PREM 19/2742

New File Cover. MT.

Confidential Filing.

Policy Towards Employee Involvement.

Profit Sharing. Share Options.

INDUSTRIAL POLICY.

September 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~18.9.89~~ ~~2.10.89~~ 5.10.89							

PREM 19/2742

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
MISC 14(80) 6th Meeting, Item 2	26/11/1980
MISC 14(80) 22	14/11/1980
E(80) 1st Meeting, Item 4	15/01/1980
E(79) 76	07/12/1979
E(79) 9th Meeting, Item 4	27/09/1979
E(79) 40	21/09/1979

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed B. Walsh Date 10/8/16

PREM Records Team

Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 01-273 5802
Telex 915564 Fax 01-273 5821

Secretary of State

Paul Gray Esq
10 Downing Street
London
SW1A OAA

23 October 1989

Dear Paul

I enclose a copy of the final version of the Employee Involvement Booklet which my Secretary of State published today.

Yours sincerely

Liz Smith

Liz Smith
Private Secretary

Cte PM

cBG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

4 October 1989

Dear Clive,

EMPLOYEE INVOLVEMENT BOOKLET

The Prime Minister was grateful for your Secretary of State's further minute of 2 October and the enclosed revised draft of the proposed Employee Involvement Booklet. She is now content for your Secretary of State to proceed to publish this booklet.

I am copying this letter to John Gieve (H.M. Treasury), Stephen Wall (Foreign and Commonwealth Office) and Neil Thornton (Department of Trade and Industry).

Yours,
Paul

PAUL GRAY

Clive Norris, Esq.,
Department of Employment.

PRIME MINISTER

PROPOSED BOOKLET ON EMPLOYEE INVOLVEMENT

Last month you saw a draft booklet Norman Fowler had prepared on employee involvement which he proposed to issue widely in advance of the EC Social Affairs Council at the end of October. You had various concerns about this proposal and wondered whether it would effectively get over the Government's approach. You asked Norman Fowler to have another look at it, which I commissioned in my letter of 18 September (Flag A). I asked that the Policy Unit should be associated with the further work.

This has now been completed, and Norman Fowler has minuted you again enclosing a revised draft (Flag B). Andrew Dunlop has been closely involved in the work, and has no further comments; he endorses the proposal to proceed with publication as soon as possible.

Norman Fowler's latest minute summarises the changes made in an attempt to meet your concerns. I suggest you need only look at the opening one page summary and 12 page main section of the draft; the subsequent company case studies are optional.

Are you now content for Norman Fowler to proceed with publication of this booklet?

Yes ms

(PAUL GRAY)
3 October 1989
a:\economic\employee.srw

JW/C1/6

B

Secretary of State
for Employment

PRIME MINISTER

EMPLOYEE INVOLVEMENT BOOKLET

Flap

I have looked again at the drafting of this booklet as requested in your Private Secretary's letter of 18 September. Officials have also had a discussion with Andrew Dunlop in the Policy Unit. The result is enclosed.

Your first point, about the possible dangers of the list of different types of employee involvement on pages 2 and 3 of the draft, I have met by simply deleting the list. The draft makes in general terms the point that employee involvement can take many different forms; and the case-studies later in the booklet speak for themselves in illustrating the point.

Your second point, about the difficulty of employee involvement when a bid is in the offing, I have met by a specific reference to takeovers on page 10.

Following a suggestion made by the Policy Unit we have added a summary at the beginning.

Subject to your agreement I propose to go ahead with publication as soon as possible. The CBI have a somewhat similar document coming out later this month and I think we should publish ours before then.

I am copying this minute to Nigel Lawson, Nicholas Ridley and John Major.

NF

2 October 1989

Draft 27.9.89

PEOPLE AND COMPANIES

Employee involvement in Britain

Foreword by Secretary of State

Employee involvement is one of the major success stories of British industry in recent years. Many of our leading companies, and many of our top managers, give it the highest priority. They believe that encouraging employees to be involved in the work of their organisations, and committed to their success, is a key factor in improving productivity and performance.

That is why the Government has asked a number of companies to contribute the studies in this booklet, each one bringing out some of the special features of that particular firm's employee involvement and participation arrangements. These studies show how much has been achieved by the British approach.

The Government has a special role in encouraging financial participation through the tax system. We have given incentives for profit-sharing, employee share ownership and profit-related pay, in a succession of budgets. We have ensured that employees have been given the opportunity to obtain shares in privatisations. We have encouraged direct communication between employers and employees.

Successful employee involvement in Britain is best developed on the basis of voluntary agreement. It depends on a spirit of co-operation, not on legal requirements. You cannot force people by law to co-operate with one another. And it has got to be suited to the specific circumstances of the particular firm and its employees. There is no master plan which meets every firm's needs. That is why the Government has consistently opposed pressure for legislation which would impose rigid requirements in place of flexibility and diversity.

I hope all those who read the booklet will be as impressed as I am by the vigour and the variety of employee involvement as it is practised in companies in Britain, and will be encouraged to think about adopting some of the practices which other firms have found to be successful. I believe they are a very powerful demonstration of the strengths of the voluntary approach.

SUMMARY

- The Government is wholly committed to the promotion and encouragement of employee involvement.

- Employee involvement can take many forms, as the case-studies in this booklet illustrate.

- Employee involvement is important for Britain as a whole as it is part of the Government's drive to improve the flexibility and efficiency of the labour market. That drive has already had dramatic effects on the British economy.

- Employee involvement is important for companies because it increases their prosperity and productivity. Employees are increasingly demanding more say in their work.

- The Government has a particular part to play in promoting financial participation, greater flexibility in pension provision and training.

- The Government believes that the European Community proposals for compulsory legislation on worker participation would not be worthwhile for workers or their employers in the UK and could destroy what they were designed to build. Firms should be able to choose for themselves the policies and practices that they wish to develop.

- It will remain the Government's policy to give every encouragement to the voluntary development of employee involvement and participation.

The Government is wholly committed to the promotion and encouragement of employee involvement and participation as the foundation of good business practice and therefore as an essential element in the pursuit of prosperity and of secure employment.

The Government's view is shared by a large and growing number of British employers, many of whom are among Europe's leading exponents of the best modern practice.

This booklet gives a picture of what British employers have achieved, without compulsion, in the field of employee involvement.

We invited a number of British companies to illustrate from their different experiences the many faces of thoroughgoing employee involvement and participation as it is understood and practised in Britain today. Their responses, printed below, show how well British employers understand both the obligations and the needs of modern business, and recognise that employee involvement is the key to business success. They reveal the fruitfulness of the voluntary involvement by firms of their employees. They also show that both the needs of employees and the proper responses to those needs are as varied as the businesses themselves - so varied, indeed, that they defy external prescription.

What is employee involvement?

