EMPLOYEE OWNERSHIP: THE WAY AHEAD

Conference Report: November 5- 6th 2001

EDINBURGH

Introduction: Aims and Objectives of the Conference

Funding was successfully sought from the European Union to organise a conference in Edinburgh based on a common theme of employee share ownership. The main objectives were to:

(i) To report and disseminate the experiences of companies and unions in different countries with experience of employee share ownership in order to demonstrate effectiveness or to allay doubts about the effects of share schemes and to build bridges among and between the social partners. These experiences would also help to inform common programmes of European industrial relations practice.

(ii) To disseminate information on effective practice throughout the European Union, and especially in those countries where legal support for financial participation is less highly developed.

(iii) To examine the usage of employee share ownership schemes in small and medium-sized enterprises

Basically the conference consisted of three major components:

an *information* and *dissemination* service, offering advice and briefings on new developments in employee share ownership and associated policies;

a *research* forum, which provided the means to report and reflect on diverse experiences of employee ownership as explored through academic frames of reference;

a formal and informal *debating, networking and discussion* forum for consideration of different perspectives on employee ownership.

Organisation of the Conference

The Conference, hosted by Employee Ownership Scotland (EOS) in partnership with the GMB union; the Scottish-based company, Tullis Russel,; EFES; ETUC and Job Ownership Ltd was held over two days in Edinburgh and organised with an approach which stressed:

- provision of information by an informed range of international speakers
- an opportunity to share experiences and develop networks
- active audience participation in debates and discussion

To ensure the successful application of this approach, first, a range of pan-European speakers with similar interests but representing diverse constituencies were invited to contribute. These interests embraced academic research, perspectives of company executives and trade union representatives, advisory body views, and contributions from government officials. Delegates from diverse European states were in attendance. Second, a panel of representative speakers was convened to review, discuss and share their different experiences with delegates. Finally, an informal and relaxed atmosphere, combined with an appropriate and attractive location, helped to ensure energetic dialogue and effective networking among speakers and delegates over the two days.

Opening Address

The delegates were first addressed by Mr Bob Adams, a representative of Scottish Enterprise (SE), which is the principal agency in Scotland charged with economic development. It is generally acknowledged that SE had not previously articulated a clear vision which associates employee equity sharing with entrepreneurial activity and organisational performance. However, with current UK Government priorities clearly orientated toward extending the establishment of share scheme arrangements to small and medium-sized enterprises (SMEs), there are signs of a shift in direction by the agency. This became the main theme of the opening address. This potential shift in role assumes significance in Scotland as SE policy aims for higher economic growth are expressed largely through support to SMEs in high growth knowledge-based clusters, targeting a “smart, successful Scotland”. Mr Adams pointed out that this strategy is dependent upon educationally qualified managers and staff, who are not only motivated toward their work, but also toward remaining with their companies. He considered that public agencies, such as SE, could best serve the economy through a process of information provision and advice about equity sharing with employees. In pursuit of this objective SE was establishing an *Employee Ownership Information Service* as part of its *Small Business Gateway*, a service established to promote good practice for all Scottish-based enterprises, whether young, established or mature. The *Service* is designed to offer advice to companies in any of these stages of development.

Following the address, Hugh Donnelly, Director of Employee Ownership Scotland, pointed, in his opening presentation, to the main developments which were emerging in policy and practice and which would recur throughout the conference. He pointed out that share ownership was entering a new and exciting phase, extending in one direction to smaller companies and in the other, becoming more closely aligned with other directions to employee participation such as partnerships. In particular, he raised the question as to whether employee participation would be more effective if employees had a genuine financial stake in their enterprises. This question pointed the way to the next speakers, both involved closely in a company with wide distributions of shares to employees. These speakers discussed their experiences with share schemes.

