does not know so much about debt to equity ratio and, what is more, he does not care. He thinks that is my job.

A properly managed general employee share plan—and I distinguish a general plan from a selective plan such as an executive plan—provides an important focus for communication and helps a company to share its goals with its employees. This is most important in large businesses because they have the most complex structures, and so it is hard to communicate the objectives of the business. This is particularly true when you have got a geographically diverse business. Someone in an Australian confectionery factory knows that you do not process cocoa beans in Australia—Cadbury Schweppes does not—you do it in Singapore. They used to do it in Australia. There are economic reasons for that. You have to get people thinking, ‘Maybe that makes a lot of sense. We are losing jobs in Australia but it improves our competitive position.’

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. In the year after the 1987 downturn in share prices, most people who entered the share market for the first time came through an employee share plan. All the punters and people who were going in for other reasons dropped out, so you were left with a core of people who joined through their own employee share plan.

Some employee share plans are also effective in increasing household savings. I noted your earlier questions on this. The money devoted to the share plan has to be additional saving. If they stop putting it into a bank and put it into a share plan, I do not see for the life of me that it is somehow increasing savings. If I might make a comment on an earlier question, it seems to me that savings decline because of the availability of other things which are pleasant. People will do what increases their personal pleasure—using it in the wide sense of life. If they can get money through bankcard or something else, they do not save it. They say, 'I can use the new car and pay for it over the next few years.' Perhaps compared to my father's day—and he used to save for everything; he could not have got a bank loan; he could not have gone down and used a bankcard—it is easier to get credit.

Furthermore, a lot of the consumer pressure is on spending now. There has been an ad on television showing a woman running along with her sunglasses on top of her head, which indicates perhaps that she is one of the new age swingers, saying, 'I just want to have fun.' The whole pressure in society is on getting consumer goods, durables, now rather than saving for them. You have to have some countervailing pressure before it starts to swing the other way.

Selective employee share plans such as so-called 'executive share plans' do offer a means of providing variable income for the people concerned. They are an essential element in a remuneration plan for many companies. I have a personal view that, rather than giving a long-term bonus related to earnings per share, you may be better off putting that bonus into employee shares. I hasten to say that does not require you to go and provide some sort of tax benefit as well. If senior executives are alienated from their company, then there is a major problem in that company and it is one that will not be addressed simply by introducing an executive share plan.

Tax dominates discussions about employee share plans but, generally speaking, employee share plans are not treated harshly by division 13A of the Income Tax Assessment Act. Benefits for employee shareholders must be balanced against costs to other company shareholders and to the Australian taxpayer. On that point, we sometimes find that somehow ordinary shareholders are assumed to be banks and insurance companies. In actual fact, the banks and insurance companies are investing for people who have money in the superannuation fund. It is an indirect investment in shares but it is an investment nevertheless, and it is pointless taking money from general shareholders, which would otherwise go into a superannuation fund, and transferring it to other shareholders. Once again, that does not increase savings in any way.

Having read through the transcripts I am well aware that you are aware of the sorts of problems that are a difficulty. At present, employee shareholders must pay tax, when they leave a company, after restrictions expire or after 10 years. This does not apply to other shareholders. In other words, some people sell shares, or exercise options and sell the shares that result, in order to pay the tax that comes. That seems to me to be the height of stupidity. I am a shareholder in Telstra and I expect to have a right to acquire shares at a discount. No-one says that I am going to have to sell them after 10 years and pay the tax. I might not be here after 10 years, but the point is that if I sell or otherwise dispose of them, that tax is payable; it is not payable after some arbitrary period of time.

Again, there can be an argument that any relaxation of capital gains tax could reduce the tax paid and ultimately lead to distortions in methods of remunerating employees. But the distortions will actually be lost in a sea of distortions that will follow any relaxation in capital gains tax because businesses will try and put profit through capital gains rather than through income because it is tax effective to the owners of those businesses. That is what happened before; I have no doubt that is what will happen again.

Existing tax provisions should be varied so that they do not discriminate against plans that restrict the exercise of options or shares when employees leave the company. I can never see why someone who retires, resigns, leaves the company, gets fired, should not have some or a proportion of his shares or options forfeited. I notice there has been an argument by some people before this committee saying, ‘They are a way of keeping employees in the company and tying them to the company.’ If the person can keep all the shares and still leave the company, I do not see how effective they are in retaining his or her services. It is a nonsense.

Different sorts of plans suit businesses in different stages of development, and any tax regime should not unduly restrict the sorts of plans used. The use of savings related share option plans has been unjustly criticised in the UK—and I am aware that you know what is going on in the UK. These plans are popular with business and have been widely used there, but they are defective because employees can save, secure a tax break and then use the tax advantaged savings for some purpose other than buying shares. In other words, you can save for five years, take the money and the interest and go on a holiday to Spain. Some people say, ‘I won’t buy the shares.’ Once again, I cannot see why you should provide a tax break in that situation. The fault in the plan, which the UK is talking about now, does not lie with the plan itself; it lies in the government enabling people to take the money, tax free, and run. I do not argue that they should not be able to walk away from the plan, but, if they do, the interest on their savings should be taxed in the same way as it is for any other individual.

