The Strength of Employee Shareholding

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There are now around a million shareholders in the UK who received their piece of the action thanks to employee share schemes (known as plans in the US, where “scheme” has a more negative connotation).

The Esop Centre has been in the forefront of campaigning for employee shareholding since it brought the Employee Share Ownership Plan to Britain in the 1980s. Most recently its advocacy was telling in ensuring that Royal Mail employees - over 150,000 of them - received real shares when the company was part privatised, as opposed to an indirect interest through a trust. Thanks to them employee shareholders came to top the million mark.

The original idea from California was to spread the “wages of capital”. A small business owner had wanted to sell on to his long term employees and was distressed that he had not been paying them enough for it to be affordable. This is where the trust mechanism came in thanks to local lawyer Louis Kelso who saw that a trust on behalf of employees would be able to borrow enough to buy the company and that the wages of capital would enable the loan to be repaid. Such transactions still happen but, in the UK as in the US, they account for a minor proportion of employee ownership. That results in Britain mainly from the share schemes introduced by companies large and small which make use of one or more of the four government approved approaches. Two – Sharesave and the Company Share Option Plan have been running now for 20 years or more; the most successful, introduced by Gordon Brown as Chancellor, the Share Investment Plan and the Enterprise Management Incentive. A controversial fifth approach was introduced by Chancellor Osborne and risks the chop under a LabLib administration.

BT is one of the great examples of success. At privatisation all employees could receive free shares and since then there have been frequent offers. Last year’s Sharesave maturity after five years led to a £1 bn pay out to employees. A high proportion of employees remain shareholders although some, not unnat-urally, like to benefit from the occasional capital sum. On a smaller scale a Centre member told us last month that a career high spot was when the employees of a company he had advised received £50000 each: the wages of capital indeed.

In recent times the John Lewis model has been widely touted. John Lewis is a retailing success but it is not a model: there is an opaque trust structure built on a gift from the founder. Few founders now give their businesses away. The LibDems in the Coalition government were keen on a trust based model for Royal Mail which would have denied employees true shareholding. Luckily Michael Fallon intervened in time and this approach was supported by a forward looking union in CWU (the deputy general secretary who arranged the deal won a recent ballot to become general secretary). However in Royal Mail, as elsewhere, the focus has been on the economic benefit of the shareholding not on the voting rights. The Centre believes – as does CWU – that employee shareholders should exercise full rights including voting. This is where the opportunity lies for close working between the Centre and UKSA.

Thanks to privatisation there has been some antagonism between trades unions and esops. The unions have been more concerned with defence than with finding new ways of helping their members. This is now changing and unions too can become a force. The Centre has been encouraging them from the start and at last there is traction.

The battle lines on privatisation are no longer clear. The failure of the privatised East coast rail service made most passengers prefer the best managed service, private or public.

Corporate democracy will work best if all individual shareholders exercise their full rights. We shall be talking to the three major administrators of share schemes in the UK to see how it can be made easier for all parties. I welcome UKSA members into indirect membership of the Centre; hope you will enjoy our bulletins and take part in our events, abroad and at home.

Note on Centre

The *Esop Centre* was founded by Malcolm Hurlston with Clifford Chance and Unity Trust in 1985. It is now a members' organisation with around 100 members. Some are companies with plans; the rest are the leading experts among law firms, accountants, trustees, accountants and administrators in the UK and abroad.

The Centre holds annual events in Europe, the UK and the Channel Is; produces two monthly newsletters; lobbies and campaigns; publishes the quarterly Esop index which tracks quoted companies with over three percent employee shareholding; represents the sector on government committees and is a member of the Business Advisory Group to the OECD.