The wisest employers regard the people they employ as their most precious asset; and the most successful businesses are commonly those which pay the closest attention to the needs of employees at every level - to maintaining their morale, advancing their careers, developing their skills, mobilising their energies, stimulating their imaginations and satisfying their natural ambition to play the fullest possible role in the success of their firm. Employee involvement or employee participation (the phrases are used interchangeably in this booklet) are the phrases most commonly used today to embrace all the myriad daily activities, formal and informal, which in British business are devoted to these ends.

In Britain, those organisations which strive to promote the fullest participation of their people do so in many different ways. Perhaps the only thing they all have in common is their attitude: a genuine commitment to the interests of their employees which alone, they believe, can earn and elicit a reciprocal commitment to the success of the whole enterprise.

The message which employee involvement seeks to convey is that people matter. Every aspect of the relationship between the firm and its employees must reinforce that message. Nothing should contradict it.

The case-studies given later in this booklet illustrate some of the ways in which different organisations have decided to tackle employee involvement and participation.

Why does it matter?

(a) Its importance for Britain

Encouraging employee involvement must remain a national objective. It is an important part of the Government's drive to improve the flexibility and efficiency of the labour market.

That drive has already had dramatic effects on the British economy. Since 1979 the Government has implemented a wide range of policies aimed at removing barriers to employment and encouraging practices which lead to greater prosperity and more jobs. As the 1980s have progressed and these policies have become embedded, there have been remarkable changes. The problems of the recession of the early 1980s are behind us and we have now completed eight successive years of sustained growth averaging more than 3 per cent a year.

Against this background of strong and steadily increasing output, employment has flourished. In March 1989 the workforce in employment in Great Britain stood at just over 26¼ million, its highest ever level. Since March 1983, when job growth resumed after the recession, there has been the longest and most productive period of job creation in the post-war period. Nearly 2.75 million jobs and training places have been created in 6 years. Unemployment in the UK has recently been falling fast.

An underlying cause of this economic growth has been improved productivity. Since 1980 manufacturing productivity has grown by over 50 per cent, an average of 5 per cent a year - faster than in all the other major industrialised countries. Over the previous two decades the UK was at the bottom of the productivity growth league.

The Government believes that its step-by-step programme for the reform of industrial relations and trade union law has made an important contribution to these improvements. During the 1980s British employers and employees have wasted less energy in disputes and devoted more to producing quality goods and services on time and at the right price.

A second and vital contribution to this success has been made by those British firms which have led the way in promoting employee involvement and participation. In the automotive industry, for example, a number of firms have given the highest priority to employee involvement and it has been crucial to the industry's improved labour relations and improved productivity - up by more than 80 per cent since 1980. There are similar examples in other industries.

(b) Its importance for British business

The advantages of effective employee involvement are all-pervasive. Among those which are cited most often by firms are:

- a more co-operative atmosphere at the workplace leading to greater understanding of the business on the part of employees and to less industrial conflict;

- increased flexibility, including better utilisation of skills;

- improved joint problem-solving, with more consistent emphasis on quality;

- increased job satisfaction leading to greater commitment to work and reduced turnover among employees;

- smoother introduction of major changes including the introduction of new technology.

With greater emphasis on the quality of products and services, induced by increasing competition, recognition by British employers of the importance of employee involvement is growing. The changing economic structure and new technologies mean that many unskilled jobs will be displaced and the number of jobs demanding individual decision-making will rise. The sort of people employers need for those jobs will not respond to challenges if they are treated as cogs in a machine. Increasingly, employees are demanding more say in their work. They want to know how their business is doing. They have ideas about improving its performance which they want to contribute. They have skills and enthusiasms which need to be harnessed and made use of. Those companies which value their people are benefiting from their creativity, and are better able to attract and keep the best employees.

Companies which have generated commitment to success on the part of all their employees are themselves successful, better able to meet the needs of their customers and more adaptable to changing market conditions. In addition to the case-studies in this booklet, many impressive success stories have been reported by companies which have found that greater attention to employee involvement increased their prosperity and productivity. Examples were given in the CBI's publication "People - the Cutting Edge of Competitiveness" (November 1988).

<u>What is the Government's role?</u>

The Government is keen to do all it can to encourage the development of employee involvement. It has a particular part to play in promoting financial participation,through tax reliefs. One of the most effective ways of increasing commitment is to give employees a direct stake in the ownership and prosperity of the business they work for. There is research evidence of an association between financial participation and firms' commercial success. Profit-sharing, employee share ownership - including employee share ownership plans (ESOPs) - and profit-related pay are all important in this context. Tax reliefs to stimulate financial participation have been introduced or extended in nine out of the last ten Budgets. These cover both reliefs for employees from income tax on their gains from shares obtained under approved employee share schemes, and on their profit-related pay - in both cases up to a given level - and relief for companies from corporation tax on their contributions towards ESOPs.

Good pension provision can also play an important part in motivating employees and strengthening their commitment to the success of the business. The Government has made major changes to allow employers and employees greater flexibility in pension provision. Besides occupational pensions, the Government has created scope for personal pensions and for money purchase pensions, which make it easier for employees to move from firm to firm.

The Government also has an important role in promoting training. The message of this booklet is that businesses will succeed only if employees know where the business is going and have the skills and commitment to take it there. Earlier this year the Government launched the Business Growth Training Programme to help demonstrate the benefits of training and to encourage businesses, particularly smaller businesses, to link their training to business objectives. The programme makes consultancy assistance available to help employers plan how to involve employees fully in their business, through training and incentives and in other ways.

The European Community's approach

Since the early 1970s the European Community has explored ways of requiring member states to conform to a uniform pattern of employee involvement. Two draft Directives have been discussed, amended and further discussed within the Commission and the Council. Proposals in the Fifth Company Law Directive, concerned with harmonizing company law in the Community, include four options for schemes for statutory worker participation in EC companies. The Commission has consistently maintained that mandatory requirements on worker participation were essential as a matter of social justice as well as for the smooth running of companies. The EC proposals for a European Company Statute, which were published in August, incorporate similar requirements. The Government has from the first firmly resisted these suggestions.

A parallel (and to some extent overlapping) set of proposals originated with the draft so-called Vredeling Directive, published in 1980, which advanced ideas for statutory procedures governing the consultation by companies of their employees and the supply of information to them. These proposals the Government has also resisted.

The Government's objections have always been based as they are now on the belief, which others share, that compulsion is not conducive to the healthy development of wholehearted employee participation and involvement, particularly in Britain, with its voluntary tradition of industrial relations. It should be emphasised that the Government has always accepted the underlying proposition - that the fullest participatory arrangements are essential for successful businesses.

Why the compulsory approach is wrong for the UK

For a number of reasons the Government believes that the proposals which have been put forward in the European Community for compulsory legislation on worker participation would not be worthwhile for workers or for their employers in the UK and could on the contrary destroy what they were designed to build.

The Government believes that it is important to preserve the freedom of firms to choose for themselves the policies and practices that they wish to develop. No single blue-print can be suitable for every company. Forcing employee involvement into a legal straitjacket would destroy the diversity which in Britain has allowed a thriving, effective voluntary system to take root.