Savings related share option plans would be valuable in Australia; they would help to increase household savings.

If changes are made to the tax treatment of trusts, some thought will need to be given to providing a vehicle in which shares can be held until employees own them. In this situation, holding shares in trust should neither subject their owners to double taxation nor enable them to avoid tax.

At present the UK is looking to expand the range of plans covered by tax breaks and even introducing plans similar to those used in the US. Unlike the UK and particularly the US, Australia has a well-established and tax effective superannuation system and there really can be no justification for providing shares to employees on very favourable terms at the expense of taxpayers and ordinary shareholders. That is not to say that there should not be some break for general employee plans—I am not arguing that.

I will conclude by saying that, although the committee has had a lot of evidence about tax, when you get down to the grassroots a lot of people want a plan that is easy to understand so they can opt in or out of it. They do not want something that is complex. They do not want to have to make a series of elections on the plan as they go through life—they do not necessarily understand the elections and they do not want to have to understand them. So, at the end of the day, simplicity seems to me to be a key to the whole thing. That is all I wish to say in summary.

CHAIR—Thank you very much, Mr Stradwick. It is a thought provoking social commentary about the reason why we spend our money. It could also apply to drug use and some other things.

Ms GAMBARO—I thank you also for your insights on savings and the consumable market and also the fact that we are able to get credit a lot easier but that our attitudes have changed significantly too. In your submission, at point 7 on page 3 you say:

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—

When you were with Cadbury's and you introduced the share scheme, what was the cost of implementing such a scheme? A submission I was reading from Southcorp said $500,000 was invested by Southcorp in the communication of the plan but they had to be put it in five languages because it operated in five or six different companies. I am asking you go back a bit here but what was the cost of establishing a share ownership plan and of the communications and what was the time line when you brought it in?

Mr Stradwick—We introduced the plan in 1983.

Ms GAMBARO—I know I am asking you to go back a long time.

Mr Stradwick—Yes. I have a feeling, and I cannot swear to it, that it was about $60,000 to $75,000. I think that was what we budgeted for and we were pretty well on budget. That was not the true cost; that was the cost that hit my budget line as the human resources director. The line managers also had to take people off line for explanations, so it was a lot higher than that.

When I was a director with Cadbury PLC I used to allow £25,000 for the cost of establishing a plan. That was just the cost and we knew what sort of plan we wanted, so it was pretty basic stuff. If I introduced a plan into France, that was one language and I could flow it on to Belgium because they were French speakers there in the business I was in. The cost was £25,000. It was made up of having to employ someone to get the black-letter law complied with, having to employ someone to draft the terms and conditions of the plan, having to produce literature. That was an average cost—it might have been a bit more or less. So you could say it was $60,000 just to extend a plan to one country.

And yes, sure, you can write that off against tax, but it does not completely cover it, by any stretch of the imagination. It also imposes a fair load on your line managers. Most of them want to make sure that they are seen to have introduced it well, to have put their time and endorsement into it. So you can probably double that effectively.

Ms GAMBARO—Okay. You spoke about France. Again, we are talking about some time ago, but was there greater uptake in the European countries than in Australia at the time, or was a greater communication effort required for employees of the French division, for example?

Mr Stradwick—You would have to look at it country by country. I left before the plans were implemented. France was easy because they had an expectation of it. In other words, there were a lot of other businesses that had employee share plans, so you were not speaking to people who were unfamiliar with it. Spain was a different kettle of fish. Share plans were not common in Spain and not well understood, and we had a company there which had been continually reducing in size over a number of years so the people did not like the company much anyway. That was a fact of life—no good hiding it. So their alienation manifested itself as some sort of distrust of anything the company was going to do. Don't do business in Spain. But in Belgium, France, those sort of countries, the plans were well understood.

I was talking to someone on the shop floor in Belgium and I said we were thinking of putting in a share plan—that was after we had decided to do it, but it meant you could step back later. He said, 'It's about time.' This was from someone who I had been told was a militant unionist. That was a bit of a shock to the system.

Ms GAMBARO—I am probably asking you for a personal perspective on this. Concerning employee share ownership schemes in service industries versus manufacturing based industries—and I have worked in service industries all my life—there is a method of operating in service industries that involves a more consultative approach. You spoke to me about the fellow with the forklift on the shopfloor. In service industries, because of the industry that they are in where there is more customer contact and involvement from the sales manager right down to the sales rep, there is a more participative approach. Do you think that that has an impact on the profitability of service industry based companies versus manufacturing based companies? I would not mind you relating it to employee share ownership schemes as well.

Mr Stradwick—With respect, there are about three questions there.

Ms GAMBARO—I know, I have given you a whole mouthful there.

