

Research Report

AN OVERVIEW OF EXISTING DATA ON EMPLOYEE SHARE OWNERSHIP IN AUSTRALIA

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Employee Share Ownership Project



The Employee Share Ownership Project is a joint initiative of the **Centre for Corporate Law and Securities Regulation**, the **Centre for Employment and Labour Relations Law** and **The Tax Group**. It is funded by an Australian Research Council Discovery Project Grant.

The project subjects the existing regulatory regime for employee share ownership plans in Australia – in tax, corporate and labour law – to technical and empirical scrutiny. It analyses how current legal regulation structures and constrains the use of ESOPs in Australian enterprises. It examines the current incidence and forms of ESOPs in Australia, the diversity of objectives that such schemes serve, the extent to which current corporate, tax and labour law inhibit ESOPs, and the case for reform of the regulatory framework.

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CONTENTS

1 INTRODUCTION	1
1.1 OVERVIEW OF KEY STUDIES	1
2 INCIDENCE OF ESOPS IN AUSTRALIA	2
3 TRENDS OVER TIME	2
4 TYPE OF PLAN	3
5 AWARENESS OF EMPLOYEE SHARE OWNERSHIP	4
6 CHARACTERISTICS OF COMPANIES WITH EMPLOYEE SHARE OWNERSHIP	4
6.1 SECTOR	4
6.2 COMPANY SIZE	5
6.3 STOCK MARKET LISTING	5
7 CHARACTERISTICS OF EMPLOYEES RECEIVING SHARES	6
7.1 TYPE OF EMPLOYMENT	6
7.2 OCCUPATION	6
7.3 MEAN WEEKLY EARNINGS	6
7.4 TRADE UNION MEMBERSHIP	6
8 ATTITUDES OF BUSINESSES IN AUSTRALIA TOWARDS EMPLOYEE SHARE OWNERSHIP	6
8.1 RATIONALE FOR IMPLEMENTING ESO	7
8.2 BARRIERS TO ESO IMPLEMENTATION	8
8.3 PERCEIVED EFFECTIVENESS OF ESO	8
9 INTERNATIONAL COMPARISONS	9
9.1 NORTH AMERICA	9
9.2 EUROPE	9
9.3 ASIA	10
10 CONCLUSION	10

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1 INTRODUCTION

This paper provides an overview of existing data on employee share ownership (ESO) in Australia. It is concerned with broad-based employee share ownership plans: plans in which the majority of employees within the company are eligible to participate. It begins by briefly outlining the key quantitative studies on ESO undertaken in Australia over the last decade. It then looks at the incidence of ESO; trends over time; the incidence of various types of ESO plans (ESOPs); awareness of ESO among business; characteristics of companies with ESO; characteristics of employees taking up shares; and attitudes of businesses towards employee share ownership. Finally, for comparative purposes, it provides data on the incidence of employee share ownership in North America, Europe and Asia. The conclusion identifies areas in which our knowledge of employee share ownership remains very limited.

1.1 Overview of key studies

The most recent data on employee share ownership in Australia was collected in 2004 through two surveys. The first study, commissioned by the Department of Workplace Relations' Employee Share Ownership Development Unit (ESODU), was conducted by TNS Social Research, ACT.¹ The ESODU research involved in-depth interviews with advisors, human resource managers and business owners in businesses with and without ESOPs; case studies of businesses with ESOPs, including interviews with CEOs, senior managers, human resource managers, finance officers and employees; and, finally, a quantitative survey of 1000 sample businesses, via telephone interviews with HR managers or the owner/operator. This survey was limited to businesses with five or more employees and stratification included business size and major industry groups. The survey covered a number of issues associated with employee share ownership, including incidence; level of awareness; reasons for implementing ESOPs; barriers to take up of ESO; effects of ESO; and effectiveness of plans in relation to the objectives of the plans.

Also in 2004, the Australian Bureau of Statistics (ABS) measured the incidence of employee share ownership using statistics compiled from the Employee Earnings, Benefits and Trade Union Membership survey, conducted as a supplement to the

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¹ TNS Social Research, 'Employee Share Ownership: Summary of Awareness, Attitudes and Endorsement' (Research report for the Department of Employment and Workplace Relations, 2004) ('ESODU Research').

