



**Employee Ownership**  
Australia & New Zealand  
Making it your business

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Mr Stephen Palethorp  
Secretary  
Senate Select Committee on the Future of Work and Workers  
PO Box 6100  
Capital Hill ACT 2600

**Email:** [futureofwork.sen@aph.gov.au](mailto:futureofwork.sen@aph.gov.au)

Dear Mr Palethorp,

## Introduction

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Employee Ownership Australia & New Zealand (**EOA**) welcomes the opportunity to make a submission to the Inquiry into the Future of Work and Workers.

Within the Terms of Reference, namely:

- (a) the future earnings, job security, employment status and working patterns of Australians;
- (b) the wider effects of that change on inequality, the economy, government and society; and
- (c) the adequacy of Australia's laws, including industrial relations laws and regulations, policies and institutions to prepare Australians for that change,

EOA believes Employee Ownership is a significant issue which is critical to be addressed in considering the future of work and workers in Australia.

Further, EOA makes some recommendations as to how Employee Ownership may be better facilitated and regulated in order to ensure effective and attractive Employee Ownership models for the future Australian workforce.

## Executive Summary

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The role of Employee Ownership is very relevant for engagement, connection and culture in the Australian workforce.

The evidence on Employee Ownership demonstrates that it is good for employees, business, society and the broader economy, and thus has the potential to contribute in future to increased employee engagement, wellbeing, job security, and satisfaction at work.

# 1 Employee ownership is relevant to the future of the Australian workforce

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## 1.1 Employee ownership remains relevant in the gig economy

In recent times there has been an increasing focus on the so-called 'gig economy', which leverages the work product as a commodity and has gained traction, particularly within disruptive industry and an increasingly casualised workforce.

It is not clear how the gig economy would respond to an upswing in labour markets or changes in regulation with regard to the nature of worker's relationship with gig-platforms.<sup>1</sup>

The US National Centre for Employee Ownership Report published in November – December 2015 states:

*'Gig jobs can replace employment when organization [sic] is the only reason to hire employees, so companies whose business model builds on other advantages of employment may see a bright future'.<sup>2</sup>*

There are industries in which relationships with customers and clients, and company specific knowledge, are essential to business operations, and for which employment is, and will remain, a core part of business.

The bulk of the workforce continues to be employees, and the importance of driving social and economic advancement through traditional employees should not be overlooked.

Employee Ownership is not only an attractive business model for the continuation of relationship-based businesses, but also promotes the competitive edge of these businesses by encouraging employees to become invested in the performance of the business.

## 1.2 Employee Ownership may be used to facilitate the retirement and transition of baby boomers in future

Many small and medium size enterprises are currently operated through private vehicles by baby boomers. As they near retirement, a major challenge for baby boomer owners is to develop transitional arrangements for the continued ownership and operation of those enterprises. This is important to ensure that Australian small-businesses continue to have appropriate and viable long-term management and ownership structures.

In many instances, the most appropriate people to be part of transition arrangements are existing employees.

EOA submits that effective Employee Ownership regulations will facilitate the retirement and transition of baby boomers.

## 1.3 The benefits of Employee Ownership

There are significant and demonstrable benefits of Employee Ownership Models for the future Australian workforce:

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<sup>1</sup> See Andrew Trounson, '5 Challenges That will Make or Break the Gig Economy', University of Melbourne available at <https://pursuit.unimelb.edu.au/articles/5-challenges-that-will-make-or-break-the-gig-economy>.

<sup>2</sup> Lauren Rodgers, CEO of NCEO in her essay 'There's no App for That' available via the National Centre for Employee Ownership.

**(a) Employee Ownership helps to keep jobs local**

Data available from the NCEO<sup>3</sup> demonstrates that:

- (1) Employee owned companies are 25 per cent more likely to survive than comparable non-employee owned companies.
- (2) Employee-owners were four times less likely to be laid off during the recent recession than employees who did not own shares in the business which employed them.
- (3) Employee owned companies never close for reasons of moving to other countries.<sup>4</sup>

**(b) Employee Ownership improves business performance**

Data available from the NCEO demonstrates that:

- (1) Productivity improves by 4 per cent to 5 per cent on average in the year an employee share ownership plan (ESOP) is adopted, and the higher productivity level is maintained in subsequent years.
- (2) ESOPs increased sales, employment, and sales per employee by about 2.3 per cent to 2.4 per cent per year.
- (3) ESOP companies had on average an 8.8 per cent higher sales per employee than their non-ESOP counterparts in the same industry and same size.
- (4) Private-company-based ESOPs had job growth of 60 per cent between 2001 and 2011 while other companies remained flat.<sup>5</sup>

Employee engagement in business performance may also help to drive innovation.

**(c) Employee Ownership helps to build community wealth**

Data available from the NCEO demonstrates that:

- (1) Employees at ESOP companies have additional retirement savings that are 2.2 times greater than at comparable, non-ESOP companies.
- (2) On average, employees at employee-owned companies receive 5 per cent to 12 per cent more in wages.<sup>6</sup>

**(d) Employee Ownership provides a medium term savings plan**

Appropriate Employee Ownership provides an effective means of a medium term savings plan.

This is particularly important with the increase of gig economy workers. Many of these workers are not investing in superannuation. The funding of the retirement for those workers requires effective savings arrangements.

Employee Ownership can provide a means of creating those savings arrangements. For example, so called ShareSave arrangements, which are popular in the UK, provide a means for employees to effectively invest through

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<sup>3</sup> While data from NCEO is US based, we consider that it provides useful guidance as to how Employee Ownership could be harnessed within the Australian workforce.

