Employee Voice: The role of Employee Share Plans

A discussion paper for the Esop Centre – 27 May 2021

Executive summary

Employee Share ownership can have an important role in:

- helping organisations to rebuild after the pandemic
- aligning employees' interests with those of other stakeholders
- improving productivity through greater levels of engagement
- genuine gain sharing and wealth creation for employees

While this paper touches on many of the clear benefits of employee share plans as discussed below, this debate is non-exhaustive.

Instead, for today, we wish to highlight the issue of the employee voice: how employees may vote their shares in communication with the company.

Creating greater engagement and productivity

The UK economy has a persistent problem of low productivity growth with workers producing less per hour than their peers in France, Germany, the United States, and Italy.

There is a considerable weight of evidence that all employee share plans can improve performance.

- A study commissioned by HM Treasury found that broad-based employee share ownership was linked to improved company performance measures, such as turnover and profitability. The study found that, on average, the effect of tax-advantaged employee share plans is significant and increases company productivity by 2.5% in the long-run.

- Research by HM Revenue and Customs into Share Incentive Plans (SIPs) and Save As You Earn (SAYE) plans showed 81% of 984 organisations surveyed citing increasing employee commitment as a major reason for setting up SAYE schemes; 87% said there had been a positive impact on relations between the organisation and its employees.

- UK and US indices tracking the stock market performance of companies with a relatively high proportion of employee shareholders show that such companies significantly outperform broader stock market indices.

Aligning employees' interests with those of other stakeholders

Purpose is set to become the buzz word of 2021 with the drive to ensure employees understand and are aligned with the purpose of the organisation and with businesses increasing appreciation that they need to consider all stakeholders. As fast fashion retailer Boohoo comment in their 2020 Annual Report "As we look to the future, we are committed to change that brings sustainable growth and that benefits all our stakeholders". What better way to show and create alignment than to treat employees as stakeholders and offer an all-employee share plan.

Helping organisations to rebuild after the pandemic

The pandemic has upended businesses everywhere, forcing many employees to adapt to new working styles, which has not come without its challenges. Many employees report feeling stressed, exhausted, and burned out at work because of the effects of the COVID-19 crisis. Often this has combined with a reduction in pay. The question for businesses is how to motivate and re-engage employees as we rebuild.

Few companies that have adopted and operated these plans have abandoned them. And so, their advantages notwithstanding the cost, seem clear.

The Issue: An ignored benefit?

The shares that an employee share plan uses have the same dividend and voting rights as all other ordinary shares of the same class. Employees who hold these shares receive these two benefits.

Dividends are straightforward. The payment is made in the normal way to the shareholder on the share register.

Similarly votes, the shares on the share register have the right to vote on all matters put to shareholders, either at the AGM or at other times.

Many companies communicate the benefits of share ownership and want their employees both to participate; and to understand the value of the plan, and how value is created within the company. However, few actively promote employees to exercise the voting rights attaching to the shares owned as a result.

Why this might be is unknown; but it may well need further exploration.

One reason may be due to a realisation that employee votes on any issue will be minor compared to the much bigger voting power of institutional shareholders. Promoting votes for employees will be rather pointless in terms of actual outcome. In fact, it may be harmful if employees feel they have a real possibility of influencing a vote outcome; only to find that this belief is mistaken.

A different reason may be that companies are disinterested in the votes of employees. They want the plan to be seen as part of the employee package; but otherwise, employees should not involve themselves in the affairs of the company aside from doing well in their own respective jobs. To encourage votes by employees may encourage unhelpful comment in the running of the company far beyond the ambit of a normal job role. The kind of comment and interference perhaps even "quasi communist" behaviours one associates with the co-operative movement.

A further issue may be that management and the board would rather not be made aware of dissenting views as to some aspects of the company's management, or strategy or other such things.

A yet further reason may be a concern regarding collective action; of the kind that Trade Unions exercise in connection with industrial unrest of various stripe.

These concerns unpicked

The minor vote concern may be addressed by examining the vote outcome of employee votes ALONE. In other words, while it is true the vote outcome overall is uninfluenced by the small percentage of shares held by employees; their voice in their voting pattern will be recorded and reported to the board.

Companies that want employees to be interested only in their job; not the job in the wider context of the company as a whole, may wish to re-examine their position. Much academic evidence suggests that shareholder value is enhanced significantly by participative management. And that the impact of employee share plans is particularly marked where that form of management is observed.

A company that does not wish to know the views of employees may also need to reconsider. First, the board is likely in breach of the S172 CA 2006 duties to make company decisions in light of the wider scene, including employees. Second, the employee voice must be heard at board level - under the UK Corporate Governance Code. Third, not hearing a dissenting view does not mean that view does not exist, it's just you are maybe uncomfortable in suspecting it exists - but you just don't know.

Collective votes may be seen by employees; but in many ways that is good. It means employees care enough about the issues at point that they take time to coordinate and frame a collective viewpoint. Trade Union involvement will not always be bad; and to be clear; votes are non-transferable, it is not possible for a Trade Union to vote the shares collectively on behalf of employees, even Union members.

The proposal

Companies should record the votes cast be employees on all company votes in isolation. They should compare the vote result to the vote result from non-employees on the same issue, and analyse the rationale for the differences. Good practices will then be to present this at board level; and feedback to employees a summary of the results and the implications arising for the company going forward.

In time good practice will expand to public disclosure of this summary in the AFR.

What about share options?

Share options do not get a vote. But as this exercise is aimed not at determining if a vote is passed or failed; an option vote structure can be adopted. As a going assumption each share under option will have one vote as if each option share was a share actually held.

What about shares held in an employee or ESOP Trust?

Shares in trust typically do not vote. Or if they do vote they vote pro-rata to the votes overall. And so there should be no distortion effect on the employee vote due to Trust held shares.

Administration concerns

The way employee shares are recoded on the register is not always straightforward. Many are held in nominee names for example.

However, the investment needed to facilitate this form of fate identification will most likely create a new service for administrators to issuers; and hence a new stream of revenue.

With modern technology, the administration issues should not be an insurmountable obstacle; particularly if new revenue streams are in prospect.

Some questions and next step

Various questions arise but to start the discussion, the following are in point at inception:

- **For companies**: is it correct we want to hear the Employee Voice through looking at the employee votes in isolation?
- **For employees**: would you be pleased and more likely to vote your employee shares if you knew that the employee vote result would receive top level attention?

- **For advisers**: would the employee vote enhance the perceived value and impact of the employee share plan? And should option holders have the same vote as actual employee shareholders but generated synthetically for this purpose?
- **For administrators**: what would be the implications of taking this into effect, and who should bear the cost?
- **For communicators**: how best to alert employees to the now enhanced benefit of voting; and how do we interpret the vote result and feedback the implications?

Perhaps the first step then is a public debate; of the kind that a not-for-profit organisation such as the Esop Centre might facilitate.

End notes

- Oxera (2007), “Tax Advantaged Employee Share Schemes: Analysis of Productivity Effects” MacLeod and Clarke (2015), “Engaging for Success: enhancing performance through employee engagement”
- Kaarsemaker (2006), “Employee ownership and its consequences: synthesis-generated evidence for the effects of employee ownership and gaps in the research literature”
- Boyle et al (2016), “Employee ownership and firm performance: a meta-analysis”
- HMRC (2020), “Tax Advantaged Share Schemes 2019”

Authored by: Damian Carnell and Jane Allen

CORPGRO

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