

Employee Ownership and the Labour Movement

ESOPs are about ownership not “worker control”

Employee Share Ownership Plans (ESOPs) are not a method for conferring worker control. Certainly, ESOPs help to create, in some companies, workplace cultural changes of a democratizing kind. This, however, has never been the principal legislative goal in setting up ESOPs, especially in the USA and UK. The primary aim has been to broaden the ownership of capital deployed in businesses. It is nonetheless true that, as employee ownership deepens in a company, the workers do achieve a greater ‘voice’ in the way the company operates – this happens naturally and is all to the good.

Cultural change agent

An ESOP can be a cultural change agent. Equally it can also be the end result of cultural change. It is interesting that in the USA, the most successful employee owned companies are those that began to change the way the workplace was operated and managed before crowning the achievements of cultural change with an ESOP.

These things, however, are for individual companies to work out in their own way and should not be mandated from outside, either by Government or by union officials. It is the people “on the shop floor” who are the movers and shakers in these matters – and, when given the freedom to lead the charge, they have helped to create the most advanced workplaces and most profitable companies of their kind.

Employees and the management

Based on overseas experience, most ESOPs controlling a “significant minority” of shares in company registers do provide for a certain level of employee input into management, whether direct or indirect. Some ESOPs will eventually own a majority of company shares and this confers extra control, especially at the operational level, but also at the board level. Interestingly, US experience suggests that it is the operational level that is of most interest to the employees.

What employees prefer

Australian employees seem to prefer to have some shares and no control than the alternative of no shares and no control. Indeed, employee owners surveyed generally express only limited interest in exercising control over management and usually state that they value the financial aspect of ownership more than the participation and control aspects. (See “Why Do Employees Participate in Employee Share Plans”, ESOP Research Project, CCLSR, University of Melbourne, February, 2008).

However, this research might suggest that a more participatory workplace environment is a comparatively new and undeveloped phenomenon in Australia. Even well paid non-unionized workforces in Australia can retain a strong residual “them and us” mentality.

ESOPs and the union

A common fear, especially among union officials and activists, is that ESOPs are a way of discouraging unionization. There is little evidence that this occurs. Like any employee benefit, companies could attempt to use ESOPs to persuade their workers not to join a union. But does that mean workers should forgo that benefit if they are not also union members? Such a suggestion could hardly win friends for the labour movement.

Unions could play a powerful role in advocating ESOPs for their workplace participation and shared ownership implications. That would enhance the credit of unions. Particularly at a time when union membership is in decline, it is difficult to believe that they would excite the admiration of workers by adopting an adversarial role toward employee ownership.

(The above has been adapted from a paper originally developed by Employee Ownership Group in Australia, 2009)

Worker Cooperatives

It is known that there is much interest in the labour movement in wholly worker owned cooperatives. Given this interest, Employee Ownership Australia provides a web-page on this topic, which you can see [here](#). Experience has shown that the most important consideration in supporting such development is to ensure that a cooperative business can be adequately capitalised without overly drawing upon the savings of the employees involved, given the risks which will need to be disclosed. Access to external finance is generally the most important assignment.

Also, as formal employers, worker cooperatives are subject to Australia's 'Fair Work' laws in the same way as any other incorporated business. This means they are obliged to pay award wages, meet all entitlements and maintain high standards of working conditions and health and safety. Labour unions should have no call to claim that employee ownership is a means to undermine 'fair work' at any time.

In the case of 'last resort' worker takeovers of struggling businesses – often advocated in the interest of employees facing redundancy – it is important to consider whether this is a 'best option' solution where the risks of failure are very high and workers face not only losing their jobs but their redundancy payouts as well. Business turnarounds always require substantial injections of new funding and employee ownership tends to work best where there is a clear 'upside', something which is not always apparent in these instances.