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Monday, 29th June, 2015.

Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senate Committee

Given our role in encouraging and assisting employee ownership as a form of member-owned firm, Employee Ownership Australia Ltd would like to submit the following to the “Senate Enquiry into cooperatives , mutuals and member owned firms” for consideration.

Employee Ownership Australia Ltd (EOA) was formed in 2012 to ensure that there is a voice for broad based employee ownership and dynamic workplace participation in Australian and New Zealand companies. EOA is a member based organisation focused on engaging with and helping companies that have, or want to implement employee ownership or employee share plans within their businesses.

EOA’s core aims are:

- (i) to be the centre of excellence for companies seeking to implement or support employee share ownership or ESOPs;
- (ii) to be the voice on employee share ownership issues in Australia and New Zealand;
- (iii) to encourage research into the productivity impacts of employee ownership;
- (iv) to encourage government at all levels to develop taxation and other incentives to promote employee ownership; and
- (v) to provide exceptional services to our members.

EOA is independent, bi-partisan and is entirely member funded.

EOA is a member of the Business Council of Cooperatives and Mutuals (BCCM), and vice versa. EOA was involved in the development of the BCCM’s “Blueprint for an Enterprising Nation” (see: <http://bccm.coop/publications/blueprint-enterprising-nation/#.VZDwnPmqpHw>) and EOA supports its recommendations.

In the submission to the Senate Enquiry attached below, EOA contends that the following will need to be considered:

1. Increased diversity in ownership forms is essential to a more sustainable economy and to a fairer and more and equitable society.

2. Reporting on the benefits arising from more broadly and democratically owned business forms will be essential to measuring the success of economies and societies in future.
3. More businesses operating to the International Cooperative Principles will be key to the resilience and stability of economies in future.
4. Broader stakeholder ownership could:
 - (i) Help re-balance the economy
 - (ii) Drive increasing prosperity through distributing wealth more broadly
 - (iii) Enhance business accountability and performance
 - (iv) Re-invigorate civil society and increase community well-being
 - (v) Create more satisfying, productive and happier workplaces.

To achieve these outcomes, EOA makes four recommendations for the consideration of the Senate Committee, as attached in the submission below.

It is recommended also that the Senate Committee study the report of the UK “Ownership Commission” which was produced in 2012 and is called “Plurality, Stewardship and Engagement”, especially with regard to the recommendations it makes on the role that cooperatives, mutuals and employee owned firms can play in building a more prosperous and equitable nation. A copy of this report is attached.

EOA would like to thank the Senate Committee for the opportunity to participate in this most important enquiry.

Yours sincerely

Alan Greig
Board member
Employee Ownership Australia Ltd

SUBMISSION BY EMPLOYEE OWNERSHIP AUSTRALIA LTD

Senate Enquiry into Cooperatives, Mutuals and Member-owned firms.

Employee Ownership Australia, being the representative body in Australia for employee owned firms and those companies operating employee share schemes, is a keen supporter of the values inherent in the International Cooperative Principles (see: <http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>), and their application to employee ownership.

The employee owned cooperative – also known as the worker cooperative – is not a common form of business in Australia, but is nevertheless becoming more frequently adopted in the small business economy in Australia. One interesting example is the Tamara Cooperative, trading as the Desert Fruit Company in a remote location near Alice Springs. Of interest is that this is the only registered cooperative in the Northern Territory. You can see the web-site of this arid land regenerating worker cooperative at: <http://www.desertfruitcompany.com.au/>

Employee Ownership Australia would like to see much more support for these kinds of “self-help” initiatives, and is a keen advocate of changing our culture from top down, doing things “for and to” people, to doing more “by and with” people through more participative, member directed initiatives that build broad stakeholder ownership and involvement in successful businesses.

Employee Ownership Australia sees great scope for employee owned cooperatives to develop across all industries in Australia, but especially in aged, disability and home care, where client directed care reforms are underway. The growth in such “social cooperatives” is similarly occurring overseas, and we would recommend that the Senate Committee review the important recent report on this growth, published by Cooperatives UK, called “Social Cooperatives”. You can see more on this report at: <http://www.uk.coop/newsroom/new-report-offers-statement-intent-develop-quality-co-operative-care-vulnerable-citizens> .

Recommendations

- 1. That the Australian Government support the establishment of an “Ownership Commission” to study ways to expand diversity in ownership forms in Australian business.**

It is clear that Australia needs to improve the way its businesses are owned in order to create higher long term economic growth. Governments should be acting to ensure that all types of business, from large public companies to family, co-operative, mutual and employee owned firms, are able to play their part in creating wealth in a strong economy. To achieve this, Australia needs:

- Greater plurality in corporate ownership
- Better stewardship of companies and other forms of business
- Greater engagement of employees, shareholders and members in those businesses

The Australian economy is dominated by a small group of listed public companies, yet the vast bulk of business in Australia is delivered by small businesses. In actual fact, the economy is built on a very large number of private and family controlled companies which - along with cooperatives, mutuals and employee owned firms – deliver a business model that is less volatile and more resilient. This business model also allows individual investors and savers more avenues in which to invest and to become involved in economic activity. The range of businesses involved in the market also gives consumers greater choice in products and services.