Australian Bureau of Statistics (ABS) monthly Labour Force Survey (LFS) in August 2004.² The ABS conducted similar surveys in 1999 and 1994.³

Several private consulting companies have conducted surveys of employee share ownership in Australia. In 2003, KPMG surveyed 800 Australian businesses. It focused on all employee share schemes, not just broad-based ones. It looked at what type of companies had schemes; the types of schemes; reasons for schemes; hurdles; perceptions of board or management on effect of ESOP on employee behaviour and attitudes; and reasons for implementing or rejecting schemes.⁴ In 2002, Mercer Human Resource Consulting conducted a much smaller survey, based on responses from 167 web-based participants. Remuneration Planning Corporation (RPC) has also carried out analyses of employee share plan practices in 1995, 1997 and 1999, based on publicly disclosed information from Australia's top 350 public listed companies.⁵

Finally, information is available from the 1995 and 1990 Australian Workplace Industrial Relations Survey (AWIRS) data, which was collected from private sector workplaces with 20 or more employees.⁶ This information includes statistics on workplace variables, such as industry type.

2 INCIDENCE OF ESOPS IN AUSTRALIA

The 2004 ESODU research found that one in ten businesses surveyed (10%) had some form of employee share ownership. Only 4% of businesses surveyed had a broad based ESOP, which was open to at least 75% of employees.⁷ While only 44% of businesses with a plan had a broad-based ones (meaning there are significantly more executive share plans than broad-based ones in operation in Australia) the majority of plans implemented in the period 2003 – 2004 were open to all employees, indicating a move towards broad based schemes. The 2004 ABS data indicated that 5.9% of a total 481, 300 employees held shares as a form of employment benefit.

3 TRENDS OVER TIME

ABS data indicates that an increasing number of employees are taking up shares as a form of employment benefit. In 1979 the proportion of employees who received shares as an employment benefit was 1.3%.⁸ Between 1989 and 1999, the percentage of full and part time employees owning shares in their companies increased from

² ABS, *Spotlight: Employee Share Schemes*, Australian Labour Market Statistics (Cat. No. 6105.0), 2005 ('ABS 2005').

³ ABS, 'Employment Benefits in Australia' (August 1994).

⁴ KPMG, 'Employee Share and Option Schemes Survey Report' (August 2003).

⁵ See Remuneration Planning Corporation. 'Employee Share Ownership in Australian Enterprises' (Submission to the House of Representatives Standing Committee on Employment Education and Workplace Relations, May 1999).

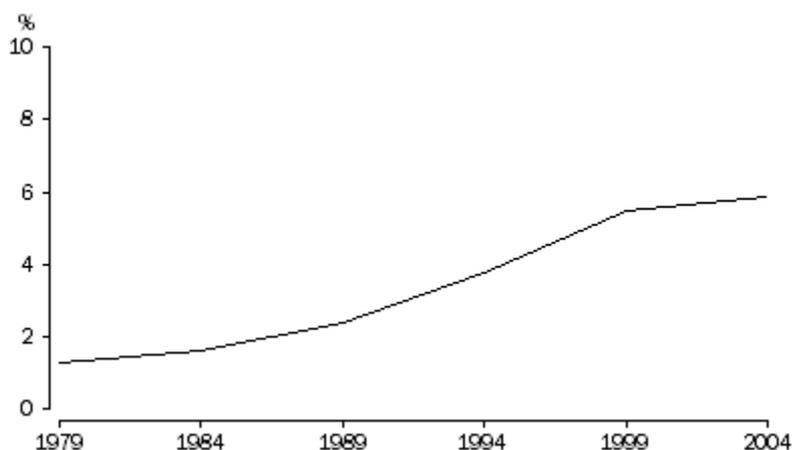
⁶ A Morehead et al, *Changes at Work: the 1995 Australian Workplace Industrial Relations Survey* (1997).

⁷ ESODU Research, above n 1, 21.

⁸ ABS 2005, above n 2, 2. For a brief discussion of the incidence of ESOPs in Australia in the 1950s to 1970s, see M J Aitken and R E Wood, 'Employee Stock Ownership Plans: Issues and Evidence' (1989) 31 *Journal of Industrial Relations* 147, 148.

2.4% to 5.5%.⁹ In 2004, the proportion of employees who received shares as an employment benefit was 5.9%.

Figure 1: Proportion of employees receiving shares



Source: ABS, Australian Labour market Statistics (Cat. No 6105.0), July 2005.

