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## Employee share ownership

Delegates who gathered at the annual convention of the Institute of Directors at the Albert Hall in London last week were asked to address what for some may have been an uncomfortable observation.

Stuart Hampson, chairman of the John Lewis Partnership, said: "It cannot be right that in most businesses, incentives and rewards are focused on senior management and high flyers who, through bonuses and share options, reap a disproportionate share of the company's success."

Hampson suggested that undue emphasis was placed on the salaries of those at the top. "Does the smooth talking of the chief executive or the finance director really move the share price forward or is it the fundamentals of the whole workforce's competence and commitment?" he asked.

These were searching questions for the audience. Hampson had no doubt about the answer. "If it's worth a company's while to produce a generous package to make a chief executive feel valued and motivated, it must be worth the company's while to do the same at other levels of the business," he said.

Those who are not convinced by Hampson's argument might take a look at the new UK employee ownership index published this week by Capital Strategies, a corporate finance company which specialises in employee share ownership plans (Esops). It measures the relative share price performance of UK quoted companies which have more than 10 per cent of their issued share capital held by or for employees other than directors.

Shares of the 30 companies in the index have outperformed the FTSE All-Share index by 89 per cent since its inception in January 1992.

Various caveats are attached to the index. There is a strong weighting towards transport and support services, two sectors which have tended to outperform the market.

But the same cannot be said of 350 companies listed in a similar index run by American Capital Strategies, an affiliate of the UK company, which monitors a much broader range of quoted companies. It found an investment in a basket of securities in public companies with more than 10 per cent broad employee ownership between 1992 and 1995 would have seen a return of just over 80 per cent compared with just under 49 per cent across the Dow Jones Index.

The Esops movement in the US grew rapidly after a statutory framework was laid down in 1974, supported by various tax benefits. According to the National Centre for Employee Ownership, the US now has almost 10,000 plans covering some 11m employees and controlling about \$ 150bn (?92.5bn) of corporate stock. Another \$ 100bn is held by other forms of employee ownership. The centre says that employees now control about 6 per cent of US corporate equity.

Some 1,500 US companies have a majority ownership of employees. Among the largest of these are Publix Supermarkets, United Airlines, Science Applications and

Avis, the car rental company.

Jeffrey Pfeffer, professor of organisational behaviour at Stanford business school in the US, says in his 1994 book, *Competitive Advantage Through People*, that employee ownership has two important advantages. There is less conflict between capital and labour, and it encourages employees to take a long-term view of the business and its investment policies.

The US has witnessed far greater involvement of trade unions in employee share transactions, not something which has been hitherto encouraged in the UK. But this may be about to change. Earlier this year, the Trades Union Congress significantly shifted its posture towards encouraging employee shareholdings and at least one union has had discussions about employees taking shares in a UK business.

One problem for the TUC, as yet unresolved, is its ideological opposition to privatisation. Nigel Mason, managing director of Capital Strategies, says that had it not been for trade union reticence, employees could have had a far greater share of the British Rail sell-off.

Many of the companies with large employee shareholdings offer employees a role in decision-making. Companies such as FI Group, the UK outsourcing and information and technology services company, have demonstrated that employee involvement fosters greater understanding and mutual respect between employees and management.

"We find that the motivation of our staff is very high," says David Best, finance director. Between 75 and 100 of the company's 900 employees, he says, have personal shareholdings in the business each worth more than ?50,000.

Not all businesses with large employee shareholdings have been able to maintain employee involvement to the degree that they may have once envisaged. National Freight Corporation, which bought itself out from the state sector using employee shareholdings, has seen its employee holdings diluted by rights issues in the past few years. Employees now own less than 10 per cent of the company.

But employee ownership is coming of age in the US. It only seems a matter of time before the movement begins to take a greater hold in the UK.

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