



**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON
EMPLOYMENT, EDUCATION AND WORKPLACE RELATIONS**

**INQUIRY INTO EMPLOYEE SHARE
OWNERSHIP IN AUSTRALIAN ENTERPRISES**

**SUBMISSION BY THE COMMONWEALTH DEPARTMENT OF
EMPLOYMENT, WORKPLACE RELATIONS AND SMALL BUSINESS**

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EXECUTIVE SUMMARY

- The Federal Government is strongly supportive of employee share ownership schemes developed on a voluntary basis. A number of initiatives taken by the Government since it came to power in March 1996 have been aimed at directly encouraging employee share ownership. In particular this has included tax concessions for employees in schemes meeting certain criteria and providing for an employee share scheme in the initial Telstra privatisation.
- In addition, the greater focus on more direct relations between employers and employees at the workplace level, is providing a basis for workplaces to tailor their employee relations arrangements to their particular circumstances and requirements. This is providing increased scope for the consideration of more flexible remuneration arrangements, including employee share schemes, profit sharing, productivity sharing and performance based pay, linked to measures of individual, group or enterprise performance. To varying extents, these arrangements have been seen as offering a mechanism for wage flexibility which can be linked to increased employment stability.
- Evidence from Departmental workplace relations surveys and ABS surveys of employee benefits indicate that the incidence of employee share ownership schemes and the number of employees participating in such schemes increased significantly over the first half of the 1990s.
- It is likely that the direct and indirect Government initiatives outlined above will have led to a further increase in the incidence of employee share schemes over the course of the last few years. The increased community participation in the share market more generally, including that resulting from the privatisation of various Government enterprises may also have created an environment which is more conducive to participation in employee share ownership arrangements. However, comprehensive statistics which would allow an assessment of the impact of these policies are not available at this stage.
- There is, however, evidence of employee share schemes being incorporated in both collective and individual agreements formalised under the *Workplace Relations Act 1996*, although they are comparatively few in number. Of course, employee share schemes can also be introduced outside the formal workplace relations system, which has traditionally been the case.
- Notwithstanding the increases in the incidence of employee share ownership in Australia in the first half of the 1990s, it still remains relatively low in comparison with a number of other developed countries including the USA, Japan, the UK and France, many of which provide higher levels of Government support for such arrangements. In particular, different tax arrangements in a number of countries may be a factor affecting the incidence of employee share schemes. Participation in such schemes in Australia also appears to be much more concentrated amongst managerial occupations than in some other countries.
- There is a substantial body of international empirical research available which supports the proposition that employee share schemes can lead to improvements in organisational

productivity, growth, profitability, absenteeism, labour turnover, employee commitment and satisfaction and a range of other variables. However, there is also some contradictory evidence available. These sometimes inconsistent findings suggest that the impact of employee share schemes can probably not be viewed in isolation from other organisational factors.

- There appears to be much stronger and consistent evidence of positive workplace outcomes when employee share schemes are introduced in conjunction with broader employee participation measures, which provide employees with a greater say in workplace decision making.
- The Department's analysis of its 1995 Australian Workplace Industrial Relations Survey (AWIRS 95) data base has found that there is a positive association between the presence of an employee share scheme and a range of favourable workplace outcomes. Whilst caution needs to be exercised in using these findings to draw causal linkages between employee share schemes and the variables examined, due to the complex array of factors and interactions affecting workplace outcomes, they do provide strong prima facie evidence that employee share schemes can lead to positive workplace outcomes.
- The Department's analysis of the AWIRS 95 database also provides support for the proposition that the best workplace outcomes are generally associated with workplaces which have an employee share scheme and broader employee participation practices in place.

1 Introduction

The aim of this submission is to look at the data on the incidence of employee share ownership in Australia and the relationship between the presence of such schemes and a range of workplace relations variables, including to the extent possible workplace productivity.

The submission seeks to examine whether there has been a growth in the incidence and employee coverage of such schemes since the last major Departmental research undertaken in the late 1980s, which reported that only around 2 per cent of employees were covered by such arrangements.¹

It also seeks to explore whether Australian data supports the claims that employee share schemes can provide the basis for improved organisational performance and productivity and higher levels of employee satisfaction.

The major data sources used for the analysis presented in the submission are the two Australian Workplace Industrial Relations Surveys (AWIRS) undertaken by the Department in 1990² and 1995³ (which provide the most comprehensive data on the structure and conduct of workplace relations in Australia) and the Department's Workplace Agreements Database (which provides detailed information on the contents of formalised federal agreements). The submission, however, also draws on a range of other data including the ABS Survey of Employee Benefits. At various points in the submission overseas data and research findings are drawn upon for purposes of comparison.

The submission is structured as follows

- . the second section discusses Government policy and initiatives in respect of employee share ownership plans (ESOPs)⁴
- . the third section discusses the major data sources used in the report
- . the fourth section provides a detailed discussion of the incidence of employee share ownership plans (ESOPs) in Australia, the extent of employee coverage of schemes, changes over recent years, factors underlying these changes including recent government initiatives in this area, and a brief examination of overseas experience
- . the fifth section examines the impact of employee share ownership on organisational productivity and performance by examining the relationship between the presence of an ESOP and a range of workplace relations and labour market variables that impact on organisational performance and employee satisfaction

¹ Peetz, D. (1988) *Financial Participation by Employees: A Review of Theoretical and Practical Issues*, DIR Research Paper No 8, Department of Industrial Relations, Canberra

² The analysis of the 1990 AWIRS is presented in Callus, R., Morehead, A., Cully, M., Buchanan, J., *Industrial Relations at Work*, DIR, 1991

³ The analysis of the 1995 AWIRS is presented in Morehead, A., Steele, M., Alexander, M., Stephen, K., Duffin L., *Changes at Work*, DWRSB, 1997

⁴ Employee share ownership plan (ESOP) is used here as a generic term which refers to all variants of employee share ownership schemes. The submission does not attempt to distinguish between the different types of employee share ownership schemes.

- . an appendix which uses a workplace typology to examine in more detail one of the key issues identified in the fourth section, namely the linkages between ESOPs and wider employee participation and their impact on organisational performance and employee attitudes.

2. Government policy and initiatives in relation to employee share ownership plans and other forms of financial participation

The Federal Government is strongly supportive of ESOPs, which it sees as providing the scope for increased workplace productivity and a means for employees to share in the financial gains of the enterprises for which they work.

Prior to the March 1996 Federal election, the then Opposition Leader, now Prime Minister, John Howard delivered a policy statement titled *Employee Share Ownership Plans Initiatives*. In that statement Mr Howard established that:

“A Federal Coalition government will encourage and nurture greater employee participation in Employee Share Ownership Plans. Employee Share Ownership Plans have an important role to play in increasing the voluntary savings of Australian households. By investing in such Plans, employees have access to dividends and capital gains.

They also have an equally important role in building a sense of participation in Australian business. Employee Share Ownership Plans give employees a direct ownership stake in the enterprise in which they work. They provide incentives to achieve high levels of productivity and excellence in the workplace. Employees will be able to further share in the benefits flowing from their hard work.”

The Coalition’s 1996 Industrial Relations Policy document, *Better Pay for Better Work*, also discussed ESOPs in the broader context of employee participation and incentives. It stated that:

“8 Employee Participation and Incentives

A fundamental objective of this policy is to encourage common purpose and mutual interest between employees and employers.

Enterprises which foster good relations with their employees consistently perform better than enterprises with poor industrial relations records.

8.1 The Coalition strongly supports and will encourage all forms of employee participation - ranging from direct consultation through to financial incentives, profit-sharing and employee share ownership.

It is essential that any initiatives are developed on a voluntary basis. The Coalition opposes enforcement of employee involvement through legislation.

The Coalition is convinced that employee participation and incentive schemes will flourish as increased competitive pressures compel employers to look for new ways to increase productivity.

8.2 The Coalition Government will facilitate their wider introduction. Our policy to return responsibility for industrial relations to the workplace will provide a framework conducive to all forms of employee participation. We will consider favourably more specific initiatives to encourage particular schemes.”

2.1 Recent Government Initiatives Promoting Employee Share Ownership

The Government has implemented a number of policies which give direct effect to its policy commitment to ESOPs.

In its first budget (August 1996) the Government announced measures to meet its election commitment to provide more generous tax treatment for employee share schemes. The Treasurer announced that, with effect from 1 July 1996, the employee share scheme provisions of Division 13A of the *Income Tax Assessment Act 1936* would be amended.

Division 13A provides special treatment where an employee acquires shares or rights in the employer company (or a holding company), at less than market value

- if certain conditions are met, the employee can defer paying tax for up to 10 years (tax may be paid earlier if certain events occur eg the employee sells the shares, the employee leaves the company, share options are exercised). One of the tax deferral conditions (in the case of shares) is that ~~two-thirds~~ 75 percent of permanent employees are, or have been, entitled to receive benefits. ~~The two-thirds requirement replaced the previous 75 per cent requirement, in line with the Government's election commitment.~~ [Amendments made to submission — see Public hearing *Transcript of evidence*, 13.7.1999, p 81]
- alternatively, an employee can receive a tax exemption on up to a \$1000 of employer company (or holding company) shares or rights per year. The limit increased from \$500 to \$1000 as part of the Government's election commitment.

In the sale of the first third of Telstra, shares were made available to employees at a discounted rate (one free share for every four shares purchased). Around 92 per cent of employees availed themselves of the opportunity to participate in the Telstra employee share scheme. The Prime Minister has indicated that “the benefits of employee share ownership will only increase when employees are given the opportunity to acquire a stake in the remaining two-thirds of the company.”⁵

The Government has also advanced corporate law reforms which may provide further encouragement for ESOPs. The Australian Employee Ownership Association (AEOA) has identified prospectus requirements as ‘the single greatest obstacle to the implementation and extension of employee share plans in Australian organisations.’ Consequently, the Government's *Corporate Law Economic Reform Program Bill 1998*, which is currently before the Parliament will, amongst other things, remove prospectus requirements for amounts of up to \$5 million which should assist in facilitating the spread of employee share schemes, particularly in small businesses.

2.2 Impetus to ESOPs resulting from the new workplace relations system

The greater focus on enterprise/workplace level agreement making as a means of setting wages and conditions, introduced over the course of the last few years, is providing the capacity for businesses to think strategically about the links between organisation objectives, organisational culture, workplace change and remuneration arrangements.

⁵ The Prime Minister, the Hon John Howard MP, *Selling Telstra: in our best interests?*, The Australian, 17 March 1998, p15.

This is in contrast with the former centralised industrial relations system, where wages and conditions were largely determined beyond the workplace level. The centralised system constrained human resource management at the workplace. Remuneration was traditionally determined around time-based wages, with employees being paid according to their input (as measured by time on the job) to the production process, with arguably insufficient regard to their actual contribution to outputs or the financial performance of the organisation. As a result the majority of employees at the workplace had no financial incentive to work harder or more effectively.

There is also some evidence that centralised arrangements have a negative effect on the spread of ESOPs because of the bargaining strategies associated with them, which typically extend beyond the level of the individual firm:

“The greater centralisation of collective bargaining in Belgium, with wage bargaining occurring predominantly at the sectoral level, has limited the scope for profit-sharing agreements at the firm level. It has also resulted in less innovative schemes and lower levels of employee involvement in decisions concerning financial participation and related issues.”⁶

At the same time that the decentralisation of industrial relations arrangements is providing an impetus for the development of more flexible remuneration options, a greater awareness and understanding in the community of shares and their benefits is leading to a greater degree of willingness amongst workers to consider employee shares as part of their remuneration arrangements. This greater awareness and understanding is likely to have occurred as a result of the spread of share ownership more widely through the Australian community in recent years (the Australian Stock Exchange estimates that around 32 per cent of Australian adults now directly own shares), particularly as a result of the full or partial privatisation of a range of Government enterprises.

Agreement making provides an opportunity to reconsider the appropriateness of current remuneration arrangements to an enterprise’s objectives and circumstances and to tailor arrangements to the particular requirements of the enterprise. In this context consideration can be given to more flexible remuneration arrangements such as employee share ownership, profit sharing, productivity sharing and performance based pay. The type of remuneration arrangements most suitable for a particular organisation will differ according to a range of circumstances, including the nature of the industry, product market, workforce and workplace cultural factors.

Flexible remuneration arrangements can provide a means for recognising and rewarding employee performance and allowing employees to share in the financial gains of the enterprises for which they work. Depending on the type of scheme (including whether or not it requires an employee contribution) and its relationship to other elements of employee remuneration (particularly whether the scheme is providing benefits that are totally additional to wages or benefits which are to some extent a substitute for wages), such arrangements also potentially allow employees to share in increased productivity to which they have made a direct contribution (eg in the form of increased dividends, capital gains, profit bonuses and performance pay) when an enterprise is performing well. This a particular consideration when employees may have

⁶ Vaughan-Whitehead, D. (1995) Worker’ financial participation: An international overview, in *Workers’ Financial Participation: East-West Experiences*, Labour-Management Series, ILO, Geneva, p.9.

made a contribution to the firm in terms of lower income expectations, or increased working hours, when the firm was not performing well.

The main argument that has been advanced in support of employee financial participation relates to employee motivation and its impact on workplace productivity. There is, however, a second argument, which goes to the role of remuneration flexibility in assisting an enterprise to cope more effectively with business downturn. In this case employee participation arrangements provide scope for reducing the risk of unemployment in periods of recession by reducing an employer's overall wages bill:

“One study in particular has found evidence in the manufacturing sector in the United States of an employment-stabilising impact of financial participation. From a sample of 3000 firms, Kruse (1991) found that the decline in employment in profit sharing firms during business downturns was lower than in other firms (2 per cent as compared with 3.1 per cent). In France, a survey of 108 manufacturing firms shows a different behaviour pattern for firms during periods of recession: because of their greater wage flexibility, profit-sharing firms maintained employment by lowering profit-sharing, while other firms, particularly in the sectors most affected by the crisis, lowered employment in order to maintain their profits. In the United Kingdom, some empirical studies have also concluded that there is greater variation in pay, and less in employment, in profit-sharing firms.”⁷

The effectiveness of employee participation arrangements in stabilising employment would depend, among other institutional factors, on the type of scheme in place. Profit sharing or performance pay schemes are more responsive to short term fluctuations in profitability than ESOPs, as the greatest impact from the latter is likely to be in the form of longer term capital gains. Indeed, profit-sharing schemes are the type of arrangement identified in the American, French and UK studies cited above (and are beyond the specific terms of reference of this inquiry). This does not mean that these are the only types of schemes which may make a contribution in this area, just that they may have certain obvious advantages in terms of efficiency.

Another factor affecting the role of schemes in stabilising employment or their role in increasing employee motivation is the status of financial participation as a component of total remuneration, that is, the extent to which it substitutes for part of the basic wage. In Belgium and France, employee participation arrangements tend to act as a supplement to normal wage increases. Similarly, in the United States, bonus schemes operate above the basic wage. These kinds of schemes tend to be associated with an emphasis on employee incentive. In the UK, financial participation “often replaces components of remuneration which were paid previously”.⁸

In the vast majority of cases in Australia⁹, ESOPs are introduced as an additional employment benefit to employees (with employees generally also being required to make some financial contribution). They have not generally been offered as a substitute for a wage increase or as part of a package which involved a reduction in wages as a trade off for receiving employee shares.

⁷ Vaughan-Whitehead, D. (1995) Worker' financial participation: An international overview, in *Workers' Financial Participation: East-West Experiences*, Labour-Management Series, ILO, Geneva, p.19.

⁸ *ibid.* p.18.

⁹ For a full discussion on ESOP plan types see McBride, T. and Balian, J. (1995) *Understanding ESOPs: The Workbook*, The Australian Employee Ownership Association, Sydney.

It is therefore interesting to note that the Greyhound Pioneer Australia 1998 agreement certified under the provisions of the Workplace Relations Act provided employees with free shares in return for a reduction in pay and agreement to a pay freeze. This agreement was approved by the Australian Industrial Relations Commission although it provided a reduction in terms and conditions in comparison with the relevant awards as it was part of a reasonable strategy to deal with a business crisis and was not contrary to the public interest.¹⁰

Overall, more flexible remuneration arrangements evidently have much to offer Australian business as the basis for fostering a more cooperative and productive workplace culture, thereby assisting in the development of more efficient and competitive enterprises. Changes in the level of agreement-making, and a greatly enhanced focus on workplace productivity, will significantly affect the institutional and cultural framework in which ESOPs are available. (Other institutional arrangements, such as the tax treatment of ESOPs are also relevant here –see section 4.5 below). Although the incidence of such schemes in formalised agreements is still relatively low, there are already examples of organisations using agreement making (both collective and individual) to introduce ESOPs, as outlined in section 4.3 below. Of course, ESOPs may also be introduced outside the context of agreement making, which this far has historically been the case in Australia.

