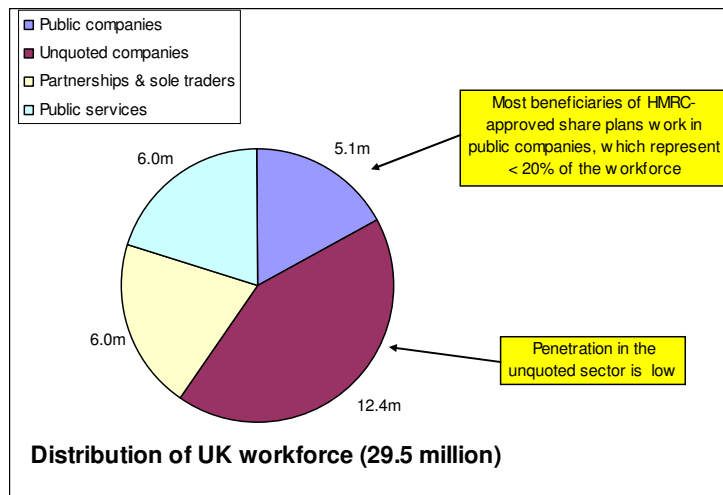


Extending employee ownership

Most people think of “employee ownership” as employee share schemes in public companies. Indeed this is where most Government support for employee ownership has been applied, even though that sector represents less than 20% of the UK workforce, has questionable need for tax incentives and typically creates employee ownership of less than 1% of a company, hardly enough to influence company behaviour and practice.



Of the £900 million spent on tax relief for employee share schemes, 50% is going on so-called “discretionary schemes” such as executive share options and Enterprise Management Incentives, which account for 3% of employee shareholders, and the highest paid employees. This is poorly directed tax relief. Companies wishing to continue to operate discretionary share schemes should be required to establish and operate all-employee schemes of at least the same magnitude. This would spread ownership, be fairer and reduce tax expenditure, because not all companies would accept the new condition.

In the less noticed unquoted company sector, the largest by employee numbers, employee ownership has made steady progress, now amounting to £25 billion turnover, covering more than 100,000 employees. But the penetration of employee ownership in this huge sector is still tiny, mainly because of the complexities of operating a market in shares in small private companies. But employee ownership need not be based on shares; it can be trust based. John Lewis Partnership, Arup and many other companies have shown that employee ownership can be just as potent, and certainly more sustainable, when founded on long term trusts. Companies wishing to establish all-employee trusts, for example based on SIPs, should not be required to distribute shares to individual employees, which can often sow the seeds of the company’s loss of independence.

Thinking more radically, it is puzzling, especially in the aftermath of the credit boom, to note that interest on debt is still tax deductible without limit and without conditions. Yet the effect of this blanket relief is effectively to use tax incentives to increase returns to



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existing owners, to say nothing of the perverse incentive it creates for companies to borrow rather than raise permanent capital. Tax relief should promote more progressive and diversified ownership outcomes. In particular, tax relief on corporate debt should be conditional on that debt being applied to acquire all-employee ownership stakes in a company, as is well tried and tested with the American ESOP. More distributed asset ownership would be good for society.

As government considers the reform of public services, and the manifest need to engage public sector staff in that change, it should consider partnership trusts as a preferred ownership outcome. In a partnership trust, which would be an autonomous for-profit company operating public services under contract, a majority of the shares would be held in trust for employees. With appropriate management leadership and vision, this structure could create the virtuous circle of high staff engagement, high customer service and high performance that is the epitome of successful employee ownership.

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