

Re: Committee's Enquiry into Employee Share Ownership

Sometime during your Committee's enquiry, somebody is likely to suggest that Share Ownership will be a 'good thing' because it increases productivity. This nonsense usually comes from remuneration consultants trying to sell ESOPs, who will quote various correlations between performance and share ownership.

The evidence doesn't support this assertion. There is a correlation between good organisational performance and share ownership but, as my old statistics lecturer used to say: "Never confuse correlation with causation". Good organisations are productive and perform well. Good organisations often have ESOPs. More often than not, the ESOP came after, not before, the good performance.

Some time ago I collected a number of articles into a book *How Shiny Is Your Goldfish?* and it has a chapter on the basic principles of pay. I have enclosed a copy of the book, and may I suggest that Chapter 10 be photocopied for members of your committee? Pages 42-43-44 discuss the concept of ideal pay, and could well be relevant to your committee's deliberations.

At the foot of Pg.44 of my book, reference is made to a Brookings Institution study. Despite the age of the Institution's book, it remains the best overview currently available. I strongly recommend it as a reference on this topic.

I wish you well with your most important enquiry. I hope my book is helpful. ESOPs, Share Ownership, Phantom Share Plans, Profit Sharing and so on are all important methods of creating a feeling of 'all in the same boat' and that is vitally important for any organisation in this age of diminished reciprocal loyalty between employer and employee. But let's make sure that, if we recommend that ESOPs should receive some form of governmental encouragement or a different taxing arrangement, it should be done for the right reasons.

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And then, if the committee recommends support for processes that encourage loyalty and belonging, there should be at least equal support for processes that encourage improvements in productivity. There are several organisations in Australia that have experimented with productivity gain, sharing to achieve this aim. Enterprise Agreements and Australian Workplace Agreements incorporating gain sharing as well as profit sharing or share plans require much more public encouragement than they currently receive.

I hope you find the above points helpful.

Cordially,

Dennis Pratt
30th July, 1998

[Chapter 10 not reproduced]