On top of this, cooperatives, mutuals and other forms of member or employee owned businesses (hereinafter referred to as CMEs) offer a number of advantages. This includes a better form of ‘business stewardship’ where broader and more diverse accountabilities arise through closer and better functioning links to their ultimate owners – the members. The engagement they offer between management, members, employees and other stakeholders is a proven pathway towards improving the performance of these businesses. Inherent in these pathways are accountability and feedback structures which other forms of business could do much to learn from.

Internationally, the GFC and the protracted problems in its wake has opened up the debate about how well national economies are owned, run and managed. Good ownership is now being linked to good capitalism. The thread that underpins this link is that the route to good ownership is through broader participation – the better connection of citizens to business outcomes either through the institutions that invest on their behalf, or as individual shareholders/members, or as consumers or employees.

The heart of good ownership is engagement and stewardship expressed through as many ownership forms as possible. Australia will have a better performing and more resilient economy the more seriously it can develop better ownership.

Undertaking a study similar to that managed by the Ownership Commission in the UK could be of vital importance therefore to the national debate on improving the economy and increasing productivity.

Employee Ownership Australia would like to recommend that an “Ownership Commission” be established to review the state of ownership in the Australian economy and to examine the extent to which it supports or inhibits successful, long-term social and economic value creation by business in all its ownership guises. This would involve assessing not only the governance and ownership of public companies but also the broader contribution that private and family owned companies, mutuals, co-operatives and employee ownerships make to the economy.

In support of this recommendation, Employee Ownership Australia would like to provide the following quote from the Chairman, Charlie Mayfield, of what is now the largest CME in the UK, the wholly employee owned mutual retailer “The John Lewis Partnership” (JLP – which is involved in department stores and supermarkets and has 90,000 employee ‘partners’) which was made following the launch of the Ownership Commission’s report:

“At JLP we seek to balance the interests of our Partners (employees), our customers and our suppliers to achieve long term commercial success. The Ownership Commission’s report brings together vital evidence that supports the importance of “good ownership” in its various forms and sets out a rationale for appropriate intervention with proposals that have far-reaching implications for the UK’s corporate culture and performance in particular. I welcome the call for the Government to promote a greater plurality of ownership and I see employee owned businesses playing a key role within that agenda”.

A copy of the UK Ownership Commission's full report is attached for the Senate Committee to study. In it, it should be noted that the report concludes that improving the way businesses are owned does create higher and long term economic growth.

Employee Ownership Australia would support the Australian Government encouraging greater plurality of ownership in our economy, especially through expanded employee ownership.

2. All companies, cooperatives, mutual and member owned firms should set out their approach to employee, investor and member engagement in their annual reports, including performance measures in this regard.

If better ownership seriously matters for economic success, then better reporting will be vital to this improvement.

There are a wide range of new measures coming into place around the world to report the 'shared' social and economic value being created by businesses, large and small.

What is not apparent in Australia is how the CME sector is reporting their success based on their ownership form. CME's will need to consider that as they will be coming under more scrutiny, they will need better reporting systems and processes. They will need especially to be reporting on how well they are doing in terms of the international cooperative principles mentioned above.

To do this, it is recommended that the excellent "Performance Indicators – Non Financial" recently produced by Cooperatives UK should be considered for adoption here. You can see the full description/operational system for these performance indicators at: <http://www.uk.coop/cespis>

An example of their usage in the annual report of one cooperative in the UK (The Midcounties Cooperative - <http://www.midcounties.coop/>) has been extracted and attached for the consideration by the Senate Committee. It shows how performance measurement and reporting can be closely aligned to the international cooperative principles and highlights the need such reporting in the CME sector in Australia.

For measuring the total value created by CMEs in their local economies, the Business Council of Cooperatives and Mutuals (BCCM), in partnership with EY, and its members, Teachers Mutual Bank and The Barossa Co-op, produced a research report which sets out a framework to recognise, measure and report the total value created by CMEs in local economies, as based on a case study of The Barossa Co-op.

It is clear from the research report that broadly community owned businesses provide a substantial 'multiplier effect' — the broader value created by the dollars of revenue generated by these businesses as it is recycled three or four times through members, the local economy and the local community.

This important report is called quite accurately therefore "Sticky Money".

This report needs to be considered by the Senate Committee as it provides the evidence that CMEs do create broader value which is not captured in conventional financial disclosures, and which does involve contributing to the well-being of individuals, the delivery of important public services and the building of resilient communities and thriving local economies.

This report – 'Sticky Money : Recognising the total value created by Australian Co-operatives and Mutuals' can be downloaded at: <http://bccm.coop/publications/sticky-money/#.VZCzbfmqpHw> .

