

12 May 1999

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

Dear Sir/Madam,

Re: Inquiry into Employee Share Ownership in Australian Enterprises

We refer to the press release dated 19 March 1999 announcing an Inquiry into Employee Share Ownership in Australian Enterprises.

We welcome the opportunity to make a submission to your Inquiry and attach our comments for the Committee's consideration.

In summary, we have based our submission on the Lend Lease experience as a long term practitioner of the delivery of employee share plans to our employees.

Representatives of Lend Lease can be available, if required, to attend the Committee to assist with its proceedings. If appropriate, Lend Lease representatives could also be available to assist in the formulation of any resulting policies.

Lend Lease Corporation recognises the Government's positive step of initiating the wider consideration of employee share ownership in Australia. This Inquiry will raise the profile of employee share ownership vehicles within the framework of a soundly based employee relations policy and ensure that any referable future legislation is drafted with the very positive value of extended employee ownership in mind.

Yours faithfully,

W A H Webster  
Executive Director Lend Lease Corporation Limited

*Attached: Submission on Employee Share Ownership in Australia  
Appendix 1, Returns Comparison Since 1980: Lend Lease & the ASX 50 Leaders Index  
Lend Lease Employee Share Acquisition Plan Brochure  
Lend Lease Corporation Limited Annual Report 30 June 1998*

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Submission on Employee Share Ownership in Australia

Prepared for

The House of Representatives Standing Committee on  
Employment, Education and Work Place Relations

May 12, 1999

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## **Executive Summary**

The House of Representatives Standing Committee on Employment, Education and Workplace Relations has announced an inquiry into:

**“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”.**

In this Submission, Lend Lease Corporation comments on:

- Its experience as a long term practitioner of providing employee share ownership to employees
- The benefits that employee share ownership provides to a community of interests
- The impacts that employee share ownership has on productivity, work place relations and the economy
- Some suggestions, for the Committee’s considerations, on enhancements to the current employee share plan environment within Australia

Lend Lease’s approach and indeed experience is that it is not enough to merely establish an employee ownership plan in isolation. Support for the concept of employee ownership needs to permeate the entire organisation and be holistically reflected in enlightened workplace practices encompassing areas such as participative management practices, whole of life balancing, clearly articulated performance objectives and an established code of conduct.

## **About Lend Lease Corporation**

Lend Lease Corporation is an Australian based international real estate and financial services group which operates in Australia, the Pacific, Asia, Europe and North and South America. The Lend Lease Group has two main operating activities:

### Financial Services

- Funds Management
- Life Insurance and Wealth Protection

### Real Estate

- Real Estate Investments
- Property Development
- Project Management and Construction
- Capital Services (infrastructure)

The Group also manages exposure to Information Technology and Equity Investments.

Increasingly, the group is entering joint ventures with world-wide organisations to increase capabilities and enter new and exciting markets and projects.

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## **Background**

Established in 1958, Lend Lease has approx. 4,560 employees and over 41,000 shareholders worldwide, and has a market capitalisation of approximately A\$10.1 billion (as at 31 March 1999). Funds under management total A\$72.1 billion. Lend Lease's global property investment management ranks as one of the largest in the world.

After-tax profits of A\$363.9 million were reported for year ended June 1998 (and A\$206.1 million for the six months ended 31 December 1998), continuing 23 years of unbroken profit growth. Lend Lease has a long-term AA credit rating from Standard & Poor's and an A3 credit rating from Moody's.

## **Employee share ownership and Lend Lease**

Lend Lease has a long history in Australia of employee participation and share ownership. Since 1973, for instance, 5% of the company's pre tax profits have been shared on an equal allocation basis amongst employees. Employee share ownership has a similar heritage, with the predecessors to Lend Lease's current share plan vehicles being used to both reward and bind talent to the company.

In 1988, Lend Lease established its fourth generation employee share ownership vehicle, the Employee Share Acquisition Plan ("ESAP"). As part of the establishment process of ESAP, the philosophy of employee share ownership was endorsed by the Board of Lend Lease and subsequently reinforced by shareholders at the 1988 Annual General Meeting. Since its creation, ESAP has been run as a Trust and has equal representation of employer and employee trustees.

An employee's balance of Lend Lease shares in their ESAP account can grow in three ways:

- Lend Lease makes monthly employer contributions based on a percentage (maximum of 5% pa) of base pay which are then applied by ESAP, each month, to purchase Lend Lease shares on market.
- Lend Lease's six monthly Profit Share payment to employees offers the opportunity to employees to extend their individual employee ownership through direct investment into ESAP which acquires further Lend Lease shares.
- Performance objectives achieved (tied into personal and corporate goals) provides reward through direct allocations to individuals [employer funded] ESAP accounts.

Now, in the late 1990's, as Lend Lease's business has become more globally based, employee share ownerships plans (in line with corporate core beliefs) have been rolled out in the US, Europe and Asia.

