



The Role Of Direct Employee Share Ownership In Market Economics

David Craddock, Founder & Director, David Craddock Consultancy Services

Monday, 26 February 2024, 15:00 GMT

A Word From Today's Chairman

Ian Harris
Managing Director
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Today's Agenda

- 15:00 – 15:05 Chairman's Introduction
- 15:05 – 15:25 Keynote Presentation – David Craddock
- 15:25 – 15:45 Questions & Answers

Today's Speaker

David Craddock
Founder & Director
David Craddock Consultancy
Services



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Specialist in Employee Share Ownership and Reward Management,
Share Valuation, Management Buyouts,
Employee Ownership Trusts (EOT)
& Investment Education

Founder, Principal and Director:
David Craddock, MA(Oxon)
Consultant and Lecturer

Author of *“Tolley’s Guide to Employee Share Schemes”*

★ *Expertise and Experience* ★

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A Webinar Presentation on
The Role of Direct Employee Share
Ownership in Market Economics
for
The Esop Centre and The FS Club
by
David Craddock, MA(Oxon)

Specialist in
Employee Share Ownership
and Reward Management,
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Monday, 26th February 2024



The Role of Direct Employee Share Ownership in Market Economics

The Totalitarian System of Government Discredited

With hindsight it seems curious to think that any credibility at all could have been attached to the words of a politician and political observer as respected as Anthony Crosland when in “Socialism Now”, published in 1974, he wrote:

“I see no reason to alter the revisionist thesis that government can generally impose its will (provided it has one) on the private corporation.”

Indeed, in one of the New Fabian Essays in 1950 Crosland had commented with pride:

“Britain has in all essentials ceased to be a capitalist economy”.

The flaw in Crosland’s thinking lies not in an inability to identify poorly constructed political infrastructures but in failing to appreciate the unchanging nature of the human condition in its social need for that combination of freedom, incentive, and reward. The lessons of history that Crosland had failed to learn are:

firstly, that subjugation of private initiative and endeavour to state control has the effect of stifling the natural human instinct that gives rise to that private resolve;

secondly, that enforced state control can only be sustained through colossal artificial infrastructures and only then over the comparatively short-term; and

thirdly, that ultimately the positive and natural instinct of human beings will rise up initially in defiance and then subsequently in positive and constructive endeavour.

The Role of Direct Employee Share Ownership in Market Economics

Direct Employee Share Ownership: Mirroring the Market Economics Model

Enter then direct employee share ownership, unobtrusively and with support across the whole political spectrum in the UK, as a natural fit to the developing market economy.

1. Direct Employee Share Ownership as a Discovery Mechanism

As an economic model of supreme adaptability, employee share ownership has asserted itself as a discovery mechanism for human resource management in its capacity to motivate and reward. The intrinsically personal nature of motivation requires policy initiatives that can be finely tuned to meet individual personal needs and maximise human potential. Direct employee share ownership offers itself in service of this purpose.

2. Direct Employee Share Ownership as a Self-Regulatory Mechanism

With its self-regulatory capacity, direct employee share ownership is different-in-kind from the impositional imperative of totalitarian socialism or, for that matter, any other system of totalitarian government that is centralised and dictatorial and requires complete subservience to the state and, furthermore, encourages dependence on the state.

Direct employee share ownership, both as a discovery mechanism and as a self-regulator, acts in exactly the same way as a mature, responsible and flexible market.

The Role of Direct Employee Share Ownership in Market Economics

The Compatibility with the Social Market Economic Model

Employee share ownership has a natural compatibility with the social market economic model in its fusion of **individual** self-interest with the wider **social** awareness.

Why? and How?

Because employee share ownership is ingenious in promoting **individual** self-sufficiency and self-reliance at the same time as assisting **collective** social cohesion through improved industrial relations and a growing national economy.

A social market economy displays a similar ingenuity where the prefix “social” ascribes a social function to the market economy as the basis for its justification. However, the social market economy continues to exist and indeed is sustained, like employee share ownership, by meeting both **personal** and **social** needs. That is the compatibility – mirror features!