Mr Stradwick—I think you are right. When I was with Cadbury Schweppes they ran a business called IT Net, an IT business. They have since sold it to its employees, which is an interesting exercise. The nature of that business was different. The uptake of employee shares was high, and the people expected to be consulted because that is what happens in the IT industry and you cannot do business without it.

It depends a bit on the field you are in. If I looked at a spectrum, that is at one end, and all the 'suits' in head office tend to participate too because they are talking about these things all the time, although they may not be making as great a contribution as someone in a set of overalls in a factory. But they feel comfortable with participation.

Sales staff tend to be lower than your true service people but higher than people in manufacturing on the factory floor. And depending on the factory, it is sometimes hard. There are cultures in places. In Cadbury Schweppes, 100 per cent of the people in the Burnie milk condensing plant took up shares. I might add, there were only about 15 or 16 of them, but that was the highest uptake anywhere. They had a discussion amongst themselves and decided that was a good thing to do. Oddly enough, it is not tax or some of those things that drive them, it is how comfortable they feel with the explanation, and whether they think they have got disposable income.

Young people do not take up shares, although it may be that they are doing it more now. When you talk to them, as we did, about why they did not take up shares, they said it was because they did not have any disposable income. If you are 25 and you have got two kids and you are working on the line in Bournville, boxing chocolates, the chances are that all your money is going in just staying afloat. If you are going to have a share plan which requires a contribution, you are not going to get them. But the same people, when they are 40 and the kids are off their hands and they have paid off the house, will quite often take up shares.

In 1984, Cadbury Schweppes did a survey of who had taken up shares and more importantly who had not. It was found to be closely correlated with income and age and it was close enough to draw conclusions from it. Basically, the reason was disposable income rather than the nominal salary. Someone on a low income at 50 has probably got more disposable income than a person at 25.

Ms GAMBARO—That's fair enough. Thank you very much, Mr Stradwick.

Mr BARRESI—Unlike Teresa, all my history is in the manufacturing sector. I know you have been a respected personnel director. I come from the human resources field as well. There has been over the last 15 or 20 years an upsurge in employee participation in manufacturing, whether it be through self-managed working groups or quality circles, TQM, the whole approach. One of our previous witnesses, Sarah Turberville, actually made mention of some of these things.

I have two questions. In those manufacturing organisations that have this high level of employee participation, are they more successful in getting employee share schemes implemented? Is there any correlation between those two, or does the reverse takes place, so that if you have an employee share ownership scheme you then are able to introduce other forms of management practices which bring management and employees closer together? Which way does it work, or are they two separate issues that have nothing to do with each other?

Mr Stradwick—Both of those things are true. You cannot put in an employee share plan without talking to employees. If you talk to employees they will start to raise other things. At the end, unless you are going to be draconian, someone says, 'Why didn't you put a door on the east side when you built the new plant because we cannot get the fork in?' It is pretty basic stuff, but you should have done it.

Again, in a participative group, people are more relaxed about the company and what it is trying to do. It is easier to talk to them. Oddly enough, in a large company you see differences site to site. You have managers who are very authoritarian at some sites, and in other sites you have managers who are quite happy walking through the factory and getting bailed up by some guy at the back end of the bottle washing machine about something or other. It is easier to talk in those places, but if you put in a share plan properly you cannot do it without talking to the employees about the plan, unless you are a fool. And, in those situations, inevitably that will lead to other things.

I have some concerns. In the late-1970s there was a thing in England called the Bullock report—which has now been consigned to wherever unsuccessful initiatives go—which was all about having works councils. It was purely a representative thing and all of the companies did it. Cadbury Schweppes did it, and I had a row with the then chairman about putting it in in Australia. We did not, and they took theirs out, so I rest my case.

That scheme had works representatives, but employees were no more involved in the business. Half the time they did not know the fellow who was on the works council. At that stage there were 6,000 employees at Cadbury Ltd. They did not know who was representing them. That was unsuccessful. That is not participation. Perhaps the answer to your question, which covers both things, is that they are easier to introduce in more open companies, and where there is not an open company they make such a company a bit more open.

Mr BARRESI—Some of the union submissions that we have received express a concern that employee share ownership is going to be used as a way of driving a wedge between the union and the work force. I would have thought that what creates a greater wedge, if it does at all, is employee participation programs at a decision making level on the shopfloor rather than a share plan. I do not think a share plan itself is the bogy that the union movement is claiming it could be, compared to some of the other initiatives that have been introduced under the guise of human resources initiatives. What is your comment on that?

Mr Stradwick—I think that is true. I know that some unions do not like you talking to the employees, which is a bit of a worry. They feel that all communication should be channelled through them. I would not say that is true of unions which are living in the present age, but not all of them are. If I had the declining membership that some unions have, expressed as market share, the board would have changed in the company. But, there are others that are more concerned to protect their members and are quite happy to talk about it.