3. Employee ownership from employee share ownership schemes through to fully-fledged employee owned companies should be actively encouraged as a form of CME.

Employee Ownership Australia congratulates the Australian Government for the important reforms to the taxation, development and promotion of employee share ownership in Australia which were passed in the last session of Parliament.

The legislation acknowledges that employee owned companies should receive greater support and that employee contributions and distributions flowing from employee share ownership schemes should not be taxed inappropriately.

The next step in our view is to ensure that research is undertaken in Australia that will more clearly identify the benefits of employee ownership to the Australian economy, especially in the area of increased productivity.

There is a large body of such research evidence available in overseas economies, but none so far on its impact in Australia.

For example, the following data provided by the US National Centre for Employee Ownership (www.nceo.org) on the success of employee ownership is particularly relevant given the terms of reference of the Enquiry. No comparable data exists for Australia however. It would be useful - given the extent of research undertaken on conventional shareholder owned companies – to instigate some balance by highlighting the need for similar research to be undertaken on contributions that CMEs make to the Australian economy.

The data from the US below is provided as a guide to the potential contribution that employee owned companies could be making to the national economy of Australia.

1. Employee ownership keeps businesses and jobs in local communities

- ESOP owned companies are 25% more likely to survive than comparable non-ESOP companies;
- 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 employs them;
- Employee owned companies never close for reason of moving to other countries.

2. Employee ownership improves business performance.

- Productivity improves by 4% to 5% on average in the year an ESOP is adopted, and the higher productivity level is maintained in subsequent years;
- ESOPs increased sales, employment, and sales per employee by about 2.3% to 2.4% per year
- ESOP companies had on average an 8.8% higher sales per employee than their non-ESOP counterparts in the same industry and same size;
- Private company based ESOPs had job growth of 60% between 2001 and 2011 while other companies remained flat;

3. Employee ownership builds community wealth.

- Employees at ESOP companies have additional retirement savings that are 2.2 times greater than at comparable, non-ESOP companies;
- On average, employees at employee-owned companies receive 5% to 12% more in wages.

4. The formation of Public Service Mutuals (PSMs) should be encouraged in Australia through supporting entrepreneurial public servants to set up employee owned PSMs where they could be running public services more effectively, achieving better outcomes for service users and delivering services more efficiently through savings on cost and time

Public Service Mutuals (PSMs) are organisations that have left the public sector but continue to deliver public services. Employee ownership usually plays a significant role in their operation. There are more than 100 highly successful PSMs now operating in the UK employing over 35,000 employees.

After “spinning out” from public sector, PSMs are free from government control and enable their staff to deliver and improve their services as they know best.

Employee owned PSMs let dedicated public servants combine a passion for assisting others with their desire to provide top class services, while at the same time sharing in the rewards of their success.

Research studies around the world suggest that employee owned PSMs offer three important social and economic benefits for frontline public services. These are:

- improved organisational performance and efficiency.
- employee and user engagement, with its resulting influence on service improvement.
- wider benefits to society resulting from a greater sense of citizen empowerment and responsibility.

PSM’s need to be protected from demutualization through a clear asset lock, though in Australia this may require some legislative backing to do so through appropriate legal mechanisms or structures. Introducing into Australia the “Community Interest Company” form of structure - under which most UK PSMs are incorporated and a company form that is now being adopted in other jurisdictions (eg: Canada) - may be useful to implement this. On this topic, see our web-page on Social Enterprise Legal Models at: <http://www.employeeownership.com.au/social-enterprise-legal-models/>

Employee Ownership Australia is keen to assist any PSM type projects to get underway. For assistance on this, please see our “Interested in starting a Public Service Mutual” web-page at: <http://www.employeeownership.com.au/interested-in-starting-a-public-service-mutual/>

Conclusion

Cooperatives and employee ownerships may turn out to be the defining feature of economies of the future. For this reason, they should not be viewed as an old fashioned structure and nor should they be seen as an anachronism in today’s fast paced and competitive economy. The web and social media are already working in favour of increased cooperation by reinforcing the relationships that are required for commercial success. Sharing is becoming increasingly central to consumer culture as well – witness the growth of the “sharing economy”. Creative businesses and start-ups are now arising from communities that are collaborating for common benefit. The reform of the welfare

system will also require regenerating those relationships and reciprocity that drive independence, self-help and working together.

Broadening ownership structures will therefore bring a range of economic and social benefits to a much wider group of stakeholders in the economy. Ownership provides not only participation and control “rights”, but also involvements and responsibilities which add quality to business strategy and management. Diverse ownership structures have wider systemic effects by providing more choice for consumers and more room for innovation, as well as greater accountability to the “monopoly” of institutional investor driven businesses. They will do this by keeping businesses on their toes via increased communication and feedback. Such structured participation also makes business more socially and environmentally responsible.

These developing trends in commercial behavior suggest that CMEs will need to be encouraged to take their place at the forefront of reforms that will be required for continued economic prosperity and growth into the future.

Employee Ownership Australia is pleased to assist with these developments.