The 1995 AWIRS data found an aggregate increase in ESO schemes open to any employee between 1990 and 1995 from 16% to 22%.¹⁰ However, in only 28% of these workplaces did more than half of the employees hold shares.¹¹

4 TYPE OF PLAN

Few of the surveys have delved into the precise type of employee share plans being used by companies. Many of the surveys do not even distinguish between executive or broad-based schemes, let alone according to the particular type of equity offered to employees. The ESODU found that 44% of businesses with a plan had a 'broad-based one' (that is, open to more than 75% of employees).¹² In terms of the type of equity offered, 62% of businesses with a plan offered shares; while 31% offered options and 7% had units.¹³

The 2003 KPMG data found that option and option-type schemes remain the most popular type of equity based compensation scheme in Australia (constituting 49% of all plans). This was followed by tax-exempt share plans (12% of plans); deferred share plans (7%); loan schemes (8%); share discount schemes (5%); phantom share schemes (1%) and 'other' (18%).

The 1997 RPC data also indicates that option plans are the most widely held type of employee share plan: constituting 55% of the ESOPs available in Australia's top 350 listed companies. Another 24% are loan plans. Subscription plans, which are funded out of a company's total remuneration budget and which tend more often to be aimed

⁹ ABS, *Employee Earnings, Benefits and Trade Union Membership*, August 1999, 2000, 33.

¹⁰ Morehead et al, above n 6, 222.

¹¹ Ibid.

¹² ESODU Research, above n 1, 23.

¹³ ESODU Research, above n 1, 24.

at rank-and-file employees, rate only 8%.¹⁴ RPC found that only 65 (18.5%) had ‘meaningful’ employee share plans. ‘Meaningful’ was defined as ‘greater than 50 employee participants and/or representing more than 2% of the capital of the company.’¹⁵

5 AWARENESS OF EMPLOYEE SHARE OWNERSHIP

The ESODU research measured the percentage of businesses that were aware of ESOPs: that is, awareness of ways of providing employees with some ownership or equity in the business.¹⁶ Ninety-one percent of businesses displayed a ‘general awareness’ of such schemes. Sixty-five percent were aware of the availability of ESO plans to all employees; only 49% were aware that there was no need for companies with ESOPs to be listed on the stock exchange; and only 23% were aware of the availability of tax exemption for broad-based employee share ownership plans.

The highest rates of awareness was among public companies listed overseas (87%), followed by companies with over 100 employees (85%), companies with an annual turnover of over \$50 million (81%) and companies with mostly white collar workers (79%). Businesses that displayed the most familiarity with ESO were those in the sectors of property and business services and personal and other services (both below 50%); those businesses that rated their organisational culture as ‘good’ or ‘average’ but not ‘excellent’ and businesses with mostly blue-collar workers (60%).

6 CHARACTERISTICS OF COMPANIES WITH EMPLOYEE SHARE OWNERSHIP

6.1 Sector

In 2004, the ESODU found that manufacturing had the highest incidence of employee share ownership (22%), followed by finance and insurance (19%) and communication services (15%).¹⁷ Broad-based plans were more likely to be found in construction (84% of plans); manufacturing (92%) and least likely in retail (14%) and property and business services (20%).¹⁸

In the same year, the ABS found that the finance and insurance industry had the highest proportion of employees holding shares in the company in which they are employed (32%). While only 4% of employees worked in finance and insurance, this industry accounted for 21% of all employees who received shares as an employment

¹⁴ Remuneration Planning Corporation, *The Employee Share Plan Report 1997*, cited in Australian Employee Ownership Association, ‘Submission on Employee Share Ownership’ (Submission to the House of Representatives Standing Committee on Employment, Education and Workplace Relations, 15 April 1999) 5.

¹⁵ RPC survey, cited in House of Representatives Standing Committee on Employment, Education and Workplace Relations, *Shared Endeavours – An Inquiry into Employee Share Ownership in Australia (Majority Report)* (2000), 24.

¹⁶ ESODU Research, above n 1, 6–11.

¹⁷ ESODU Research, above n 1, 21. It is unclear whether these statistics relate to broad-based ESOPs or all ESOPs.