The company with which I worked had a policy that they were quite happy to talk about with unions. A lot of it was about, ‘What happens if someone falls ill? Can they stop paying?’ They are legitimate concerns. Another was, ‘What happens if someone has not been there a year when the plan opens? Can they still participate?’ I had that one raised with me. Some unions feel they will introduce a wedge. I think those unions have problems other than share plans, and a lot of unions are fairly comfortable with them.

There is a another problem, and perhaps it is a separate issue, and it concerns fixed pay and variable pay. Anyone representing employees would like as much fixed pay as possible and as little as possible in variable pay. But sometimes, when your back is against the wall, you have to say, ‘We can’t distribute any more this year but if we can, at the end of the next year, we will.’

I believe that some of the initiatives that were introduced in the UK associated with bonuses are an ideal way to go because they do not come out of the guy’s living wage. He has probably committed that already. If you come along and say, ‘How about 10 quid a week?' He thinks, 'I haven't got 10 quid.' If you say, 'At the end of the year, there could be a bonus and, if there is, you can put some of that into buying shares in the company or buying options for shares, which is probably a better choice because of the downside protection they offer,' people are fairly happy with that. I can understand the sort of union concern. It is another thing of 'Help! The employers are talking to their employees—it is the end of civilisation as we know it.'

Mr BARRESI—My last question is just to be consistent with those to all the other witnesses this morning. In your comments on the share plan, you talk about some of the survey results: the employees will have greater interest and that encourages them to be aware of share prices, to look at the annual results of the company, to have greater awareness of operating costs and overheads, et cetera. In making that comment, there would be an assumption that the employees, being far more financially literate and conscious of their company's performance, could in turn create an upward pressure from the shop floor to the management level and set up a watchdog approach over the decisions that are made. Is that reality or is that fantasy?

When we spoke to Doug Cameron in Sydney, he thought that that just would not take place and that it really is fantasy because management in the end would do whatever management wanted to do. At the end of the day, because there is a minimal shareholding in the company by the employees, that upward pressure just would not exist.

Mr Stradwick—I cannot answer in quantitative terms. I can on the basis of experience. I can make perhaps two points. One is that Cadbury did it in 1983 by giving people key rings and tee-shirts which said, 'I own part of Cadbury Schweppes,' and stuff like that. We put a bit of time and effort into it. People don't work any harder. That is rubbish. But they do start to worry about costs.

I was talking to the manager at Tullamarine which was then one of the largest soft drink factories in Australia—and it is still pretty large. He said, 'Oh, I wish we hadn't done it.' I asked, 'Why?' He said, 'We're having trouble with the can seamer,' which is a particular machine. All that was happening was product was coming out one end and the cans were not sealed, which means you just trash it. One of the guys came up to the 'white coats,' which is how managers are regarded in that place and said, 'Listen, I'm a shareholder in this bloody company. If you guys can't fix this machine, I'm going to raise it at the annual general meeting.' I know it may not have had much of an effect in the whole scheme of the place, but it sure did on the people who were involved.

The other thing is, I was talking to our then recently ex chairman, with whom I have dealt for some years, Sir Adrian Cadbury. He was talking about putting a plan into South Africa, where Cadbury Schweppes has interests. He was saying, 'Could we put a share plan in there?' I said, 'Hard. A lot of these people are illiterate in Xhosa or whatever language they speak and they do not understand English. What are we going to do about properly informing them?' He said, 'I'm looking at it from the other end. The employee shareholders in Cadbury Schweppes start asking questions. For the first time, they don't throw the annual report in the rubbish bin as they walk out of the canteen because they want to find out at least what dividend is going to be paid, what profits are made and what the forecasts are.' He said, 'If we could get that sort of thing into South Africa, it gives us something on which to hang a lot of our developmental work, because the company over there is involved in making its employees more literate. You cannot run a factory with illiterate people. You cannot run a sales force with illiterate people.'

He was concerned to use this as a means of having an education program which was centred on something in which the people had a financial interest. In other words, they did not just go and learn to write for an hour at the end of the day. They learnt to read and write so they could read the annual report and find out how much they were going to get out of the business. I believe that it provides much of a focus, particularly in large companies where it is hard to get a focus in any other way. The people in the Cadbury factory in Tasmania—I do not know about now, but when I was in the company—regarded the opposition not as Nestle but as the Ringwood factory. They were very focused on their own little factory community.

Mr BARRESI—A great factory—it is in my electorate. I have not asked this of the other witnesses, which I perhaps should have. You list a range of actions which the government should perhaps introduce, such as removing the five per cent limit and making the prospectus provisions far less onerous et cetera, with perhaps a comment there about deferring the capital gains tax. It is a great wish list and most witnesses have come up with those sorts of items but, if it came down to the crunch, what would be the one or two items you would say really must be implemented otherwise you are not going to get a proliferation of share plans around the place with employees taking them up, keeping in mind that Telstra had a 90 per cent take-up under the current regime?

