Super-charging employee share ownership for the many…

The Labour Shadow Chancellor John McDonnell's speech earlier this week on 'Rewriting the rules of our economy' centred on several incontrovertible principles, including:

- treating people fairly and with the respect they deserve,
- the laying of some foundations for a stakeholder economy, and
- a belief that any business should be a partnership between employees, customers, management and shareholders for the long-term success of the enterprise.

I can't disagree with these principles, and they should resonate with large swathes of the British voting public, too. Where we begin to diverge, however, is around the imposition of a mandatory, 'one-size-fits-all' model for employee share ownership through Labour's 'Inclusive Employee Ownership Fund'.

ProShare is a membership organisation which believes passionately in the power of employee share ownership ('ESO'). We seek to promote ESO in everything that we do, including the publication of our Annual SAYE & SIP Report, which looks in detail at how the UK's flagship all-employee share plans, Sharesave (or Save As You Earn) and SIP (the Share Incentive Plan) are operated by companies large and small up and down the country.

In the last year alone, our report found that over two million UK employees participated in one or both of these employee share plans. Current legislation already allows companies to place up to 10% of their issued share capital in trust for their employees. Employees can access those shares at key points, and then have the agency to decide exactly what to do with their shareholdings – many of these ordinary workers make much more than £500 off their share plans. They can choose to sell their shares, and realise a much-needed profit in cash, or they can opt to keep their shares and receive dividends. Last year 62% of employees in Sharesave schemes chose to keep their shares.

Choice and flexibility are the watchwords here – employees can choose how to participate in these all-employee share plans, and enjoy the flexibility to choose what to do with their entitlements. Companies too, can choose which types of share plan to offer to their workforces. The tradition of pluralism in the UK, of having several different types of employee share plans and of company ownership models to choose from, has served us well – and could be made to work even better. Destroying what we have now, though, will cause hardship to many millions of employees and will tie the hands of companies who already willingly invest millions of pounds into putting shares in the hands of their workforces.

Imposing the IOF on a mandatory basis, forcing companies to put up to 10% of their issued share capital into this model alone, would effectively cannibalise our existing all-employee share plans, SAYE & SIP. The benefits of the IOF for employees don't stack up, either.

Only entitled to up to £500-worth of dividends per year, the balance of each employee's dividend entitlement over this capped amount would effectively subsidise a Labour Government's Climate Apprenticeship Fund. The purpose of this fund is, in McDonnell's own words, 'to train the skilled workers needed for our green new deal to tackle climate change'. Whilst only an idiot (or climate denier) would argue against the need for urgent action to tackle climate change – it is most definitely an existential threat to all of us – why should hard-pressed employees be the ones to foot the bill for this? If this is an overriding priority (and it should be) then put together a fairer and more coherent plan on how to fund it. McDonnell's speech included a vow to 'ensure that companies are pulling their weight alongside government' – taking share plans and dividends off employees doesn't make good on this promise.

Yes, today's business model of shareholder primacy ('domination' was the term fairly used by McDonnell in his speech) does indeed need to change in certain ways. And, yes, it would be massively beneficial to both companies in terms of productivity and bottom-line P&L impact and employees and workers in terms of increased ownership and financial benefit to foster greater employee share ownership in the UK.

Here are three ideas on how this could be achieved:

- reduce the all-employee Share Incentive Plan holding period from 5 years to 3 years;
- link the availability/extent of the corporation tax deduction on executive share plans to the offer of all-employee share plans to the broader workforce; and
- re-introduce tax-advantaged cash profit-sharing schemes for companies and organisations who are unable to offer shares to their workforces.

McDonnell's stated aim is 'to strengthen good business practice whilst we drive out the bad.' Our existing share plans have benefitted millions of UK employees over many years – strengthening share plans will also strengthen good business practice.

ProShare's message to John McDonnell and Labour couldn't be clearer: talk to us, and we can show you how to super-charge employee share ownership in the UK, for the good of the many, not the few.