Work for the company and own it

Employee ownership focuses workers' minds on the success of the company, write Anthony Jensen and Paul Gollan.

It would seem the moment has at last arrived in Australia to embrace employee ownership. A tight labour market and the pressure on companies for wage and superannuation increases through enterprise bargaining is seen as a risk to company sustainability. The solution is employee share ownership says Joseph Blasi, who recently toured Australia to promote his book Shared Capitalism at Work, which reviewed the successful 40-year experiment with employee ownership in the United States.

Distributing equity and profits in the form of employee ownership solves several pressing problems facing corporate Australia.

First, Australia, like its slow adopter status on environmental legislation, is a laggard in western democracies as far as employee ownership is concerned. Employee equity as a remuneration and industrial strategy addresses the problem of superannuation and wage increases, with employee equity seen as medium-term savings, with the potential for equity growth and a flow of dividends. This keeps cash in the company for investment and growth and, most importantly, can solve Australia's chronic productivity problem.

Employee equity is the trade-off that unions, government and business must consider to solve structural and industrial relations problems. Union demands for a 4 per cent increase in wages and 2 per cent in superannuation cannot come only from productivity increases.

Companies cannot go on meeting wage demands without repercussions on margins, profitability and sustainability and still compete with China and India. Payments into an employee share scheme offer the benefits of keeping cash available for investment.

Employee ownership does what super and wage increases cannot. It focuses workers' minds on the company’s success. Evidence suggests that employee ownership has a positive effect on productivity when accompanied by greater employee participation with performance increases ranging from 7 per cent to 23 per cent.

From a tax perspective Australia has a valuable, complex and small range of concessions that, if used properly, can achieve the desired wage negotiation and cultural change so essential in collective bargaining.

Mirroring the cutting edge Share Incetive Plan in the UK or the Employee Stock Ownership Plan (ESOP) in the US, in Australia companies could use what they have available. Ideally, the company would introduce an ESOP trust, which would be used to manage the employee share portfolio. This requires a specific tax ruling from the Australian Taxation Office.

Then the company can allocate free shares up to a $1000 a year tax free to employees as long as all staff are considered. This begins the cultural change process. Employees can be encouraged to purchase tax-advantaged partnership shares from a salary sacrifice deal through to a ‘buy one, get one free’ scheme.

Australia has few formal channels for employee participation in the workplace compared with most Western democracies. Apart from trade unions, which cover only 20 per cent of workers, the industrial relations system is an indirect form of participation whereas employee ownership mechanisms are the starting point for information sharing, building trust and engaging employees in decisions that affect them.

Employee ownership dignifies and legitimises the considerable investment employees already have in the company through their own intellectual and social capital.

The Australian Employee Ownership Association is working with large and small companies to introduce employee ownership and cultural change through employee engagement and build high performance sustainable companies.

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Many companies have concerns about the 25 per cent threshold for a spill resolution on non-executive directors as this could be caused by a minority of shareholders. The issue could be exacerbated for companies with a large proportion of shares held by key management personnel not allowed to vote.

We believe the current advisory vote doesn’t need strengthening as most companies have taken action to address high votes against the remuneration report. But if the vote is strengthened, the threshold should be 50 per cent in line with other resolutions.

The proposed law introduces specific requirements for the engagement, use and disclosure of remuneration consultants. Although the bill provides a list of what does and does not constitute a “recommendation”, it does not contain an overarching principle on the treatment of items that are not listed. Based on our understanding of the government’s aims, that principle should be that remuneration recommendations are limited to those specified in the bill.

The disclosure requirements focus on external recommendations and do not provide significant transparency about how boards make their remuneration decisions. This could make boards feel obliged to seek external recommendations on key remuneration decisions. The bill can then disclose and be considered to have followed “good governance” practices.

The disclosure requirements should be changed to reference the nature of the internal and external inputs the board considered and how any potential conflicts of interest were managed. The disclosure of consulting fees won’t assist shareholders assessing conflicts of interest.

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