Among the graver disadvantages, in the Government's view, are these:

a. Legislation would divert firms' energies into trying to satisfy irrelevant new statutory requirements instead of developing practices which suited them best. Managers do not have unlimited resources to devote to employee involvement, and things which were vital would not get done.

b. Compulsory co-determination, through worker representatives on company boards or a requirement to secure the consent of an employee council, could have serious effects on management decision-making. The danger of placing key decisions over employment in the hands of boards where workers' representatives may be able to block vital changes was vividly demonstrated by the recently abolished Dock Labour Scheme, which forced up costs, demoralised management, preserved inefficient patterns of work, diverted business to "non-scheme" ports and destroyed the employment it was designed to protect. Again, the Post Office experimented with worker directors in the late 1970s, but the scheme was abandoned and an independent study concluded that it was not a success.*

c. Although communications and consultation with employees are vitally important, new legal requirements are liable to impose inflexibility and delay. In addition to the time needed to carry out the statutory requirements, there may be an appeal to the courts on the grounds that consultation or communication was inadequate or that proper procedures were not followed. The result is that important decisions are held up and sometimes overturned, and managers and board members are driven to choose not the best course but the line of least resistance. By contrast, the example of Japanese as well as British companies shows that statutory requirements are not necessary in order to develop co-operation and teamwork.

---

*Unions on the Board: E Batstone, A Ferner, M Terry. Blackwells 1983.

d. Formalism and legalism have often been found to be the enemies of effective employee involvement which depends on co-operation and mutual trust. A recent British example is the privatisation of the Royal Dockyards in 1987, where the trade unions brought an action in the High Court on the ground that they had not been properly informed and consulted as required by the Dockyard Services Act 1986. The court held that all reasonable steps to inform and consult had been taken. The trade unions admitted frankly at the hearing that their aim throughout had been to delay privatisation. Mr Justice Millett said in his judgment: "If there is a lesson to be learned from what has taken place it is that effective consultations cannot take place with those who do not wish to be consulted".

e. Where matters for consultation involve commercially confidential information, for example, in a take-over situation, there is a particular need for mutual trust and confidence. These are things which need to develop naturally; they cannot be imposed from outside.

f. The demands of statutory machinery for consultation at representative level can easily push direct communications between management and employees into second place so that middle management and supervisors find themselves less well informed than workers' representatives. The future lies with firms which can find opportunities and which take the trouble to inform all employees in a direct, open and personal way about their business plans and performance.

Other countries, with different industrial relations traditions, attach great importance to legal requirements governing worker participation. They are right to follow the path best suited to their conditions and their circumstances. But these traditions are not ours. Ours is a voluntary system and, for us, successful employee involvement is best developed on the basis of voluntary agreement. Firms in the UK must remain free to adopt whatever forms of employee participation they like. If a company wishes to have worker representatives on the board, it is free to do so; but there should be no compulsion.

It needs to be remembered that the industrial relations tradition of European countries are very diverse. This is reflected in the different levels of trade union membership. In Denmark, about 80 per cent of the working population are trade union members. In France, Portugal and Spain trade union members make up less than 20 per cent of the working population. The UK is in the middle of this range with trade union membership of about 45 per cent. Such diversity makes it difficult and undesirable to try to impose a single pattern of industrial relations.

Conclusion

It will remain the Government's policy to give every encouragement to the voluntary development of employee involvement and participation. What is needed is to reap the benefits of employee involvement while avoiding the disadvantages which compulsions could bring: a lessening of management control and effectiveness, delays in the decision-making process and possible problems over commercially confidential information.

Freedom for companies is important to their commercial success. The Single European Market and the removal of barriers will stimulate trade and increase prosperity, including jobs. The Government strongly supports the changes necessary to achieve this. But it must not be forgotten that European firms are competing in a global market, against the USA, Japan and the countries in the Pacific whose skills base now rivals Europe's. If the European Community imposes legal requirements which impede and delay management decision-making, that simply makes EC firms less competitive. The real "social dimension" of the Single Market lies in reducing unemployment and increasing prosperity across the whole of the Community. That demands more flexibility not more regulation.

The Government has no doubt that it would be unwise to submit well-run businesses, in which high morale and motivation of the workforce already ensure high productivity, to a regulatory regime which would encumber management without advancing the interests of employees. Many of the ideas which are being put forward within the European Community, by making novel demands on the time and energies of senior staff, would be bound to increase costs, delay decisions, reduce the responsiveness of companies to changing market conditions and so hurt shareholders and employees alike.

In the Government's view, regulation is not the way to implant good employment procedures. It may ensure that the formalities of participation are observed: it can do nothing to promote the real thing - the need, which all good employers and managers recognise, to deal directly with those with whom they work so that regular consultation and involvement at all levels of a business become second nature.

Insofar as the European Commission's present ideas are designed to improve both the performance of European firms and the position of their employees, they cannot compete with the disciplines of today's tightening labour market. Businesses are finding, and will increasingly find, that the workers they wish to recruit or retain are in a position to choose. Employers who set a proper value on their human resources will engage the commitment of their employees and will thrive; those who undervalue their people will fail.

The coming of 1992, by increasing the field of choice for employees, will also increase the pressure on employers to pay proper attention to employee involvement and participation. Both the opportunity and the spur will become Community-wide. No statutory provision could be devised which would apply anything like such effective and benign pressure to Europe's employers.

The Government hopes this booklet will make plain that British employers know best themselves how their businesses should be run and that their employees have nothing to gain from any fresh legislative constraints in this field. The Government believes it must be self-defeating to offer workers new statutory rights which, while giving them nothing tangible, would weaken the businesses on which their prosperity rests.

CHILD CARE ARRANGEMENTS AND MANAGEMENT OPPORTUNITIES AT MIDLAND BANK

The Midland Bank Group employs 49,000 people, over half of whom are women.

"In line with its business strategies, the Midland Bank Group has set itself the objective of making possible more rewarding jobs for more people, whatever they are doing, at whatever stage in their careers. This means, amongst other things, placing a special emphasis on the particular needs of female employees since they are in the majority.

A comprehensive range of programmes is in place to respond to these needs. Notable amongst these are the workplace nurseries, scholarship and 'retainer' schemes. These complementary arrangements are aimed at easing the problems of staff (men as well as women) who wish to return to work and pursue both a career and family.

Each workplace nursery, or creche, is managed by the bank, or in collaboration with another major organisation whose employees share the facilities, or by a managing agent employed for that purpose, and offers around 35 places. All employees are eligible to nominate a child for these places. The aim is to provide good child-care facilities which are both affordable and convenient, thereby overcoming the main obstacle for women returning to work after maternity leave.

The 'retainer' scheme is open to career men and women and allows for a break in service of up to five years. Staff rejoin the bank at the completion of their career break with no loss or grade or status.

During the career break, communication and contact is maintained with staff and each career-break employee attends an annual one-day updating session.

In 1989, Midland is introducing a programme of university scholarships of up to one year for around 50 individuals. The CAMPUS (Career Advancement through the Midland Programme of University Scholarships) programme aims to increase potential for advancement into management roles. It is hoped that the scheme will encourage large numbers of applications from women and people from minority groups as these employees are currently under-represented in Midland's management grades."