Mr Stradwick—The greater the extent to which you 'give' employees shares the greater the take-up. In other words, if you have the English system of buy one, get one free, you have a high take-up. If you do what BHP did and give everyone a share, you have the highest take-up. I never understood why it was not a hundred per cent but I think there will be always someone in the organisation who is ideologically opposed to shares anyway. Cadbury Schweppes had a similar experience when they gave a small tranche of shares some years ago.

I think there are two things. The first thing is simplicity, although it is a bad term. Every time you increase the complexity of a share plan you make it harder to explain to people. People who do not understand something regard it with suspicion and the suspicion will translate into not taking up shares. They have got an option; they do not have to do it.

I must say that prospectuses are not designed to inform people. They are designed to protect the tail of the regulatory authorities. If you ever have to explain a prospectus to someone who is on the shop floor and find you do not understand it yourself—and you are a director—you realise how difficult it is.

So simplicity is the obvious thing. Frankly it does not have a cost attached to it. In other words you are not asking people to cough up taxpayers' money. The other thing, which does have a cost attached to it, is to just totally get rid of the deferment provision and say, 'Well, once you have got a share you have got a share, you do not have to go and pay tax on some arbitrary figure calculated with a Black-Scholes formula which is almost impossible to explain'. That to me is the biggest change you could make and it is one that has a multiplier on the simplicity thing. You get a share, you do not have to have any options, this is how it will be taxed, and you can hold it until you die and then you are going to be caught when you sell or ultimately dispose of the share. Fine, that is what happens to everyone. That seems to me to be the logical way to go.

CHAIR—You made the point about the tax treatment under the UK 2000 plan. Personally I agree with you; I think that they ought to be treated like other shares. Alternatively, if the tax treatment of the share could be looked at in terms of how it was used, for example for income-tested daily fees for nursing homes or something that serves a social objective, it would encourage people to keep their shares.

Suppose the government made provision that, where homes are let, there is a preferential treatment on that rent where it is used to achieve this objective of people paying their way in aged care. Is there any scope for the government to considering that sort of device? This is not something that we have discussed but it is something that I have been thinking about. Or is that defeating? Is that increasing the complexity?

You made a remark about some research and you said that people buy shares when their kids have grown up and the house is paid off. Inherent in this is a belief that, if we have a tightening of monetary policy, we are likely to see much less interest amongst working people in share ownership because they would want to use their money to keep paying their mortgages, their cars or whatever. But if the tax treatment of the share was actually related or dependent on some social utility that the government wanted to encourage, would there be some merit in that? Might that actually improve the savings vehicle?

Mr Stradwick—The answer to that is, in my view, a clear yes. In the interviews we conducted and the research we did with people, a lot of people in their late 40s and 50s were buying shares in Cadbury Schweppes because they saw that as an additional way of financing life after work. When you are 55, it suddenly dawns on you that the old age pension is not a great thing to live on for the rest of your life and people start casting around. The imperative to save becomes much stronger than to go and spend it on a holiday in Bali.

Perhaps I am getting outside the scope of this committee but I must declare an interest. My mother is in a nursing home. It seems reasonable to me that, if people are prepared to move out of their homes, sell their homes or do something else to finance illness in old age, there should be a tax break on that. If you are looking at a socially desirable end, anything that reduces the dependence on the public purse is desirable in itself. If people are prepared to hang on to their shares to that stage, I believe there is an argument—which perhaps does not go to the narrow objectives of employee share plans—to say that that should be concessionally treated. As a personal view, I think the longer people hold shares, the less capital gains tax should be levied, because you can argue that, if someone who has had a share for 20 years had sold off two per cent of those shares—

CHAIR—A number of us, at least in our party, would have some sympathy for that sort of view regarding the length of time the capital is kept. That is being considered at a higher level at the moment.

Mr Stradwick—A fellow called George Copeman did a lot of work on share plans in England in the 1970s. He was fairly basic in thought and put a lot of time into arguing against some of the arguments against share plans that were then coming up. He took issue with the press. The press issued an article, seized on what they said was a fact, that people in ICI who had shares as a result of a share plan all sold them as soon as they could and that stockbrokers were standing outside the factory gates. The fact was that 35 per cent of the employees still had them 20 years later. It was rubbish. Some people sell them because they have left the business or they are in trouble. They always will. But a lot of people do hold them. It is a bit of a furphy that people dispose of shares immediately any more than they dispose of their houses at some stage. It happens over time but they do not rush out as soon as they can and sell them.

CHAIR—Sure. There are a few parables in the Bible about that sort of thing. Your submission was very interesting and provocative in a positive way. If there is anything else that you see or hear as we go through our inquiry, please let us know.

Mr Stradwick—Thank you for your time.

Proceedings suspended from 12.25 p.m. to 2.28 p.m.

MILROY, Mr Kelvin Peter, Corporate Human Resource Manager, CSL Ltd

CHAIR—Mr Milroy, welcome to the hearing today. Thank you for coming along and for providing a submission. Committee proceedings are recognised as legal proceedings of the parliament and warrant the same respect as the proceedings of the House of Representatives itself demand. As a witness, you are protected by parliamentary privilege in respect of the evidence you give before the committee. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but if at any stage you wish to give evidence in private, simply ask to do so and we would be very happy to have a detailed discussion about it, vote upon it and then advise you of the outcome. Would you like to make an opening statement?

