



Share the money

By Wendy Taylor

May 21, 2005

Dividing up surplus profits will win companies the long-term loyalty of employees, writes Wendy Taylor.

Employee share ownership plans have been around for more than 30 years in Australia, although few employees have ever been offered the chance to participate in one.

In 1999, only 5.4 per cent of employees participated in employee share schemes, according to Australian Bureau of Statistics figures. While low, it represented a significant jump from the 1986 figure of 1.4 per cent.

This is set to change. In February, the Government said it wanted to double the number of employee share ownership schemes to 11 per cent by 2009.

The term covers a range of plans allowing employees to share in the surplus profits of a business.

In the past year, the Employee Share Ownership Development Unit within the federal Department of Employment and Workplace Relations has developed information, including employer guides and video case studies, and this week launched a kit called "Employee Share Plans: Getting Started".

The kit aims to demystify employee share ownership plans, particularly for small to medium businesses, and includes two templates of possible plan structures.

Gary Fitton, director and project leader at Remuneration Strategies Group, the company that won the contract to design the templates, has been involved in employee share schemes for more than 20 years.

"We have had the wherewithal to have share plans, but people haven't been aware of how to structure them," Fitton says.

"There are taxation issues, corporation law issues and employees issues around who is deemed an employee and therefore eligible. Usually you find universal support for employee share schemes, but people look at the implementation and throw their hands up and say, 'This is all too hard.'"

Because employee share ownership plans have proven such a costly and complex way of motivating and rewarding staff, few businesses have gone down this path until recently.

Fitton welcomes this surge of interest, but he is also quick to warn the plans' success depends upon two critical factors.

First is a high employee participation rate. In many of the early plans, employees were offered interest-free loans to buy company shares, which, he says, often served as a hurdle to participation. "As a general rule, no matter what level you are looking at, employees don't have the ready cash to buy shares, they don't have the capital resources to buy shares and they can't afford to pay tax on the shares when they acquire them. So you have to make it easy for them," he says.

The second point he stresses is that, while enabling staff to share in the profits of an organisation usually results in positive cultural change, companies must develop the plans in conjunction with other strategies.

"You have to integrate it into how you pay people, how you treat people and how you involve people in the organisation. It is just one mechanism for changing the old master-servant relationship approach," he says.

As part of the Department of Employment and Workplace Relations template project, Remuneration Strategies Group recently worked with DMC Outsourcing, a supply-chain management business that co-ordinates printing and direct-marketing operations for small to medium businesses, to develop an employee share ownership plan. Mike Sewell, an owner and managing director, says the owners had talked about introducing such a scheme for the past four or five years.

"It probably takes up to 12 months to get someone fully skilled [in the business]. So what we were looking at was ways that we could align the interests of the people we train and develop, so that they have a long-term

interest in what we are doing as a business.

"As a manager, you want to give something more than just a wage to people who are performing for you, and you also want people to have more than an interest in the business," he says.

The company was independently valued, the shares were free to qualifying staff (those with more than 12 months' service with the company) and certificates have been issued.

Sewell sees the plan as a team-based reward system that complements rather than replaces other initiatives.

"In our business we have procedures and systems in place to minimise re-work and errors, but people drive the success and this comes from them caring about what they do," he says.

For more information, visit Australian Employee Ownership Association's website at aeoa.org.au or the Employee Share Ownership Development Unit's website, workplace.gov.au/eso or phone 1800 181 088.

[Home](#) > [Employment](#) > Article

Copyright © 2005. The Sydney Morning Herald.