¹⁸ ESODU Research, above n 1, 23.

benefit. The finance and insurance sector was followed by mining (16%) and communication services (16%).¹⁹

In 1995, the AWIRS found that employee share ownership schemes were most commonly found in retail and finance and insurance and least likely in health and community services, cultural and recreational services and construction.²⁰

6.2 Company size

According to the ESODU research, 30% of large businesses (100 or more employees), 39% of companies with more than 50 offices in Australia and 32% of companies with an annual turnover of over \$50 million had employee share ownership plans. Only 8% of private companies had ESOPs. Ten percent of companies with only one office in Australia and 9% of small businesses (5-19 employees) had ESOPs.²¹

According to the 1995 AWIRS data, 2 % of private sector workplaces that were part of a larger organisation had an ESO scheme, as opposed to 3% of single workplace organisations.²² Sixteen percent of workplaces with between 20 and 49 employees had ESOPs whilst 43% of workplaces with between 200 and 499 employees had such plans.

Larger companies are more likely to have broader-based ESOPs. The 1995 AWIRS found that, of those workplaces with between 20 and 49 employees with an ESOP, 53% had less than 10% ownership by non-managerial employees. The corresponding figure for workplaces with between 200 and 499 employees is 22%. Conversely 42% of these larger workplaces with ESOPs had more than 50% non-managerial participation in the schemes, compared to just 22% of the workplaces with between 20 and 49 employees.

6.3 Stock market listing

Employee share ownership is more common among listed companies. The ESODU found that public listed companies were 'far more likely' to have ESOPs (52%).²³ The 2003 KPMG survey found that 80% of public listed companies had at least one ESO scheme (the survey did not specify, however, the proportion of these that were broad-based).²⁴

The 2003 KPMG survey also found that 38% of 'public unlisted companies' (including subsidiaries of foreign parent companies and privatised Government bodies) had employee share schemes. Sixteen percent of private companies had at least one

¹⁹ ABS 2005, above n 2, 2. In 1999, the ABS found that the industries with the highest number of employees with employee shares are finance and insurance, manufacturing and retail. The ABS noted that the industries with high levels tend to reflect the influence of a small number of very large companies in those industries. In the finance sector, the inclusion of employee share ownership provisions in enterprise bargaining agreements in the major banks has been a very strong influence.

²⁰ Morehead et al, above n 6, 222.

²¹ ESODU Research, above n 1, 22.

²² Morehead et al, above n 6, 222

²³ ESODU Research, above n 1, 22.

²⁴ KPMG, above n 4, 3.

employee share scheme. The 1995 AWIRS data indicated that 22% of private workplaces had employee share schemes.

7 CHARACTERISTICS OF EMPLOYEES RECEIVING SHARES

7.1 Type of employment

The ABS found in 2004 that 7% of full-time employees received shares as an employment benefit. This contrasts to 3.4% of part-time employees.²⁵ The 1999 ABS data found that 6.9% of full time employees held shares as an employment benefit in their main job, compared with 2.2% of part-time employees.²⁶

7.2 Occupation

In 2004, the ABS found that managers and administrators were the occupations with the highest proportions of employees who held shares as an employment benefit (12%). This was followed by 'advanced clerical and service workers' (11%) and 'Associate professionals' (8%).

In 2004, the ABS found a correlation between employees who receive shares as an employment benefit and higher mean weekly earnings. The ABS notes that this reflects the high proportion of employees receiving shares in industries where employees have high earnings.

In 1999, the ABS found that 5.5 % of employees had employee shares. 12.6 % of managers and administrators had employee shares, compared to 5.15 % of non-managers and administrators.

7.3 Mean weekly earnings

The 2004 ABS data found that employees who receive shares as an employment benefit generally have higher earnings than those who do not. The ABS notes that this reflects the high proportion of employees receiving shares in industries where employees have high earnings.²⁷

7.4 Trade union membership

In 2004, the ABS found that the proportion of employees who received shares as an employment benefit was higher for trade union members (8.5%) than employees who were not trade union members (5.3%).²⁸

8 ATTITUDES OF BUSINESSES IN AUSTRALIA TOWARDS EMPLOYEE SHARE OWNERSHIP

Few studies have sought to empirically assess why businesses in Australia adopt or do not adopt ESOPs. In 2005, Barnes et al conducted two case studies, with the goal of

²⁵ ABS 2005, above n 2, 2.

²⁶ ABS, *Employee Earnings, Benefits and Trade Union Membership, August 1999*, 2000, 33.

²⁷ ABS 2005, above n 2, 3.

²⁸ Ibid.