¹⁰ Research undertaken by the Department in the late 1980s explicitly examined the issue of whether employees 'will accept financial participation arrangements [which includes ESOPs] in place of part of their existing real remuneration, or whether such payment systems will only be accepted if they are additional to existing pay.' The US and UK surveys of employee attitudes indicated that there are 'fairly narrow limits in the medium term as to how far financial participation can substitute for existing remuneration.' Clearly, a business crisis such as that faced by Greyhound Pioneer (in which employees' jobs were significantly at risk) would be likely to fall within these limits.

3. Major Data Sources

The core of the submission is based on an analysis of three Departmental databases, the two Australian Workplace Industrial Relations Survey (AWIRS) databases and the Workplace Agreements Database (WAD).

The AWIRS 90 and AWIRS 95 research methodology were based on a large-scale survey approach and used structured questionnaires with the unit of analysis being the workplace¹¹. In the main section of both surveys two managerial respondents were interviewed, the general manager and the manager most responsible for employee relations, and where present, the delegate from the union with most members.

The analysis in the submission is based primarily on responses from the employee relations manager, as it was only at this interview that questions relating specifically to employee share ownership were asked. Given the unit of analysis and the organisational position of survey respondents, it needs to be made clear that the AWIRS data provide a ‘bottom-up’ perspective on a managerial strategy (ESOPs) which is normally introduced from the corporate level.

The main survey for AWIRS 90 had a population of 2004 workplaces with 20 or more employees which represent an estimated population of 30,500 workplaces. The main survey for AWIRS 95 had a population of 2001 workplaces with 20 or more employees which represent an estimated population of about 37,200 workplaces. Both surveys excluded the agriculture, forestry, and fishing, and defence industries due to the sampling difficulties associated with the former and the unique workplace relations of the latter. For the purposes of this submission, the population has been limited to private sector workplaces with 20 or more employees.

AWIRS 95 also contained a panel survey which was different to the main survey in that it was not a fresh sample of workplaces. A ‘panel’ is a group that is re-interviewed at different points in time to assess what has changed and what has stayed the same. Hence all panel survey workplaces shared particular characteristics – they were at least six years old and had survived the period 1989 to 1995. Thus, in this instance, the panel survey was designed to chart change and continuity between the two AWIRS surveys. The panel survey sample contains data from 698 workplaces and represents the population of workplaces with 20 or more employees that existed in 1990, *and* continued to exist in 1995. This population was estimated to be approximately 26,600 workplaces.

In addition to the workplace based surveys, AWIRS 95 also included an employee survey which was distributed to a random sample of employees at those workplaces in the main survey where the senior manager agreed to allow their participation¹². An employee was defined as ‘any person working at or from the workplace’ and, whilst managers and casual employees were included, contractors, agency workers and outworkers were excluded. Most importantly in respect of data interpretation, rather than having the employee as a third type of workplace respondent, it was decided to use the employee as a second unit of analysis (as opposed to the

¹¹ The Australian Bureau of Statistics (ABS) definition of a workplace as a location that is “a single physical area occupied by the establishment from which it engages in productive activity on a relatively permanent basis” was adopted by both AWIRS 90 and AWIRS 95. As such, workplaces contained in the survey include, for example, a take-away café managed by the owners, a branch of a bank, an Australian head office of a multinational firm, a primary school, etc.

¹² The workplace participation rate was 95 per cent with an employee response rate of 60 per cent (19,155 useable questionnaires returned).

workplace). Surveyed employees were not selected to represent the workplace at which they worked but rather they are representative of all employees at workplaces included in the AWIRS survey.

All the survey based results are based on weighted data. Only those relationships that were discovered to be statistically significant at the 10 per cent level of significance are mentioned in the following analysis. In addition, the relationships described in this report have been investigated as to whether they are generally true across industries and workplace size bands. In particular, where evidence of significant industry or size effects are found, a footnote is provided. Sometimes, however, it is not possible to determine whether a relationship holds for a particular industry or workplace size level due to the insufficient number of workplace responses at that level of disaggregation.

Unlike the AWIRS research which reflects a 'snapshot' of a particular point in time, the Workplace Agreements Database (WAD) is a longitudinally based census database. The WAD contains data on all known federal enterprise agreements which have been certified or approved by the Australian Industrial Relations Commission (AIRC) since the introduction of the Enterprise Bargaining Principle in October 1991. The WAD covers general details (such as sector, industry, duration of agreement, employees covered), wage details (quantum and timing of increases), and employment conditions. Information on the WAD is drawn from copies of federal agreements lodged with the Australian Industrial Registry.

4 Incidence of Employee Share Ownership

4.1 AWIRS 95 Main Survey

The most recent data is provided by the AWIRS 1995, which was undertaken by the then Department of Industrial Relations in late 1995. The survey found that 22 per cent of private sector¹³ workplaces with 20 or more employees offered employee share ownership schemes. This represents a significant increase on the figure of 16 per cent, recorded when the first AWIRS was undertaken in 1990¹⁴. For an overview of both AWIRS 90 and AWIRS 95 findings see tables in Appendix B.

AWIRS 1995 found that such schemes were most common in finance and insurance (40 per cent of workplaces), mining (39 per cent) and retail trade (38 per cent); other industries with around average or above average incidence of ESOPs were wholesale trade (28 per cent), property and business services (26 per cent), manufacturing (22 per cent) and transport and storage (20 per cent). They were least likely in health and community services (0), cultural and recreational services (4 per cent), construction (6 per cent) and accommodation, cafes and restaurants (10 per cent).

The incidence of schemes also varied considerably between workplaces of different size and according to whether workplaces were part of a larger organisation or not

- 16 per cent of workplaces with between 20 and 49 employees had employee share plans, whilst 43 per cent of workplaces with between 200 and 499 employees had such plans
- workplaces that were part of a larger organisation were much more likely to have an ESOP compared to single workplace organisations, 29 per cent and 3 per cent respectively.

Both AWIRS 90 and 95 asked managers what percentage of non-managerial employees owned shares in the share ownership scheme. As demonstrated in Chart 4.1 below, workplaces covered by ESOPs which were limited to managerial staff increased substantially between the two surveys (9 per cent v 16 per cent); the number of workplaces where some but less than ten percent of non-managerial employees owned shares in the scheme also increased (18 per cent v 20 per cent); conversely, the number of workplaces where ten to fifty percent of non-managerial employees owned shares decreased from 49 per cent in 1990 to 37 per cent in 1995; the number of workplaces where more than 50 per cent of non-managerial employees owned shares increased from 24 per cent in 1990 to 28 per cent in 1995.

Although it is not possible to disaggregate much of this data to the industry level due to low cell sizes, it is worth noting that, on the data available, the mining industry appears to have the broadest based schemes. In 1990, 51 per cent of mining schemes had greater than 50 per cent employee participation increasing to 57 per cent in 1995.

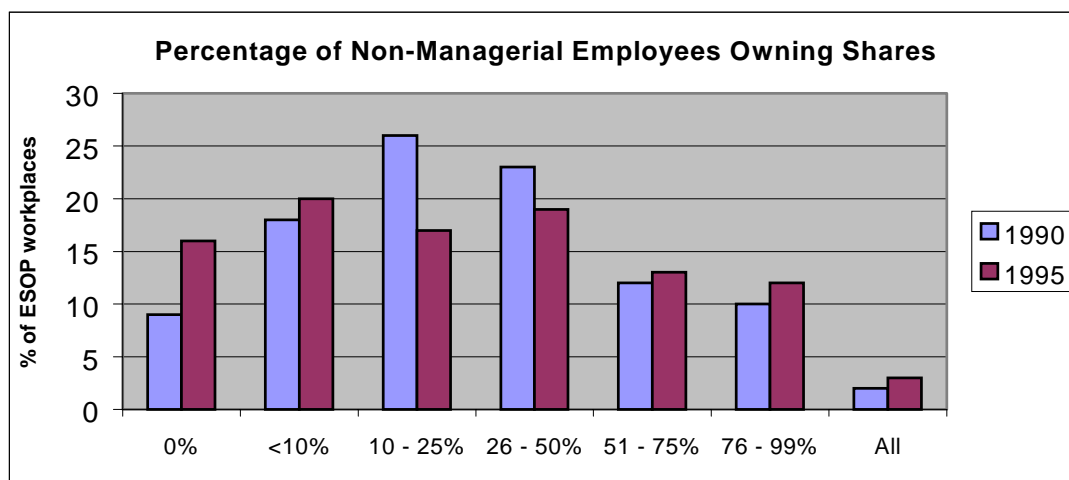
The profile of employee ownership is strongly related to workplace size. For those workplaces with between 20 and 49 employees with an ESOP, 53 per cent had less than 10 per cent ownership by non-managerial employees. The corresponding figure for workplaces with

¹³ No ESOPs were identified in public sector workplaces

¹⁴ Although the questions differed slightly in the two surveys the data is directly comparable.

between 200 and 499 employees is 22 per cent. Conversely 42 per cent of these larger workplaces with ESOPs had more than 50 per cent non-managerial participation in the schemes compared to just 22 per cent of the workplaces with between 20 and 49 employees.

Chart 4.1



Source: AWIRS 90 and 95 main survey employee relations management questionnaire.

Population: Private sector workplaces with 20 or more employees which had an ESOP. Figures are weighted and based on responses from 195 workplaces (1990 data) and 297 workplaces (1995 data).

4.2 AWIRS 95 Panel Survey

The AWIRS 95 panel survey re-interviewed around 700 AWIRS 90 workplaces. Analysis of the results helps to better understand the changes and continuities that occurred at workplaces over this period. When interpreting the following results it must be remembered that the panel data is only representative of surviving workplaces from 1990.

Within panel survey workplaces (private sector with 20 or more employees), the proportion of workplaces that offered ESOPs had a net increase from 19 per cent in 1990 to 30 per cent in 1995. Further examination of the panel data reveals that around one-third of those workplaces with ESOPs in 1990 had discontinued them by 1995, and that over half of the workplaces that had ESOPs in 1995 had introduced them after 1990. Around 13 per cent of workplaces had ESOPs in both 1990 and 1995, and 64 per of workplaces did not have ESOPs at either time.

The panel survey shows no real trend to broaden the availability of ESOPs to non-managerial employees over the period. The proportion of panel survey workplaces (that had ESOPs in both 1990 and 1995)¹⁵ at which ESOPs were available to non-managerial employees remained essentially the same between 1990 and 1995 (80 per cent and 83 per cent respectively). The panel data show that 28 per cent of workplaces increased the availability of ESOPs, 27 per cent reduced availability and 45 per cent made no change.

The proportion of panel survey workplaces (that had ESOPs in both 1990 and 1995)¹⁶ at which non managerial employees availed themselves of the opportunity to own shares increased from 90 per cent of workplaces in 1990 to 98 per cent in 1995. Analysis of the panel survey data

¹⁵ For which there was information on their availability for both surveys.

¹⁶ For which there was information on their availability and on the number of employees who actually owned shares for both surveys.

show that at 36 per cent of workplaces the proportion of non managerial employees owning shares increased, at 13 per cent the proportion decreased and at 51 per cent there was no change.

It is apparent that the observed increase between 1990 and 1995 in the number of panel workplaces at which non managerial employees were participating in ESOPs (from 12 per cent to 20 per cent) is mostly attributable to the increase in workplaces introducing ESOPs, rather than any substantial increase in workplaces broadening the availability of existing ESOPs to include non managerial employees.

It is difficult to determine whether or not other influences, such as industry or workplace size effects, are in some way responsible for the above results as the relatively low number of surviving workplaces with ESOPs limits the reliability of further analysis.

4.3 Workplace Agreements Databases

Within the federal jurisdiction, the Workplace Agreements Database (WAD) shows that since October 1991 42 federal agreements out of a total of around 25,000 agreements certified over this period have incorporated provision for employee share ownership programs¹⁷. Of these agreements 30 are currently in operation, covering an estimated 85,000¹⁸ (or approximately 6 per cent) of the 1,331,100 employees currently covered by federal workplace agreements (as at 31 March 1999).

According to the WAD, employee share ownership programs were first introduced into federal workplace agreements in 1994 (there were three agreements with ESOPs, covering an estimated 24,000 employees). In 1995 five new agreements containing ESOP provisions were certified, covering an estimated 31,000 employees. Of these employees, an estimated 30,000 were parties to two related Qantas agreements.

During 1996 and 1997, there continued to be a small number of federal certified agreements with ESOP provisions, covering a relatively large number of employees. In 1998, 27 agreements with ESOP clauses were certified, covering an estimated 57,000 employees. While this appears to represent a significant increase in the number of federal certified agreements with ESOP provisions, five of the new agreements were Qantas fourth round enterprise bargaining agreements (replacing the previous Qantas agreement which was certified in late 1996) and ten agreements were within the Westpac Banking Corporation.

Boosted by the major agreements in the Westpac Banking Corporation, the finance and insurance sector currently has the highest concentration of current federal agreements with ESOP clauses. The finance and insurance industry accounts for 14 agreements (or 47 per cent) and 82 per cent of estimated employees covered by current federal certified agreements with ESOP clauses. Three of the four major banks have workplace agreements which provide for ESOPs. The transport and storage industry accounts for a further 9 agreements (or 30 per cent) and 17 per cent of estimated employees covered. The remaining seven agreements account for less than 1 per cent of employees covered by agreements with ESOP provisions.

¹⁷ It should be noted that this total includes a number of replacement agreements which cover the same organisations.

¹⁸ The employee coverage numbers refer to the number of employees covered by agreements which contain an ESOP provision and do not necessarily reflect the number of employees either eligible for or participating in ESOPs.

However, it is not only collective agreements that are being used to provide employees with shares. The Office of the Employment Advocate database on Australian Workplace Agreements (AWAs) shows that ESOP provisions are contained in AWAs that have been approved for 10 employers out of a total of over 1,500 employers who had had AWAs approved as at the end of May 1999.¹⁹ These AWAs are in the mining industry, manufacturing, retail, construction, health and community services, and cultural and recreational services industries.

4.4 ABS Survey of Employee Benefits

The best source of information on actual numbers of employees participating in employee share ownership schemes is provided by the ABS Survey of Employee Benefits, which was last undertaken in August 1994. This survey found that 247,800 employees or 3.9 per cent of all employees were receiving shares as an employment benefit. This represented a reasonably sharp increase since the previous survey in August 1992, which found that only 2.8 per cent of employees were receiving shares.

The ABS survey found that the incidence of employee share ownership varied significantly according to sector, industry, occupation and earnings:

- the incidence of employee share ownership was sixteen times higher in the private sector as compared to the public sector, reflecting the relatively low incidence of corporate structures in the public sector
- the incidence of employee share ownership varied significantly across industries. It was well above the average in finance and insurance (with 16.4 per cent of employees receiving shares as an employment benefit), mining (11.0 per cent), retail trade (6.2 per cent) and manufacturing and wholesale trade (each 5.9 per cent)
- the ownership of employee shares was concentrated in the hands of managers and administrators, with 9.8 per cent of this occupational group receiving shares, as against 3.4 per cent for all other occupations
- reflecting this occupational pattern, 9.8 per cent of employees earning \$960 or more a week received shares as compared to less than 1 per cent of those earning under \$320 per week.

The ABS data also provides a historical context to the coverage of shares as an employment benefit. As shown in Chart 4.2, the long term trend is a gradual increase in the number of employees in receipt of shares as an employment benefit with a sharp increase reported in the 1994 survey. This survey also recorded a significantly increased percentage of part-time employees receiving shares as an employment benefit. This may reflect the growing acceptance of part-time work and may mean that a higher percentage of female employees are currently in receipt of employee shares.

