Share Ownership by Employees

To what extent do employees participate in the ownership of the companies for which they work?

To what extent do they share in company profits, either as a consequence of ownership or through other channels?

These are questions of great political, economic and industrial significance on which there is much speculation but little factual knowledge.

To throw light on this problem the I.P.A. in March/April of this year approached some 1,300 limited liability companies listed on the Australian Stock Exchanges for relevant data. Some highly important results were secured.

Each company was asked to reply to the following questions:

1. How many people are employed by your Company (including subsidiaries)?
2. What is the total number of shareholders in your Company?
3. How many of your employees own shares in your Company?
4. Does the Company make, or has it ever made, special arrangements for the issue of shares to employees, such as—
   (a) Portion of public issue reserved for employees.
   (b) Purchase by instalments deducted from pay.
   (c) Special employee shares.
5. Do employees share in profits in any other way, such as—
   (a) Bonuses or gratuities at the discretion of the Board.
   (b) Profit-sharing schemes, i.e., proportion of profits to be shared fixed in advance.
   (c) Special appropriations from profits to employee provident or retirement funds, etc.

Over 700 forms have been returned.

This represents about three-quarters of the companies from whom a return might reasonably have been expected. The emphasis on employee shareholdings probably led many companies with relatively few employees to ignore the questionnaire.

The sample, which embraces a substantial proportion of the employees and the share capital of all listed public companies, can be taken as giving a fairly representative picture of the position for industry as a whole.
The results for 704 companies showed:

- Total number of employees: 449,676.
- Total number of shareholdings: 1,060,892.
- Proportion of employees holding shares in companies which employed them: 1 in 12*.

**Special Arrangements for Encouragement of Employee Share-ownership**

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<th>% of Employees participating</th>
<th>No. of Companies</th>
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**Other Methods of Sharing in Profits**

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<td></td>
<td>Bonuses</td>
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The survey bears out what the I.P.A. has already shown to be true for a number of large representative companies, i.e., that in the great majority of companies shareholders greatly outnumber employees. Of the 704 companies tabulated only 58 had more employees than shareholders. Totalling all the companies surveyed—and ignoring the element of duplication arising from the fact that many people hold shares in more than one company—the number of shareholders exceeds the number of employees by more than 2:1. The extent of this duplication is of course unknown. But it is clear that for any particular business the number of people providing capital for the conduct of the business is usually greatly in excess of the number of people employed by it.

The number of employees holding shares in companies for which they work is, on the whole, comparatively small—

*Since some companies, particularly those with very large share registers, were unable to furnish particulars of employee shareholders it is not possible to give a total figure. The proportion shown covers only the companies which gave this information. Even this figure could be misleading in that women, juveniles and casual employees are included and it does not take account of indirect holdings through superannuation and provident fund investments.
about one out of every twelve employees for the companies which made returns. An analysis of individual questionnaires also made clear that the majority of the employees holding shares are executives and members of administrative staffs. Holdings of factory or shop employees are comparatively insignificant. It must, therefore, be concluded that, despite notable exceptions, the practice of industrial employees directly owning shares in the companies *which employ them* is not widespread. This does not necessarily mean that industrial employees do not hold shares in other companies; but it is a fair inference that most do not.

A high proportion of employees, however, certainly benefit from company profits through a kind of *indirect* ownership of shares. For example, life assurance companies have invested over £50 millions in company shares and debentures. Unit Trusts, investment companies and superannuation and provident funds are other avenues of investment of employee savings in company shares. Although it was not specifically requested in the survey, some companies volunteered information about indirect share ownership by employees through share purchase associations and provident funds. Nearly 10,000 employees were shown in this way to be virtually shareholders in their respective companies. The number for all companies would certainly be much greater than this since only a small proportion of companies with provident funds indicated whether or not these funds held their shares. By these indirect means it is likely that a high proportion of employees share in profits, to a small extent at least. For example, in these days most employees hold a life assurance policy and thus receive bonuses which in part are earned from investments in company shares.

About 250 of the companies replying to our enquiry have made arrangements of one kind or another to encourage their employees to obtain shares in their companies. The commonest method is to set aside a portion of a new public issue for employees or to give preference to applications for shares by employees. This trend is most noticeable among companies floated or converted from private to public status since the end of the war. Two hundred and seven of all companies which returned questionnaires reserved shares for employees out of new issues. Of these, in 110 companies 10% to 30% of all employees participated. In 29 companies over
30% of employees participated. Twenty-eight did not state the proportion covered.

Forty-five cases came to hand of companies which had made "special employee share" issues. "Special employee shares" do not possess the full rights of shares issued to the public. Usually they do not carry voting rights and are not freely transferable. They are generally paid for in cash or by instalments, but some amount to a free gift under bonus and profit-sharing arrangements. Rates of dividend on "employee shares" are normally equivalent to dividend rates on ordinary shares.

Seventy-two companies made arrangements for employees to purchase shares by instalments.

The survey shows that where a company went out of its way to promote employee share ownership striking results could be achieved. Dunlop Rubber, for example, operate a Share Purchase Employees' Association. 2,000 of Dunlop's 7,500 employees are members of the Association and through it hold over 100,000 Dunlop £1 ordinary and preference shares. While the company contributes towards the cost of operating the Association, control rests entirely in the trustees who periodically purchase Dunlop shares on the open market with funds subscribed by employees. Dividends received are distributed pro rata to members who also have the right to withdrawal of monies invested.

On the other hand, the Olympic Tyre & Rubber group of companies have in the past issued special employee shares payable in instalments. Nearly one-third of employees took up these shares. They have since exchanged them for ordinary stock units in the new holding company (Olympic Consolidated Industries).

