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## Employee ownership and The Royal Mail

The Royal Mail was seeking to play down this week reports that its chairman, Allan Leighton, has been seeking to place a majority stake of the state-owned business in a trust held on behalf of employees.

It stressed that any decision about future ownership was a matter for the Government. But there is no doubt that Mr Leighton is anxious to build on a spectacular turn-around of the business that has allowed the return of more than £200m of profits to employees through an incentive scheme installed at the beginning of his tenure three years ago.

Trust-based employee share ownership should be a serious consideration. Even if it does not reflect the kind of state ownership pursued by Labour governments in the past, the employee trust comes as close as any state-run system to the original clause four of the Labour Party constitution. This was the clause that pledged to secure for workers the fruits of their industry on the basis of common ownership of the means of the production.

There is no reason why Labour should persist with the tradition that common ownership means state ownership. A fairer system is one that places ownership in the hands of those who work for a business. Placing shares in trust is the best way of ensuring continuity, preventing the kind of short-termist investment strategies that have undermined the management of so many businesses in the private sector.

It is not as if the Royal Mail needs to needs to invent some novel ownership system. A blueprint was established in the 1920s when John Spedan Lewis drew up a trust-based constitution for the family company established by his father. Lewis and his brother sold their shares in the company to the trust that continues to hold the shares on behalf of employees.

The secret of its success is that the shares are ring-fenced from employees and management. Ownership is vested in employees, called partners, through their work. When they leave the company that relationship ceases. But, as employees, they are able to share in profits and in many other benefits that have been acquired over the years. These benefits include all kinds of perks, such as cut-price theatre tickets, membership of sailing and fishing clubs and access to holiday cottages.

A concentration on the well-being and happiness of employees linked to what the constitution termed "gainful" work was revolutionary at the time and attracted few imitators. Yet today the success of the John Lewis Partnership that includes Waitrose, the supermarket chain, is a testament to the long-term benefits of this kind of organisation.

Employee share ownership remains comparatively rare in the UK, led by John Lewis and a few other well-known examples such as Scott Bader, a manufacturer of polymers and Tullis Russell, a Scottish paper company. In the US, however, about 11,000 employee share ownership plans (ESOPs) now cover an estimated 8.8m employees amounting to some 6 per cent of the private sector workforce. Of these, between two and three million people are working in companies that are wholly or majority owned by employees.

Beyond these companies, thousands more offer pension plans that are substantially invested in the companies' shares (an arrangement that is forbidden in UK pensions law to protect the use of funds from concentrated speculative investment and the kind of plundering carried out by Robert Maxwell when head of Mirror Newspapers). Millions more US employees have benefited from share option plans, share handouts and discounted share purchase plans.

This means, say Corey Rosen, John Case and Martin Staubus, co-authors of a new book, *Equity, Why Employee Ownership is Good for Business*, that about 23m Americans now own shares in their employer.

What the book makes clear, however, is that employee ownership alone is not sufficient to guarantee a successful enterprise. This became apparent in the United Airlines ESOP, formed in 1995, giving employees a 55 per cent stake in the company. Seven years later the experiment had failed when the business filed for bankruptcy protection.

The regime started well with a big drop in grievances and sickness absences, a 10 per cent rise in revenue per employee and a \$4bn increase in shareholder value during its first year. Team-working was strong. Mechanics, for example, were allowed to inspect and sign-off on their own repair work.

A year later, however, teams had been disbanded and the spirit of employee co-operation had dissolved. Pilots seeking a new wage deal had embarked on a go-slow, deliberately flying low to burn more fuel and disrupting schedules by refusing to work over-time. Passenger traffic declined dramatically. It seemed extraordinary, but the pilots were prepared to sabotage a business in which they had a 25 per cent stake.

There were other reasons for the decline. The end of the dotcom boom had led to a drastic reduction in traffic to and from California and the catastrophe of September 11, 2001, when the company lost two of its planes, led to a steep fall in passenger demand across the industry.

But prior to these blows - the kind of events that represent commercial reality for all businesses - the heavily unionised United employees had grown disillusioned with the responsibilities that go along with employee ownership. The unions had pushed for wage rises that gave the airline one of the costliest wage bills in the industry.

The business, ultimately, proved unsustainable. The reason for this, say the authors, is that the old-style adversarial management-employee relationship was too entrenched to allow lasting change. The most idealistic union leaders who had championed employee ownership retired or were voted out and a rump of "old-guard" managers who had resisted the ESOP in the first place began to gain strength. The structure of the ESOP that did not award shares to new employees, was also divisive.

Unfortunately, United's failure has given the system a bad name when thousands of other employee-owned businesses continue to thrive. The authors of *Equity* stress that employee ownership alone is insufficient to transform the fortunes of a business. It works best, they say, when combined with participatory or open-book management that invests a strong employee-understanding of the way their work relates to the aims of the business. They cite a Harvard study in the 1980s that found high-employee involvement companies, growing between eight and 11 per cent faster than would otherwise be expected under traditional management.

This kind of management, say the authors, has been installed successfully at SouthWest Airlines where employees not only benefit from extensive stock-ownership programmes and generous profit-sharing, but where front-line employees are furnished with detailed performance information about the company that they need to digest in order to do their jobs more effectively.

This kind of root and branch ownership/performance relationship is something that requires a continual visible and intellectual commitment at all levels. Most importantly, management must listen to employees. This is why John Lewis needs to heed any complaints by employees against the “loss of office” payments totalling more than £1m awarded to Luke Mayhew, the former managing director of its department store division. If the board establishes that the payments were merited it should have nothing to fear. Justification is everything for the success of employee involvement. Where management strives to be transparent, employees are always watching.

*\* Equity, Why Employee Ownership is Good For Business, by Corey Rosen, John Case and Martin Staubus, is published by Harvard Business School Press, price \$27.50.*

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