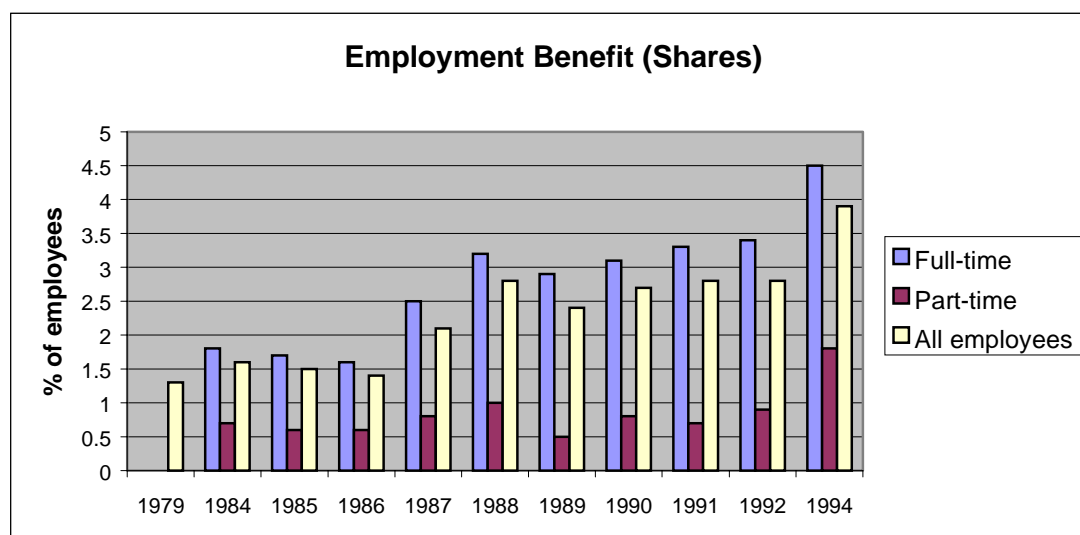
A survey undertaken by the Australian Stock Exchange in 1991 found a much higher level of employee share ownership in Australian industry than the ABS survey. This survey found that

¹⁹ It should be noted that the OEA database comprises a sample of one approved AWA per employer and, as a result, is indicative only of the types of arrangements an employer is making with its employees. It is not possible to say how many employees at such workplaces are eligible to participate in the ESOP. Also as the OEA data refers to employers rather than workplace, it is possible that ESOP provisions apply at more than one workplace owned by a particular employer.

approximately 404,000 people, representing a little over 5 per cent of Australia's adult work force, owned employee shares.

In assessing the significance of the percentage of the Australian workforce receiving employee shares and the scope for extending this coverage it is useful to bear in mind that ESOPs in Australia have been largely limited to listed companies (as a result of the types of ESOPs prevalent in Australia) and that (according to the Australian Employee Ownership Association) only around 13 per cent of the workforce are currently employed in listed companies.

Chart 4.2



Source: ABS Employment Benefits Australia, August 1994 Catalogue number 6334.0; Peetz 1988

Note: Methodological changes in post-1979 surveys may have resulted in the non-reporting of benefits compared with the 1979 survey.

4.5 Overseas Experience

It is useful to examine the incidence of ESOPs in Australia in the context of the incidence of such arrangements in other countries.

Compared to some major overseas countries such as the USA, UK, France and Japan the level of employee share ownership in Australia is still fairly low. However, the Australian situation is similar to that in Germany.

The Australian Employee Ownership Association (AEOA) estimated that in 1995 there were 10,000 companies in the USA covering more than 10 million employees (10 per cent of the workforce) with some form of employee share ownership scheme in operation. In 1989, 40 per cent of the USA's Fortune 500 firms were at least 10 per cent employee owned.

The introduction of wide ranging tax concessions for employee share schemes in the US in the mid 1970s contributed significantly to the rapid growth of such schemes. In particular, employee share ownership plans provide a highly tax efficient method for retiring family owners to sell their small businesses to the employees.

According to Andrew Pendleton (Professor of Human Resources Management at Manchester Metropolitan University) the UK has the second highest (behind France) incidence of employee

participation in share schemes in the European Union. He estimates ‘that about 3.5 million employees – around 15 per cent of the employed labour force at any given time – have received shares in their employer since employee share schemes were introduced nearly twenty years ago.’ ESOPs in the UK do appear to be more prevalent in high performing companies with government research revealing that “nine out of ten of the UK's top 100 companies have an employee share scheme in place”.²⁰

In the 1999 Budget the British Labour government unveiled significant financial incentives to increase participation in ESOPs. Employees are now able to buy shares in their own companies from their pre-tax income and every employer will be able to match, tax-free, what each employee buys. The only stipulation is that the options must be offered across the company’s entire workforce. In the Chancellor of Exchequer's Budget statement, the rationale for the introduction of the scheme was that “(an employee share ownership scheme) channels energy and talent into the long term health of the business” and such schemes are fundamental for Britain to “become a democracy of enterprise”.

In Germany there are a range of regulations aimed at encouraging employee share ownership. However, there are only relatively small tax concessions for such schemes (access to which also requires benefits to be held for at least 6 years). The proportion of employees covered by such arrangements appears to have fallen somewhat in recent years. In 1994 about 0.5 per cent of firms covering around 4 per cent of employees had either an employee share scheme or a deferred profit sharing scheme.

Japan is an example of a country where employee share ownership schemes have become widespread despite the fact that there has been no legislation to actively encourage them. Jones and Kato²¹ found that in 1988 around 90 per cent of all firms listed on Japanese stock exchanges had some form of employee share ownership - with in most cases around one half of a company’s employees participating in the plan. Jones and Kato found that such schemes were also prevalent in unlisted companies - they estimated that in 1985 close to 60 per cent of all firms had employee share schemes. However, in general, employee share schemes only make up a fairly small proportion of total ownership of a Japanese company - the average for listed companies is less than 1 per cent and holdings over 5 per cent are rare.

Employee share ownership schemes in Japan have often been developed in the context of broader participative practices, including greater employee involvement in a firm’s decision making. Japanese firms often provide generous subsidies to their employees to encourage participation in such schemes. Employee shares are generally held in trust and employee shareholders are represented at Annual General Meetings by a specifically designated Director. Unlike other countries, where management executives are usually major participants in employee share schemes, in Japan executives are not allowed to participate.

4.6 Conclusion

Whilst AWIRS 95 found that more than one in five private sector workplaces with over 20 employees had ESOPs, according to ABS statistics only around 4 per cent of employees owned shares through an ESOP in 1994. This appears to reflect the fact that many ESOPs are limited to managers and the heavy concentration of schemes in listed companies (which cover only around 13 per cent of all employees).

²⁰ UK Treasury News release, 12 January 1996

²¹ American Economic Review, June 1995

There have been a number of Government initiatives since 1996 which are likely to have led to a further growth in ESOPs but which have yet to show up in the statistics.

Whilst the data indicates that the level of employee share ownership has been growing in Australia in recent years, it still remains low relative to a number of other developed countries where ESOPs are common in small businesses as well as large companies (the USA) and/or where ESOPs are strongly promoted through Government policy initiatives (particularly generous tax concessions). This is likely to be related to a number of institutional factors, including previous reliance on centralised wage fixation. Overseas evidence suggests that the tax treatment of ESOPs may also be a factor in their spread, but that it interacts with other institutional and cultural factors in ways which can be quite complex.

In addition to changes in our workplace relations arrangements, any substantial increase in the level of employee participation in ESOPs in Australia is likely to require an examination the scope for encouraging such arrangements outside listed companies, including an assessment of current barriers to their use in the small business area.

5 The Impact of Employee Share Ownership on Organisational Performance

There are a number of mechanisms through which employee share ownership schemes might be expected to have a positive impact on labour productivity and overall organisational performance.

Proponents of these schemes suggest that one of the major benefits of an employee share scheme for an employer is that it can assist in boosting workforce productivity by enhancing employee identification and commitment to the firm. Employees with shares in the company are likely to give greater attention to the performance of their company. A more committed workforce will be motivated to work more efficiently and may be less inclined to undertake industrial disputation, whilst fewer days are likely to be lost to absenteeism. A more committed and satisfied workforce may also lead to lower staff turnover which will provide savings in recruitment expenses.

An employee share scheme can also encourage employees to give greater thought to how work organisation might be improved, particularly if such a scheme is introduced in conjunction with a greater emphasis on employee participation in firm decision making. Innovative thoughts from employees can lead to more efficient work practices.

Section 5.1 provides an overview of the empirical evidence on the impact of ESOPs. Section 5.2 examines what can be concluded from the AWIRS 95 data in terms of assessing the impact of ESOPs.

5.1 An Overview of Existing Empirical Evidence

There is a broad range of empirical evidence which provides support for the contention that the introduction of ESOPs can assist in improving organisational performance. However, there is also a body of empirical research which is more sceptical in its findings about the relationship between ESOPs and performance. The overview provided below is meant to provide the flavour of the different studies that have been undertaken and some key findings. It is not intended to be exhaustive or come to any firm conclusions on what can be concluded from the disparate findings.²² It does however provide a useful context for the examination of what can be gleaned from the AWIRS 95 data in terms of the relationships between ESOPs and organisational performance.

A number of studies have found a positive relationship between ESOPs and productivity. In a study of the Japanese experience, Jones and Kato found that the introduction of an ESOP enhanced the long-term commitment of workers and peer monitoring resulting in a productivity boost of between 4-5 per cent (although 3-4 years were required to obtain the productivity benefit).²³ Similarly in the USA, Marsh and McAllister found that the average productivity growth rate for ESOPs was greater than the national rate for their industries.²⁴

²² A more detailed assessment of the empirical research can be found in Peetz, D. op cit

²³ Jones, D. and Kato, T. (1995) 'The Productivity Effects of Employee Stock Ownership Plans and Bonuses: Evidence from Japanese Panel Data', *American Economic Review*, Vol 85, No 3.

²⁴ Marsh, T. and McAllister, D. (1981) 'ESOPs Tables: A Survey of Companies with Employee Stock Ownership Plans', *Journal of Corporations Law*, 6.

In Australia a 1991 survey conducted jointly by Remuneration Planning Corporation Pty Ltd and the Australian Stock Exchange “found that ESOP companies consistently performed better than the industry norm across a number of performance measures.”²⁵

Other studies have pointed to increased company growth (in terms of factors such as sales and employment) resulting from the introduction of ESOPs. Quarrey and Rosen’s study found that in employment terms the ESOP companies grew 5.05 per cent per year faster than their comparison (non ESOP) companies after introducing their ESOPs, compared with only 1.2 per cent per year faster before their ESOPs. In terms of sales growth the ESOP companies grew 5.4 per cent faster than their comparison companies after their ESOPs were introduced compared with only 1.9 per cent faster prior to the introduction of the ESOP. “Projected over a ten year period, the improved performance in ESOP companies would generate 46 per cent more jobs and 40 per cent higher sales growth than the companies would have experienced without employee ownership.”²⁶ Similar findings were reported in surveys carried out in two US states in the mid-1990s.²⁷

A number of studies have examined the relationship between ESOPs and firm profitability, with very mixed results. A study of 98 firms by Conte and Tannenbaum found that ‘perhaps’ ESOP companies were more profitable than conventional equivalents.²⁸ However, a study of 115 ESOP companies in the US by Tannenbaum, Lohman and Cook found that their level of profitability was roughly the same as comparable conventional companies although they were 10 per cent more likely to stay in business.²⁹ A study by Bhagat, Brickley and Lease actually found that ESOP firms were less profitable than comparable non-ESOP firms.³⁰

Some studies have identified positive relationships between ESOPs and employee attitudes and behaviours. Marsh and McAllister found majorities of personnel managers attributing improvements in employee morale and interest in company progress to the existence of ESOPs.³¹ Rosen, Klein and Young found employees indicated greater company loyalty as a result of ESOPs.³² Several studies, including Marsh and McAllister, suggest that labour turnover and absenteeism is reduced by ESOPs in some firms, although the effect is usually small.

Other studies have pointed to improved industrial relations outcomes in firms with ESOPs. Conte and Tannenbaum found that employers in employee-owned firms generally considered industrial relations were good³³ and Estrin and Wilson found fewer working days lost to strikes in British metal working companies with ESOPs.³⁴

However, other empirical studies are less emphatic about the impact of ESOPs, particularly with respect to any direct causal relationship between the introduction of an ESOP and improved

²⁵ McBride, T. and Balian, J. (1995) *Understanding ESOPs: The Workbook*, Australian Employee Ownership Association, p11.

²⁶ Quarry, M. and Rosen, C. (1989) ‘ESOPs equal economic performance’, *Industrial Participation*, Autumn, p19.

²⁷ IRS Employment Trends 664, (1998), *Does employee ownership make a difference in the US?*, September.

²⁸ Conte, M. & Tannenbaum, A.S. (1978) ‘Employee-Owned Companies: Is the Difference Measurable?’, *Monthly Labour Review*, July

²⁹ Cited in Peetz, D. (1988) *Financial Participation by Employees: A Review of Theoretical and Practical Issues*, DIR Research Paper No.8, Department of Industrial Relations, Canberra.

³⁰ Cited in Peetz, D. (1988) *Financial Participation by Employees: A Review of Theoretical and Practical Issues*, DIR Research Paper No.8, Department of Industrial Relations, Canberra.

³¹ Marsh and McAllister, op cit

³² Rosen, C., Klein, K. & Young, K.M. (1986) ‘When Employees Share the Profits’, *Psychology Today*, January

³³ Conte & Tannenbaum, op cit

³⁴ Estrin, S. & Wilson, N. (1986) ‘The Micro-Economic Effects of Profit Sharing: The British Experience’, Discussion paper no 247, Centre for Labour Economics, London School of Economics, July.

company performance. Several studies have questioned the impact of ESOPs on productivity. One of the most comprehensive studies on employee share ownership was conducted by the US General Accounting Office for the US Congress. It found that neither productivity nor profitability were enhanced by the introduction of an ESOP³⁵. This finding was supported by studies conducted by Hamilton (1983)³⁶, Bloom (1985)³⁷, and Mitchell and Broderick (cited in Peetz 1988) which all concluded that ESOPs were ineffective in enhancing productivity.

Another group of studies have approached the issue of the impact of ESOPs in a broader context, namely that the impact of such schemes cannot be assessed simply on whether they are present at a workplace or not, rather their impact will be affected by the employee relations context in which they operate and particularly whether wider measures to involve employees in firm decision making processes are in place.

A US General Accounting Office study in 1987 found that where non-managerial employees participated in company decisions through work groups or committees there was a greater improvement in productivity than in non-participative firms.³⁸ Similarly, a study by Quarrey found that whilst non-participative ESOP firms performed no better than non-ESOP firms (and sometimes worse), those firms which promoted job level participation in decision-making performed significantly better.³⁹

There is also a body of research which points to the crucial role of employee participation in decision making in improving employee attitudes and behaviour. Kruse found that employee ownership in two firms with low levels of employee participation had little effect on motivation or job satisfaction.⁴⁰ Conte found that employee commitment to a firm may be a function of share ownership, but that satisfaction and motivation may be more directly related to the existence of employee participation.⁴¹

In the Australian context, a literature review conducted by Wooden and Dawkins concluded that although employee share ownership schemes can create a congruence between the interests of the organisation and the worker, the key to achieving performance improvement is employee participation.⁴² Brett Hofmann of Towers Perrin⁴³ argues that employee participation in the design, introduction and operation of financial participation schemes, and in decision making within the workplace and organisation more generally, are key factors affecting the success or otherwise of such schemes.

³⁵ General Accounting Office (USA) (1981) *Productivity Sharing Programs; Can they Contribute to Productivity Improvements?*, Washington DC, March.

³⁶ Hamilton, H. (1983) *The Effects of Employee Stock Ownership Plans of the Financial Performance of the Electrical and electronic Machinery, Equipment and Supplies Industry*, Ann Arbor.

³⁷ Bloom, S. (1985) *Employee Ownership and Firm Performance*, PhD Thesis, Department of Economics, Harvard University, Cambridge, USA.

³⁸ General Accounting Office (USA) (1987) *Employee Stock Ownership Plans: Little Evidence of Effects on Corporate Performance*, Washington DC, March.

³⁹ Quarrey, M. (1986) *Employee Ownership and Corporate Performance*, Research Paper in Employee Ownership, National Centre for Employee Ownership, Oakland, October.

⁴⁰ Kruse, D. (1984) *Employee Ownership and Employee Attitudes: Two Case Studies*, Norwood Editions, Pennsylvania

⁴¹ Conte, M. (1982) 'Participation and Performance in US Labor-Managed Firms' in D.C. Jones & J. Svejnar (eds) *Participatory and Self-Managed Firms*, DC Heath & Co, Lexington (Mass)

⁴² Wooden, M. and Dawkins, P. (1987) *The Australian Labour Market*, *Australian Bulletin of Labour*, March.

⁴³ Quoted in Emily Carr (1997) *Remuneration Strategies*, Newsletter Information Services.

5.2 The Impact of ESOPs on Organisational Performance: The Evidence from AWIRS 95⁴⁴

AWIRS 95 does not provide any direct measures of workplace productivity as the survey method used is inappropriate for developing a suitable set of questions that would allow meaningful comparisons, across workplaces, of measures of productivity. However, AWIRS 95 did collect data on two aspects of productivity, namely whether there were any procedures in place that regularly measured labour productivity at the workplace and managers' perceptions regarding changes in productivity.

AWIRS 95 also collected data on a range of workplace and workforce variables that in turn can influence productivity and performance. These include absenteeism, labour turnover, dismissals, industrial action, workplace change and employee participation.

The following sections examine how the presence of an ESOP affects the above workplace indicators and provides a basis for assessing the impact of ESOPs on workplace performance. For instance, if the presence of an ESOP is associated with reduced levels of absenteeism, voluntary labour turnover, or disputation or with increased support for workplace change this provides some basis for arguing that ESOPs may have a positive impact on workplace performance.