CO-OPERATIVE PARTNERSHIP AT JOHN LEWIS

The John Lewis Partnership employs nearly 38,000 people in stores throughout the country, mainly in 22 department stores and 85 Waitrose supermarkets.

"Founded in 1864 in a small draper's shop in Oxford Street, the company has since 1929 been run on co-operative principles. All the ordinary share capital is held in trust on behalf of those who work in it. It is thus one of the oldest as well as one of the largest companies in the world with this degree of employee involvement.

The employees receive all the profits after provision for reserves, non-contributory pensions and fixed dividends on a small number of non-voting shares held outside. The employees' share of the profit, the Partnership Bonus, wholly additional to market pay rates, is distributed in cash at the end of the trading year as a percentage of pay. For 1988 this amounted to £47 million (22 per cent of pay).

Five out of the twelve directors are elected annually by the Partnership's central council, the majority of whose members are elected, in turn, by employees.

The Partnership's constitution enables its members to enjoy full information about it, to express their views freely, to co-operate in shaping its policies and to share in its rewards.

The Partnership has grown to its present size from two shops and a membership of 2,000 in 1929. Over the past 25 years it has remained consistently, as it is currently, one of the most profitable and competitive of the UK's large-scale retailers. An independent study has suggested that the Partnership's commitment to employee involvement is a major reason for its ability to maintain faster productivity growth than its competitors, and that this has been combined with a very strong record on employment growth."

BP - INFORMATION AND CONSULTATION

The oil business, in all its aspects, is still BP's principal activity, although it is also engaged in a variety of other businesses. BP employs about 30,000 people in the UK.

"BP's general objective is for all the companies in the Group to be efficient and profitable whilst meeting their responsibilities in society. In pursuing this objective we seek to attract the willing co-operation of our employees.

Employee involvement takes many forms in BP so we make sure that everyone understands what we are doing by producing a booklet, which is updated each year, describing the spread of arrangements in the UK.

Each BP company exercises the widest freedom to adopt, in consultation with its employees, the form of involvement best suited to its operations. However, regular management/employee discussions on work related issues provide something of a common thread for employee involvement at the work-unit level. The kind of issues discussed might typically include: the setting of work objectives, ways of improving efficiency, the working environment, personnel procedures, progress towards objectives, safety and training.

We also have more formal consultative arrangements which have developed in different ways in the operating companies. BP Chemicals, for example, have a structure of formally constituted committees, based on a staff representative system covering both junior and managerial grades; while BP Oil, last year, decided to form a committee to discuss with staff the arrangements for a new office block.

Pensions are seen as an important component of our arrangements. A system of pensions councils provides a consultative forum at which elected representatives and company nominated representatives can receive, consider and raise issues which concern scheme members.

It remains, however, a fundamental principle of the Group's employee involvement policy that the responsibility for taking timely and effective decisions in the best interests of the business rests with management."

OPEN LEARNING AT JAGUAR

Jaguar plc employs 13,000 people in the UK.

"The Jaguar Company Mission includes a commitment to employee communications and involvement. This is spelled out in the company policy on communication and involvement which has as its goals:

- to ensure that all employees understand the company's aims and policies;

- to gain the commitment, determination and involvement of employees in achieving company objectives;

- to continually improve attitudes and motivation.

Jaguar currently invests the equivalent of 1.5% of its sales turnover level on employee involvement covering a variety of activities, some of which are more formal than others e.g. Joint Production Committees and Pensions Committees, and some of which are more social and voluntary in nature e.g. the Jaguar Hearts and Minds Programme. In recent years there has also been keen support for new training initiatives within the company, such as Open and Distance Learning.

Employee involvement operates at all levels within the company. Briefing groups are held weekly covering company performance and local topical items. More strategic matters are discussed at Management Conferences involving all levels of management. Quality Circles and a suggestion scheme also operate across the company and video programmes, a company newsletter, management bulletins and notice boards are other well used media.

On a formal employee relations basis the company conducts an Information Review Meeting twice each year at which the Chairman and key executives meet national trade union and local officials to discuss company performance and plans and other relevant matters. This is in addition to the formal procedures for negotiations.

—

The Hearts and Minds Sporting and Social Programme commenced in 1982 with Family Evenings and an Open Day attended by up to 35,000 people. Under this programme, a great variety of activities are administered by employee volunteers, including sporting competitions, a Company Fun Run and Summer Fayre, Hill Walking, Pantomime excursions and Bonfire Evening. These have been well supported and enormously successful, bridging the gap between work and play. Employees also contribute towards their own Sports and Social Club which has extensive facilities including modern clubhouse facilities, swimming pool, sauna, trim-gym, tennis courts, bowling green, football and cricket facilities.

The most exciting development, however, has been the Company Open Learning Scheme. This was established in 1985 to provide in-company study facilities for any employees who in their own time wished to study for formal qualifications, enhance skills or broaden knowledge on a general basis. A variety of computer and lecture based studies are available covering a range of job based and recreational subjects. Over 3000 employees have participated, some of whom have worked through from GCSE level to degree level.

The general conclusion is that the various involvement activities have gone a long way to cementing the Jaguar spirit within the company. As the company moves ahead with its Total Quality Management philosophy, the benefits of employee involvement will become increasingly apparent, the ultimate aim being to continually improve the quality of product and service to the customers."

MB GROUP'S FLEXIBLE WORKING ARRANGEMENTS

The MB Group's worldwide operations include food and beverage packaging, speciality packaging and engineering systems, heating and bathroom products,and cheques and business forms. The Group employs 28,500 people in 23 countries across the world, including 16,200 in the UK.

"MB Group (formerly Metal Box) has set itself stretching targets of international competitiveness which require continuous improvement to all aspects of its business. Its strategy has been based on investment - in capacity, in technological leadership, in market responsiveness and, crucially, in the people working for it.

As part of that process of continuous improvement, MB has introduced radical reforms of working practices and bargaining arrangements, with full involvement of employees and their trade unions. Innovations at various factories have included:

- long-term pay agreements and de-centralised bargaining;

- progression towards common conditions;

- cross-skilling and team-working;

- flatter grade structures with opportunities for progression through training and re-training;

- flexible shift patterns to accommodate continuous plant running.

Managers are explicitly accountable for their effectiveness in involving employees and their representatives in decisions which affect them at the workplace. They are also expected to maintain a continuous dialogue with the people for whom they are responsible so that the best ideas and contributions are adopted, wherever they come from.

There is no single company-wide prescription for how to involve employees. Rather, there is concentration on developing methods appropriate to the particular business or factory. Recurring features include:

- briefing groups;
- joint task forces to justify investment needs and plan implementation;
- flexible team-working;
- Total Quality Management, QED - "Quid Each Day" (staff suggestion scheme) and First in Service programmes;
- joint training in problem-solving and statistical process control;
- widespread information-sharing on competitiveness, performance targets and prospects in each business.

