Ownership Matters

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It's not often that we share plans professionals see employee share ownership make the cover of the FT - more's the pity - not once but **twice** in a fortnight, with Labour's announcement on a whole raft of employment-related matters at the TUC conference last week, swiftly followed by John McDonnell's policy proposal in his speech at the Labour Party Conference on an 'Inclusive Ownership Fund' this week.

First and foremost, it's heartening to see the Shadow Chancellor express his support for employees owning a stake in the businesses that they work for, and ProShare is committed to playing an active and constructive role in any consultation that follows.

The detail on how that employee stake is achieved, and the economic rights that flow from that, is up for debate. Unfortunately, much of the commentary so far has been ill-informed and rather lacking in factual basis. It remains to be decided how the proposed annual increment of one percent of ownership of companies' issued share capital (up to a maximum of 10%, in line with current institutional investor guidelines on shareholder dilution limits) will be funded and, critically, where the shares will be sourced from. Some of the most alarmist commentators have assumed – deliberately or otherwise - that the shares will be 'seized' from existing shareholders, when actually no such detail has been announced. Those with even a passing acquaintance with corporate governance and share schemes should be well aware that the shares could be market purchased, newly issued or even issued from Treasury – sadly this admittedly dull but importantly accurate technical detail doesn't seem to cut through the 'noise'. McDonnell's assertion that employee share ownership boosts productivity in companies is supported by evidence from multiple independent sources, perhaps less so the statement around longer-term thinking as that is much harder to quantify.

SAYE and SIP remain on the statute books as effective and valuable ways for employees to make their pay go further. On our latest data some 2.5 million UK employees currently participate in SAYE, SIP, or both plans - many millions more have benefitted from these plans over the decades that they've been in operation. Ninety-one FTSE100 companies currently operate a broad-based employee share ownership arrangement of some sort, and we estimate that around 60-70% of the FTSE 250 have these types of plans in place too. We know from our work in supporting HM Treasury's application to renew EU State Aid approval for EMI that thousands of smaller and un-listed companies value the ability to incentivise and reward their staff with shares, too.
SAYE and SIP are well-embedded into the companies operating these arrangements – our latest annual survey found that average take-up of SAYE had increased from 35% in 2016 to 42% in 2017, and that SIP take-up had increased from 29% to 32% over the same period.

It's worth noting that under the re-casting of directors' duties under s172 of the Companies Act and the associated reporting requirements, companies with more than 250 employees will be obliged to state how they've engaged with employees and whether or not an employee share scheme has been operated during the financial year in question. This comes into effect for financial years beginning on or after 1 January 2019. It's long been ProShare's view that companies don't get sufficient credit for empowering share ownership amongst their workforces, too frequently overshadowed by pay for the handful of individuals at the top of their respective hierarchies.

Perhaps the more truly radical element of Labour's ESO proposal is that listed companies be **compelled** to offer the Inclusive Ownership Fund. So this would be a shift from (or an extension of?) the current voluntary 'all employee' model where companies can choose which plan (or plans) will work best for their business model and workforce, to a mandatory 'all-company, all-employee' model. There will be many questions to work through in consultation, not least how this new ownership arrangement might interact with existing all-employee plans, shareholder dilution limits, and other considerations.

Aside from these practical and legal issues there are other matters to resolve, mainly how much real agency employees might have in an arrangement where their ownership is indirect – in McDonnell's proposed model, even with the fund overseen by elected employees, it will still be the directors recommending the level of dividend proposed to be paid out to all shareholders (including those with a notional interest in the employee trust). The dividend resolution is one of the key items of business on the company's AGM agenda for shareholders to validate, or not, as the case may be technically be - but in all my 20 working years I've never seen a proposed dividend voted down by shareholders at an AGM.

The indirect ownership model, particularly the example set by the John Lewis Partnership, has its pluses and quite rightly many supporters. In companies where this model is highly effective, however, there are many other factors which enhance and amplify its effect, strong and distinct corporate culture and disciplined, competent line management being probably the most important. These factors obviously would be beneficial to any company, regardless of its ethos towards ownership and employee engagement.

The direct ownership opportunities afforded by SAYE (post- option exercise) and SIP (from initial share award/purchase) are of equal and distinct merit, having benefitted many millions of UK employees over the decades that they've been in operation by the majority of the UK's most successful companies.

Direct and indirect models of ownership have co-existed happily for some years now, and long may they continue to do so. Choice and flexibility should be protected, for the sake of all types of companies, large and small, listed and private, and most importantly for the sake of all of their employees.

The UK's political parties are in the midst of this year's party conference season, setting out their policies on a range of issues (assuming their conference agendas are not totally subsumed by the divisive issue of Brexit). We in the employee share ownership industry have been committed to extolling the benefits of ESO to employees, businesses and society at large for many years and it seems that the current debate on economic equality and fairness for all presents us with an opportunity to take all forms of Employee Share Ownership to a much broader mainstream audience than has been the case for some years. This is an opportunity to be embraced by our industry in its broadest sense. As always, ProShare welcomes its members' views on this and all matters of employee share ownership policy.

For the lowdown on why employee share ownership matters, come to ProShare's Annual Conference on 3 October. More details here: https://proshare.libf.ac.uk/events?EventID=12014%20

Gabbi Stopp
Executive Director ProShare