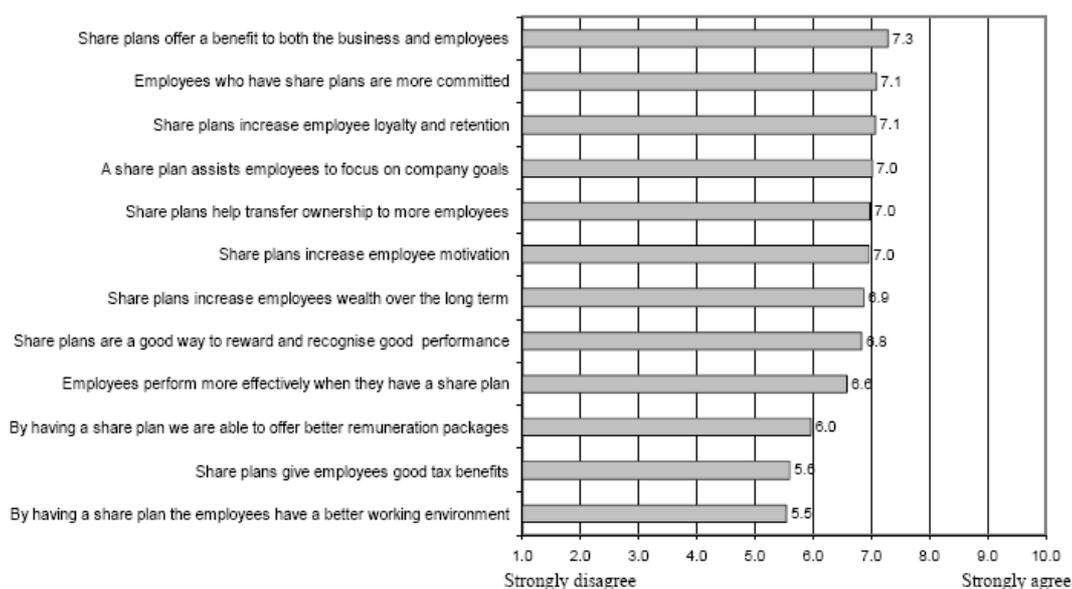
better understanding why workplaces implement ESO schemes.²⁹ The study consisted of structured interviews with management and employees at two companies: National Australia Bank and Palm Springs Ltd. The findings are largely based on the perceptions of interviewees concerning the motivations behind implementing ESO schemes and their effects once implemented. While the findings clearly cannot be generalised due to the limited nature of the research, the studies do provide valuable insight into how particular companies perceive ESO. The second main source of information on the attitudes of businesses within Australia towards ESO is the 2004 ESODU research.

8.1 Rationale for implementing ESO

Barnes et al concluded that their two case study companies implemented employee share ownership plans on the basis of an indirect and quite broad ‘alignment of interests’ rationale, rather than as incentives for specific types of behaviour (such as improving employee loyalty or organisational productivity). This research also looked at the role the tax concession regime has played in shaping the implementation and management of the two companies’ ESOPs. The authors found that the tax concessions did not operate as a significant incentive for these two companies.

The ESODU sought to measure how businesses with and without plans regarded the benefits of ESOPs. It found that businesses were more likely to agree that ESOPs provided benefits related to organisational culture and workplace relations/ human resource strategies than with rationales based on improved performance, a better working environment, competitive salary packaging or tax benefits for employees (see Figure 2 below).

Figure 2: Benefits of ESOPs, businesses with and without plans (average level of agreement out of 10)



²⁹ A Barnes et al, ‘Employee Share Ownership Schemes: Two Case Studies’ (2007) 35 *Australian Business Law Review* (forthcoming).

Source: TNS Social Research, 'Employee Share Ownership in Australia: Aligning Interests – Executive Summary' (Report prepared for the Department of Employment and Workplace Relations, 2004).

8.2 Barriers to ESO implementation

The ESODU study (2004) sought to measure the main barriers perceived by businesses to implementation of ESO.³⁰ They identified as the main barriers: a perception of a lack of relevance of ESO to their businesses; practical issues regarding legal and tax complexities; and employee resistance. Fifty-four percent of businesses surveyed thought there were better ways of rewarding employees and 67% found that employees would prefer other benefits.³¹ In regards to the regulatory framework, the study found that significant barriers were the limited tax incentives or complicated tax treatments depending on the plan type; the corporation laws disclosure requirements which were regarded as burdensome, and annual valuation requirements which can be expensive, complex and difficult for unlisted companies.

