ifs ProShare evidence submission to the Postal Services Bill Committee

November 2010

ifs ProShare

ifs *ProShare* is a member led, not-for-profit organisation that seeks to promote the benefits of employee share ownership in the UK.

Established by the Treasury, London Stock Exchange and a number of FTSE 100 companies in 1992, ***ifs*** *ProShare* has approximately 100 members. These include a wide range of Small and Medium Enterprises as well as larger companies such as Asda, BP, BT HSBC and Marks & Spencer as well as share plan administrators and advisers including Equiniti, Killik Employee Services, Linklaters and PWC.

Introduction

A wealth of UK and international evidence suggests employee share ownership can lead to higher productivity and financial performance, greater innovation, lower staff turnover and improved employee advocacy; all of which benefits the employer and wider economy.

Over the past thirty years all-employee share plans have also proved to be a very useful, simple and tax efficient savings and share acquisition mechanism for employees on a wide range of incomes thus encouraging medium and long term saving and benefitting millions of individual workers.

Given the above, ***ifs*** *ProShare* would very much like to see HMRC approved all-employee share plans – both SIP and SAYE - made available to all Royal Mail employees when the company is privatised.

This would help to ensure employees interests are more closely aligned with their employer. Both Royal Mail and their employees will benefit from a tried and tested concept that has proved tremendously successful over the last 30 years. Doing so would also avoid the need for policymakers to reinvent the wheel by devising a new employee share plan just for Royal Mail.

Examples of the positive impact delivered by employee share ownership

2000: Research from Douglas Kruse and Joseph Blasi of Rutgers University, USA found that employee share plans increase sales per employee by about 2.4% per year. Their study compared 1,100 companies with an employee share plan against 1,100 comparable non-share plan companies and analysed their performance for more than a decade.

2004: The UK Employee Ownership Index (EOI) measured the relative share price performance of UK quoted companies with significant levels of employee share ownership. It demonstrates that an investment of £100 in the EOI in 1992 would at the end of June 2003 have been worth £349; the same amount invested in the FTSE All-Share would have been worth £161 suggesting that over time the underlying performance of firms with share plans in place is superior to firms with no such arrangements.

2006: Research by Consensus, London showed that employee share plans can form an important gateway to long-term savings. Consumer Share schemes play a role in helping households and individuals to transition from cash-based short-term savings vehicles favoured during younger savers (below age 30) towards equity-based long-term savings in later life.

2007: A FTSE 100 company operating HMRC approved all-employee share plans undertook an internal survey which revealed 78% of their employees felt that owning shares made them more interested in their company and its performance and that 68% of share plan participants intended to keep some or all of their shares from their employers' share plans once their share plan matures.

August 2008: *"Firms with shared capitalist pay, particularly with share ownership schemes, have higher labour productivity than firms without such forms of pay."* Bryson & Freeman, "How does shared capitalism affect economic performance in the UK?" National Bureau of Economic Research, USA.

September 2008: According to HMRC research a majority of UK employers reported a positive effect on employee's productivity.

2009: A Computershare/London School of Economics study demonstrated a strong link to increased productivity and highlighted other positives such as staff retention rates being improved and staff absence being lower for those in an employee share plan compared to those not participating (the difference also increased with the amount being saved i.e. those saving the maximum monthly amount were least likely to be absent from work).

What model of ownership should be adopted?

Employee share ownership is where employees own shares in the company they work for. This can range from a small company with four or five employees to the likes of BT, BP, National Grid and Rolls Royce who have tens of thousands of employees who hold shares in their employer through an HMRC approved all-employee share plan.

This has similarities to, and is often confused with, Employee Owned Companies (Employee Ownership) **but the two are not the same**.

Employee owned companies like the John Lewis Partnership, engineering firm Arup or energy company Eaga are largely or wholly owned by the people who work for them. Their interests are very different from ours and are represented by the likes of the Employee Ownership Association who, like ***ifs*** *ProShare*, also gave oral evidence to the Bill Committee.

In his evidence to the Postal Services Bill Committee, Richard Hooper CBE stated that his preference was for the John Lewis model of profit sharing rather than employee share ownership. He stated, *"…there is a problem with employees just having shares. I know about this because I was at BT in 1984 during privatisation. What happens is that employees punt on shares, and the moment they need a holiday, they sell the share, so some of the incentivisation is lost."*

In reality, more than two thirds of BT employees retain their shares, rather than selling them off. Having the choice as to whether or not to sell is an important feature of HMRC approved all-employee share plans as this gives the employees greater financial independence and makes employee share ownership an attractive savings plan.

Hooper went on to state, *"The beauty of the John Lewis Trust style is that you do not physically own the share. You cannot sell it; you do not make capital gains at the end of your time. Basically, you are being involved in a profit-share, dividend-share arrangement, which means that when you leave John Lewis—or when you leave Royal Mail if there is this trust—those shares still stay in the body…"*

As a result, on leaving their employer, the employee has no accumulated financial savings or shares (unlike with an HMRC approved all employee share plan). Thus the benefits of enabling medium and long term saving associated with employee share ownership are lost when you pursue the John Lewis type model instead.