The Tullis Russell Group

Fred Bowden, Managing Director of the company and an ardent supporter of employee equity, discussed the role which share ownership plays in the company’s culture. The company is based in Scotland and has been independent for nearly 200 years. The company recognises and supports union membership. It now has plants located in England and South Korea as well as Scotland. Its paper products are distributed throughout the world, and global competition has grown considerably over recent years, putting greater emphasis on quality and reliability of product and of service. According to Mr Bowden, the company believes in share ownership for the following reasons:

- It helps to maintain succession not just survival
- Employees should be able to influence decisions that affect them
- Employees share in company success

- There is openness of information, especially financial information
- Involvement and participation help to improve productivity and handle difficult decisions

Of the 1000 employees, 98 per cent are shareholders. Nearly half of pre-tax profits were distributed to employee shareholders between 1994 and 2001. Equality as well as equity figures highly in the company's thinking. When a new improved share scheme was launched in 2000, it was agreed that there would be an equal distribution of shares to all employees, irrespective of status and a reduction in qualifying period to receive free shares. Mr Bowden then pointed to the productive and financial performance of the company, indicating that despite the tightly competitive climate, figures for trading, profit and cash were ahead of budget. Productivity in the company was higher than the UK average for the sector. The company operates a Share Council which elects trustees, meets regularly with the Board and with Directors. The Council also has an annual study seminar weekend. An important aspect of the company's approach to employee relations is also the high level of participation by unions in company affairs. Whilst Share Council and trade union responsibilities are deliberately kept separate, union representatives are often also share councillors. Indeed, it was stated that issues raised at Share Council meetings help to build a useful foundation for union negotiations.

Confirmation of the strength of the partnership approach at the company was provided by Keith Mathewson, union convenor (or Father of the Chapel) and share councillor. Mr Mathewson readily agreed that the union and the company did not always see eye to eye over all issues. However, the solidity of the share scheme and the trust engendered by it, ensured that dialogue was conducted on an open and informed basis, leading to agreements which were understood and accepted. Training over the share scheme was seen as imperative, not only for councillors, but also for all employees. Indeed, the final session of the day was utilised to provide an example of the TRG business training exercise, which all staff take part in to help them understand better how business functions and the contributions of staff to the organisation.

Despite the positive tone of the presentations, both speakers acknowledged that the realities of tightening product markets, global competition and increased insecurity impacts upon employee feelings. The reality of these effects has been demonstrated in the annual staff survey. In 1996, 31 per cent of respondents agreed that "employee shareholding has made my job more secure". By 2001, this figure had declined to 11 per cent. There had also been a small decline in the proportions of employees who believe that "employee shareholders have a real say in how the company is run" from 14 per cent in 1996 to ten per cent in 2001. This low figure was of concern to both the management and union representatives from the company, but neither could offer a definitive explanation for the low proportion of positive responses or for its decline over time.

Size, Succession and Sustainability

The latter part of the TRG presentation pointed to employee share ownership as a means of sustaining the company as an independent body. For the second substantive session of the day, three speakers examined the question of employee ownership and sustainability more closely by linking these with issues of growth and succession, the latter representing a concern for expanding entrepreneurial companies. The final paper extended the discussion to issues of corporate governance.

First, Ken McCracken, a partner in a solicitor's practice, examined the issue of succession in family-run businesses. He provided statistics which starkly illustrated the problem: in most advanced societies, the majority of businesses are small. Their high death-rate therefore presents considerable economic and individual problems. Mr McCracken offered explanations for their often early demise, focussing on the problems of succession. A particular issue relates to reconciling the perspectives (or interests) of owners, families and employees. Whilst these different perspectives are all valid, they do not necessarily coincide and Mr McCracken pointed out that new models which serve to balance the interests of family, owners and employees are needed to assist family businesses to develop and consolidate successfully beyond the first generation. Extending share ownership to the SME sector would be a positive way of doing this. For this to happen, the necessary legal and fiscal incentives need to be in place.

The second paper in this session examined the problem of succession through the experiences of employee-owned bus companies in the UK. Roger Spear, from the Co-operatives Research Unit located at the Open University examined the rise and fall of these companies following the privatisation of municipal bus services in the 1990s. Dr. Spear indicated that employee ownership is not a singularly identifiable process: indeed he identified three different models, *technical ESOPs*, established through strong tax-advantage considerations; *paternalistic ESOPs*, which tend to be management dominated, and *representative ESOPs*, which combine industrial democratic principles and practice alongside and embedded with financial participation. Neither technical nor paternalistic ESOPs offer democratic decision-making structures. On the basis of his bus company research, Dr Spear concluded that these different views lead to different forms of employee ownership based on "negotiated outcomes of key stakeholders in the formation process". He suggested that the initial forms of EO taken in the bus companies served primarily the mutual interests of trade unions and of managers but notwithstanding achievements within the enterprise, these democratically erected bodies were insufficient to withstand the forces of virile competition in a sector dominated by a small number of predatory enterprises. Problems for employee-owned companies were exacerbated by their low levels of capitalisation: the need to purchase new buses put pressure on the companies. The central issue though is that extreme competition exposes the problems of employee ownership. Despite the demise of many employee-owned bus companies, there were benefits, however: employee stakes were financially rewarded; trade union fears of employee ownership were allayed; and unions were involved in new forms of negotiation.