However, care needs to be taken as the analysis does not allow conclusions to be drawn on the causal links between ESOPs and the workplace variables examined (ie while the presence of an ESOP might be associated with an increased likelihood of a particular workplace characteristic, it is not possible, simply on the basis of the association, to say that the ESOP was responsible for this outcome). A summary of the main findings are contained in the text box on the following page.

5.2.1 Productivity

Perceptions as to changes in productivity

Whilst AWIRS 95 did not collect data on actual levels of labour productivity, it did collect data on manager's perceptions of whether labour productivity had increased over the previous two years.

Chart 5.1, below, shows that managers at workplaces with ESOPs were more likely to claim that labour productivity had risen over the previous two years than managers at non-ESOP workplaces (79 per cent v 69 per cent). This provides at least limited support for the argument that ESOPs can lead to productivity improvement.

Interestingly, the data shows that the higher the proportion of non-managerial employees participating in the ESOP the more likely were managers to claim labour productivity increased over the previous two years, suggesting that the effectiveness of ESOPs in raising productivity may be related to the extent of employee coverage of schemes.⁴⁵

⁴⁴ All data in 4.2 relates to private sector workplaces with 20 or more employees.

⁴⁵ This appears to be one of the few workplace variables for which degree of employee coverage in the ESOP has a statistically significant impact. The submission notes at various other points where this relationship was statistically significant.

Summary of Main Findings

Productivity

- Managers at ESOP workplaces were more likely to report labour productivity increases over the previous two years than managers at non-ESOP workplaces (79 per cent v 69 per cent).
- Higher levels of employee participation in the ESOP were associated with stronger perceptions of productivity increases.
- ESOP workplaces were more likely to have productivity measurement procedures in place than non-ESOP workplaces (81 per cent v 69 per cent).

Absenteeism

- ESOP workplaces recorded lower levels of absenteeism than non-ESOP workplaces (2.2 per cent v 2.5 per cent).

Voluntary Labour Turnover

- ESOP workplaces recorded significantly lower levels of voluntary labour turnover than did non-ESOP workplaces (17 per cent v 24 per cent).

Dismissals

- Overall, ESOP workplaces recorded lower dismissal rates than did non-ESOP workplaces (2 per cent v 2.9 per cent) but this trend was not consistent across all industries.

Industrial Action

- ESOP workplaces were more likely to have experienced industrial action (17 per cent v 13 per cent) and more likely to have had strike action (2 per cent v 1 per cent) than non-ESOP workplaces (although workplace size, unionisation, and extent of workplace change influence these findings).

Workplace Change

- ESOP workplaces reported higher levels of overall workplace change (83 per cent v 76 per cent) than did non-ESOP workplace and were more likely to have experienced major changes to non-managerial work arrangements (44 per cent v 38 per cent) and major structural reforms (53 per cent v 47 per cent).

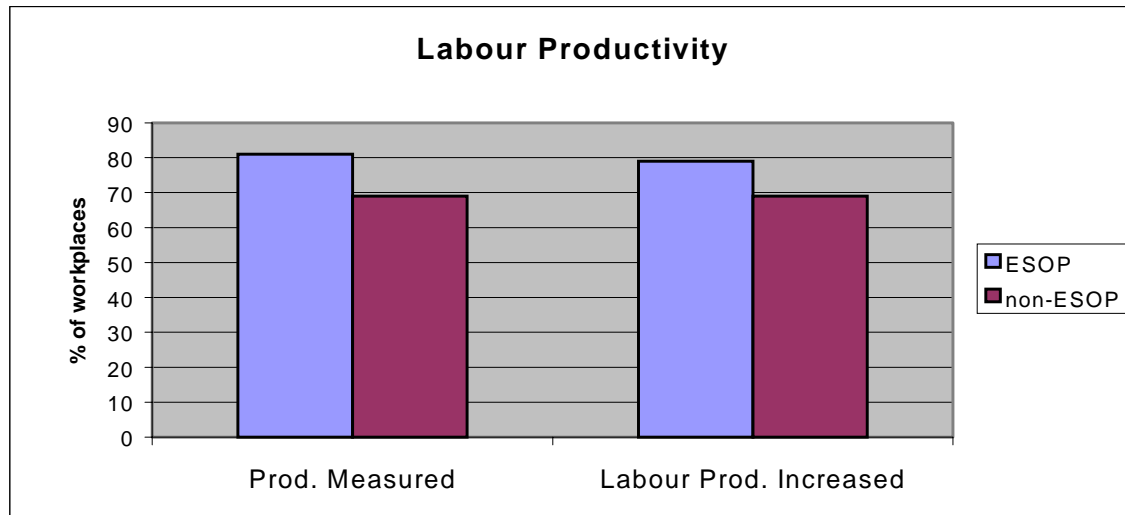
Employee Participation

- The findings do not suggest that the presence of an ESOP is associated in any systematic way with a greater emphasis on employee participation.
- ESOP workplaces were more likely to use informal discussions (64 per cent v 57 per cent) and formal meetings (65 per cent v 57 per cent) than non-ESOP workplaces but less likely to use special committees (12 per cent v 18 per cent).
- Employees at ESOP workplaces with a hundred per cent employee take up rate for share ownership were more likely to report having influence over workplace management/organisation and over decisions directly affecting them than were employees generally.

Productivity measurement

An analysis of the AWIRS 95 data (see Chart 5.1) reveals ESOP workplaces were more likely to have productivity measurement procedures in place (81 per cent v 69 per cent). It could be argued that the presence of such measurement procedures indicates a greater productivity focus than in those organisations lacking such procedures.

Chart 5.1



Source: AWIRS 95 main survey, general management questionnaire.
 Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 1366 workplaces (columns 1&3), 1368 workplaces (columns 4&6) and 296 workplaces (columns 2 & 4).

Managers at workplaces where productivity was measured were asked at what level(s) it was measured (individual, work group, department/section or workplace level) and the mechanisms/techniques used to do the measurements.

ESOP workplaces were more likely than non-ESOP workplaces to measure labour productivity at the section/department level (58 per cent v 48 per cent) and at the whole workplace level (72 per cent v 63 per cent).⁴⁶ Significantly, ESOP workplaces that had high levels of non managerial employee involvement in the scheme were more likely to measure individual productivity than ESOP workplaces where the scheme was limited to managerial employees or had low non managerial employee involvement.

In respect of how labour productivity was measured, the data demonstrate that ESOP workplaces were more likely to adopt direct measures of labour productivity (32 per cent v 21 per cent) and less likely to measure labour productivity indirectly (16 per cent v 22 per cent) than non ESOP workplaces.⁴⁷ Also, ESOP workplaces were substantially more likely to use key performance indicators (KPI's) than non-ESOP workplaces (81 per cent v 63 per cent) and were more likely to collect KPI's for the whole organisation (67 per cent v 44 per cent) and at the workplace level

⁴⁶ At a more disaggregated level of analysis some significant workplace size and industry effects are evident. In particular, ESOP workplaces are less likely than workplaces without ESOPs to measure labour productivity at the whole of workplace level in workplaces of medium size (ie 100-199 employees).

⁴⁷ Direct measures of labour productivity were quantity-based ratio measures that compared physical quantities of outputs to physical quantities of inputs, eg. tonnes per employee hour. Indirect measures differed in that one or both components of the ratio were expressed as a measure of value rather than a physical measure, eg. labour input to sales.

(63 per cent v 49 per cent). Limiting the analysis to ESOP workplaces only, it is interesting to note that where ESOPs are limited to managerial staff only, the workplaces are more likely to measure labour productivity directly.

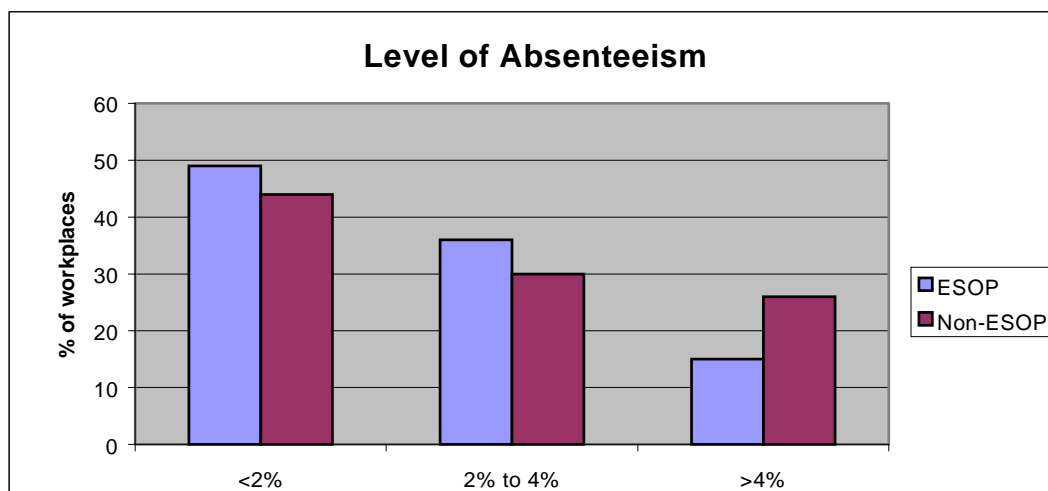
5.2.2 Absenteeism

Absenteeism is a major cost to Australian industry. Unscheduled absences that are not due to actual illness are estimated to cost Australian businesses \$2.56 billion a year.⁴⁸ The issues surrounding absenteeism have been examined from a multitude of perspectives but much of the literature divides the underlying causes into two categories; those factors which influence an employee's ability to attend (health factors, family responsibility, transportation problems) and those factors that influence attendance motivation (organisational practices, group norms, employee attitudes and values).⁴⁹

The introduction of an ESOP into a workplace will not affect the first category of factors but, within the second category, could be potentially influential in respect of group norms and employee attitudes and values. It is within this context that the following figures should be interpreted.

AWIRS 95 defined absenteeism as the percentage of employees, on an average day, who were away from work or on sick leave without leave being approved in advance. In 1995 at all private sector workplaces with 20 or more employees the average rate of absenteeism was 2.6 per cent.

Chart 5.2



Source: AWIRS 95 main survey, workplace characteristics questionnaire.

Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 953 workplaces.

AWIRS 95 found that marginally lower levels of absenteeism were recorded in ESOP workplaces than in non-ESOP workplaces (2.2 per cent v 2.5 per cent) across all industry groups with the exception of finance and insurance where the average absenteeism level is actually reversed (3.2 per cent v 2.3 per cent). When absenteeism is examined in percentage bands (see

⁴⁸ Morgan and Banks study - *New Workplace*, Vol 4, no 1, 1998, p3

⁴⁹ See Deery, S. 'Absenteeism: A Consideration of the Causes, Consequences and Controls' in *Managing Absenteeism: Analysing and Preventing Labour Absence*, Eds. Riedel, P. and Preston, A., Industrial Relations Research Series, Number 18, February 1995, Department of Industrial Relations.

Chart 5.2 above) the most distinguishing result is that ESOP workplaces were much less likely to record high levels (greater than 4 per cent) absenteeism when compared to non-ESOP workplaces (15 per cent v 26 per cent) and slightly more likely to record low (less than 2 per cent) absentee levels (49 per cent v 44 per cent) and mid-range (2 to 4 per cent) absentee levels (36 per cent v 30 per cent).

5.2.3 Voluntary Labour Turnover

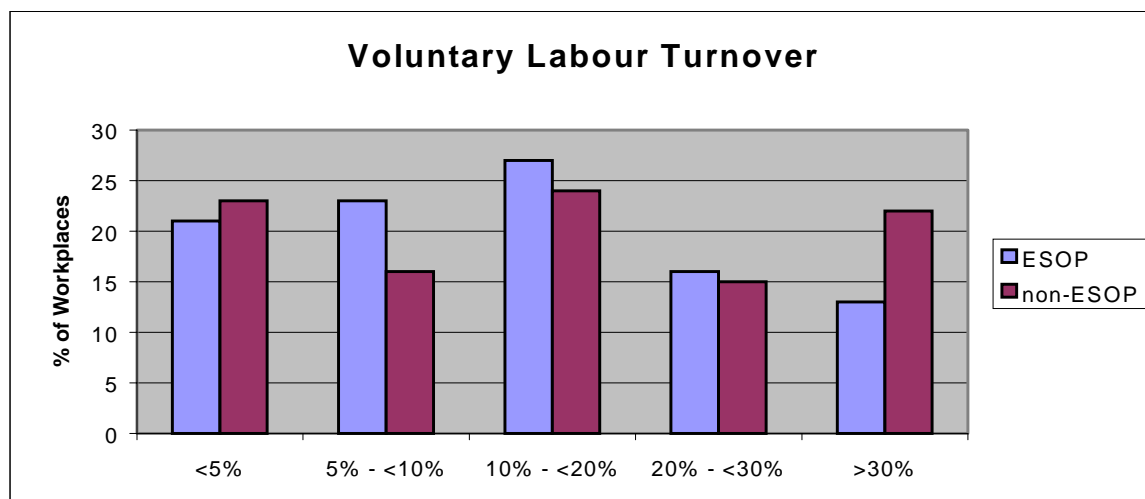
Voluntary labour turnover refers to the frequency or rate at which employees resign from their employment. In certain circumstances, high levels of turnover are considered an indicator of employee dissatisfaction, although they may also reflect other causes such as a period of labour shortages. High levels of turnover can be costly for a workplace, particularly in areas such as recruitment and training costs.

To the extent that ESOPs can improve levels of employee satisfaction and motivation they could play a role in reducing voluntary labour turnover.

AWIRS 95 collected information on the number of permanent employees who resigned from their workplace in the year prior to the survey. Voluntary labour turnover was calculated by dividing the number of resignations by the number of permanent employees. In 1995 the average annual voluntary turnover rate at private sector workplaces with 20 or more employees was 23 per cent.

ESOP workplaces recorded an average level of voluntary labour turnover of 17 per cent compared to 24 per cent for non-ESOP workplaces. Chart 5.3 below provides a breakdown of the percentage of ESOP and non-ESOP workplaces in the various labour turnover bands. It shows that workplaces with ESOPs are very much concentrated in the low labour turnover bands.

Chart 5.3



Source: AWIRS 95 main survey, workplace characteristics questionnaire.

Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 1210 workplaces.

5.2.4 Dismissals

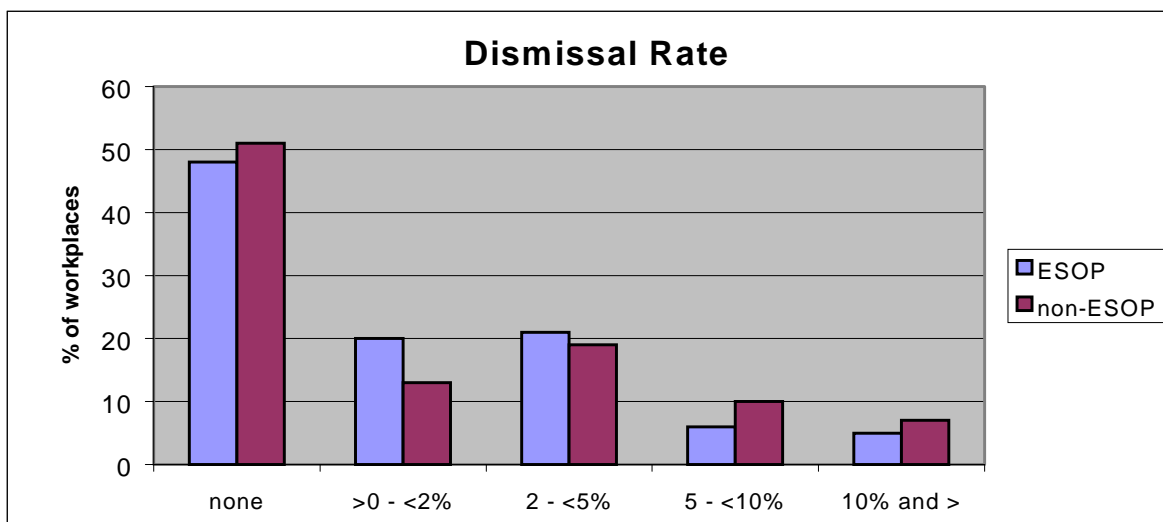
Dismissals are the result of an apparently irreparable breakdown in the relationship between an employee and management. Their prevalence within a particular workplace is dependent on a

number of factors including the overall relationship between management and employees, the level of employee commitment to the firm, and availability of legal redress. ESOPs have the potential to influence some of these variables, although a number of factors would be beyond the influence of the presence of an ESOP.

In AWIRS 95 dismissals were defined as employees who had their employment terminated by management for reasons other than redundancy. The average annual dismissal rate (number of dismissals divided by total number of all employees at the workplace) across all private sector workplaces with 20 or more employees in the year prior to the survey was 2.7 per cent.

