

Employee Share Ownership and Contemporary Labour Issues

Presentation by Anna Booth of Co Solve to the AGM of the Australian Employee Ownership Association (AEOA) on 6th December, 2007.

I would just like to start by wishing the AEOA a very happy 21st birthday. I hope the AEOA can continue on to even bigger and better things in the next twenty one years!

I would like to commence by stating that I am not an expert in the field of employee ownership. Rather, with my background in trade unions and with my professional experience in workplace facilitation, I claim to know much more about industrial relations. However, I have always been drawn to employee ownership (EO) for the many good reasons that EO seems to provide workplace outcomes that I admire. But unlike yourselves, I haven't made EO an enduring focus of my professional life. Other priorities always. I have however observed the development of employee share ownership from a number of perspectives – especially more recently as a Director of Members Equity Bank which recently collaborated on a project on employee buyouts. With these perspectives in mind, I would like to share my thoughts with you on EO and contemporary labour issues.

I would like to do this by placing before you a number of discussion starters rather than a formal speech. Particularly, I would like to concentrate on the following questions: What are the contemporary forces that are favourable towards EO and what are the forces that are unfavourable? And in the light of these forces, what can be done by those who are keen to see EO grow?

There are a number of contemporary issues that suggest that we can be optimistic about the prospects of EO. These include:

1. The changing structure of the workforce – workers response to outsourcing and the downsizing of the 1990's - tells us something about what workers want. Workers are voting with their feet. They want to be liberated from 'command and control' systems. Many workers want to work for themselves, taking up self employment opportunities through contracting, or if they become detached from the workforce, they are buying a job for themselves through taking up franchises. In these ways, workers seem to be demanding more of the value that they are creating with their labour.
2. The demographic imperative of the great number of SME owners who are ageing and contemplating retirement suggests that business succession is one of the under-addressed issues of the age. These small business owners need to realise the value of their business for their own retirement. Employees as the buyers of these businesses are becoming the best option to realize this value, given the now crowded market for business sales.

3. Governments of all persuasions see increasing productivity as the best answer to global competition and an ageing workforce. With this need to grow productivity, EO is ideally placed as all the research literature is pointing to the link between EO and effort at work – though it must be ‘broad-based’ EO to deliver the productivity dividends. The theories of alignment and engagement at work show that extraordinary things happen when people are valued at work. EO advocates need to embrace engagement strategies more than remuneration strategies and become much more aware of the broader drivers of business success.
4. Corporate Social Responsibility – or CSR as it is known – is starting to dominate the agendas of large corporations, who now see this as much more than corporate window dressing. Democracy is now regarded as a public good, with participation and engagement of communities an important aspect of this. There is a new belief that involving people in decision-making is valuable in its own right. Wealth creation and distribution is being seen as an important social goal. The community and customer focus of CSR is enhanced by EO as it is known that EO companies do better as they are more connected to – and more representative of – the community. As communities want to keep the jobs and businesses that they know, this pushes corporations to mitigate the negative consequences of changes in corporate priorities and structural change. A more concerned view about economic decisions such as plant closures - combined with a view that employee buyouts (EBOs) are often very successful – is providing some business interest to ethical investment and private equity funds.
5. There are a lot of investment funds sloshing around in the financial system looking for a good home. Industry superannuation funds are also getting interested in alternative investment strategies such as EO.

The more pessimistic view of the prospects of EO however, includes the following:

1. There is an absence of advocates in powerful institutions. For example, trade unions are particularly ambivalent. Trade unions are a creature of the economic and legal context of their formation. They are dependent on the master-servant relationship and see themselves as providing the collective voice against the hegemony of capital. They don’t know what to do with contractors and small business, let alone larger scale employee owned businesses. To them, there is a clear role incongruity in EO. What would be their “mission” if there were mass employee share ownership? In the case of EBOs, they see this as ‘too risky’ - buying your job, putting your redundancy pay on the line, and the like. Trade unions perhaps should have more faith in their members?
2. Employees themselves see EO as quite risky. It is also being seen in some quarters as being part of the political process of transferring as much risk as possible to individuals – a process that has been occurring over the past two

decades. Liquidity is also important to most people as “one must not have all one’s eggs in one basket”. (Nevertheless - despite these concerns - the buying of franchises continues to be popular as people wanting more influence over decisions on their lives and livelihoods seems to be outweighing some of the risks).

3. New structures in the capital markets are not well understood – particularly structures unknown to financiers, such as EBOs. Financiers haven’t yet worked out how to make money out of these structures.
4. Compared to say ‘business coaching’ or ‘performance pay’, there is no media fascination across the board in EO as a newsworthy topic - and little interest apparently even in the ‘good news’ stories in this area.

What is there to do?

The first thing is persistence - keep on keeping on !

But what else needs to be done. I have personal knowledge of some of the things that haven’t worked so far, so if systems solutions are some time away that leaves the practical approach of finding targets for EO and going for it while solving the problems along the way. This creates the systemic changes out of need, though it requires champions and thought about how to meet stakeholder interests.

Some of the targets I see as useful are:

1. ALP State Governments may be open to more creative exercises, especially with privatisations that would be otherwise opposed by trade unions e.g NSW power assets
2. Succession situations, insolvencies; corporate reorganizations and failed franchise systems – several examples of which have been in the press of late – offer many opportunities.
3. With the public perception that corporate profits are too high, that executives are over paid, it is time to press the point that labour deserves a greater share of the value it is creating though cutting it into the capital side of the cake.

The following “events” and “briefing papers” also need to be added to the “to do” list:

1. A seminar for trade unionists on “ESO and Enterprise bargaining” could be run as a regular series by industry. This would involve developing information and education strategies for trade unions on how to get the best employee share ownership deals out of enterprise bargaining.

2. Presentations to key trade union officials, such as the ACTU “Industrial Officers Conference”. This could cover what role trade unions can play in EO, and what trade unions can do with contractors and small businesses.
3. Invite senior trade union and ACTU officials to speak at the proposed AEOA ESO Conference in July.
4. Invite Industry Superannuation Fund CEO’s similarly.
5. Write a ‘briefing paper’ on “The Potential of Broad-based EO” for wide circulation.
6. Write a ‘briefing paper’ on “The Role that EO can play in National Savings Policy”.

I hope you have found these discussion starters useful and I wish you every success for the future.

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