Employee share ownership in harness with a social market economy represents a meaningful and credible socially-aware alternative to old-fashioned out-dated redistributionist policies. There are two flaws to traditional redistributionist theory as follows:

1. **The first flaw** is that by dispensing gifts that are not related to effort and contribution the tendency on the part of the donee is a failure to attach value.
2. **The second flaw** is that by discouraging the individual who aspires to be a millionaire you are also discouraging the individual who aspires to a fraction of that amount.

The Role of Direct Employee Share Ownership in Market Economics

The Responsibility Consequence of Direct Employee Share Ownership

Direct employee share ownership teaches responsibility:

1. in encouraging personal contribution

and in celebrating personal reward,

but also

2. in encouraging team (or corporate and social) contribution

and in celebrating team (corporate or social) reward

and in being aware of the corporate or social need

and, therefore, if properly encouraged, wider civic responsibility.

The Role of Direct Employee Share Ownership in Market Economics

The Alternative Democracy in the Corporate World through Direct Employee Share Ownership

A social market must, by definition, be inclusive. Dangers arise where the political structures and institutions do not support that inclusiveness. Like the economic gifts that follow from economic redistributionist policies, the free nature of the vote as an unearned dispensation of political gratuity to all can attract a devaluation by virtue of its free nature. The problem with a certain perception of general election votes is that they are votes without a responsibility or an influence that is either tangible or measurable. Concerningly, if not exercised, they can give a political party a mandate to rule without the authority of a majority of the electorate.

The observation and, yes, conclusion, is that, contrary to Crosland's dictum of 1974, the reverse is now more accurate: the private corporation can now more easily impose its will on the government rather than the other way round. This presents the electoral opportunity for direct employee share ownership in that if it is the corporate world in which true government lies and if it is the corporate world that dominates people's lives then employee votes are best registered in proportion to personal shareholdings in that corporate world, whether shareholdings obtained through employee share ownership schemes or, alternatively, through the privatisation issues.

The conclusion must be that employee share ownership can provide its own political infrastructure to support itself and the social market economy that it seeks to serve.

The Role of Direct Employee Share Ownership in Market Economics

The Potential Contribution to a Vibrant National and International Economy

The Key: Direct employee share ownership represents an economic variable which, like the other macroeconomic variables of inflation rates, interest rates, employment levels, exchange rates and balance of payments, has the potential to act as a support mechanism for the wider economic and social goals of productive national economies and stable social environments, if only it is embraced by governments truly as an economic variable of influence.

Reference then the social market economy for which economic productivity and social stability are the twin objectives.

The potential to achieve what I have called **The Economic Tripos of Direct Employee Share Ownership** is as follows:

1. Higher employment levels and the avoidance of redundancies
2. Lower prices through the taming of the inflationary spiral
3. Enhanced productivity through motivational and incentivised working

The Role of Direct Employee Share Ownership in Market Economics

The Share Economy by Professor Martin Weitzman

Professor Weitzman in his book, “The Share Economy”, published in 1984, postulated the causal hypothesis that the use of variable profit-sharing, and, by implication wider direct employee share ownership, implies that all involved in business will have fluctuating income levels over a given business cycle. This hypothesis is predicated on appreciating the advantages of flexible labour costs.

The consequences of sustaining this position are as follows:

1. The positive affect on employment levels is that if there is a flexibility in the wage cost bill then there is less pressure on the part of management to authorise redundancies.
2. The positive affect on price levels is that by smoothing out the business cycle, or the trade cycle as it is referred to at the macroeconomic level, there is less need for governments to introduce heavy demand stimulation into the economy.

The consequences of this are that, as well as avoiding short-term unemployment, inflationary pressures will be kept in check by the lack of an imperative to use fiscal and monetary measures to stimulate the economy.

Any policy directive that has the capacity to both maintain employment levels and reduce inflation must be given serious thought and consideration. If the bigger and more successful businesses are able to offer reward to employees without settling significant pay rises then this will set a standard for all companies, including smaller companies and, of course, less successful companies.