The final paper in the session was presented by Prof. Jonathan Michie and his colleague Dr. Christine Oughton from Birkbeck College, University of London. Their central research interest was to examine the effects of employee ownership and participation on corporate governance and performance. They also posed the question as to why firms are slow to endorse participative approaches which appear to enhance corporate outcomes. They explored the need to establish collective pressure activities which could serve to democratise AESOPs and create a collective voice through: establishing new more democratic model trust rules; building up informed shareholder activism; establishing high performance HRM practices and crucially, through these combined mechanisms, offer improved corporate governance. A multi-constituency *Employee Direct Working Group* with members drawn from industry, academe, unions and policy influencing bodies, has been established in order to explore the links between these factors and to examine and publicise potential effects on corporate governance.

Cause and Effect?

The second and final day of the conference presented the rhetorical question of whether good companies have share schemes or whether share schemes make companies better. These issues were presented through the research experiences of Willy Coupar, Director of the UK campaigning organisation, *The Involvement and Participation Association* (IPA) and comparative European studies reported by Prof. Erik Poutsma of the Nijmegen School of Management.

Mr Coupar focused on the role of partnership, which through its emphasis on recognising and satisfying stakeholder interests through shared commitment and mutual obligations links back to the earlier presentation on factors influencing corporate effectiveness by Michie and Oughton. A research study commissioned by the IPA identified a cluster of high-partnership companies whose partnership was strongly defined by high levels of employee share ownership (e.g. Xansa, John Lewis Partnership, Scott Bader). The Report found that 80 per cent of partnership companies discuss policy matters with employees and representative bodies. The business impact of partnership was strongest when employees had a greater say in decisions. Links between partnership, employee attitudes, behaviour, good employment relations and positive organisational performance were identified in the study. Nevertheless, the role of financial participation in this process was less evident as the study revealed that share schemes are not being used as part of a strategic human resource policy and their potential for enhancing motivation and productivity was not being tested. The study did identify examples of companies where share schemes were linked more explicitly to partnership. One company in the study stressed for example that employee "salary is paid for your day job, your shares pay for your responsibility as a stakeholder". Interestingly, also, dot com companies are using financial participation explicitly as a key element in their recruitment and retention strategies, especially as shared ownership has become an expected norm within the sector. Mr Coupar concluded with a number of important questions relating to the types of partnership which might emerge in the future and their potential links with financial participation. Perhaps the most crucial question, though, was how to make and demonstrate links between employee shareholding, involvement and performance.

Prof Poutsma utilised cross-country analyses to examine the fundamental causal direction question. He pointed out that the research design faces considerable problems. Measurements may only be taken at one point of time; the basic design may be questionable; and there is a lack of longitudinal data. He argued that cause and effect are both possible and that a more dynamic empirical approach which examines bundles of participative practices is needed. Nevertheless, his comparative studies demonstrate some important effects:

- ***broad-based*** share schemes demonstrate long-term value-added effects
- ESO companies have higher compensation levels
- ESO companies have higher sales and employment growth
- Broad-based schemes are linked to supportive legislation and tax concessions; larger companies; participative cultures; recognition of employee representatives and union presence; high qualified workforce and human capital strategies
- The importance of progressive employee relations practices was demonstrated in the European studies: common themes include: parallel participative structures, widespread communication and consultation on business matters; well-established internal market.
- In addition, scheme development is planned with employee representatives; schemes are evaluated and revised regularly; and training for financial participation is provided.

From these comparative studies Prof Poutsma concluded that there are a number of important policy implications. These include that:

- greater knowledge of processes of implementation and support of broad-based schemes is needed;
- the gaps between countries and different sectors need to be bridged;
- supportive legislation and tax framework is required;
- more involvement by social partners in design and development of broad-based plans;
- more sophisticated investigation of lower penetration into SME sectors is needed;
- need to embed financial participation with organisational human capital and participative strategies

The Trade Union Perspective

A persistent theme of the conference, indicated in both individual companies such as Tullis Russel and in major comparative studies, concerns the role of trade unions. For historical reasons UK unions have always been wary of schemes at the policy level but a more pragmatic approach has been evident within companies. In more recent years, with governments becoming ostensibly more sympathetic to unions and the rise of partnership agreements and arrangements, opposition has become more fragmented, with some UK unions now embracing employee share ownership. On mainland Europe, however, the same levels and intensity of policy distrust have not been manifested.