Mr Milroy—Yes, thank you. I provided a submission to this committee in April this year which addressed the issue of employee share option plans, and I think that is the two-page submission that you have in front of you. My purpose today is to reiterate some of that information, expand on it at your request and to give further information that has evolved since the time of the submission.

CSL Ltd, as most people would know, was formerly the Commonwealth Serum Laboratories. It was privatised in 1994 and privatised on the Australian Stock Exchange. It is owned by a wide range of shareholders after seven years of being a Public Service or government based enterprise. At the time in 1994, one of the key decisions to be made, in terms of making the obvious cultural shifts we needed to, was to change people's view of CSL to meet our primary mission statement, which was to add value to our shareholders. We saw the provision of a general employee share option plan as important and as vital at that time.

As I have said in my submission, we had an option plan, or the opportunity for people who were employed at that time, to gain shares in CSL, and 98 per cent of our employees took advantage of this. Since that time, we have found the need to continue it through opinion surveys. Apart from it being a popular process to go through, we have also found the need to continue it, in terms of the reaction we have had from people and the focus it allows our people to have on our share price. It has been valuable to our shareholders, whereas formerly it was simply a Public Service exercise which was mainly interested in R&D, on that side of things, rather than simply adding value to the company and providing value to our shareholders. In fact, we have had two other opportunities for people to become shareholders in CSL through the share option plan. One was indicated in the submission in 1997. At that time, approximately 70 people participated in it. In our recently concluded enterprise agreement, which is currently going through the process of certification, we provided a further opportunity for people to gain shares in CSL, and 64.5 per cent of CSL employees took advantage of that option. When I say 'took advantage of that option', they had the option of either taking it as a cash bonus or taking it as shares.

To expand on my submission, since that time we have had a further provision for options to be taken and again we have found it to be not only popular with our employees, particularly at a time when the share price was quite volatile, but also it reiterated what we have seen in opinion surveys, which I have indicated in the submission, and what we have seen consistently since its privatisation, that the provision of this is of value to our company in focusing people's attention on shareholder value.

CHAIR—Thank you. Originally in 1994, you had 1,044 participants and 398 remain within the plan, so it is down to 38 per cent. Why the high attrition rate?

Mr Milroy—The provision of the option plan was that people had to keep the shares for three years. Since that time frankly I do not see it as high attrition. The fact that there are so many people who have stayed in the plan is quite remarkable. The share price at the time they entered it was $2.30. At the end of the three years, it was approximately $8. So a number of people have simply taken the money and paid the capital gains tax and done whatever they wish to do with it. I would suggest that it is quite remarkable that such a high percentage of people have stayed in the plan, particularly as they have had an opportunity to get into the plan on other occasions since that time.

CHAIR—Having spent the best part of nine months now looking at share ownership, compared to other companies, it seems to be a fairly high drop-out rate.

Mr Milroy—We have not done any benchmarks. We have just found that a lot of people have stayed in for a significant period.

Mr BARRESI—Do those who are likely to take up the next issue come from the 38 per cent who are currently shareholders or are you attracting others as well? What would be the proportion?

Mr Milroy—On each occasion we offer it to the total CSL employee community.

Mr BARRESI—I realise that, but in terms of take-up, where do you expect the take-up to be? It seems to me that a significant proportion of your work force have decided to divest themselves of shares. Whether or not it is because the shares increased in value, they still made that decision not to be part of your share register any longer. I am wondering whether there is a statement there of faith, loyalty or anything else in the company that you can draw on.

Mr Milroy—The only objective measure we have is what we get from our opinion surveys, which I included in our submission, which have consistently indicated that people desire to gain shares through various plans; that a significant number of people desire to gain shares instead of getting pay increases. To answer your question, I cannot make a judgment about which part of our community is particularly attuned to getting involved in the share option plan, except to say that, from our broad experience, it is right across the board.

CHAIR—Have you looked at the employees who own shares in the company and their patterns of staff turnover, absenteeism and industrial unrest, and compared their behaviour in occupational health and safety, for example, with that part of the work force which does not have shares?

Mr Milroy—No. Frankly, I do not think it would be a particularly worthwhile exercise. CSL has a particularly low turnover, for a whole range of reasons. We are a specialist company. With respect to the sort of work that we are involved in, you cannot get involved in this type of work outside of CSL. So our turnover is very low; our absenteeism is very low. Participation has been consistent right across the company in terms of its divisions. So we have never engaged in that sort of exercise, but I doubt whether there would be any value in it, frankly.

Ms GAMBARO—With respect to eligibility for the share plan, does it involve full-time or part-time staff? How did the operation of it work?

Mr Milroy—The only people excluded from the plan are casual employees; employees who have been in the company for less than six months. Any person who is a non-casual who has been in the company for 12 months is eligible to be in the plan.