The Role of Direct Employee Share Ownership in Market Economics

The Economic Basis for the Tax-Advantaged (Tax-Approved) Employee Share Schemes

1. The Quiet Revolution becomes The Dynamic Revolution

Up to the introduction of the tax-approved legislation in the UK in 1978 the development of direct employee share ownership had always been known in academic circles as “The Quiet Revolution”. The introduction of the profit-sharing employee share scheme in 1978 under the guidance of the then Labour Government supported by the Liberal Party heralded the renewed interest in direct employee share ownership with substantial legislation following under the Conservatives.

2. The Impact of Cooperative Working and Improved Industrial Relations

The theoretical position upon which the all-employee tax-approved share schemes are based is that in time more co-operative working patterns and the breakdown of barriers between management and the workforce will raise income levels for all. With income levels rising on the basis of more co-operative working there is less need to introduce legislation that constrains productivity.

3. The Key to Business Prosperity and National Prosperity

If direct employee share ownership can at the same time increase productivity, at least maintain and preferably increase employment levels and increase incomes in a way that is not inflationary then here lies the key to business prosperity and, indeed, national economic prosperity.

The Role of Direct Employee Share Ownership in Market Economics

The Contribution to Enable Capitalism to Become a Benevolent Economic Model

Direct employee share ownership gives to the economic philosophy of capitalism a method of combining welfarism with wealth creation. This is achieved through its capacity to unite opposites, resolve contradictions and blend apparent incompatibilities into a sustainable and holistic whole.

In its practical manifestation, direct employee share ownership uses capitalist principles to cross the boundaries between the factors of production (labour, capital, etc.) in a way that releases the full potential of the capitalist system whilst at the same time operating its checks and balances through a refined appreciation of the capitalist “invisible hand” working to distribute goods and services with a fairer reward to all.

Direct employee share ownership does this by encouraging social accountability in that it makes the market accountable to society in the form of the shareholders who as consumers are guaranteed a right of exit. If the consumer is not satisfied with the products of a company and the consumer is also a shareholder in that company, then the consumer/shareholder will withdraw not only their trade but also their business finance.

The Role of Direct Employee Share Ownership in Market Economics

The Concept of the Social Market: The Competition Element (Slide 1)

The Key: Lower unemployment, lower prices and enhanced productivity represent objectives in the pursuit of welfare as much as in the pursuit of wealth. It is anomalous and short-sighted to consider that one is mutually exclusive from the other.

The social market economy as a concept represented initially a reaction against monopoly power in the days of post-Second World War Germany. As a precaution against a future Hitler in the political or in the business sense the recognition of the social market as an organising principle in economic and social life was embraced by the Christian Democrats in 1949 for the subsequent endorsement by the Social Democrats in 1959. The aim of this venture was described by Jeremy Leaman in his book “The Political Economy of West Germany 1945 to 1985”, published in 1988, as “the deproletarianisation and decentralisation of the German economy”.

If by “deproletarianisation” is meant “inclusiveness” and if by “decentralisation” is meant “individual empowerment”, then the natural evolution of the UK economy since 1979 has embraced these concepts with direct employee share ownership being both a major contributor and a major benefactor. The archetypal “chicken and egg” makes it difficult to determine which has come first but suffice to say that direct employee share ownership and the developing market economy have developed alongside each other as complimentary evolutions.

The Role of Direct Employee Share Ownership in Market Economics

The Concept of the Social Market: The Competition Element (Slide2)

An advanced and sophisticated understanding of competition in the social market sense was postulated by Franz Bohm, German politician and economist, when he declared:

“Competition is the greatest and most congenial means of reducing power in history. You only need to invoke it and it does the rest of the work by itself.”

This gives a new refreshing meaning to competition. Rather than being a crude Darwinist mechanism for the survival of the fittest, competition can, therefore, work to avoid the emergence of totalitarian leaders who on the face of it appear to have achieved their position by a brutal competitive streak aimed ruthlessly at dismantling their opposition.

To achieve these more benevolent objectives through competition requires a subtle understanding of the human condition and the hand of government to first introduce and then encourage the mechanisms that are compatible with this understanding. Direct employee share ownership has its checks and balances as an economic equivalent to the checks and balances that were so keenly identified by Walter Bagehot as being in the political sphere the safety valves and protections for “The English Constitution”, published in 1867. It is these economic checks and balances that enable direct employee share ownership to take the brutality out of competition and introduce the more sophisticated “invisible hand” of welfare.