In workplaces with ESOPs the average dismissal rate was 2 per cent as compared to 2.9 per cent in workplaces without ESOPs. This trend was consistent across the majority of industries but notable exceptions included mining (2.4 per cent for ESOP workplaces compared to 1.6 per cent for those without), wholesale trade (2.9 per cent v 2.5 per cent), personal and other services (6.1 per cent v 1.3 per cent). As shown in Chart 5.4 below, ESOPs were slightly less likely to be associated with workplaces which had recorded either no dismissals or high (5 per cent or greater) dismissal rates and more likely to be associated with workplaces which had low to medium dismissal rates.

Chart 5.4



Source: AWIRS 95 main survey, employee relations management questionnaire.

Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 1355 workplaces.

Note: This variable expresses the number of dismissals in the 12 months preceding the survey as a percentage of the total number of employees at the workplace.

5.2.5 Industrial Action

As with other variables examined above, the level of industrial action is a product of multiple variables including the presence of a union, a union delegate, the size of the workplace, management procedures, existence and usage of grievance procedures, legislative context, etc.

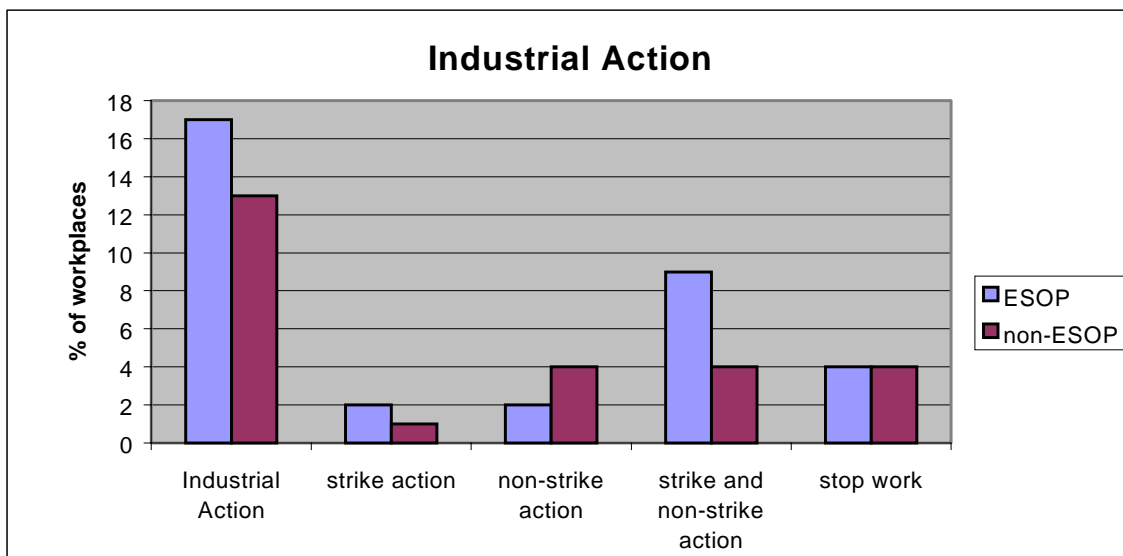
The presence of an ESOP could be expected to have an impact on the propensity of workers to take industrial action through a number of mechanisms. First, if employees own shares they may perceive themselves as being further (beyond loss of wages) financially disadvantaged by strike

action. Second, participation in an ESOP may make employees more likely to identify with their employer and be less willing to take industrial action.⁵⁰

The AWIRS 95 questionnaire asked employment managers if any industrial action had occurred at their workplaces in the previous twelve months.⁵¹ 13 per cent of private sector workplaces with 20 or more employees had experienced some form of industrial action in this period.

As shown in Chart 5.5 ESOP workplaces were more likely to have experienced some form of industrial action than non-ESOP workplaces (17 per cent v 13 per cent), more likely to have had strike action (2 per cent v 1 per cent) and a combination of strike and non-strike action (9 per cent v 4 per cent).

Chart 5.5



Source: AWIRS 95 main survey, employee relations management questionnaire.
 Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 1210 workplaces.

It is important to note that whilst these figures are statistically significant at the aggregate level they are heavily influenced by the fact that ESOP workplaces are more likely to be unionised workplaces with a delegate⁵². Further, given that ESOP workplaces were more likely to have experienced major workplace reforms that can generate organisational tension, the marginally higher level of industrial action is not unexpected.

5.2.6 Workplace Change

The reforms to the industrial relations system introduced by the *Workplace Relations Act 1996* and the further reforms being proposed⁵³ have been predicated on the need to create more efficient and competitive workplaces in a climate of increasing exposure to international

⁵⁰ These propositions were examined in some detail by Peetz, D. op cit.

⁵¹ The types of industrial action covered included strikes, stop work meetings, overtime bans or restrictions, go slow, picketing, work to rule, or other types of bans.

⁵² AWIRS 95 found that private sector workplaces with 20 or more employees which had both a union and a delegate were much more likely to have experienced industrial action in the previous 12 months than did union only and non-union workplaces (27 per cent, 7 per cent and 2 per cent respectively).

⁵³ *The Continuing Reform of Workplace Relations: Implementation of More Jobs, Better Pay*, Implementation Discussion Paper issued by Minister Reith, May 1999

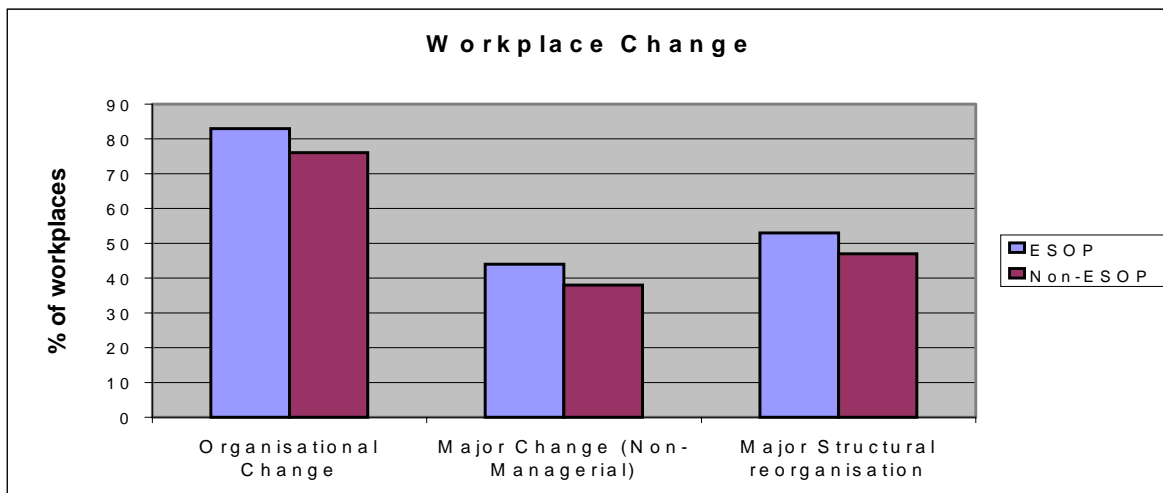
competition. Providing a basis for workplace change has been the central focus of these reforms. The extent of workplace change can be viewed as a proxy for improvements in the productivity potential of organisations.

The Australian Employee Ownership Association has also suggested that “ESOPs are most likely to be beneficial where they operate in an environment of organisation-wide commitment to a range of workplace changes”.⁵⁴

AWIRS 95 asked managers to assess the extent of workplace change that had occurred in their organisations in the preceding two years.

As shown in chart 5.6 below, ESOP workplaces reported a higher degree of overall organisational change than non-ESOP workplaces (83 per cent v 76 per cent). In terms of the different categories of workplace change, ESOP workplaces had relatively higher major changes to non-managerial work arrangements (44 per cent v 38 per cent) and major structural reform (53 per cent v 47 per cent). However, ESOP workplaces were no more likely to introduce either major new office technology or major new plant/machinery than their non-ESOP counterparts.

Chart 5.6



Source: AWIRS 95 main survey, general management questionnaire.

Population: Private sector workplaces with 20 or more employees where change had occurred in the last two years. Figures are weighted and based on responses from 1369 workplaces.

Note: At a more disaggregated level of analysis some statistically significant workplace size and industry effects are evident. In particular, ESOP workplaces were **less** likely than workplaces without ESOPs to observe major structural reorganisation in workplaces of medium size (ie 100-199 employees), and in the wholesale trade industry.

Employees at workplaces with ESOPs reported a slightly more positive attitude to workplace change over the previous 12 months compared to employees in non-ESOP workplaces (33 per cent v 28 per cent). The positive response to workplace change increased to 46 per cent where all employees participated in the ESOP.

⁵⁴ McBride, T. and Balian, J. (1995) *Understanding ESOPs: The Workbook*, Australian Employee Ownership Association, page 11.

5.2.7 Employee Participation

As discussed above, a consistent finding of empirical studies is that a key factor in whether an ESOP is linked to improved performance is the extent to which employees participate in decision-making within the firm.

The research conducted by the then Department of Industrial Relations in 1988 concluded that

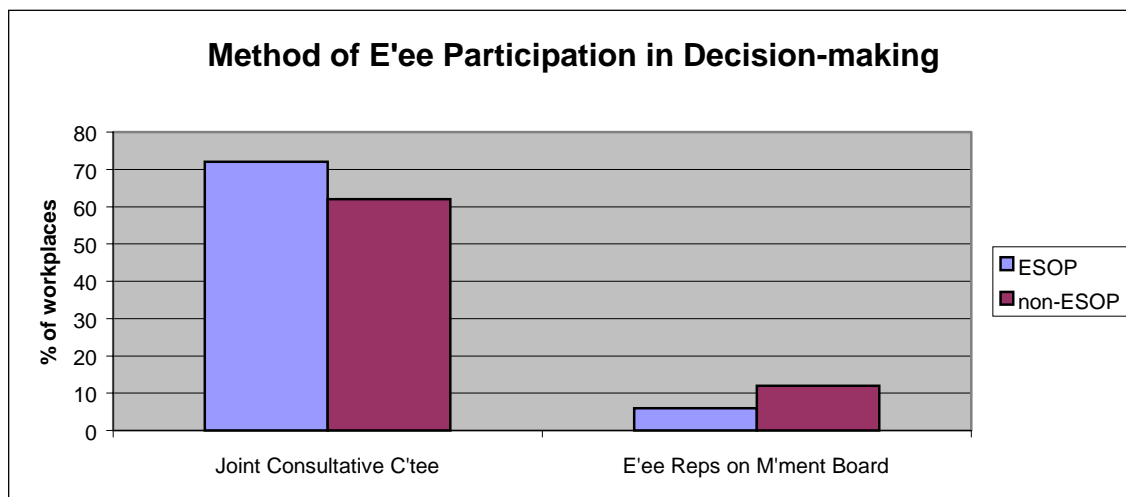
“the success of financial participation [which includes employee share ownership] is closely linked to the extent of employee consultation in the design and implementation of schemes, and in decision making processes within the firm, particularly at levels that are relevant to the employee. Several studies suggest that greater employee participation could be a precondition to success for financial participation schemes”.⁵⁵

Whilst AWIRS 95 did not ask any questions relating to employee participation in the design and operation of employee share schemes it did include several questions in respect of structures for employee involvement and representation, employee involvement in workplace change processes and the methods adopted by management to communicate with employees over workplace change.

The Department’s analysis of these questions found that in the period between the 1990 and 1995 surveys there had been “a substantial rise in employee involvement through representation, suggesting a greater tendency by management to consult with their employees through formal methods.”⁵⁶

The relative performance of ESOP and non-ESOP workplaces is examined in terms of the various measures of employee participation discussed below. Overall the findings do not suggest that the presence of an ESOP is associated in any systematic way with a greater emphasis on employee participation.

Chart 5.7



Source: AWIRS 95 main survey, employee relations management questionnaire.
 Population: Private sector workplaces with 20 or more. Figures are weighted and based on responses from 1369 workplaces.

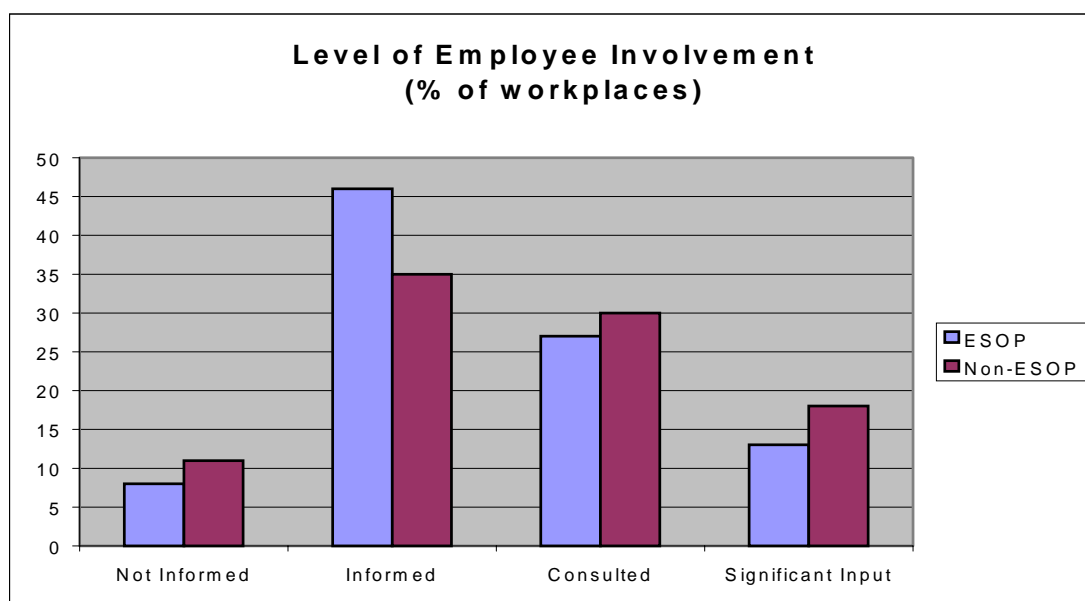
⁵⁵ Peetz, op cit, p iv

⁵⁶ Morehead et al, op cit, p189

ESOP workplaces were more likely than non-ESOP workplaces to have a joint consultative committee (72 per cent v 62 per cent) but less likely to have employee representatives on the management board (6 per cent v 12 per cent) than were non-ESOP workplaces (see Chart 5.7 above). However, in respect of autonomous work groups, quality circles and ad hoc joint committees there was no statistically significant differences between ESOP and non-ESOP workplaces.

Chart 5.8 looks at the level of employee involvement in workplace change processes. Whilst ESOP workplaces were more likely than non-ESOP workplaces to inform affected employees of forthcoming workplace change (46 per cent v 35 per cent) they were slightly less likely to involve employees in consultative processes about the proposed changes (27 per cent v 30 per cent). In addition, the percentage of ESOP workplaces that reported employees having significant input into the change process was notably less than

Chart 5.8



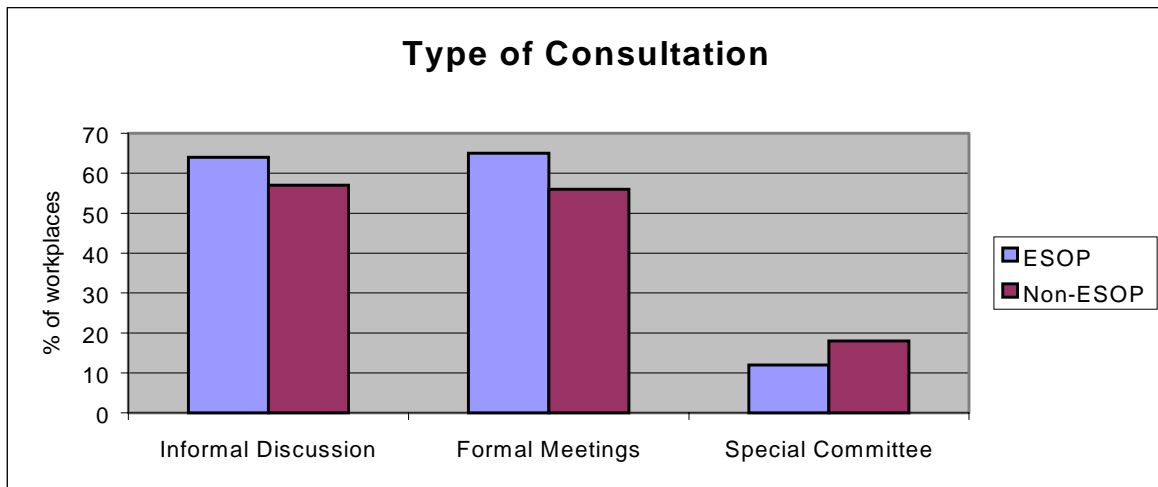
Source: AWIRS 95 main survey, general management questionnaire.