Ms GAMBARO—So a person who is a non-casual who has been in the company for 12 months?

Mr Milroy—Is eligible to be in the plan. For those people who have been in the company for between six and 12 months, we have a pro rata arrangement. Those people who have been in the company for less than six months are not eligible.

Ms GAMBARO—We were talking about take-up. How has the take-up been with people who have been in the company for a shorter period of time?

Mr Milroy—It is constant with those people who have been there for a long period of time. Our first share option plan was in 1994; our next one was not until 1997. We gained a lot of feedback, because we did hire a lot of people after the privatisation process, that those people wanted to participate in it. They were very anxious to participate in it. So when they got the opportunity, it was constant with those longer serving employees.

Mr BARRESI—Union representatives who have appeared before us as witnesses have been very concerned about directly linking employee share schemes with remuneration. They have been extremely concerned and agitated about it. There are two examples here where it seems to me that you have done exactly that. I want to know whether this was an active decision on your behalf, whether you have the unions' participation in that at all. For example, you say that in 1997, as part of the enterprise agreement outcome, you got the share offer. Also, your survey notes that 46.8 per cent of the people want to receive company shares in lieu of pay. Is this a deliberate strategy on your part to do this or has it just worked out that way?

Mr Milroy—It is a deliberate strategy of ours to ensure that people are attuned with adding value to the shareholder. We enjoy our employees having shares because it gives them ownership in the company, and it is reflected in a whole range of ways through our various communication processes that they are very attuned to it.

To answer your question in terms of unions, I am very aware of some of the issues they have, and we do take notice of them. We have had these sorts of surveys as well as focus groups, which have continually brought up the issue of getting involved in share option plans. Our principal union, the Community and Public Service Union, CPSU, have run focus groups and have received exactly the same feedback. While, privately, a number of their organisers have indicated their concerns in one way or another, it is certainly what their membership has asked for, not only in company forums but also in union forums. In the process of negotiating enterprise agreements, we have come up with wage outcomes that are fair and reasonable. That is not just my own judgment; it is also the union's judgment. But we have also had the share option on top of that, if you like, as an additional feature. We have not gone through the process of actually saying, 'We'll take one per cent off people's pay and replace it with shares.'

Mr BARRESI—It is not a trade-off situation?

Mr Milroy—No, we have always put it as icing on the cake, aligning it to what our people are saying to us and also aligning it to what the company wants; that is, for people to feel ownership in the organisation and concern for its welfare and the wealth it can develop for its shareholders.

Mr BARRESI—Is the CPSU the union within Telstra?

Mr Milroy—I think it is.

Mr BARRESI—Telstra indicated this morning that the CPSU as a union is very much against the share schemes. But once again, in Telstra—similarly to your company—there is a high level of acceptance of it and demand for it by the work force.

Mr Milroy—Yes. CPSU are in a situation with us—and this is my own judgment—where CSL is something unusual to them: we are a true manufacturing company as opposed to most of the public agencies. They feel—rightly, I believe—that they have to be very responsive to their local people. Their local people are consistently saying that these shares are a positive thing. They obviously are a positive thing; the share price has gone up significantly since we privatised. As I say, we run focus groups as a company, and they have run focus groups, and this is certainly what their local delegates are saying is a positive thing.

Mr BARTLETT—In addition to employee share ownership, do you have any sort of option system for executives?

Mr Milroy—Yes, we do.

Mr BARTLETT—Is there any sense of tension on the part of the employees about what they see is a better deal for executives?

Mr Milroy—I do not believe so—that is my personal opinion. They see it as part of remuneration. To be totally honest, I have done two enterprise agreements and been involved in a third, and it is something that has never come up in an enterprise agreement negotiation. I am sure that, if it is felt that way, it would have come up in that sort of forum. It has never come up in any SKIP level meeting or consultative committee meeting that we have had. Speaking on behalf of the unions and employees, they see it as a fair and reasonable part of executive remuneration. That is my personal opinion.

CHAIR—Relative to other companies—at least a number of those to whom we have spoken—would the high level of readiness to take up shares instead of a bonus, for example, generally reflect a relatively high income earning work force at CSL?

Mr Milroy—My personal view is that it would reflect the history of CSL shares over the time since 1994. We have appreciated in value from $2.30 to $18 something—as the members of the committee probably know. We have had relatively short periods of time when it has plateaued. A significant contributing factor would be that people see that the share prices are appreciating in value.

Overall, our work force is principally made up of scientists. We have few people in the non-skilled operational type areas so, on average, our work force would be paid at a higher rate on average than in a typical manufacturing operation. Our work force is obviously by and large far more highly educated than a normal manufacturing work force. Our work force includes people with masters and PhDs, and very few would not have degree qualifications. At that sort of level they would be able to think in sophisticated terms and understand shares.

CHAIR—Is your scheme a 13A qualifying scheme?

Mr Milroy—I am not sure. What does that mean?