With the commencement of Lend Lease's concept of employee share ownership in the early 1970's, Lend Lease's employee share plans now hold globally some 64.5 million shares (approximately A\$1,300 million) on behalf of employees. This means that over 90% of all Lend Lease employees worldwide (100% of Australian employees) have some level of equity participation in the company via employee share ownership. As a group, these employees hold some 14% of Lend Lease's issued capital, making them collectively one of the largest shareholders in the company. [Plans are in hand to extend employee equity participation globally to 100% of Lend Lease Group employees within the ensuing 12 months].

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Lend Lease Corporation has a strong profit performance history and the linking of employees to the company via the employee share ownership concept has been a contributor to this success. Appendix 1 shows a comparison of returns between Lend Lease and the ASX 20 Leaders Index since December 1988.

Lend Lease's employee share plans are one of the key aspects of the company's reputation as an employer of choice, building the relationship with its employees. By creating a partnership ("a community of interest") between the company and employees, an effective link to the company's reward /recognition /retention strategies is achieved.

To build on the concept of employee ownership – and all that entails, the voting of share entitlements held within Lend Lease's employee share ownership vehicles is being facilitated to employees globally. This will enable employees increasingly to take on the behaviours and thought processes of being a shareholder by encouraging an input into the corporate governance/direction of Lend Lease.

For completeness, we enclosed a copy of our Australian ESAP brochure and a copy of Lend Lease Corporation's 30 June 1998 Annual Report.

## **Benefits to a Community of Interests**

For employee ownership to be effective, there has to be a simultaneous delivery of benefits to a community of interests: employees, the business and its customers, the shareholders and the wider community.

### ***Employees***

Employees benefit in a number of ways that really links their personal wealth creation to the success of the business:

- They share in the value created by the ongoing success of the business
- Employees receive dividends on the shares allocated and held on their behalf in their ESAP account
- Unlike direct shareholders, under current legislation, employee share plans allow employees to legitimately defer tax for up to 10 years
- Aligns the interests of all employees and management on the basis of all being shareholders

### ***The Business . . . .***

- Aligns rewards with success (growing and maintaining a healthy business) when structured appropriately
- The concept of share ownership gives a wider range of alternatives for rewarding employees at all levels of the organisation
- Structuring and vesting scales attaching to share allocations allows for more effective key people retention strategies, thus ensuring ongoing success

### ***Shareholders . . . .***

- Shareholders would only agree to the concept of employee share ownership if there was a clear logic to the long term worth of the concept – a sense of purpose of the "team"
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- Shareholders can reasonably have a greater expectation of management stability and performance and the resultant effects on future market valuation and dividend streams
- All parts of the organisation work together for a common good – the future health of the organisation.
- Improved understanding by employees of the imperative to focus on combined success and consistent performance over a number of years in order to build value

### ***The Wider Community . . . .***

- The accumulation of assets in addition to superannuation encourages self sufficiency and less dependency on the Social Security system
- Benefits from the improved productivity in the economy

## **Impacts of Employee Ownership**

The success of Lend Lease Corporation has, along with other innovative people policies, been underpinned by its core belief and investment in the concept of employee ownership. Our experience would indicate that the concept adds to:

### ***Productivity***

- Differentiates the company and adds strongly to positioning Lend Lease as an employer of choice
- Engages a sense of belonging and loyalty to the company
- Employee ownership can be tailored to reinforce the continued success of the company as a going concern eg allocations of shares may be dependent on specified performance levels being achieved for a number of years
- Creates a common, easily tracked measure of value/performance
- Current legislation allows for tax deferral, which adds to the appeal from an employee perspective
- Share plans allow dividends to flow to members

### ***Workplace relations***

- Employee ownership creates an openness and higher level of accountability within the management of the company
- There is a unification of focus by employees with regard to the performance of the company
- Overall remuneration structures can be very clearly articulated to employees

### ***The Economy***

- Broadens the base and understanding of share ownership in Australia
- Productivity benefits flow to the broader economy

## **Ideas for developing the employee share ownership model in Australia**

From the Lend Lease position, employee share ownership delivers on many fronts; on productivity, accountability, a sense of the longer term and reward for effort.

In support of the concept of encouraging employee share ownership within Australia and moving practices towards world's best practice, Lend Lease Corporation offers the following suggestions for further consideration by the Committee:

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- That there be a continuation of the current tax rules contained within Division 13A of the Income Tax Act
  - As an incentive, consideration be given to allowing tax deferral to extend past the current 10 year limit to the point of ultimate physical disposal of the share by the employee. This would start the process of aligning the presently disparate behaviours of “normal” shareholders and employee shareholders
  - Consideration also be given to further encouraging employee share ownership by creating UK style tax entitlements for employee shares
  - A top of mind awareness of employee share ownership vehicles be fostered and maintained, especially when new legislation is being drafted and reviewed
  - Employee ownership delivery vehicles be excluded from the proposals to tax trusts as companies contained in the Ralph Report
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