1,212 or 70% of McPherson's employees own "employee shares." These shares can be paid for either by cash or from dividends as declared. It is therefore not necessary for employees to make any payment but eventually they have an asset of fully paid shares and receive regular dividends. These shares always remain at issued par value and must be transferred to a nominee of the directors if the employee leaves the company.

Australian Paper Manufacturers in 1948 inaugurated a scheme whereby all employees could participate in new share issues by weekly deductions from their pay envelopes.
—just under 20% of the company’s payroll—have taken advantage of such offers. Associated Pulp & Paper Mills have also reserved portion of new public issues for employees. 13% of employees have participated.

On conversion to a public company in 1951, A.R.C. Industries Ltd., designing engineers and manufacturers of steel and wire products, created a special class of 5% cumulative redeemable preference, participating shares for sole issue to the Trustees of the Superannuation Funds, in which all employees with more than one year’s service are participants. These shares participate in full with ordinary shares—last year employees were credited with a dividend of 13½%.

All Edwards Dunlop employees with over 3 years’ service are members of a non-contributory Provident Fund with a substantial share interest in the company. Goldsbrough Mort also made available shares amounting to £51,441 (face value) to the Provident Fund on a very favourable basis and thereby 1,100 employees (75% of the staff) became indirect shareholders in their own company.

Arrangements for Sharing in Profits:

Apart from sharing in profits through ownership of shares, the survey shows that a substantial proportion of employees participate in profits through special bonuses, through formal profit-sharing schemes and through membership of superannuation and provident funds. Formal profit-sharing schemes under which profits are shared on some pre-determined basis are not numerous—78 companies, or around 10%, reported schemes of this kind. On the other hand, the practice of paying periodical or annual bonuses out of profits to employees is fairly general. Five hundred and nine companies, or 70% of all the companies from which replies were received, pay bonuses to employees.

A large proportion of companies—at least 2 out of 3—now have superannuation or provident funds. (The proportion is probably substantially greater as the form in which the question was worded may have led to a large number of companies with such funds to have replied in the negative.) Superannuation schemes are usually administered by life assurance societies, individual companies subsidising employee contributions, while provident funds are operated by companies themselves for the benefit of employees. Funds appropriated from profits and contributed by employees are invested in various securities including the company’s own shares. It is worth
noting that this practice is growing rapidly in the United States, particularly in conjunction with deferred profit-sharing plans.

Participation in profits in the ways described does not of course necessarily apply to all employees of the companies concerned. For instance, of the 509 companies reporting the payment of bonuses, the proportion of employees participating varied widely as between different companies. One hundred and twenty-seven companies did not state the extent of participation by their employees in bonus payments. Of the remainder, 155 companies paid bonuses to all, or virtually all, of their work force; 124 to between 10% and 30%; 60 companies confined bonuses to selected administrative and supervisory personnel.

Of the 451 companies which reported a superannuation or provident fund, 141 or about one-third stated that over 30% of employees participated. Only 32 companies reported that the applications of such schemes were restricted to under 10% of their personnel.

For obvious reasons, many women workers, juveniles and casual or temporary employees, which together make up a fairly large proportion of all employees, are not suited for pension schemes, share-ownership and profit-sharing arrangements.

Some General Observations:

The broad practice of giving employees a greater financial stake in their companies is growing. It is true that there has been no significant expansion of formal profit-sharing schemes of the older type. (There may be good reasons for this.) On the other hand, the payment of bonuses and the institution of company subsidised retirement funds have become widespread. There has also been some development in share ownership by employees, notably through the issue of "special employee shares." But whatever the method used, the broad principle of encouraging employees to acquire a financial interest in their enterprises is almost certain to extend both in the range of companies to which it is applied and in the coverage of employees within individual companies. Apart from the relative merits or de-merits of the various possible methods, this general trend is certainly to be welcomed as a stabilising influence both politically and industrially.

Most schemes, of course, have disadvantages as well as
advantages. For instance, bonuses paid regularly year by year come to be accepted as a right and if they are reduced in amount or discontinued—even though there may be no alternative—discontent and even antagonism to the company may result. Again, strong arguments may be adduced against employees, especially industrial employees, holding shares in their companies. This may mean that they have virtually all their eggs in one basket and, in the event of a decline in the company’s fortunes, they risk losing not only their job but also their savings. The issue of “special employee shares,” however, offers a means of overcoming most of the hazards of loss of capital. Usually these carry a fixed par value; they cannot be realised on in the open market but have to be sold back to the firm or to another employee. This also applies where employees leave the business for reasons other than retirement.

Perhaps the central problem of modern industrial relations, especially in large concerns, is the inculcation of a feeling of “belonging” and of loyalty on the part of employees towards the business in which they work. This objective should be promoted where employees possess a financial stake of some kind in the business. A strong sense of loyalty on the part of employees to their company could prove to be an invaluable asset in the event of threatened nationalisation and, from the wider standpoint, should help fortify the private enterprise system against socialist policies. Some observers attribute the recent introduction by Imperial Chemical Industries, England, of a scheme of “free shares” for employees partly to the fact that the company has been threatened with nationalisation by the Labor Party. The company also had in mind that it would contribute to more harmonious relations within the industry and to the all-important goal of greater productivity. Under the scheme I.C.I. employees receive a yearly bonus of 1% of their annual wage for each 1% by which the ordinary dividend rate exceeds 5%. The bonus is paid in the form of ordinary I.C.I. shares which are held by trustees and handed to an employee when his total reaches 25.

In Australia at present the danger of extreme socialist policies may seem remote. Private enterprise should, however, beware of complacency on this account; the “Singapore” frame of mind must always invite disaster. Rather it should continue to explore every avenue of strengthening its human foundations. This is the surest way of rendering itself impregnable to hostile political forces.