The Role of Direct Employee Share Ownership in Market Economics

The Concept of the Social Market: The Co-operation Element

Referring again to Jeremy Leaman in his book “The Political Economy of West Germany 1945 to 1985”, published in 1988, he identified a key objective of the Dusseldorf Principles of the Christian Democrats to:

“involve representatives of the workforce at factory level and in national supervision of economic life in order to achieve the essential trust of all strata.”

How does direct employee share ownership fit into this dynamic?

Direct employee share ownership does, of course, work most effectively when introduced with other compatible human resource policies, including meaningful industrial relations policies.

Employee involvement and participation through works councils and employee contribution to the organisation of work conditions assist direct employee share ownership just as direct employee share ownership assists these policies of shop floor participation in achieving the enhanced productivity that results from better industrial relations and stronger business identity.

The underlying point is that direct employee share ownership contributes to both competition and cooperation, i.e., the competitive nature of the business and the spirit of cooperation among the workforce for the improvements in productivity.



The Role of Direct Employee Share Ownership in Market Economics

Understanding the Operation of the Social Market (Slide 1)

The social market is the operation of the market economy in a form which is conducive to social progress as much as it is to economic development. There is no pretending that any model represents the expression of a perfect ideology and the social market like any other economic model has its limitations.

The so-called “Father of Economics”, Adam Smith, in his work “The Wealth of Nations”, first published in 1776, recognised that the individual is: “led by an “invisible hand” to promote an end which was no part of his intention. By pursuing his own interests, he frequently promotes that of the society more effectually than when he really intends to promote it.”

As already mentioned, direct employee share ownership assumes the role of the “invisible hand”, not as a means of manipulation by one political group or faction but as a generally accepted method of bringing out the best in human beings. Furthermore, in putting ownership in many hands, as indeed do the wider share ownership initiatives of privatisation, direct employee share ownership, by definition, decentralises power, encourages this multiplicity of power sharers to work together and ascribes to the market the role of a continuous referendum on the services and products of companies and, indeed, on their way of doing business both internally with their employees and externally with the outside world.

The Role of Direct Employee Share Ownership in Market Economics

Understanding the Operation of the Social Market (Slide 2)

If the debate is to be had on whether direct employee share ownership is based on Platonic altruism or enlightened self-interest in the mode of Aristotle, the verdict would have to come down in favour of Aristotle as, indeed, it would for the social market economy.

1. The subtlety is that the social market economy makes the pursuit of individual desires or plans or schemes the instrument for satisfying through exchange in the marketplace the desires or plans of others.
2. It encourages an interdependence that makes the dominance of one over the other a less likely occurrence and interprets market awareness as incorporating social consequences as much as economic consequences.

The social market economy is, by definition, a trading mechanism through which are traded all the factors of production, namely labour, capital, land, information, technology as well as products and services. Direct employee share ownership gives to employee share scheme participators a stake in all these factors of production through the ownership of the shares.

Furthermore, the shares themselves are tradable through the same conceptual market mechanism arrangement.

The Role of Direct Employee Share Ownership in Market Economics

Understanding the Operation of the Social Market (Slide 3)

The market economy in its social market form represents an adequate system and probably the fairest system for supplying products and services to society. It dispels the notion that market economics has by necessity to be overtly individualistic or brutally competitive. It does this by requiring social accountability through its “invisible hand or hands”, one of which and potentially the most powerful of which is direct employee share ownership.

The market economy in its social market form recognises the limits of the market but at the same time it rejects the notion of “the mixed economy” as an uneasy compromise between privatisation and nationalisation. Indeed, it rejects nationalisation as being a bogus and fraudulent claim for people’s ownership, recognising that monopoly power whether through nationalisation or privatisation is equally tyrannical and a bureaucratic dictatorship. The social market, assisted by employee share ownership, is a species which is different in kind from the now outdated concept of “the mixed economy”.