Population: Private sector workplaces with 20 or more employees where change had occurred in the last two years. Figures are weighted and based on responses from 1118 workplaces.

non-ESOP workplaces (13 per cent v 18 per cent). These findings have some support from the AWIRS 95 employee questionnaire where responses suggest that employees at ESOP workplaces were marginally less likely to have been consulted about workplace change (in the previous 12 months) compared to non-ESOP workplaces (52 per cent v 55 per cent respectively).

The manner in which employees affected by the change were consulted also varied between these two types of workplaces. As demonstrated below (Chart 5.9), ESOP workplaces were more likely to use informal discussions and formal meetings than non-ESOP workplaces (64 per cent v 57 per cent and 65 per cent v 57 per cent respectively) and less likely to have used special committees (12 per cent v 18 per cent).

Chart 5.9



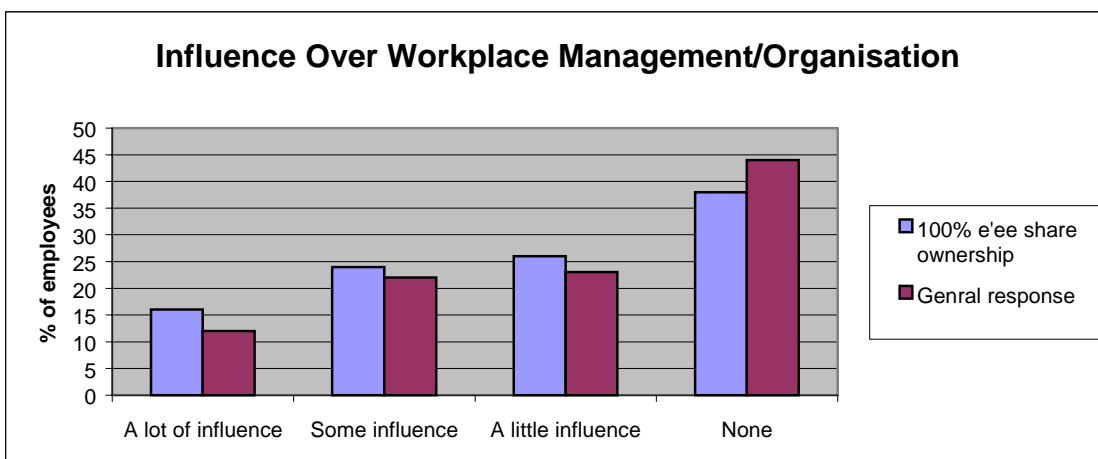
Source: AWIRS 95 main survey, general management questionnaire.

Population: Private sector workplaces with 20 or more employees where change had occurred in the last two years. Figures are weighted and based on responses from 1114 workplaces.

Note: At a more disaggregated level of analysis some statistically significant workplace size effects are evident. In particular, ESOP workplaces are **less** likely than workplaces without ESOPs to use formal meetings with employees when the workplace is small (20-49 employees).

Interestingly, AWIRS 95 employee responses to questions on the amount of influence they had over general workplace management/organisation, and the amount of influence over decisions affecting them, showed no significant differences between ESOP and non-ESOP workplaces. The only variation to this pattern emerged when ESOP workplaces with all employees participating in the scheme were compared to the general response rate. Employees in workplaces with 100 per cent take up rates were more likely to report higher levels of influence to both questions. These employees' perceptions of their influence are graphically demonstrated in Charts 5.10 and 5.11 below.

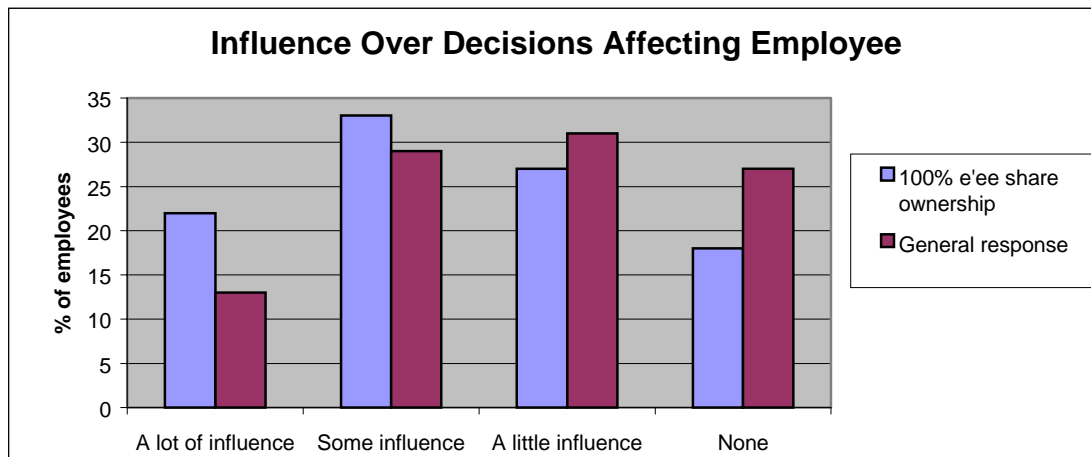
Chart 5.10



Source: AWIRS 95 employee survey questionnaire.

Population: Employees at private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 13988 employees.

Chart 5.11



Source: AWIRS 95 employee survey questionnaire.

Population: Employees at private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 13976 employees.

The appendix seeks to examine in more detail the hypothesis that the introduction of an ESOP produces superior results where company policies and strategies emphasis employee participation in decision-making at the workplace. It does this by using the AWIRS 95 data to create a typology of different types of organisations and performance outcomes for the different categories of workplace.

5.3 Conclusion

A strong theoretical argument can be made that ESOPs should lead to improvements in organisational performance through a number of mechanisms, in particular through increasing employee motivation and commitment to the organisation.

While often supportive of this theoretical conclusion, the empirical evidence on the impact of ESOPs is at times less clearcut. A range of studies have found that ESOPs can lead to improved productivity, profitability, growth and reduced absenteeism and labour turnover (to name but a few factors). On the other hand, some studies have come up with findings suggesting that ESOPs have little or no positive impact.

One approach which has provided more consistent results has been to consider the impact of ESOPs in a broader context of organisational change. For instance there seems to be strong evidence that more positive results ensue when ESOPs are linked to broader employee participation measures.

The AWIRS 95 data sheds light on the associations between the presence of ESOPs and various workplace characteristics related in one way or another to workplace productivity and performance. Based on the AWIRS 95 data, ESOP workplaces are associated with stronger perceptions of improved productivity, a greater propensity to measure productivity, lower levels of absenteeism, labour turnover and dismissals and higher levels of workplace change. All of these factors could be seen as related to improved organisational performance.

On the other hand ESOPs were associated with slightly higher levels of disputation and mixed results in terms of employee participation. These associations on their own do not provide

conclusive evidence for establishing absolute or exclusive causal links. For example, as was noted above, the figures relating to industrial disputes are heavily influenced by the fact that ESOP workplaces are more likely to be unionised workplaces with a delegate. The association between union presence and industrial disputation at ESOP workplaces is more thoroughly discussed in Appendix A at section A.4.

Often it is the case that there are a number of different possible causes for an observed outcome, and sometimes an outcome will be linked to a number of causes, often in a complex manner. Indeed, a review of the literature surrounding topic areas such as productivity, absenteeism, labour turnover, employee satisfaction, or industrial disputation would indicate that these outcomes are potentially a function of numerous and often competing organisational, workplace, employee and environmental factors or characteristics.

The analysis of the AWIRS 95 data does however provide strong prima facie evidence that ESOPs can lead to improvements in a range of factors related to improved workplace performance. This analysis is supported by the more detailed data provided in Appendix A.

A More Detailed Examination of the Links between ESOPs, Employee Participation and Workplace Performance: Using a Typology of Different Workplace Types

In order to further investigate the hypothesis that it is the linkage between ESOPs and employee participation that provides the strongest basis for improvements in workplace performance, a typology of workplaces was created using the AWIRS 95 data which categorised workplaces on the extent to which management adopted strategies that encourage employee participation and the existence, or otherwise, of an ESOP.

The categories created were titled 1) participative workplaces – with an ESOP; 2) participative workplaces – without an ESOP; 3) ESOP workplaces which did not qualify as participative; and 4) workplaces which had neither a participative management style nor an ESOP. The performance of these categories of workplaces was then compared and contrasted across a number of the organisational indicators discussed above⁵⁷. The analysis was limited to workplaces with 20 or more employees.

‘Participative management’ workplaces were classified as those at which the manager had indicated that

- (i) communication between employees and managers was facilitated by:
 - a daily ‘walk around’ by senior management, **or**
 - regular newsletters/staff bulletins, **or**
 - surveys of employee opinions, **or**
 - electronic mail, **or**
 - regular formal meetings between managers and/or supervisors and employees

AND
 - (ii) the workplace had in place:
 - self-supervising work groups, **or**
 - quality circles, **or**
 - joint consultative committees, **or**
 - task forces or ad hoc committees

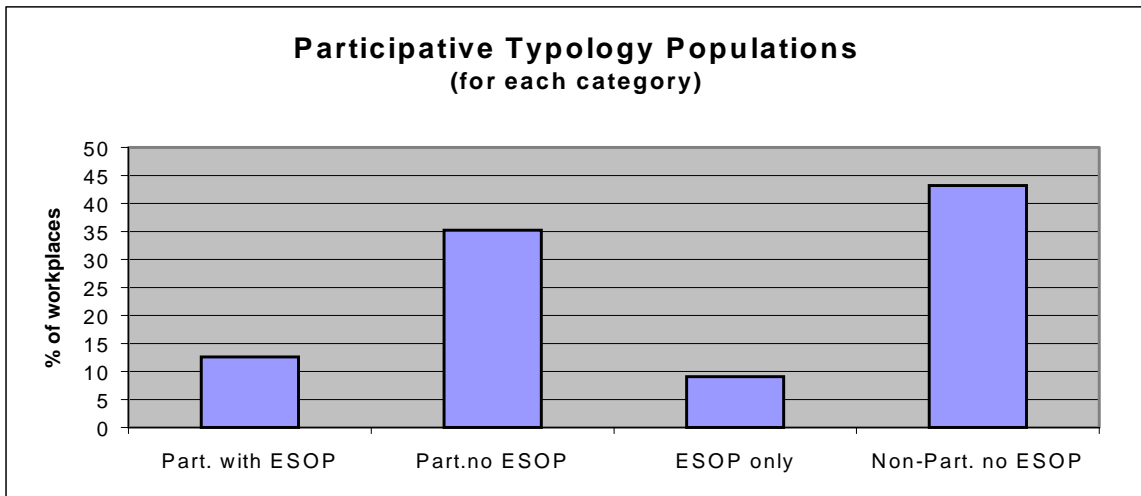
AND
 - (iii) the workplace had a plan establishing corporate goals and how to achieve them
- AND**
- (iv) the workplace devotes considerable resources to
 - the corporate culture and ethic, **or**
 - the management of human resources.

In sum, about 13 per cent of all private sector workplaces were classified as having a participative management style and an ESOP, 35 per cent as having a participative management style but no ESOP, 9 per cent as having an ESOP but not being participative, and 43 per cent having neither. This is graphically displayed in Chart 5.1 below. It is also interesting to note that

⁵⁷ In the analysis contained in this report we have checked, to the extent the data allows, that the reported relationships are not just the result of ‘background’ or uncontrolled industry, workplace size, or union effects. Where significant industry, size, or union effects are discovered, a footnote is provided. However, on occasion we are unable to determine whether a relationship holds for a particular industry or workplace size level due to the insufficient number of responses at that level of disaggregation.

about 58 per cent of the workplaces with ESOPs were classified as having participative management.

Chart A.1



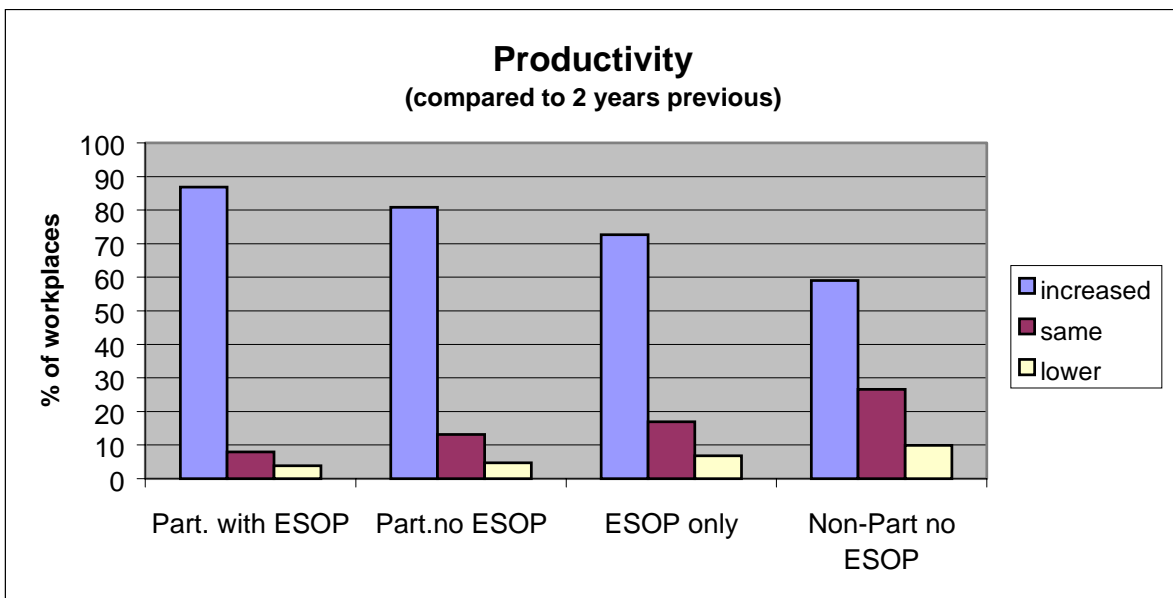
Source: AWIRS 95 main survey, general management and employment relations management questionnaires

Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 1369 workplaces.

A.1 Productivity

As demonstrated in Chart A.2 below, **at workplaces where productivity was measured**, participative, ESOP workplaces (87 per cent) were most likely to report an increase in productivity compared to two years previous. Interestingly, participative, non-ESOP workplaces

Chart A.2



Source: AWIRS 95 main survey, General Management and Employment Relations Management Questionnaires

Population: Private sector workplaces with 20 or more employees where productivity was measured. Figures are weighted and based on responses from 1024 workplaces.

outperformed ESOP only workplaces in respect of this indicator (81 per cent and 73 per cent respectively) with the 'other' category of workplaces having the poorest result (59 per cent). Not surprisingly this pattern of performance holds for workplaces reporting that productivity had remained the same or had fallen.

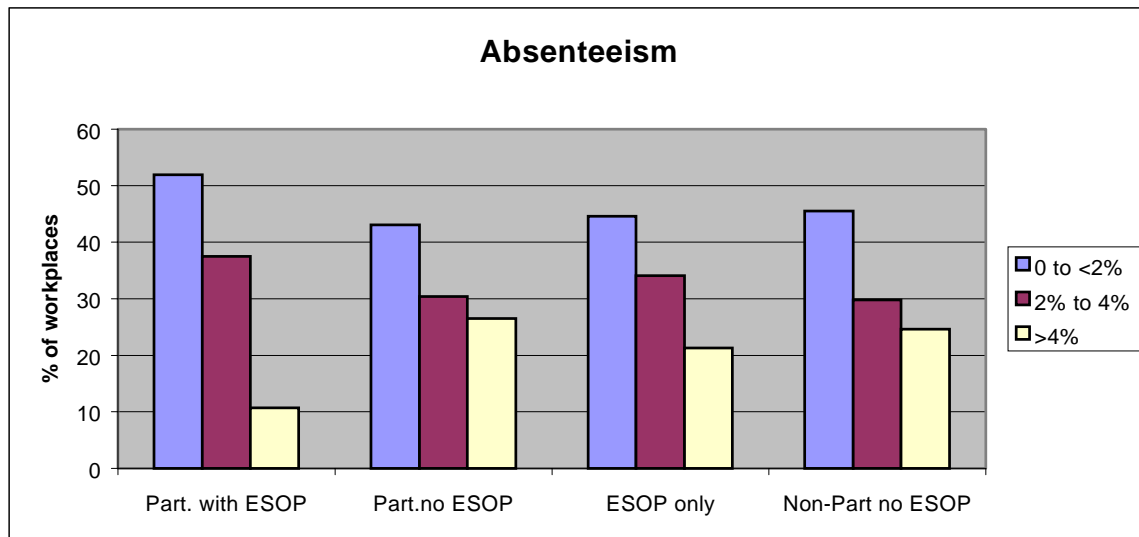
In respect of the productivity performance indicator, the AWIRS 95 data supports the hypothesis that structured employee participation in day-to-day decision-making assists an organisation to gain maximum benefit from the introduction of an ESOP. Indeed, the fact that participative non-ESOP workplaces outperformed ESOP only workplaces provides some evidence that introduction of employee participation arrangements may be a more important factor in improving productivity than introduction of an ESOP.