CHAIR—If the scheme is such that it is available to 75 per cent of the employees, it is in that particular company, the employees as shareholders have the same voting rights as those for ordinary shares, and it is restricted to no more than five per cent ownership by any single employee shareholder, then it will be classified under provision 13A of the tax act as a qualifying scheme. Then there is a choice of whether there is a $1,000 tax free threshold or a deferral of tax.

Mr Milroy—The answer to your question is yes it is.

CHAIR—Do you run it through a trust or are the shares given directly to the employees?

Mr Milroy—The shares are held in trust for three years and are provided on termination or, alternatively, when the person decides to cash them in after the three-year period.

CHAIR—We have had lots of people telling us they think there ought to be changes to current tax treatment of employee share ownership plans. Does CSL have any views on that? For example, we have had people who have said the five per cent limit is too low, that the $1,000 threshold is too low, that they ought to be taxed on disposal not on 10 years or when they leave the company or whenever it might be, and—

Mr BARRESI—The prospectus is too onerous.

CHAIR—that the prospectus is too onerous. They are the thematic complaints.

Mr Milroy—In terms of the administration, the prospectus is very onerous and very costly. In terms of getting the things in place and ensuring that we proceed and follow all the administrative requirements it is very costly and very time consuming. CSL certainly has no issue with the three-year provision. It is in line with exactly what we are trying to do, and that is to have people take these shares and not simply cash them out immediately and take advantage of any discount that the company offers. The $1,000 will increasingly come under question, I would think. But besides that, no, I do have not any specific things to add in that area.

CHAIR—Does your scheme link itself to either company and/or personal performance requirements?

Mr Milroy—It links directly to company performance.

CHAIR—Have you had the experience since the float, and certainly since you have had the employee share ownership scheme, of having employees expressing concern that what the company is doing might in some way threaten its share value? Your company is a little different in the sense that you have a generally higher level of education amongst your work force, but we have heard cases where employees have recognised that some poor work practices might affect the company's overall performance.

Mr Milroy—We have got an educated work force but we have certainly got our fair share of cynics amongst the work force. We have never had that issue raised with us at all.

CHAIR—I guess if two per cent of them did not take shares when they were offered to them for nothing—

Mr Milroy—I think the two figures that appear in 1997 and 1999, of 65 to 70-odd per cent, are more indicative. In the first option plan $250 worth were given free and then the rest was on a one-to-one basis, so obviously someone would be quite foolish not to put their hand up for something that is free. I think the next two figures are between 65 and 70 per cent. I would submit the last one was particularly pleasing to us. For those people who follow CSL in the market, at the time that the share offer was put forward we had just made an announcement regarding the fiberin and bandage and the relationship we are developing with the American Red Cross, and our share price actually increased by $3 in a period of a couple of days. We were concerned that, with that sort of volatility, people would not want to put their hands up to get the share options. To get 65 per cent in that sort of environment was magnificent.

CHAIR—Do you offer stock options to any of your employees?

Mr Milroy—We have a senior management option plan for a number of our employees—employees either at senior executive level or who are strategically vital to the company. That is on an invitation basis.

CHAIR—Have you encountered problems where prospective employees are reluctant about working for an Australian company because of the tax treatment of stock options, or is that something you have not encountered at this stage?

Mr Milroy—That is something we have not encountered at all. In terms of options—and I would think that a number of companies have indicated this—when trying to attract people, either Americans or people with American backgrounds working in an American environment, options basically are seen as part of a remuneration package. The non-existence of options would be a difficulty to an Australian company.

CHAIR—Okay.

Mr BARRESI—Mr Milroy, apart from senior executives, are there any examples of employees who have actually decided to trade off pay increases for a share ownership in your company? In your general population, have any of them ever come to you and said, 'Rather than getting my six per cent increase which would take me over a particular tax threshold, I prefer to have increased shares?'

Mr Milroy—No.

Mr BARRESI—Would you consider it as a company if someone did that?

Mr Milroy—No. The way our company is organised from an industrial relations point of view is that, because of our history, our people from upper middle management and below are associated with a CSL award, and their remuneration is based on enterprise agreement outcomes. Consequently, if, for example, I have someone—not a senior executive—on a base pay of as much as $60,000, who comes to me and says, 'I am looking for this sort of flexibility,' the only flexibility I can offer that person is what we have developed within an enterprise agreement context, and that does not include shares. In our opinion surveys, we have had an indication that people would be willing but, at this point, we are dedicated to our remuneration processes being enterprise agreement based.

Mr BARRESI—When does your agreement expire?

Mr Milroy—Our last agreement has not been certified as yet, but it starts on 1 July; it will be back paid. It is a two-year agreement.

Mr BARRESI—Right.

CHAIR—I think that is about it. Thank you very much. It was great, very good.

Resolved (on motion by **Mr Barresi**):

That this committee authorises publication of the proof transcript of the evidence given before it at the public hearing this day, including publication on the parliamentary database.

Committee adjourned at 2.52 a.m.