The market economy in its social market form recognises that the market mechanism has triumphed over attacks from centralised totalitarianism and is the system of economic organisation most compatible with a true appreciation of the human condition in a way that encourages the best in human beings. Nevertheless, as a non-ideological philosophy it takes “a hands-up approach” to accepting the possibility of market failure but develops the means of compensating for such failure. It will always in its more refined welfare-orientated approach seek to secure acceptable social conditions for exchange in the marketplace.

The Role of Direct Employee Share Ownership in Market Economics

The Legacy Position from the USA

1. Louis Kelso

Through his “Binary Economics”, Louis Kelso contended, **firstly**, that labour and capital are equally fundamental and, therefore, “binary” factors of production, **secondly**, that technology makes capital more productive than labour, **thirdly**, that capital cannot work without labour and, therefore, labour should receive, as well as traditional earnings, “The Wages of Capital”, and **fourthly**, direct employee share ownership enables unity and, therefore, “Identity of Interest” between shareholders and employees around the totem of the developing share value.

2. Martin Weitzman

Through “The Share Economy”, Martin Weitzman explained the potential macroeconomic and microeconomic benefits that emerge from variable levels of income linked to profit-sharing and, by implication, therefore, direct employee share ownership also.

The Legacy Position from Europe

The social market economy is a species which is different-in-kind from the outdated concept of the mixed economy, and has the capacity, as a natural fit, to work in harness with direct employee share ownership.

The Role of Direct Employee Share Ownership in Market Economics

A Final Word: The Mindset of Entrepreneurship through Direct Employee Share Ownership

The objective is for the employees to have the mindset of the entrepreneur through the motivation and incentive engendered through participation in direct employee share ownership.

Capitalism has its Latin roots in the word “head” and can be regarded, therefore, from its original meaning as a system that requires mental application, and, in particular creativity. Within that creativity is the freedom to express and contribute, all predicated on the spirit of learning within a culture of learning. In that sense, it is a discovery mechanism in a world that is unpredictable and full of surprise, requiring, therefore, resilience to apply the new information obtained from the learning in the interest of the business.

Direct employee share ownership best operates in a business environment that offers training and development and, as a share programme, is properly implemented, properly communicated and properly developed with care and precision, and contributes to the spirit of creativity and learning which provide the engine for the economic growth of the business.

Any further assistance required on your employee share scheme initiative then please do not hesitate to contact David Craddock: Contact details on the next slide

Employee Share Schemes

All Best Wishes for Your Business Initiative

from David Craddock MA(Oxon)
Consultant, Lecturer, Author
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February 2024

INTRODUCTION

- President's column - The esop world needs resilience to see the Roadchef employees are not shortchanged.

TOP STORIES

- Roadchef employees upset by low compensation payout
- Reasons for "BRISA"

EVENTS

- Lord Mayor's Coffee Colloquies: SDG10-Reduced Inequality: Productivity & Employee Share Ownership - February 13
- Webinar: The role of direct employee share ownership in market economics - February 26
- Vestd sponsors the 2024 British Isles Share Plans Symposium - April 25

UK CORNER

- BrewDog growth hits real living wage
- New UK Corporate Governance Code: remuneration provisions
- PDMR share dealing
- UK consumer confidence hits highest level in two years
- Tax cut promises may need to be rolled back
- Big companies at risk



COMPANIES - EXECUTIVE REWARD

- Post Office boss admits money from Horizon victims may have gone into executive pay
- ADM postpones some executive bonuses amid accounting probe
- South African executive earns \$3.4-million salary from Vodacom
- Big bucks for California nonprofit ceo
- Apple ceo earned less in 2023 than in 2022
- Glass Lewis and ISS announce updates for 2024 proxy season
- Director's remuneration and directors' service contracts: legal requirements in Malaysia

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(LF.10) Reduced Inequalities

In September 2023, 193 world leaders agreed to 17 Global Goals for Sustainable Development. If these Goals are completed, it would mean an end to extreme poverty, inequality and climate change by 2030.

Goal 10: Reduce inequality within and among countries.