No-one is satisfied that enough has yet been done. But employee involvement itself is subject to continuous improvement - driven by the recognised need to build on the resourcefulness, commitment and contribution of employees at all levels to make the Group a world leader in its chosen fields."

SAINSBURY'S PROFIT SHARING AND SHARE OWNERSHIP SCHEMES

Sainsbury's employ some 74,000 people in their stores throughout the country.

"To quote Alison Williams, aged 23, who has worked for Sainsbury's for some five years and became entitled to shares under the company's profit sharing scheme after two years with the company, 'Being a shareholder makes you take more care.' Alison's comment is typical: Sainsbury's managers have no doubt that profit sharing and share ownership play an important part in their staff's commitment to the business.

Sainbury's profit sharing scheme provides for the creation of a profit fund which is determined by an objective formula related to the company's profit margin. The fund is divided amongst qualifying employees according to pay and may be taken in the form of cash or company shares. After the qualifying period all employees, full-time and part-time, participate. Since 1980, when profit sharing was introduced, the total number of UK employees has risen from 37,500 to 74,000 and the percentage of participating employees from 45 per cent to just over 50 per cent. As a percentage of an individual's annual pay the profit share has risen from 4 per cent in 1980 to 10.6 per cent in 1988. Over £100 million has been paid out through the scheme, with about 45 per cent used to subscribe for over 30 million shares (adjusted for capitalisation issues) or approximately 2 per cent of the company's current issued share capital. More than 30 per cent of the company's UK staff are shareholders, either directly or through the profit sharing scheme. Put another way, about 27 per cent of the company's shareholders (including those holding shares through the scheme) are employees.

Sainsbury's is careful to distinguish between share ownership and profit sharing. Employees have always been able to take their profit share in the form of cash although the advantages of taking shares under an approved scheme have always been underlined. Board commitment to communications is an essential ingredient: each year the company carries out a major communications exercise with employees about the business performance of the company. This takes the form of company meetings and is accompanied by a video and a special employee report on the year's progress."

NISSAN - EMPLOYEE INVOLVEMENT AND CONTINUOUS IMPROVEMENT

Nissan Motor Manufacturing (UK) Limited employs some 2,500 people at its car manufacturing plant in the UK.

"Nissan's absolute commitment to involving employees is based on its view that this is the only way to achieve the highest standard of quality and productivity and, at the same time, a satisfying and rewarding working life.

The Nissan approach begins by recognising that all staff are individuals and all can contribute beyond their specific task. Thus they have real responsibility not only for the quality of their own work but also 'continuous improvement' - the concept which recognises that a person doing a job knows more than anyone how to improve it and that, by genuinely seeking contributions from individuals and having them 'own' the change, all can benefit.

Employee involvement also means that everyone knows what is going on. All communication is face to face; for five minutes every day the team simply talk together about matters affecting their group. Rarely are there 'corporate messages' and rarely does the grapevine get there first. Thus people are totally involved in those matters they can directly affect, and fully informed about those they cannot.

Employee involvement for Nissan is not a technique to be debated or negotiated, nor is it something undertaken just once a month with elected representatives. It is simply the best way of running a business. It is a continuous process involving all the people all the time - and it is successful."

ADAPTING TECHNOLOGY TO PEOPLE - TASK FORCE AT GLAXO

Glaxo Pharmaceuticals Limited is the UK's largest producer of prescription medicines and is part of the British based Glaxo Holdings PLC. Glaxo Pharmaceuticals employs 3,500 people in the UK.

"Glaxo Holdings PLC has expanded rapidly in the past 10 years moving from 20th to 2nd place in the Pharmaceutical World League. A consequence of growth has been constant change. The need for high levels of understanding and commitment on the part of staff to this change is recognised in the manufacturing division's published statement of Mission & Values which recognises the need to:

- exploit best manufacturing practice

- Create teams of committed, well motivated people at all levels working towards shared common objectives

- Foster open 2-way communications.

Each manufacturing site is charged with creating an open environment, in which staff are informed, understand and have the opportunity to influence the developments and changes which affect them. Experience has shown that "locally grown" initiatives generate much greater enthusiasm than centrally imposed ones. Amongst the many mechanisms in use for creating this environment are quality circles, team briefing, joint consultative committees and task forces.

The task force has been a particularly effective means of involving staff. This is an ad hoc group of 8-10 staff representing all grades of staff either from within a single department or across a number of departments. It is convened for a specific purpose and once its objective has been accomplished, it disbands. It is chaired by an appropriate manager with authority to make decisions in the area concerned, and membership is voluntary.

This method has been used extensively, and most effectively, by the company to involve staff in the design of new multi-million pound facilities, though it can be used in a variety of circumstances. Typically, all staff within the area affected are given a presentation on the planned investment and the purpose of the task force, which is to ensure that the proposed facility meets the needs of the business and the staff who will be working there. Volunteers are then invited. Volunteers may include an existing union or staff representative, but the scope of the task force excludes consideration of matters of collective bargaining, such as terms of employment; and if suggestions arise for changes in work patterns, for instance, they are progressed through established consultative mechanisms. Training is provided in the skills of co-operative problem-solving and the work of the group is given high visibility.

The use of task forces ensures a wide spread of involvement of people with real contributions to make. They have served an invaluable team building role and all staff see a very visible output from the efforts of the group."

TEAM BRIEFING AT PEUGEOT TALBOT

Peugeot Talbot Motor Company Limited employs over 5,000 people in its UK production, administration and distribution operations.

"In late 1979 John Garnett, then Director of the Industrial Society met with Peugeot Talbot's then managing director, George Turnbull, and his top management group to explain 'Team Briefing'. In essence it was simple:-

- each manager/supervisor would regularly meet his team face to face
- in characteristic cascade sequence
- giving information about the relevant performance indicators
- identifying targets and reporting on progress and achievements
- and develop "points for action"

The result for employees should be a better understanding and closer identification with the objectives of the organisation and an increased commitment to their achievement.

Commitment from the top was and remains absolutely crucial. Commitment, leadership by example and action.

An existing Management Committee became the vehicle for regular monthly briefing meetings at which the managing director and other directors reviewed all the major company indicators. Their "core brief" was cascaded through the organisation, picking up local information en route, until 48-72 hours later the car assembly track was stopped, office workers left their desks and computers and all employees were briefed by and fed back their views to their immediate boss. (Every manager/supervisor in the briefing chain being thoroughly trained in the briefing philosophy and technique).

It was quite a shock to the corporate system at first. Now, ten years on, we at Peugeot Talbot do not regard 'Team briefing' as a panacea but it remains an essential cornerstone of an integrated communications strategy, regularly and consistently delivering factual information, not propaganda, to all our employees enabling them to understand and become more involved in the success of the business.

Whilst we are always seeking to improve our systems 'Team briefing' has in our view been of significant assistance in helping the people in Peugeot Talbot turn a £100m plus <u>loss</u> making concern less than a decade ago into a £100m plus <u>profit</u> making business last year."