A roundtable debate on trade union perspectives, embracing a diversity of view, was held in order to explore the roots of this diversity and to examine ways in which potential obstacles to union endorsement of share schemes may be confronted.

The first contribution by union stalwart David Wheatcroft formed an appeal to unions to "wake up" to the opportunities presented to union members by employee share ownership. He cited two main reasons for this view: first, throughout the EU, some 30,000 business are lost through closure or rationalisation. Job losses associated with these changes could be mitigated if employees had first option to purchase the business. The unions would need to be involved to ensure that employees were fairly treated in such an exchange. His second point was based on equity – in both senses of the word. In market economies, a high proportion of wealth is concentrated in few hands:

employee share ownership allows for some redistribution of wealth. An associated point made by Mr Wheatcroft was more ownership means more power sharing. He made a plea though for more active trade union activity in influencing shared ownership policy at both macro (government) and company levels. Unions must also exercise influence in educating their members in the working of the share economy.

The second contribution in this session was provided by Roger Sjostrand, representing the ETUC. The presentation was based upon a recent working paper from the EC on *Financial Participation in the European Union*. Whilst ETUC welcomes the report it is concerned about a number of deficiencies. These may be summarised as:

- The lack of emphasis on collective agreement to secure the systems and benefits of financial participation.
- The paper focuses on a relationship between financial participation and productivity, whilst neglecting other potential objectives.
- The problems of establishing share schemes in SMEs is neglected
- Other forums for employee influence are neglected: indeed, share schemes are treated as a benefit rather than as a source of shared influence complementary to other means of employee participation.

The third presentation examined the experience of Irish trade unions through the eyes of Brian Gallagher, MSF official in Ireland. Mr Gallagher first outlined the recent history and culture of Irish employment relations which help to define the context for financial participation. This culture includes: state divestment arising from EU deregulation and a lower protectionist ideology; state encouragement of national partnership agreements embracing financial participation; and tax relief linked to share schemes in association with moderation in wage settlements.

A few years ago MSF conducted a consultation exercise with its Irish members in financial services, which identified frustrations about their lack of input into mergers and amalgamations. At the same time the first wave of national partnership agreements were secured and shortly afterwards MSF Ireland launched its guide to financial participation as a means to underpin enterprise partnership. This document identified three key elements: partnership defined by full and open participation; financial participation as an integral element; active union involvement in partnership. Ideally, partnership is founded on the concept of "mutual gain" in which financial benefit and equity among stakeholders links with employee commitment to the enterprise. Enterprise initiatives supported by a national partnership framework has led to a number of successful partnership approaches.

Mr Gallagher identified a successful example of partnership with a strong financial participation foundation: a nationalised bank entered into private ownership through a partnership arrangement with the union, which it had previously refused to recognise. Over a period of some months a mutual acclimatisation between the union and management was secured. Separate negotiations took place between the Government and MSF resulting in employees purchasing 14.9 per cent of the equity, sufficient to gain full employee support and to lubricate the banks' eventual sale.

The final contribution in the session on union perspectives was provided by Richard Leonard, a senior GMB union official. GMB have been at the forefront in negotiating partnership deals in Britain. He argued that the next logical step is for companies to embrace employee ownership, as distinct from offering share schemes which offer limited rights of control and indeed have made little impact on traditional approaches to corporate governance. He based this thinking on the increased devolution occurring in the UK, with subsequent economic development becoming increasingly regionally based. Also, he made the plea for greater humanisation of work, an ideal which can be attained through shared ownership. Companies benefit from a more committed workforce, and from better informed democratised decision-making. Mr Leonard pointed out that financial participation alone is not enough: employee inputs into planning and strategic processes are needed if productivIty is to grow. Reform of work–life balances must also be more prominently displayed on the union agenda.

There followed a vigorous – if unresolved - debate among delegates over the potential ways forward for trade unions and financial participation, based on recognition that whilst many interests between employers and unions are shared, there can be conflicts of interest. Whilst some delegates saw share schemes as a means of bridging these interest differences, others saw them as part of a management-inspired agenda to marginalise union influence over corporate decisions.