- If the distribution of income, assets owned, wealth, and talent were to follow CBO's prediction, **income inequality** will be greater in 2030 than it was in 2020.
- **High growth** over the past decade has been based on unsustainable resource exploitation, allowing the **existing growth in inequality** and environmental cost will be critical to ensure social stability and to ensure **strong sustainable growth** in the coming decade.
- The increase in **inequality** observed in the last 20 years is a warning to future's social system.
- America's **glove-puppet president** is pushing a tax plan that will further increase **income inequality** at a time when **income** and **wealth** gaps are already widening.
- A failure to give the world's **poorest women control** over their bodies would **increase inequality** in **developing countries** and **derail progress** towards global goals aimed at ending poverty by 2030.
- Under French leadership the G7 group of the world's largest advanced economies plus the European Union will have to **step up fighting inequality**, including **poverty** caused by **climate change**.
- Leadership might require companies to take **profitable and sustainable** for **change on global inequality** - including **low work pay rates**.
- Achieving the 17 Sustainable Development Goals - which include **clean water**, **clean energy**, **sustainable cities**, **climate action**, **responsible consumption**, **reduced inequality** and more - could open a market opportunity of \$1 trillion by 2030.
- The next decade offers an opportunity to address **African urban poverty** and **inequality** and shape development priorities to ensure that urbanisation helps lower middle-income, flexible and sustainable cities.
- In Africa and in the LDCs, **reducing poverty** by 2030 will require both **double-digit GDP growth** and **decade declines in inequality**, **shortening the odds** of the current challenges faced.
- The **economic catch-up** of Asia will be **fast** and **continue** in the coming decades - **benefit reducing global inequality** among countries and among world citizens.



(FS.3.05) Employee Share Ownership

Considering 75 percent of the 2023 global workforce will be Millennials and Generation Z, it's critical that organizations keep a pulse on **employee engagement** and do a way that's consistent with how the emerging generations communicate.

- 2023 will see a **continued evolution** to designers' understanding of workplace optimization with design that **boosts office morale** and **employee wellness** while facilitating a **remote work** environment.
- By 2026, **Customer Profile** (via an **AI** **Employee-Centred** **Decision** **Cloud** for **work** that **Enables** **On-demand** **Decisions**, **With** **personal** **insights** to the **HR** **Corporate** **Governance** **Code**, **then** **HR**, **engagement** will be expected to report on **employee engagement**, as announced earlier this year by **Financial Reporting Council**.
- For **HR** leaders looking to better demonstrate the attitudes that drive employee business and increase retention, using **AI** to provide **insights into employee engagement** will be critical.
- By 2025, **Artificial Intelligence (AI)** will allow the rate of innovation to **flow** - **Double** to **double**: **Employee productivity** by **gains** are expected to increase 1.5 times.
- **Artificial Intelligence** will double the rate of innovation improvements and **improve employee productivity** by 1.5 times in New Zealand by 2025.
- US health benefits costs per employee will increase 4.7% next year - slightly higher than inflation and less than the double-digit increases seen in prior years.
- With a tight labor pool, small businesses will find it hard to hire in 2024 as **employee engagement** and **loyalty**.
- Nearly 20 percent of respondents expect that automation will lead to some reductions in their **full-time workforce** by 2025, based on the job profiles of their employee base today.
- **Employee wellness** has been on trend for years, but expect to see some high-tech changes in 2024.
- By 2025, automation and artificial intelligence will reduce employee requirements in **business shared-service centers** by 15 percent, which says the B2B market will top \$1 trillion by 2026.
- This year, many organizations will look to **employee scheduling software** to solve problems around creating, publishing and managing employee schedules that include options to cover shifts to select groups and improve data on when to hire specific customer traffic patterns to minimize worker rates.



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Forthcoming Events

- Tue, 27 Feb (11:00-11:45) A Tour of London, Science City, 1550–1800
- Wed, 28 Feb (15:00-15:45) Advanced Nuclear: The Key to the Clean Energy Transition
- Thur, 29 Feb (11:00-11:45) How Will We Be Long? - How Can A Piece Of Music Help Us Think About The Next Thousand Years?
- Tue, 05 Mar (11:00-11:45) Looking Ahead: Personal Reflections On Using Management Insights From Physics & Economics To Approach Pressing Societal Challenges

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