EMPLOYEE COMMUNICATION AT IBM

IBM develops, manufactures and sells a wide range of information-handling products, employing 18,000 people in the UK.

"At the heart of IBM's employment philosophy is the basic belief of respect for the individual. To reinforce this concern for every employee, IBM has built up a framework of principles and personnel programmes. These include the practice of full employment allied with promotion from within and a continuing focus on education and training, the Appraisal and Counselling programme, the merit pay concept, open communication channels and grievance procedures. Respect is a joint responsibility: just as the company has obligations to the individual, so employees have obligations to IBM.

IBM is committed to fostering trust and responsibility among its people. The employee-manager relationship is seen as crucial to maintaining respect for the individual and achieving the optimum contribution from each employee.

Employee career counselling and planning is embodied within an Appraisal and Counselling Programme (A&C). It provides for an assessment of an employee's performance against objectives, by his manager, normally on an annual basis. An important element of the programme is the opportunity for a discussion of performance, areas for improvement and career potential. The A&C process provides employees with reassurance, the challenge of agreed, clear targets and the possibility of assessing new areas of experience, while providing an opportunity for agreement on goals and role, as well as a sense of common purpose.

Two-way communications underpin IBM's approach to employee communications. The logic of having everyone in the company understand the business objectives,and the plans and strategies that are being employed to reach them, is obvious. So, too,is the need to provide open channels that enable employees to clarify their understanding of those objectives, and to question those plans and strategies.

One of IBM's ways of discovering problems at an early stage is the Speak Up! programme. It allows the individual to submit a comment, complaint or request for more information on a policy question in written form and obtain a reply from the person in the company best qualified to answer. All questions are handled by a co-ordinator who protects the writer's anonymity.

Opinion surveys are carried out for each major operating unit within a two year cycle. They give employees the opportunity to express views - with the security of guaranteed anonymity - on key aspects of working for IBM. Questions help to solicit employee responses to IBM's performance against the three basic beliefs of respect for the individual, customer service and the pursuit of excellence. Other questions cover subjects including pay, benefits, working conditions, health and safety, communications and management performance. Employees are also asked how well the company is handling change. The answers are used to construct various indices which act as a check on the health of IBM's employee relations.

IBM's challenge in employee relations is to keep its practice in line with its principles. One measure of the company's success in this respect is that its system has stood the test of time and change without any major revisions."

UNIPART - A COMPANY OWNED BY ITS EMPLOYEES

Unipart employs some 4,200 people in the manufacture and sale of automotive parts and accessories.

"Privatisation of the Unipart Group of Companies in January 1987 took the form of a management buy-out from what used to be British Leyland. Careful thought was given to the policies that would guide the company through the future and it was decided that 'amongst the company's values, nothing is more fundamental than its respect for the individual' and that 'the Group will create and maintain an environment in which individual employees may contribute to and share in the fortunes of the business in a fair and consistent manner'.

It would have been possible to provide free or discounted shares to all employees, but the management concluded that the decision had to rest with the individual and that individuals should make a free and informed choice whether to own a stake in their business.

The challenge was to find the most appropriate way of putting together an interesting and balanced account of the risks and opportunities that a shareholding stake would bring. This was done by staging a four-hour theatrical show, in fact, putting the 'prospectus' to music. This unique approach won wide acclaim and resulted in the majority of the Group employees applying for the share offer which was twice subscribed.

Following privatisation, every single employee has been invited to participate in a series of two day 'Putting People First' courses, which concentrate exclusively on inter-relational skills. These courses gave rise to a demand from managers and employees to learn more about the activities of the Group and sister divisions. A regular video news programme entitled 'Grapevine' has been introduced and is viewed by all employees in natural management groupings, providing the opportunity for comment, discussion and feedback.

Employees in the Group know that they can and do make a difference and this is demonstrated by the financial results. At the end of its first full year as a private sector company, the Group delivered an earnings growth of 40 per cent and exceeded all its key financial commitments. In its second full year, its key financial objectives were again bettered with an earnings growth of 30 per cent, providing the company with the confidence to embark on its highest ever capital investment programme."

DIRECT COMMUNICATIONS AT PIRELLI

Pirelli employ some 3,600 people in the UK in the manufacture and distribution of tyres, motor accessories, footwear and seating suspension systems.

"If British manufacturing industry is to compete in the world market-place, all involved in the business have to work for the common good. Continuous improvement means a healthy company and a better quality of life for all.

There is no better way of communication than by word of mouth, directly to the people involved. The person doing it should be the chief of the function (eg the Manufacturing Director) and it must be done on a regular basis.

In Pirelli this started in 1979. Simply to survive, new investments had to be utilised better and people had to come to work more regularly.

In 1982, in common with much of manufacturing industry, we were in serious financial trouble. We had to re-structure substantially and establish a two-year savings programme in order to save the factories from closing. By 1982 the level of education was such that an understanding had developed and everyone believed in the actions required. Numbers employed were successfully reduced by 25 per cent: the prize - our factories stayed open.

In 1989 direct communication sessions are still held and everyone looks forward to them. It is vital to communicate when news is good, not just when it is bad. The level of education now is sophisticated. We cover turnover, market shares, key customers, productivity levels, competitive comparisons, etc. Together we agree both strategic and shorter-term objectives.

Since those dark days of 1982, we have achieved 60 per cent volume growth; 100 per cent improvement in productivity; lead times reduced by 70 per cent; working capital (stocks) down 40 per cent; export volume has grown to 42 per cent of production.

We are now all fully committed to continuous improvement of quality and service. We work together and the result is growing prosperity for the company and for the individual. It is an unbeatable combination."

CMG COMPUTER MANAGEMENT GROUP - THE STATUS FREE COMPANY

CMG is Europe's largest independent provider of management consultancy, information technology consultancy and business systems. It employs 900 people in the UK.

"Since its foundation 25 years ago, CMG has evolved and developed an unusual corporate philosophy of employee involvement and inter-employee relations.

Briefly stated, the CMG philosophy is this:

- CMG encourages employees to be as entrepreneurial and resourceful in their work as possible. Staff are encouraged to develop their strengths and accept responsibility within small manageable groups, with each unit benefiting from the total strength of the group.

- CMG pays top salaries, provides excellent conditions and offers maximum opportunities to attract the best people in the industry.

- Responsibility and pay are the only distinguishing features between directors, managers and staff. All other terms of employment are the same. All staff receive a good salary, non-contributory life assurance, BUPA and Permanent Health Insurance. CMG's non-contributory pension scheme provides substantial benefits, including payment to surviving spouses and children, for both male and female employees.

- All management appointments are from within, providing a clear career path for employees.

- All information about CMG is available to all employees without exception. There are no confidential reports, inaccessible minutes or closed personnel files. In every way, open management is practised - at CMG, no subject is taboo.

- Everyone is engaged in the decision-making process through regular staff, management and policy-forming meetings. Information flow in CMG is considered of prime importance and great stress is placed on internal communications. Regular opinion surveys are carried out with opinions from employees on careers, training, management etc.