<sup>4</sup> See <http://www.employeeownership.com.au/news-archives/a-visual-guide-to-employee-ownership/> for further information.

<sup>5</sup> See <http://www.employeeownership.com.au/news-archives/a-visual-guide-to-employee-ownership/> for further information.

<sup>6</sup> See <http://www.employeeownership.com.au/news-archives/a-visual-guide-to-employee-ownership/> for further information.

their employment arrangements. They are provide a right to acquire shares in their employers from amounts they set aside.

Employee Ownership arrangements can be an effective supplement to the benefits of compulsory superannuation.

**(e) There is a share price premium in companies with Employee Ownership models**

EOA tracks the share price of listed companies with high levels of Employee Ownership compared to the ASX200.

EOA's 2017 report showed that:

*'in the last five and a half years, the share price of the EOA Index companies increased by 40 per cent, compared to just 23 per cent for the ASX 200.*

*This means that companies with high levels of employee ownership command, on average, a 17% share price premium over their listed peers.'*<sup>7</sup>

**(f) Employee Ownership is an attractive model in a competitive global talent market**

The increasing globalisation of markets and the impact of the digital economy will provide greater competition for talent.

It is critical that the reward mechanisms that can be provided in the Australian economy are competitive with those in the global talent markets.

There are a number of areas where there are differences in reward structures, particularly in relation to Employee Ownership in Australia. These can create an inability to compete in global markets for talent.

**(g) Employee Ownership correlates with improved environmental, social and government standards ('ESG')**

CAER (an independent research body on ESG performance of companies) research shows a strong link between Employee Ownership and improved ESG performance.<sup>8</sup> Employee Ownership correlates with higher Social Sustainability Ratings and Equal Opportunity performance.

EOA submits that, with regard to term of reference number 3, the future Australian workforce will benefit from an Employee Ownership model as it positively impacts both workplace equality and sustainability.

## **1.4 Local example: the success of Culture Amp**

Employee Ownership is currently being used as an effective model within Australia.

Culture Amp were the recipients of EOA's 'Best Small to Medium Enterprise Succession Plan' in 2017. This humble start-up has grown from 15 to 100 employees, and has expanded into three countries. The founders utilised employee ownership strategies to align everyone working at Culture Amp to the success of the company. In their own words: 'the better they do as group, the better everyone does'.<sup>9</sup>

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<sup>7</sup> EOA Media Release, 'Share Price of Employee-Owned Companies Outperforms ASX200', available at <http://www.employeeownership.com.au/wp-content/uploads/2016/11/2017-02-14-FINAL-EOA-Index-Media-Release.pdf>.

<sup>8</sup> See above at footnote 3.

<sup>9</sup> A full interview with the founders of Culture Amp is available at <http://www.employeeownership.com.au/news-archives/culture-amp-turns-up-the-employee-ownership-volume/>.

This example demonstrates how effective Employee Ownership models can promote innovation and new business - to the benefit of both businesses and employees – and should form part of the discussion on the future of the Australian workforce.

## 2 Facilitating Employee Ownership in the future

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### 2.1 Improving employee ownership in start-up ventures

The start-up concession introduced for tax purposes was a significant improvement in the tax treatment of employee equity in start-up vehicles.

The success of the concession is being limited by a lack of coordination between the terms of the tax concession and the corporate regulation of offering the equity interests. There is a real opportunity to further leverage the benefits of employer ownership in start-up vehicles.

### 2.2 Changes to make Employee Ownership more attractive and effective in the unlisted environment

Despite many administrative and legislative advances, there continues to be significant impediments to providing employee equity in the unlisted environment. Many of these impediments mean that the cost of providing employee ownership is prohibitive.

There are a number of simple alterations to the existing tax and corporate law which could minimise impact of many of these impediments, without prejudicing appropriate protection to employees and without a significant cost to revenue.

### 2.3 Changes to make Employee Ownership more attractive and effective more generally

There are a number of structural impediments within the existing tax rules which limit of the attractiveness and efficiency of operating in providing employee equity arrangements in Australia.

These include:

#### (a) **Broad based employee ownership in the listed environment – limits to be updated**

The rules dealing with the provision of broad-based equity ownership in listed entities should be updated.

- (1) The \$1,000 limit for broad-based share offer has been in place since 1997. This limit should be increased.
- (2) Similarly, the limit dealing with the provision of employee equity by way of salary sacrifice is too low. It is currently restricted to \$5,000.

Increasing the limits ensures Employee Owners derive greater benefit from profits and may also assist in ameliorating the effects of low wage growth in Australia.

#### (b) **Anomalies in the operation of the employee equity rules**

There continue to be a series of anomalies in the operation of the employee equity rules.

These include, amongst others, inclusion of a taxing event on the cessation of employment. This taxing event can lead to inappropriate tax mismatches for employees together with an appropriate tax funding obligations.

Taxation on cessation is out of step with a workforce where employees are increasingly seeking experiences with multiple organisations, instead of traditionally progressing with one employer.

Commercial attempts are made to reduce these outcomes. These are of limited success and add significantly to the complexity and cost of operating employee equity arrangements.

## **2.4 Changes to make Employee Share Schemes relevant for people with multiple employers**

EOA recommends that a priority should be ensuring that Employee Share Scheme regulations consider the new gig economy, where people may be engaged by many companies and may have multiple jobs which make up their portfolio.

The current legislation and guidance is largely hinged on an employee being employed by one company or contracting to one company. EOA recommends that the legislation is amended to better reflect the anticipated changes to the Australian workforce.

Yours sincerely

Benjamin Morris

Chair

Employee Ownership Australia Ltd

[www.employeeownership.com.au](http://www.employeeownership.com.au)