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TO Committee Secretary | Standing Committee on Economics
Parliament House Office
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Canberra ACT 2600

By Email: economics.reps@aph.gov.au

Addendum — Submission on inquiry into promoting economic dynamism, competition and business formation.

Dear Committee Secretary

We refer to our submission on the 'Inquiry into promoting economic dynamism, competition and business formation' ('**Inquiry**') dated 14 July 2023 ('**Submission**').

We have prepared some additional material which may assist the House of Representatives Standing Committee on Economics ('**Committee**') during the Inquiry.

We have set out below an addendum to the Submission.

1 Employee Ownership Structure Benefits

We thought it may assist the Committee to set out some more general benefits associated with employee ownership structures. These are in addition to the benefits associated with employee ownership structures outlined in the Submission.

The key elements are:

(a) Lower Employee Turnover;

(b) Greater Productivity; and

(c) Maintaining company stability.

Each of these is discussed below.

1.1 Lower Employee Turnover

Employee ownership structures are predicated on seeking greater employee representation and engagement. As a result, employee ownership can be associated with lower levels of employee turnover,[1] thereby encouraging higher levels of engagement and training within the company.[2]

By way of example, the employee ownership trust ('**EOT**') structure is particularly helpful in facilitating greater employee representation and engagement. As part of the EOT model, employee representation is enhanced through the creation of an 'employee council'. The employee council

[1] Sukanya Sengupta, Keith Whitfield & Bob McNabb (2007) Employee share ownership and performance: golden path or golden handcuffs, *The International Journal of Human Resource Management* 18 (8), 1507-1538.

[2] See Andrew Pendleton and Andrew Robinson (2010) 'Employee share ownership and human capital development: complementarity in theory and practice', *Economic and Industrial Democracy* (2011) 32 (3), 439-457; Loris Guery and Andrew Pendleton (2016) 'Do investments in human capital lead to employee share ownership: evidence from French firms', *Economic and Industrial Democracy* 37, 567-591.

may be responsible for or, engaged in the appointment of employee directors to both the operating company and to the trustee of the EOT.

Due to this 'employee centric' ethos, the EOT promotes greater engagement and talent in the company.

In turn, this ensures employees are less likely to leave the company and are more likely to remain with their employer. This is unsurprising given there is a strong correlation between employee engagement and the provision of employee equity.[3]

Employee owners are more likely to be engaged with their company and employee ownership can enshrine employee engagement into a company.[4] Employee Ownership Australia's submission to the 'Jobs and Skills Summit' includes details of the positive data and impacts of employee ownership in economies everywhere in relation to 'better wages and improved job security'.

1.2 Greater Productivity

Employee ownership consistently has positive effects on productivity.[5]

The provision of employee equity is a critical tool for creating productive workplaces with highly skilled and committed employees. This has been identified through numerous studies which have found improvements in company performance and resilience, together with improvements in employee commitment, engagement and wellbeing.

The Office of the Chief Economist made a number of findings associated with the provision of employee equity in their research paper, 'The performance and characteristics of Australian firms with Employee Share Schemes' (**Office of Chief Economist Report**).[6]

The findings include that firms with employee equity have lower employee churn, higher sales, higher labour productivity and higher value-added growth when compared with their non-employee ownership counterparts.[7]

Similarly, data gathered by the National Centre for Employee Ownership from 6,000 United States based employee-owned businesses (employing 10 million employee owners) (**NCEO Data**), demonstrates that employee ownership improves business performance.

The NCEO Data found that productivity improved by 4 to 5 per cent on average in the year an employee share ownership plan was adopted. Employee-owned businesses had on average 8.8 per cent higher sales per employee than other non-employee-owned businesses in the same industry and the same size.[8] Most importantly, between 2001 to 2011, private companies that implemented an employee share ownership plan had job growth of 60 per cent while other companies showed no improvement.

Employee ownership structures are able to facilitate greater commitment, engagement and collaboration, thereby, boosting productivity and retaining talent. This leads not only to increased productivity growth but enables full employment to be sustained.

1.3 Maintaining Company Stability

Employee ownership structures can be used to establish an effective succession arrangement for private companies.

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3 Graham Nuttall, '*Sharing Success: The Nuttall Review of Employee Ownership* (July 2012) 14.

4 Ibid, [1.10].

5 Ernest O'Boyle, Pankaj Patel and Erik Gonzalez-Mulé, 'Employee ownership and firm performance: a meta-analysis', *Human Resource Management Journal* (2016) 26 (4), 425-448.

6 Hendrickson et al, *The performance and characteristics of Australian firms with Employee Share Schemes Research paper*, Office of the Chief Economist (April 2017) (**Office of Chief Economist Report**).

7 Ibid, 1.

8 National Centre for Employee Ownership, *A Visual Guide To Employee Ownership*.

The EOT model is again particularly helpful in relation to succession arrangement and maintaining company stability.

The EOT model provides a stable and long-term structure for employee ownership.

It may have some benefits over direct share ownership, as founders and employees do not face the pressure of needing to ‘cash out’ upon leaving the company. Rather, as owners ‘sell down’ their interest to the EOT, they are gradually rewarded through periodic payments.

This form of deferred financing of the ownership conversion sidesteps the challenge of raising capital from employees or financial institutions that often bedevils the formation of worker co-operatives, not only as start-ups but also as a succession solution.

Research in the UK shows that 92 per cent of companies with EOTs adopted employee ownership to maintain the long-term stability of the company.[9]

Similarly, in Australia, over the past ten years, many private businesses have been formed to operate in the aged care and disability sectors (particularly in relation to the NDIS). These businesses have been set up by experienced operators who are now currently at the point of seeking to transition out from their ownership role.

The value of employee ownership structures and particularly the EOT can readily be ascertained. For instance, rather than a ‘mature’ business owner selling their company to a larger corporate, the EOT provides an effective employee focused business succession plan.

Under this form of succession program, the company does not experience significant upheaval as there are no large scale ‘mergers’. Rather, the slow transition to an employee ownership structure ensures the stability of the company and its employees.

If there are any queries arising from these submissions, please contact Andrew Clements, Chair of Employee Ownership Australia

Yours sincerely

Andrew Clements

Chair of Employee Ownership Australia

[9] Andrew Pendleton, Andrew Robinson, and Graeme Nuttall, ‘Employee ownership in the UK’, *Journal of Employee Participation and Ownership*, forthcoming (2023).