- CMG is independent of any outside business interest and is entirely owned by its employees. All staff are eligible to purchase shares and over 80 per cent have done so. Shares are available once a year from the CMG 'Stock Exchange' to employees and their close relatives.

CMG recognises that no one aspect of its philosophy is unique, but the totality is certainly very special. With no secrets and no status symbols, CMG can genuinely be described as the 'status-free' company."

TEAM BRIEFING AT COLOROLL

Coloroll is the largest home fashion group in the UK, producing wallpaper, textiles, carpets and all types of tableware.

Team Briefing

"Coloroll has a very active employee involvement programme, the first step of which is Coloroll's excellent two-way communication system. Every month 10,000 employees stop work for 30 minutes and meet in teams of 8 to 15 to receive the team brief. The purpose of the team brief is to disseminate only relevant information to every employee in the Group. There is input from the employees' supervisors and managers at every level up to, and including, the group managing director.

The success of the system is the result of the open and honest attitude of the management team and the willingness to answer questions, however difficult or challenging these may be. This is made possible by a unique system which ensures that an answer is obtained from the most suitable person (often the managing director), and automatically returned to the originator within a week. The team brief is supported by a lively group newspaper.

At team briefs people begin to ask 'How are we doing?'. Coloroll takes this opportunity to involve them more by providing 'How are we doing?' boards. These are designed by employees and give up-to-date information on production, sales and quality.

Ideas Scheme

The ultimate aim at Coloroll is for employees to gain greater job satisfaction by involvement in the day-to-day running of the company. To help them, an extremely successful ideas scheme has been set up with an award system paying the originator 20 per cent of the first years' savings. In the first 12 months ideas were received from 50 per cent of employees and 17 per cent of these were adopted.

QUIPS (Quality Improvement Programmes)

By taking much of the mystique out of quality improvement Coloroll has succeeded in setting up effective quality improvement programmes offering an even greater degree of employee participation.

Family Atmosphere

However, Coloroll's employee involvement programme goes further than this. In an endeavour to bring a family atmosphere to the group, Coloroll has set up a children's educational trust, with an annual budget of £100,000 to benefit employees' children. Furthermore, to enhance the lively atmosphere the walls everywhere display large bright posters which wholeheartedly encourage people to take advantage of the involvement programme."

ROADCHEF - THE FIRST UK EMPLOYEE SHARE OWNERSHIP PLAN

Roadchef, which employs 850 full-time staff, is the largest privately owned company operating on motorway service areas. It is a catering, shop, and petrol retailing business.

"Roadchef introduced its Employee Share Ownership Plan (ESOP) in January 1987. It was claimed to be the first ESOP introduced into the UK and the first allocation of shares took place on 3 April 1987. Nearly one-third of full-time employees are shareholders in the ESOP.

Roadchef agreed a management buy-out in July 1983 involving 30 of its company managers. It wanted to involve more of its workforce in owning shares in the business and set itself the following criteria:-

1. All shares would be allocated free of charge to staff.

2. All shares would be of equal standing and status as any other shares already in the company.

3. There would be a qualifying period of service to encourage employees to stay.

4. On leaving employment shares would be repurchased back to the company.

The purpose was to involve staff as shareholders with a long term share in increased profitability and not to generate a bonus scheme of annual cash payments.

The qualifying period for eligibility is three years service by 1 January each year. All shares allocated are equally given to all grades of staff and without regard to full or part-time work.

We found that by the use of the trust mechanism we were able to write our own criteria and objectives to meet our particular needs. The emphasis was on share membership so that the staff had the legal right to information and accountability from the directors which they were not necessarily able to claim as just employees.

On the introduction of the scheme the Managing Director personally presented to all the branches the booklet which explained how the scheme worked and visited each site in turn and talked to the staff in small groups.

The most important element of the scheme was communications. The company introduced a magazine called 'Traveller' which explained the Group's performance and policy. This is issued twice a year in December and June. Two years on from the introduction of the scheme the company has produced a new updated booklet which the Managing Director and Personnel Director have taken personally to all the branches and presented to the staff to reinforce the objectives behind the ESOP. Seventy per cent of all employees have attended the sessions."

THE BODY SHOP AND COMMUNITY CARE

The Body Shop makes and sells products that cleanse, polish and protect the skin and hair.

"As an expanding and profitable company with 380 employees in our own shops and nearly 3,000 people worldwide in our larger franchising operation, our concern about the responsibility of profits matches our determination to continue to make them. It is a partnership of profits with principles. The company operates within the environment, the community, the world. That is where our responsibilities lie: we want to give back to society.

We do this in a variety of ways. We endeavour to develop relationships with the non-industrial countries providing employment and trade. We are committed to raising public awareness on a variety of environmental issues and we ensure our practices are as ecologically sound as possible. We are concerned with both global and local issues, and see our immediate communities as one focus for our activities. Of primary importance to us is our programme of community care.

All our shops, offices and warehouses world wide are encouraged to participate in community projects; this covers franchises as well as The Body Shop International. These range from creating employment opportunities, providing sensory therapy and make-up instruction for the blind, giving time to individuals rehabilitating from drugs, caring for hospice patients, and prison visiting, to planting trees and participating in conservation work. The list is endless ..!

This work is done during office or shop hours and is entirely voluntary. The individual workplace will establish links within the community and respond to the specific needs of that community".

They will make a regular commitment to the respective group and may well become involved in raising funds to help maintain that organisation.

Fund raising is done on an on-going basis for both local groups and for the charities The Body Shop International supports. For example, The Body Shop raised enough money to build a complete Boys' Town in India to house 85 boys at any given time. These boys go to local schools and also receive agricultural and other training.

The commitment to caring for the community is shared by all our staff. It has been quoted as being the 'best thing about the company'. In fact a number of our staff come to us because of our philosophies. We believe the individual is now looking to work for a company that values them more as an individual than as a means for increasing profits. They want work that engages the heart as well as the mind and body, that fosters friendships and nourishes the earth. They want a company that contributes to the community and is part of the community. They want not just something to invest in but something to believe in!"

EATON - QUALITY THROUGH COMMUNICATION AND INVOLVEMENT

Eaton Truck Components is a major supplier of axles and gearboxes to the world's truck manufacturers. The company has [ ] employees in the UK.

"The main operations of the company within the UK are located at Aycliffe (Co Durham), Basingstoke (Hampshire) and Manchester. Each of these plants have developed their own form of involvement but they all share certain common factors.

All three plants have established long term pay deals and harmonised conditions of employment. It is felt that this has allowed more time to develop employee involvement positively. The drive for quality has become a major pre-occupation throughout rather than something related purely to manufacturing operations.

Communication with all employees is a continuous process through formal systems such as team briefing, plant-wide meetings, as well as informal aspects such as walking the job. It is intended that all employees should have a full understanding of the business situation.

Involvement programmes again vary from quality circles to task teams and working parties. Typically groups are organised around their supervisor and seek assistance from other specialists. Targets set by these groups are largely cost reduction and quality improvement orientated.