A.2 Absence

As shown in Chart A.3, participative workplaces with ESOPs were more likely to report low levels of absenteeism (52 per cent) and considerably less likely to have recorded high levels of absenteeism (11 per cent) than the other workplace categories in this typology. This lends further support to the hypothesis that the combination of ESOPs and employee participation provides the best workplace outcome⁵⁸.

Interestingly, in respect of this organisational indicator, ESOP only workplaces outperformed workplaces in the participative, non ESOP category, particularly in respect of high level absenteeism (21 per cent compared to 27 per cent respectively). Further, as non ESOP, non participative workplaces also reported better performance than participative, non-ESOP workplaces, improvement in absenteeism appears to be associated less with employee participation practices and more with the presence of the ESOP.

Chart A.3



Source: AWIRS 95 Main Survey, Workplace Characteristics Questionnaire and Employee Relations Management Questionnaire.

Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 953 workplaces.

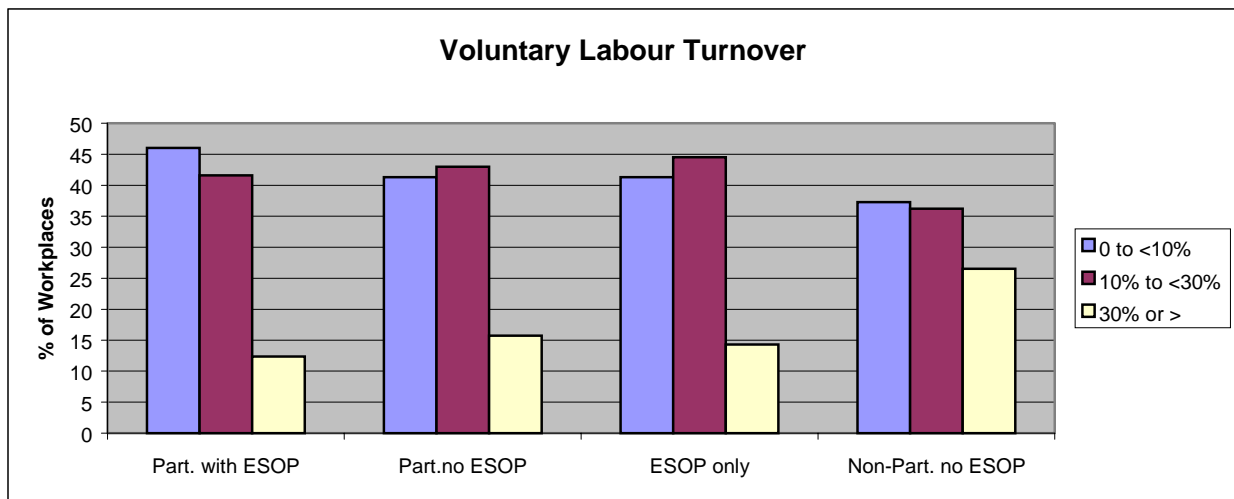
⁵⁸ It should be noted that workplace size effects are present in this relationship. In particular, at workplaces with more than 100 employees, ESOP only workplaces are marginally more likely than participative ESOP workplaces to have lower absence.

A.3 Voluntary Labour Turnover

The relationship between this performance indicator and the typology categories is examined in Chart A.4 below. The most substantial findings are that participative, ESOP workplaces are most likely to be associated with low levels of voluntary labour turnover (46 per cent) and that both ESOP categories were less likely to be associated with high levels of labour turnover compared to the remaining two typology categories (12 percent for participative, ESOP workplaces and 14 per cent for ESOP only workplaces compared to 16 per cent for participative, non-ESOP workplaces and 27 per cent for non-participative, non ESOP workplaces)⁵⁹.

The most favourable voluntary labour turnover outcomes are most likely to be found where both ESOPs and a participative management system are in place. As with absenteeism, and in contrast to productivity, the ESOP effect appears to be slightly more influential than the employee participation effect when the participation only and ESOP only workplaces are compared.

Chart A.4



Source: AWIRS 95 main survey Employee Relations Manager Questionnaire
 Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 1210 workplaces.

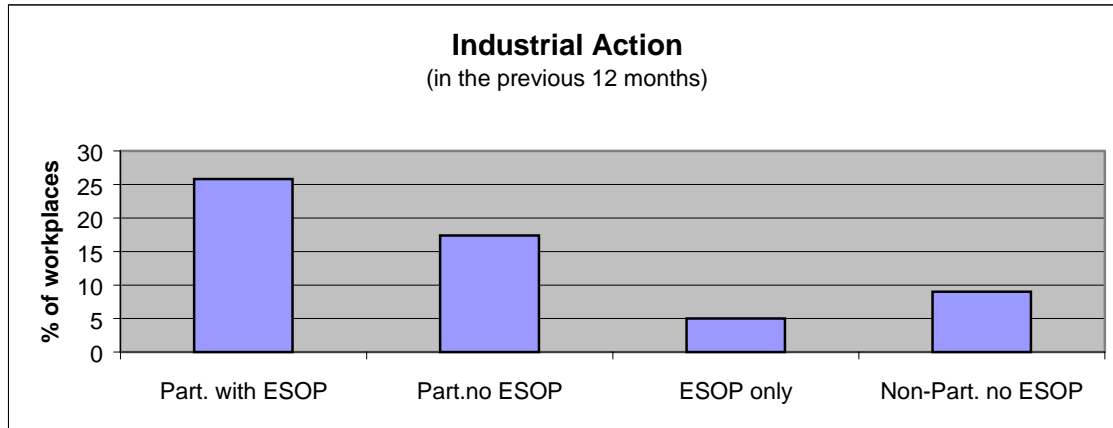
A.4 Industrial Action

As can be seen from Chart A.5 below, ESOP only workplaces reported by far the lowest levels of industrial action (5 per cent) compared to participative, ESOP workplaces which reported by far the highest level (26 per cent). Further, both participative, non-ESOP workplaces and non-participative, non-ESOP workplaces were considerably less likely to report industrial action (17 per cent and 9 per cent) than were participative (ESOP) workplaces. The finding that ESOP only workplaces had the lowest level of industrial action contrasts with the earlier finding (reported in Chart 5.5) that ESOP workplaces had higher levels of industrial action than non-ESOP workplaces.

⁵⁹ It should be noted that both industry and union effects are present in this relationship. In particular, in union workplaces, and workplaces in the retail industry, ESOP only workplaces are significantly more likely to have lower voluntary labour turnover than participative ESOP workplaces.

On the surface these findings would appear to cut across the argument that the combination of presence of an ESOP and employee participation provides the best workplace outcomes. Rather it points to the presence of an ESOP without employee participation as being associated with the lowest levels of industrial action.

Chart A.5



Source: AWIRS 95 Main Survey Employee Relations Management Questionnaire.
 Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 1300 workplaces.

In order to explain this unexpected relationship between industrial action and category types further analysis controlling for workplace size and union presence, both of which are known to influence the level of industrial activity, was conducted.⁶⁰

Workplace size, however, did not provide any insights except for the expected growth in industrial activity as workplace size increased (which is also associated with increased unionisation).

An examination of union presence partially explained industrial action incidence as participative ESOP workplaces were more likely to have both union and delegate presence⁶¹ than were ESOP only workplaces (61 per cent and 55 per cent respectively). However, this factor on its own does not explain the marked difference in the level of industrial action.

The next variable examined was the type of industrial action undertaken within each category in the typology. The expectation that those workplaces with better developed participative mechanisms would settle grievances without recourse to strike action was not supported by the data. Participative workplaces (both ESOP and non-ESOP) were less likely to use non-strike industrial action as an overall proportion of industrial activity (53 per cent compared to 58 per cent) but they were three times more likely to have experienced strike action than non-participative workplaces (9 per cent compared to 3 per cent).

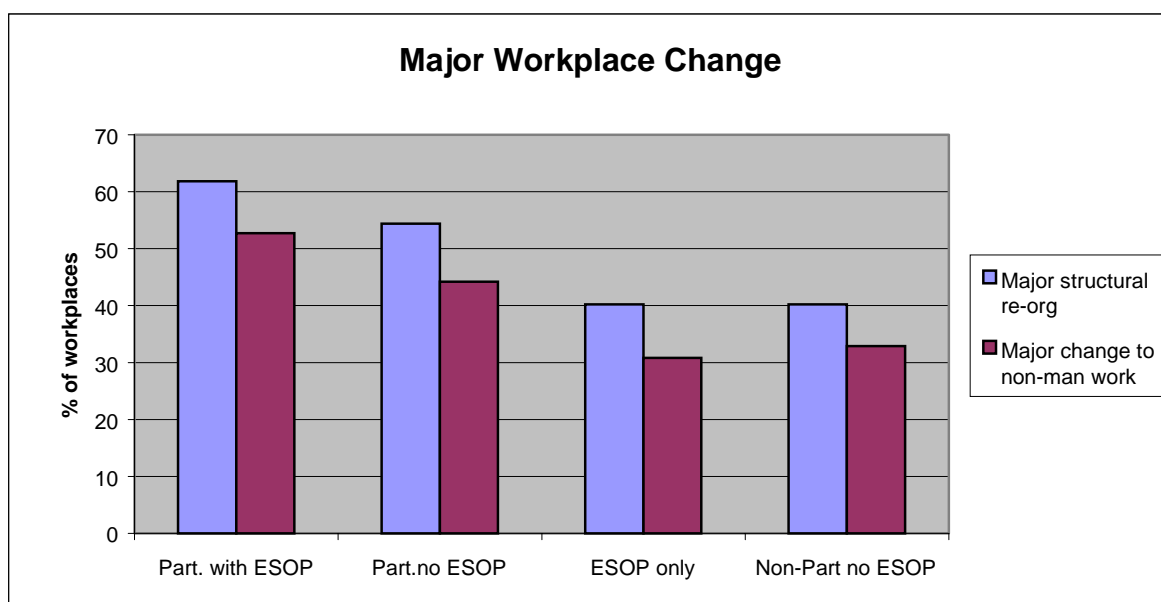
⁶⁰ The data were also analysed to see if any industry effects were influencing the results. While small cell sizes at the industry level of disaggregation precluded conclusive findings being made in this regard, no apparent industry effects were detected.

⁶¹ AWIRS 95 found that private sector workplaces with 20 or more employees which had both a union and a delegate were much more likely to have experienced industrial action in the previous 12 months than did union only and non-union workplaces (27 per cent, 7 per cent and 2 per cent respectively).

The final variables examined in respect of the industrial action profile were the extent and types of changes which were occurring at these workplaces. This line of inquiry was based on the presumption that workplaces which are actively engaged in negotiating workplace change are more likely to experience industrial action

In order to determine the extent of workplace change, AWIRS 95 asked managers if particular types of change had occurred at their workplaces over the previous two years. As is demonstrated in Chart A.6 below, two types of major workplace change (structural re-organisation and changes to non-managerial work) were most likely to have occurred in participative, ESOP workplaces (62 per cent and 53 per cent) compared to ESOP only workplaces (40 per cent and 31 per cent). Indeed, ESOP only workplaces were least likely of all the workplace types to have experienced major structural reorganisation or major change to non-managerial work.

Chart A.6



Source: AWIRS95 main survey, General Management and Employment Relations Management Questionnaires

Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 1369 workplaces.

Importantly, the pattern of major workplace change depicted in Chart A.6 mirrors that of the industrial action chart (Chart A.5) in respect of the relativities between the four categories of workplaces. The comparatively low incidence of workplace change among ESOP only workplaces appears to be a major factor in the lower incidence of industrial conflict in such workplaces.

Industrial action is a product of multiple variables operating within a variety of contexts. The above analysis showed that variables 'workplace size' and 'types of industrial action' did not significantly contribute to explaining the unexpectedly high levels of industrial action in participative ESOP workplaces.

However, the analysis uncovered two important associations. First, participative ESOP workplaces were more likely to have both union coverage and delegate(s), a characteristic associated with higher levels of industrial action. Second, these workplaces were considerably

more likely to have experienced major workplace changes (compared to ESOP only workplaces) in the previous two years along with the internal tensions created by the change process.

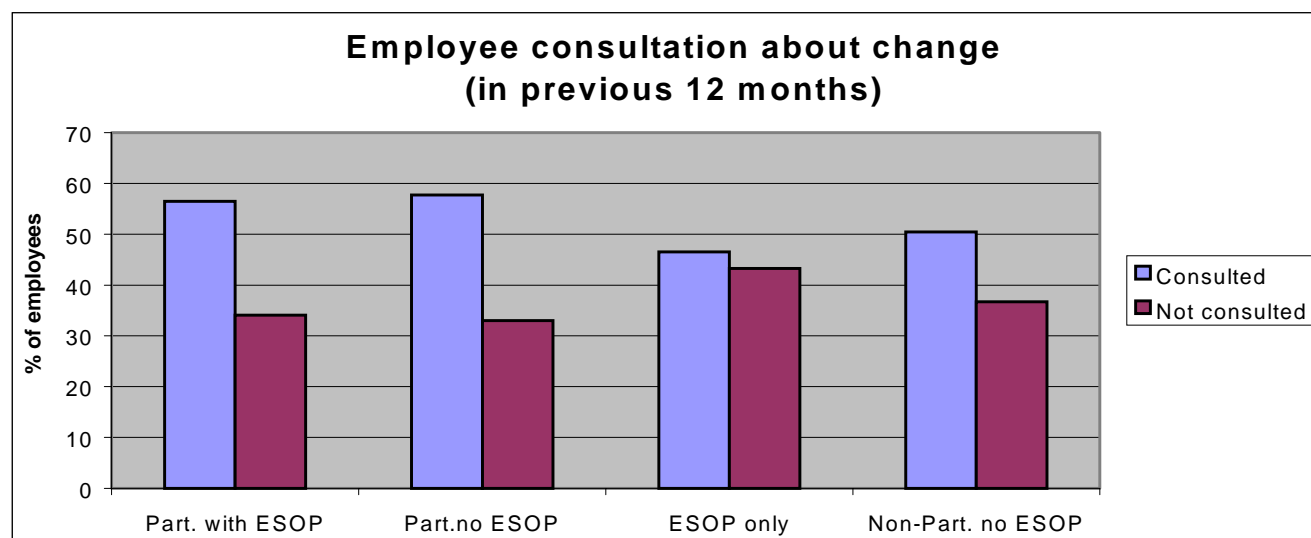
A.5 Employee Survey - Consultation about change

The employee survey component of AWIRS 95 allows us to consider the attitudes of employees at the four different types of workplaces, in relation to a number of outcome variables⁶². This enables an examination of the relationships between ESOPs and employee participation in terms of employee perceptions of outcomes affecting them. In general, the results are encouraging for the participative ESOP workplaces, especially in comparison with ESOP only workplaces.

However it needs to be borne in mind that some of the associations identified result to a greater or lesser degree from the typology used eg it could be expected that in workplace defined as participative that employees would be consulted more on workplace change and provided with greater opportunities to provide input to such processes.

It has already been established in Section A.4 that the participative ESOP workplaces were substantially more likely to experience major workplace change than ESOP only workplaces. As detailed in Chart A.7 employees at participative ESOP workplaces were more likely (56 per cent) than those at ESOP only workplaces (47 per cent) to be consulted about change that had occurred in the previous 12 months. Also, participative ESOP employers were less likely than those at ESOP only workplaces to not consult with employees about change (34 per cent compared to 43 per cent). However the differences were not as significant as might be expected.

Chart A.7



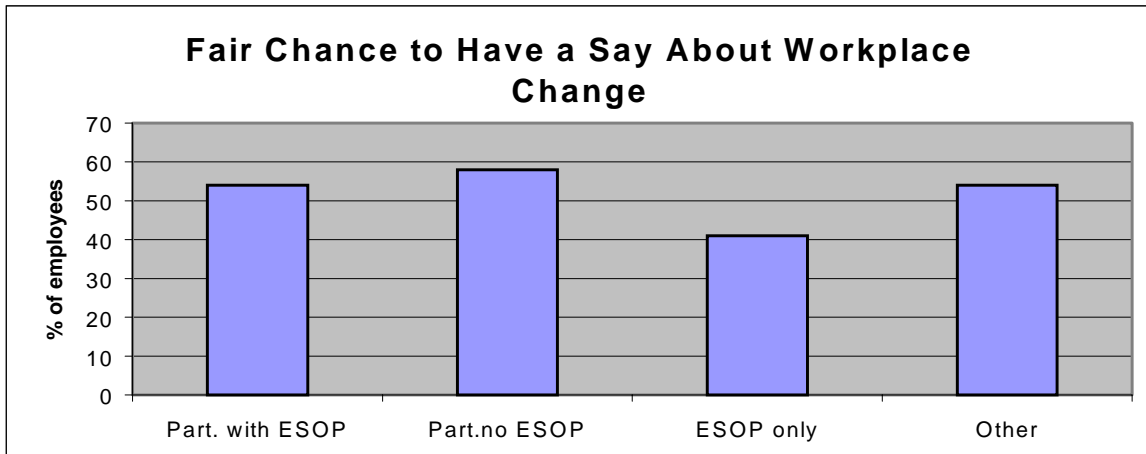
Source: AWIRS 95 main survey, Employee Relations Manager Questionnaire, and Employee Survey
 Population: Employees at private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 11,953 employees.