Percentage of employee share ownership

Whether the percentage of shares held by employees is 5%, 10%, 20% or 40% is not relevant to ***ifs*** *ProShare's* role in promoting employee share ownership. The percentage of overall ownership has little or no impact on the successful operation of all-employee share plans like those that our members operate and HMRC approve e.g. the Save-As-You-Earn (SAYE) and Share Incentive Plans (SIPs).

***ifs** ProShare* believes that the success of an employee share plan is measured by the level of employee participation i.e. how many employees have a stake in their employer and are sharing in the success of that business, not simply the percentage of shares allocated to one form of holding or another.

For instance, BT currently enjoy a participation rate of approximately 60% in its employee share plans, BP similarly boasts participation rates of approximately 60% and 75% of National Grid employees participate in some form of all-employee share plan. These are the hallmarks of success.

As the Coalition Government have rightly suggested, 10% is a very large percentage of shares to be given to employees. The Employee Ownership Association and others who have given evidence to the Committee may disagree but they are approaching the issue from a very different view point i.e. their preferred model of ownership specifically involves companies that are wholly or largely owned by employees.

In contrast companies that offer their employees the opportunity to participate in all-employee share plans will often allocate less; the amount depends on the participation rates of employees rather than being arbitrarily set. As a result, even companies where 60-70% of their employees participate in an employee share plan may only be allocating 4 or 5% of their total share capital for such plans.

Retention of employee shares

Employee share ownership through HMRC approved all-employee share plans also encourages medium and long term saving and aligns employee's interests with those of the company. This is because their advantages only apply after minimum holding periods of three, five or seven years.

Even if an employer gives "free shares" to their employees under a Share Incentive Plan (SIP) the employee will not benefit unless he or she retains the shares for a minimum period of 5 years.

There is a common misconception that upon maturity employees will sell off their shares at the earliest opportunity.

All employees are required to participate in HMRC approved all-employee share plans for a minimum three, five or seven year period before they can benefit.

However, this does not mean that employees sell their shares as soon as they are able to. For example, at BT 66% of employees hold on to their shares after their share plan has matured. Similarly, over 60% of staff at companies like Marks and Spencer and BP retain their shares following maturity and even those who sell their shares often recommence saving in a new three, five or seven year employee share plan.

***ifs** ProShare* believe this goes a long way to demonstrating the value that employees place on their share ownership.

Equity

By ensuring all Royal Mail employees have access to HMRC approved all-employee share plans, there can be an equitable distribution of shares among all categories of employee.

This is in part evidenced by the operation of SAYE all-employee share plans where employees can save from as little as £5 a month up to a maximum of £250 a month. SAYE plans have proven to be a very good savings and share acquisition vehicle for employees across all income levels, not just for senior management, with two thirds of the current one million participants earning less than £21,000 per annum according to HM Treasury figures released in 2009.

Similarly, Share Incentive Plans (SIPs) introduced in 2000 enable **all** employees to save from as little as £10 to a maximum of £125 a month from pre-tax salary and a million UK employees on varying incomes are doing so.

The universal nature of HMRC approved all-employee share plans ensures that everyone from shop floor workers to senior managers and executives has to comply with the same requirements and benefits in the same way.

Trade Unions

Whilst CWU opposition to the concept of employee share ownership was made clear at the first sitting of the Postal Services Bill Committee, it was interesting to note that at the same evidence session the Unite and Federation of Sub-Post Masters unions appeared to favour the idea.

Generally speaking Trade Unions have recognised the significant benefits that participation in all employee share plans delivers for their members. For example, Brendan Barber, General Secretary of the TUC has previously said, *"Employee share ownership schemes can be both a valuable employee benefit and an important part of a company culture that rewards engagement and participation."*

Other Trade Unions have been similarly complimentary about the concept once they have had some experience of employee share ownership in practice.

Having very briefly spoken to both Billy Hayes and Dave Ward about employee share ownership, it appeared that neither understood how existing HMRC approved all-employee share plans operated or what benefits share ownership could bring to their members. We have subsequently written to them seeking a meeting to discuss the issue and await their response.

It is worth highlighting that the current "Colleague Share Plan" bears absolutely no relation to employee share ownership. Indeed, the only link appears to be use of the word "share plan" in the title. The Colleague Share Plan is effectively a staff bonus scheme – and not a very effective one.

Whilst ***ifs*** *ProShare* acts as the voice of the employee share ownership in the UK we think it important to acknowledge that simply operating an all-employee share plan will not magically deliver improved productivity, better financial performance, employee retention rates or significant participation rates like those enjoyed at BT, BP, National Grid and others. The basics and benefits of employee share ownership must be effectively communicated to employees to achieve real results. The support of the Trade Union in alerting their members to the benefits of participation would clearly be helpful.

Further information

Further information about employee share ownership can be found at www.ifsproshare.org Alternatively, if you have any queries or require any further information about the above please do not hesitate to contact Phil Hall, Adviser to the ***ifs*** at phall@ifslearning.ac.uk or on 07905 912514.