The ESODU study conducted qualitative research with employees, which found that employee resistance to ESO participation was based on the following factors:

- The performance of the share price;
- The size and age of the company;
- The value and type of shares;
- Previous experiences with share schemes;
- Life stage and current financial position;
- Understanding of share ownership generally; and
- Existing employee relations and trust of management.

Finally, the Shared Endeavours report cites research conducted by Stradwick in 1999 for the Australian Employee Ownership Association (AEOA), which involved a survey of ESOPs in most of the Australian Stock Exchange's top 500 companies. Preliminary findings suggested that 90% of companies introduced ESOPs to increase employee identification with the interests of shareholders; 80% to provide a benefit for employees; 40% because it was a tax effective way of rewarding employees; 29% to increase labour productivity and 7% to enhance recruitment and retention.³²

8.3 Perceived effectiveness of ESO

The ESODU study (2004) sought to assess how businesses with ESO plans regarded the effectiveness of their plans. Only 14% of companies believed their share plans had been 'extremely effective' in delivering on its objectives. Thirty-seven percent of companies believed that the share plan had been 'effective' in delivering on its objectives. Forty-one percent of respondents felt that the share plan had been 'neither effective or not effective'. Only 1% of companies felt that their share plan had been 'not at all effective' in delivering on its objectives.³³

³⁰ ESODU Research, above n 1, 18–20.

³¹ Ibid.

³² Cited in House of Representatives Standing Committee on Employment, Education and Workplace Relations, above n 15, 34.

³³ ESODU Research, above n 1, 22.

9 INTERNATIONAL COMPARISONS

There are significant difficulties in comparing data on employee share ownership drawn from different countries. First, little data is available on many countries, particularly those outside Europe and North America.³⁴ Secondly, even if countries do measure the incidence and nature of employee share ownership, they often employ very different indicators. In the US, for example, statistics tend to measure the percentage of adult employees participating in ESOPs, whereas those in the EU focus on the percentage of workplaces with ESOPs. Thirdly, countries have very different ESO forms and structures, which significantly undermine any efforts to compare national findings. In the US, for example, there are six principal plans through which employees may own shares in the company for which they work, and different surveys include or exclude some of these plans.

9.1 North America

It is widely recognised that the United States has the highest proportion of employee share ownership. The available data, however, is confusing as there are a variety of different mechanisms through which workers in the US may hold shares in the company for which they work, and different studies include or exclude particular plans. In 1998, it was estimated that around 7% of the private sector workforce held shares through ESOPs and stock bonus plans specifically.³⁵ The US General Social Survey in 2002 found that 21.2% of the private sector workforce holds shares in the company for which they work, while 13.1% hold options.³⁶ The same survey conducted in 2006 found that the percentage of the private sector workforce holding shares and options had declined to 17.5% and 9.3% respectively.³⁷ Interestingly, in contrast to Australia, the vast majority of ESOPs in the US are found in unlisted businesses.³⁸ Canada is not discussed here due to a dearth of statistics available on employee share ownership in that country.³⁹

9.2 Europe

In Europe, data collected from a major 1999/2000 survey of over 30 countries, including 14 EU Member states, found that just under one-third (31%) of 'organisations' with more than 200 employees had a share ownership scheme. Fifty-two percent of these ESO schemes were broad-based (involving over half the

³⁴ For a discussion of the difficulties in examining employee share ownership in Africa and Asia, see M Wright, A Pendleton and K Robbie, 'Employee Ownership in Enterprises in Africa and Asia' (2000) 11 *International Journal of Human Resource Management* 90.

³⁵ J Logue and J Yates, 'Worker Ownership American Style: Pluralism, Participation and Performance' (1999) 20 *Economic and Industrial Democracy* 225, 225.

³⁶ Survey and survey results available from <<http://www.nceo.org>> (accessed 31 August 2006).

³⁷ National Centre for Employee Ownership, 'New Data Shows Widespread Employee Ownership in US' (Press Release, 2007). Available from <<http://www.nceo.org>> (accessed 19 March 2007).

³⁸ Cited in House of Representatives Standing Committee on Employment, Education and Workplace Relations, above n 15, 53.