New Developments

The final informational session was given by Gerry Mann, Director of Employee Ownership Scotland, who offered a review of the new UK legislation affecting (and potentially extending) share schemes, with its emphasis on promoting share ownership in SMEs through the Enterprise Management Incentive Scheme (EMIs). Details were given of the new AESOP (or SIP), which offers both free and company matching shares to accompany partnership shares purchased by employees. A maximum £1500 partnership stake by an employee can be supported by a further £6000 in matching and free shares.

This presentation was followed by a short instructional session by Ken McCracken on the complexities of Trust Law.

Summary

A number of major issues emerged from this valuable conference and these were presented and developed by Prof. Jeff Hyman of Glasgow Caledonian University. The main issues can be summarised as follows.

(i) Problematic role of SMEs

In the UK context, the Chancellor is aiming to double the number of companies which offer forms of share ownership to employees. A problem is that there may be near-saturation among large organizations, and therefore SMEs have been suggested as a potential source of growth. But these have not previously been a fruitful source, either in the UK or in Europe. According to the latest WERS survey, Only 1% of SMEs have gone down the share ownership route – suggesting either that these represent a barrier to further growth, or more optimistically, as the Chancellor sees it, an opportunity. New legislation, offering EMIs in the form of share options to SMEs may open the door. Public policy certainly supports SMEs as a principal means of economic development and growth and there are signs that development agencies such as *Scottish Enterprise* are shifting toward a more positive role in promoting employee share ownership. Nevertheless, a strong view was expressed that more could be done in the policy arena to actively promote employee share ownership in SMEs.

Obviously, the Communication and Action Plan due from the Commission in 2002 could address these aissues.

(ii) Employee motivation and commitment

Despite years of research, the conference concluded that as yet, too little is known about the dynamics of employee commitment and motivation, one of the driving forces behind the adoption of share schemes for many companies. Research surveys have indicated that in the UK, satisfaction and motivation at work have been in continuous decline, despite the third of private sector employers with share schemes. Long hours and work intensification are growing rather than receding, suggesting that in many cases, employees have little or limited "voice" in company affairs. Yet companies are expecting growing levels of commitment from their employees, expressed in team-working and empowerment formulations, and notwithstanding the competition that many employees experience between their work and family and domestic commitments. The role of share ownership in helping to moderate these demands is not established. Evidence indicates that many employees regard their shares as a bonus, rather than as a stake in the company. It is only when share distributions become "meaningful" that any "ownership effect" has been positively identified in the literature. Nevertheless, recent studies of political voting patterns have detected considerable apathy among voters at both national and regional levels. Though the reasons for this apathy are not understood, they almost certainly extend to shareholder participation in corporate affairs.

Another issue which needs to be confronted at both policy and company levels is the changing nature of the work-force. The rise in atypical work contracts through part-time, temporary and agency staff (eg in dot coms) is well documented, but policy has not kept pace with these changes. Are share ownership plans only going to be available to "core" employees or are mechanisms available to make these accessible to more peripheral workers?

(iii) Role of unions

Unions have traditionally been suspicious of share schemes owing to the quadruple jeopardy factor (loss of job, loss of earnings, loss of savings; and for the union, potential loss of collective influence). There are signs of shifts with many unions, however. The conference heard from the Irish experience of how a combination of political support, partnership aspirations and collective determination can impact solidly on the dimensions of employee share ownership. This flexibility refuted strongly the accusation that unions are not sufficiently progressive in their approach to employment relationships. Other recent issues taken by unions Europe-wide also confirmed the progressive nature of the union movement (eg exerting pressure on employers and the polity to enhance work-life balance). Nevertheless, there are still questions as to how the interests of unions, shareholders and companies can be reconciled in the modern economy, and the conference heard a number of examples which indicated that partnership agreements which embrace share ownership represent a viable way forward.

(iv) Different interpretations of employee share ownership

The conference also considered whether there can be a single model of ESO in the modern economy, bearing in mind the different perspectives of senior managers, who typically initiate schemes; middle mangers who may be confounded by them for potentially undermining their authority; unions who may be suspicious of them; and employees who regard them as a bonus to be disposed of as and when appropriate. One indication is that there may be a need to develop more sophisticated models which range from full employee ownership through to minority shareholdings in companies. The conference also agreed that there is much to learn from the diverse experiences of different countries within the EU: for the UK, the lesson was simple, there can be no return to the isolationism of previous years, as the European perspective was both important and relevant.

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