When is an employees' share scheme not an employees' share scheme?

The answer is: when it's an Inclusive Ownership Fund (IOF).

Few would disagree that an engaged workforce delivers greater productivity or that offering shares to employees creates direct engagement with the financial and economic performance of the business. But proposals announced at the Labour Party Conference this week that would require companies employing more than 250 people to set aside up to 10% of their shares to be held in an IOF fall short of the mark. In common with many proposals from political parties, a shortage of detail raises a number of questions.

Shares will be held collectively – who bears the cost of transferring shares to an IOF? Shares cannot be traded; individual employees will not enjoy the full benefits of share ownership – who will be the legal owner and who benefits from any capital growth? Voting will be in the hands of fund representatives - will they be subject to the same requirements to disclose how they have engaged with and taken account of the interests of the workforce as boards of directors will be under recent changes to corporate governance codes and regulation? The extent of an individual employee's rights will be to receive dividends capped at £500 per year – any excess going to the Government.

This has been variously described as part nationalisation of the private sector and a tax on private sector companies. The Guardian https://www.theguardian.com/politics/2018/sep/23/labour-private-sector-employee-ownership-plan-john-mcdonnell referred to the proposals as "a new levy on private business". Concerns have been raised about the potential adverse effect on investment in the UK, on productivity and employment if businesses curtail recruitment, go private/private equity owned or relocate overseas.

Whilst the upside is limited, it has to be said that there appears to be little downside for employees in Labour's proposals. But if Labour's motive is to promote wider share ownership, engagement and alignment, a framework already exists. Savings-related share ("Sharesave") options and Share Incentive Plans have all-party support and help promote a wider shareholding culture and alignment. Both schemes are attractive but could benefit from some upgrades, eg the reintroduction of interest payments on amounts saved through Sharesave or a change permitting employers to match employees' savings to enable them to acquire additional shares.

Recent amendments to corporate governance codes and regulation owe much to the realisation by the Government that promising action on executive pay has political benefits. But the present Government has found it difficult to follow-through with its initial proposals, which may dilute or reverse the political benefits it envisaged. Labour's proposals may suffer a similar fate, if they ultimately prove to be little more than a political expedient dressed up as a reform to the way businesses operate, which is neither beneficial to the employees at which it is aimed nor workable.

Short of wholesale nationalisation, governments do not run companies. High corporate governance standards are important. Like boards of directors, politicians should also be clear and transparent about the motives behind their proposals. Wider employee share ownership should be encouraged and promoted. It has benefits for companies, employees, economies and governments. There is an under-utilised framework in the UK. Concentrating on making the most of it should be the priority.

For more information about employee share plans, executive pay and corporate governance, please contact:
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