³⁹ Clark and Philappatos also appear to have struggled to find reliable data on Canada: see R Clark and G Philappatos, 'Employee Stock Ownership Plans (ESOPs): An International Comparison and Analysis' (1998) 24 *Managerial Finance* 19.

workforce).⁴⁰ The United Kingdom had the highest incidence of broad-based ESO schemes (30%), followed by France (23%), the Netherlands (21%), Ireland (16%), Denmark (15%) and Finland (15%). The southern European countries (Greece, Italy, Portugal and Spain) had low incidences of broad-based schemes (7% or lower).⁴¹

Data collected by the European Foundation from a large-scale survey in 10 EU countries in the early 1990s found that around 7% of workplaces sampled had employee share ownership schemes. The highest rate of diffusion of ESO was in the UK (23%), but was below 10% in all other EU countries surveyed.⁴² According to the 1998 UK Workplace Industrial/ Employee Relations Survey (UK), 24% of workplaces with 25 or more employees had employee share plans.⁴³

9.3 Asia

While there is still comparatively little attention paid to employee share ownership in developing countries, there have been some studies conducted on ESO in the newly industrialised countries. In South Korea, while comprehensive information on ESOPs is not available, it has been estimated that, by 1997, more than 99% of listed firms had an Employee Share Ownership Association (ESOA), which is required by law to manage ESOP stock and similar to a US ESOP trust.⁴⁴ In 1997, just under one million employees participated in ESOPs in publicly traded companies.⁴⁵ It is unclear, however, what percentage of these ESOPs are broad-based. More recently, Kato, Lee and Ryu found that, in 2000, around 52% of publicly traded firms had ESOPs. Around 30% of the labour force in firms with ESOPs participates in the plan.⁴⁶

While it is widely observed that Japan has high levels of employee share ownership in comparison with other countries, there does not appear to be recent data on the incidence of ESO in Japan. Data collected in 1988 found that more than 90% of all firms listed on Japan's stock exchange markets had an ESOP, and almost 50% of the labour force in firms with ESOPs participated in the plan.⁴⁷

10 CONCLUSION

There are few quantitative studies into employee share ownership in Australia. Nevertheless, we can draw several broad observations from the existing data. First, while the incidence of ESO in Australia remains lower than in the UK and the USA, it

⁴⁰ A Pendleton et al, 'Employee Share Ownership and Profit Sharing in the European Union' (European Foundation for the Improvement of Living and Working Conditions, 2001) 27.

⁴¹ Ibid 31.

⁴² C Gill and H Krieger, 'Recent Survey Evidence on Participation in Europe: Towards a European Model?' (2000) 6 *European Journal of Industrial Relations* 109, 124.

⁴³ Cited in A Pendleton, 'Employee Share Ownership, Employment Relationships and Corporate Governance' in B Harley, J Hyman and P Thompson (eds) *Participation and Democracy at Work: Essays in Honour of Harvie Ramsay* (2005) 75, 80.

⁴⁴ B Cin and S Smith, 'Employee Stock Ownership and Participation in South Korea: Incidence, Productivity Effects and Prospects' (2002) 6 *Review of Development Economics* 263, 267.

⁴⁵ Ibid 267.

⁴⁶ T Kato, J Lee and J Ryu, 'The Productivity Effects of Profit Sharing, Employee Ownership, Stock Options and Team Incentive Plans: Evidence from Korean Panel Data' (Discussion Paper No 37, APEC Study Centre, Columbia University, March 2005) 5.

⁴⁷ D Jones and T Kato, 'The Scope, Nature, and Effects of Employee Stock Ownership Plans in Japan' (1993) 46 *Industrial and Labor Relations Review* 352.

is on the increase. Second, Australian companies appear to view employee share ownership in terms of potential benefits to organisational culture and workplace relations. Third, ESOPs are much more likely to be found in larger and publicly listed companies, companies with offices overseas and in particular industry sectors. Finally, from the data collected by the Australian Bureau of Statistics, we can observe that employee share ownership is more common among full-time employees and among employees with higher weekly earnings. Employee share ownership participation is also higher in certain occupations.

The extent to which we can draw upon the existing data, however, is limited. A number of the studies fail to differentiate between narrow and broad-based ESOPs. Surveys have also tended to draw on a relatively small sample size. We still have very little understanding of how businesses in Australia are structuring their employee share ownership plans and how, if at all, they are integrating employee share ownership into their broader human resource management strategies.