AWIRS95 asked employees a related question about whether they considered that they had been given a fair chance to have a say about the changes that occurred over the previous 12 months (see Chart A.8). Responses to this question were in a similar pattern to that seen in the earlier

⁶² For additional information on employee attitudes toward workplace participation see *Employee Attitudes to Workplace Reform*, A report prepared by Australasian Research Strategies Pty for the Labour Ministers Council (now the Workplace Relations Ministers Council), especially 'What makes a good workplace' on p.27.

consultation question – employees at participative ESOP workplaces that had experienced change were markedly more likely than their counterparts at ESOP only workplaces to think that they had been given a fair chance to have a say about any changes (54 per cent compared to 41 per cent - although the best performance was by participative non-ESOP workplaces with 58 per cent). Again, it was the ESOP only workplaces that stood out for a relatively poor performance.

Chart A.8

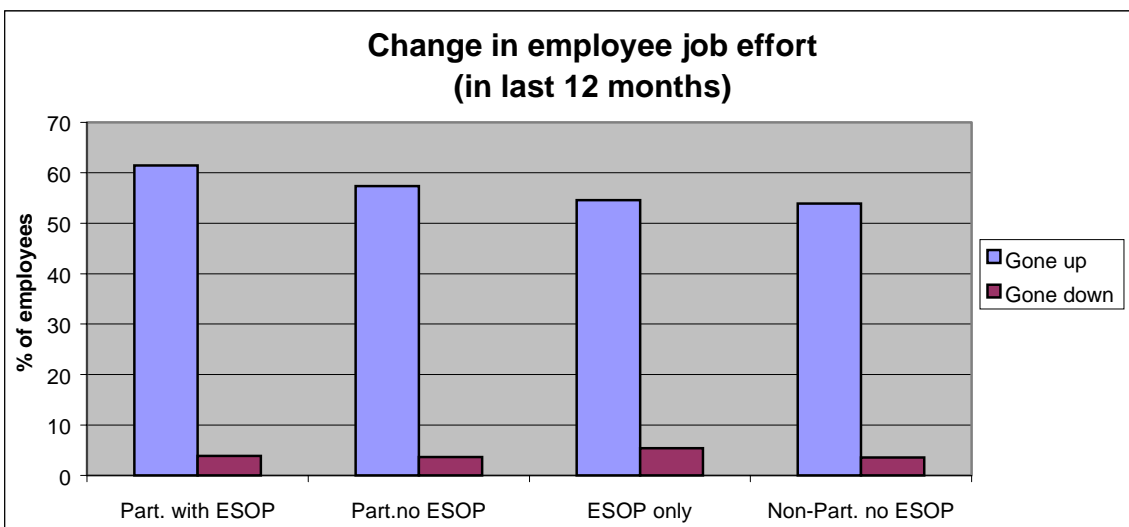


Source: AWIRS 95 main survey, Employee Relations Manager Questionnaire and Employee Survey
 Population: Employees at private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 10,957 employees.

A.6 Employee work effort

An interesting question, especially in the context of the relatively better productivity performance of the participative ESOP workplaces, is how employees perceived their work effort to have changed in the previous 12 months. Chart A.9 details the results for employees at the four different types of workplaces. Again, it is clear that small, but important differences are evident, with employees at the participative ESOP (61 per cent) and participative, non-ESOP workplaces (57 per cent) more likely to indicate that work effort had increased in the previous 12

Chart A.9



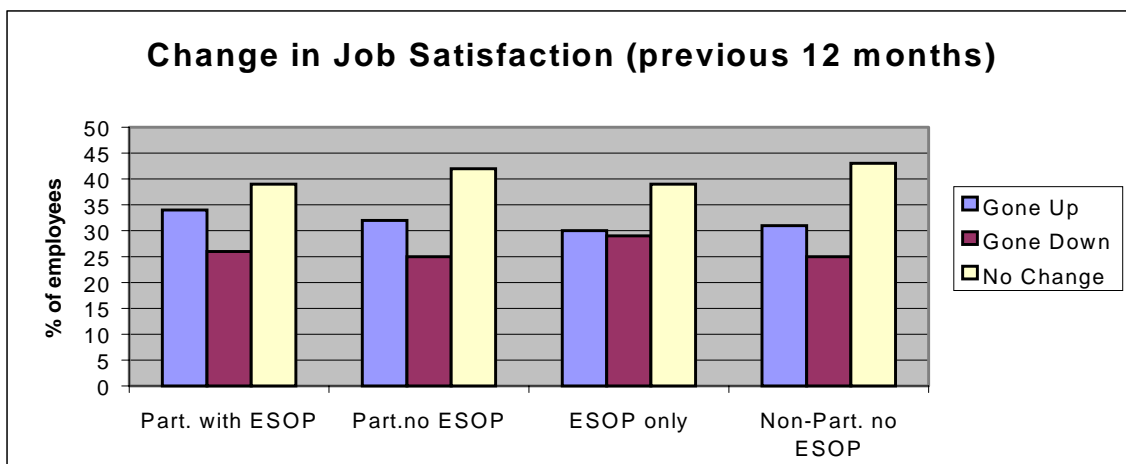
Source: AWIRS 95 main survey, Employee Relations Manager Questionnaire and Employee Survey
 Population: Employees at private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 11,783 employees.

months (compared with 55 per cent for ESOP only workplaces). Employees from participative ESOP workplaces were also slightly more likely than those from ESOP only workplaces to consider their job very stressful (35 per cent compared to 31 per cent).

A.7 Other employee attitudinal measures

There is also some weak evidence to suggest that employees at participative ESOP workplaces were more likely to have experienced, in the previous 12 months, a positive change in job satisfaction than their counterparts at ESOP workplaces (see Chart A.10). Some 34 per cent of employees at participative ESOP workplaces (as against 30 per cent of employees at ESOP workplaces) considered that their job satisfaction had increased, and about 26 per cent of them indicated that job satisfaction had declined (compared to 29 per cent of employees at ESOP workplaces).

Chart A.10



Source: AWIRS 95 main survey, Employee Relations Manager Questionnaire, and Employee Survey
 Population: Employees at private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 11,801 employees

A range of other outcome variables were investigated, testing employee attitudes to issues that included whether employees felt they were paid fairly, how secure they felt in their employment, whether they were satisfied with the work and family balance at the workplace, and if they felt better or worse off as a result of changes in the past 12 months. In all these cases very small differences were evident between employee attitudes at the four workplace types, indicating that the different management styles and the presence of ESOPs did not have a significant impact on these variables.

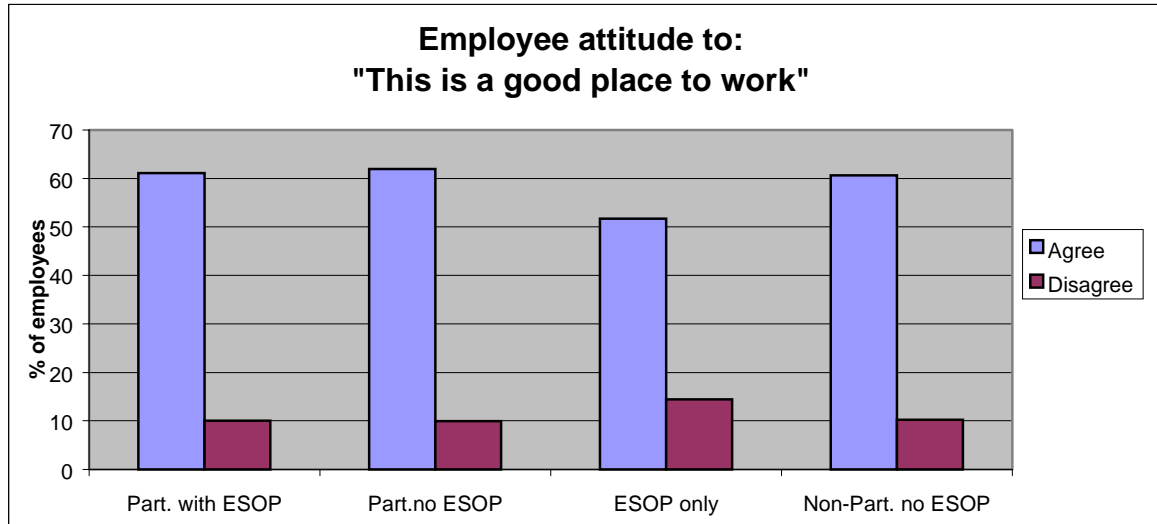
A.8 Attitude to workplace

One overall indicator of employee attitudes to the workplace is expressed by employees either agreeing or disagreeing with the statement “This is a good place to work”. The results are summarised in Chart A.11 below.

Again it is apparent that employees at ESOP only workplaces are less likely to be positive in their attitude to the workplace compared to the other three categories. Chart A.11 shows that employees at participative ESOP workplaces were more likely to agree (61 per cent v 52 per cent), and less likely to disagree (10 per cent v 14 per cent), with the statement than those at

ESOP only workplaces. The participative, non-ESOP and non-participative, non-ESOP workplaces had outcomes similar to participative (ESOP) workplaces in this regard.

Chart A.11



Source: AWIRS 95 main survey, Employee Relations Manager Questionnaire, and Employee Survey
 Population: Employees at private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 18,717 employees

A.10 Conclusion

Analysing the AWIRS 95 data on the basis of a typology of workplaces based on the presence/absence of ESOPs and employee participation measures provides support for the proposition (and empirical research) that the combination of the two measures is associated with the best outcomes in terms of a range of workplace performance criteria.

This holds true for managers perceptions of productivity improvement, absenteeism, labour turnover, level of workplace change and levels of job satisfaction. The one major problematical outcome is industrial action, in terms of which ESOP only workplaces recorded by far the lowest levels with participative ESOP workplaces recording the highest levels. However when these results are analysed in conjunction with the data on workplace change a more complex picture emerges which suggests that industrial action in participative workplaces reflects the much higher degree of workplace change experienced in these workplaces.

In an effort to make some assessment of the relative importance of the presence of an ESOP as against the presence of participative practices, the performance of ESOP only workplaces was compared with the performance of participative, non ESOP workplaces. This indicated mixed results with the latter performing better in terms of factors such as productivity, job satisfaction and the former performing better in terms of factors such as absenteeism and labour turnover.

As with the results identified in the body of the submission, caution needs to be exercised in attempting to draw causal connections between identified variable associations.

Table 1: Share ownership schemes at private sector workplaces, 1990

	Share scheme		Percentage of employees in share scheme							
	Yes %	Wp '00	0 %	<10 %	10–25 %	26–50 %	51–75 %	76–99 %	All %	Wp '00
All workplaces	16	216	9	18	26	23	12	10	2	24
Number of Employees										
29–49	14	108	13	18	30	14	14	7	4	11
50–99	14	60	(7)	(20)	(24)	(29)	(12)	(8)	(0)	(5)
100–199	21	29	(7)	(21)	(31)	(25)	(6)	(10)	(0)	(4)
200–499	29	14	(0)	(9)	(15)	(39)	(14)	(22)	(0)	(3)
500+	30	4	(0)	(35)	(13)	(33)	(3)	(16)	(0)	(1)
Sector										
Private	16	216	9	18	26	23	12	10	2	24
Public	–	–	–	–	–	–	–	–	–	–
Organisational status										
Part of larger organisation	22	157	9	19	25	23	12	10	2	24
Single workplace organisation	2	59	...	...	...	...	...	...	...	...
Industry										
Mining	(57)	(3)	(0)	(5)	(19)	(24)	(37)	(12)	(2)	(2)
Manufacturing	19	65	5	17	25	28	12	12	0	10
Electricity, gas & water	...	...	...	...	...	...	...	...	...	...
Construction	(13)	(8)	...	...	...	...	...	...	...	...
Wholesale trade	17	19	...	...	...	...	...	...	...	...
Retail trade	17	37	...	...	...	...	...	...	...	...
Accommodation, cafes & restaurants	1	21	...	...	...	...	...	...	...	...
Transport & storage	(12)	(6)	...	...	...	...	...	...	...	...
Communication services	...	...	...	...	...	...	...	...	...	...
Finance and insurance	51	10	(0)	(5)	(50)	(32)	(4)	(8)	(0)	(3)
Property and business services	20	17	...	...	...	...	...	...	...	...
Government admin.	–	–	–	–	–	–	–	–	–	–
Education	(0)	(7)	...	...	...	...	...	...	...	...
Health & community services	0	16	...	...	...	...	...	...	...	...
Cultural & recreational services	(19)	(4)	...	...	...	...	...	...	...	...
Personal & other services	...	...	...	...	...	...	...	...	...	...
Union and delegate presence										
No union	11	60	(6)	(27)	(30)	(5)	(26)	(5)	(1)	(4)
Union, no delegate	15	69	(15)	(18)	(22)	(19)	(8)	(14)	(5)	(8)
Union and delegate	21	86	6	16	28	31	10	9	0	12

Source: AWIRS 90 main survey, employee relations management questionnaire.

Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 1340 (share scheme) and 195 (% of employees in share scheme) workplaces.

Notes: ... denotes too few respondents (<20) for estimate to be sufficiently reliable to be reported
 () denotes relatively few respondents (20 to 50), estimates should be treated with caution
 – denotes not relevant / not applicable

Table 2: Share ownership schemes at private sector workplaces, 1995

	Share scheme		Percentage of employees in share scheme							
	Yes %	Wp '00	0 %	<10 %	10-25 %	26-50 %	51-75 %	76-99 %	All %	Wp '00
All workplaces	22	226	16	20	17	19	13	12	3	50
Number of Employees										
29-49	16	138	20	33	11	14	10	11	1	18
50-99	20	71	20	14	18	17	18	9	5	13
100-199	37	36	11	13	28	24	13	11	1	12
200-499	43	15	6	15	13	23	11	24	7	6
500+	26	5	...	...	...	...	...	...	...	...
Sector										
Private	22	266	16	20	17	19	13	12	3	50
Public	-	-	-	-	-	-	-	-	-	-
Organisational status										
Part of larger organisation	29	192	15	19	17	20	14	12	3	48
Single workplace organisation	3	74	...	...	...	...	...	...	...	...
Industry										
Mining	39	4	7	17	17	3	20	37	0	1
Manufacturing	22	64	16	16	21	16	14	15	2	12
Electricity, gas & water	...	...	...	...	...	...	...	...	...	...
Construction	6	8	...	...	...	...	...	...	...	...
Wholesale trade	28	21	...	...	...	...	...	...	...	...
Retail trade	38	49	10	13	14	31	20	12	0	16
Accommodation, cafes, & restaurants	10	31	...	...	...	...	...	...	...	...
Transport & storage	20	11	...	...	...	...	...	...	...	...
Communication services	...	...	...	...	...	...	...	...	...	...
Finance and insurance	40	12	(11)	(29)	(23)	(18)	(4)	(13)	(1)	(4)
Property and business services	26	24	(23)	(23)	(32)	(11)	(6)	(0)	(4)	(5)
Government admin.	-	-	-	-	-	-	-	-	-	-
Education	(0)	(11)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Health & community Services	0	18	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Cultural & recreational services	4	7	(67)	(33)	(0)	(0)	(0)	(0)	(0)	(0)
Personal & other services	(4)	(6)	(49)	(0)	(0)	(51)	(0)	(0)	(0)	(0)
Union and delegate presence										
No union	14	95	36	20	10	15	5	13	3	12
Union, no delegate	16	66	(6)	(22)	(26)	(21)	(18)	(3)	(4)	(9)
Union and delegate	32	104	11	20	18	20	15	14	2	30

Source: AWIRS 95 main survey, employee relations management questionnaire.

Population: Private sector workplaces with 20 or more employees. Figures are weighted and based on responses from 1369 (share scheme) and 297 (% of employees in share scheme) workplaces.

Notes: ... denotes too few respondents (<20) for estimate to be sufficiently reliable to be reported
 () denotes relatively few respondents (20 to 50), estimates should be treated with caution
 - denotes not relevant / not applicable