Initially from its experiences with quality circles the company was impressed by the ability and application that was shown by employees. This has proved a constant encouragement to the company in its drive for employee involvement.

No new machinery is installed without operators being involved with the machine tool supplier. The supplier is made aware of the operators' requirements from the equipment. Equally if quality problems are being experienced with raw materials then the operator will be involved in discussions with the supplier aimed at bringing about improvements.

'No one group has a monopoly on ideas or intelligence.'
'You cannot inspect quality into the product - it has to be built in at all stages.'

A couple of quotes that help to express clearly the attitude change that is being brought about."

BULMERS' EMPLOYEE COUNCIL

Bulmers is a large drinks manufacturer employing 1,400 people.

"Employees have a 3 per cent stake as a result of a profit share plan introduced in 1988. Under this scheme up to 5 per cent of profits are used to buy shares which are then allocated to employees.

One of the company's earliest participation ideas was the establishment of an Employee Council, an elected body with the representatives from unions, supervisors and managers. The company publishes a statement of company objectives which is decided in consultation with the Employee Council.

When the cider market hit problems and over 300 redundancies were called for, the Employee Council agreed a fair and just redundancy policy. As a result only a handful of compulsory redundancies were necessary. Consultants were engaged to advise anyone wanting to set up business and the company monitored progress of those who left to seek other employment.

Major news items are communicated to the workforce by personal letter from the Chief Executive which supplements other communication methods such as a company newspaper.

The company's annual report and half-yearly results are mailed direct to all employees as well as shareholders. An Employees' Annual General Meeting takes place on the same day as the Shareholders' AGM, when a full report on the activities of the company is given.

Bulmers have developed a close working relationship with their unions and they supply directors of the profit share scheme and trustees of the pension fund."

EMPLOYEE SHARE OWNERSHIP AT TULLIS RUSSELL

Tullis Russell is one of Europe's leading independent papermaking and specialist coating groups.

"Our commitment to employee share ownership is fully part of our corporate culture. We are a private company and see our future prosperity and independence best served by spreading the responsibility for our success among all our 1450 employees.

Sharing in the wealth of our company is the ultimate incentive for our people and the involvement of all employees in the ownership of the company, along with the original family owners, gives everyone an interest in the successful implementation of the company's strategy.

A regular employee briefing system was an important first step, breaking down barriers and building trust between the various levels in the company.

In our experience employee share ownership has increased the responsibility of management to perform well. In addition, elected trustees of the share scheme give our employees a real say in key decisions.

In 1986 a cash profit sharing scheme and our fledgling employee share ownership plan was introduced. In a matter of months the positive effects began to feed through to the business. A recent £7m capital investment programme resulted in a product of the highest quality well ahead of schedule and below budget. Those involved believe that employee profit sharing and share ownership played a significant role in this achievement.

Each year some of our profits buy for our employees a bigger stake in our business. At the same time we increase the size of our group by re-investment and by acquisition. At the Tullis Russell Group, business growth and the growth of employee share ownership go hand in hand."

F.I. GROUP: WORKCENTRES AND HOMEWORKING

F.I.Group PLC is a UK-based software systems company. Its 1,000-strong workforce benefit from extremely flexible working patterns.

"In the summer of 1987 the senior management decided that, as people were both the strength and the most valuable asset of FI, it was important to go out and discover what FI people thought of their company and needed from their employers.

Specialist market researchers undertook a thorough workforce survey. The results of this research led to many structural changes within the company. This was a turning point. Innovations since then have proved to be highly effective for both the workforce and FI's clients.

The main innovation was the establishment of WORKCENTRES - regional offices where staff could continue to work flexible hours and would use on-line computers, have access to technical equipment unavailable at home and feel part of a team.

Workcentres also enable FI teams to operate and maintain clients' information technology systems from FI premises. This releases valuable office space for clients.

With ever-changing technology, training is imperative and workcentres provide ideal sites for major training programmes.

To make them easily accessible, the workcentres are situated near motorway exits. A sophisticated network links them all. At the moment there are 10 such centres with plans for another 10 in the next five years."

NFC: THE IMPORTANCE OF EMPLOYEE OWNERSHIP

NFC (National Freight Company) employ some 26,000 people in their transport, distribution and storage operations in the UK.

"For many companies employee involvement may be regarded as desirable. For NFC it lies at the very heart of the company and is indeed the reason for the company's existence in its current form. NFC owes its existence to the fact that over 10,000 employees, pensioners and their families were prepared, in February 1982, to raise the equity capital necessary to buy the company from the Government.

This has dictated a sense of responsibility towards the employees as shareholders; a corresponding interest in the company's affairs, evidenced by turnouts at annual general meetings regularly exceeding 2,000; and a commitment to communication with employee shareholders.

Although progress of time, and more recently flotation, have reduced the original 82½ per cent per cent level of employee and pensioner ownership, the employee stake as owners in the business has recently been reinforced by the mechanism, unique to NFC, which gives employee shareholders twice the voting power of other shareholders. Employee ownership has also been reinforced by the introduction of the NFC profit-sharing scheme, unique in its concept and unusual in the amount of profit (up to 15 per cent) which the company is prepared to allot to it. Part of the scheme is in essence a savings scheme by which employees who contract to save a percentage of salary, which is used to buy shares for them, are awarded a further issue of free shares.

The other part of the scheme provides annual distributions of shares which, apart from a small basic element, are related to salary and length of service.

Managers are expected to manage and to make profits. NFC is no less demanding in that respect than any other company. Managers are, however, expected to take their decisions after having involved the people reporting to them and to be prepared to explain the reasons for the decision once taken. Our policy documents contain a clear statement of the right of each individual to have a voice in the decisions which impact on his or her working life."

EMPLOYEE INVOLVEMENT AND FINANCIAL PARTICIPATION IN ICI

ICI is one of the world's major chemical groups with a broad and varied range of products. ICI's headquarters and main technological base are in the UK where the company employs 50,000 people.

"Emphasis is placed on employee involvement at work team level whilst, above that primary level, employee representatives are involved in joint consultation at each significant level of the organisation. At corporate level, since the 1920s, the ICI Chairman and Executive Directors have had a large meeting with employee representatives. These annual meetings, which take place separately with blue and white collar employee representatives, enable people from all locations to discuss business issues, comment on the need for policy changes and give focus to employee aspirations and concerns, including, where appropriate, formal motions to the ICI Board.

Between annual meetings, various sub-committees meet with members of the Board and senior management to continue the consultative process. These include permanent committees to consider business and investment matters, issues of general concern, pensions and catering. Specific one-off or recurring topics are frequently referred to ad-hoc working parties. The total system, although operating through properly agreed constitutions, nevertheless remains flexible and capable of adaptation and change as management, employees and their trade unions together see necessary.

One product of the annual meeting with the Board in the 1950s was a proposal from the representatives to create an "Employee Profit Sharing Scheme". A formal system of financial participation has existed since, which currently allows all the 50,000 employees on UK salary terms to enjoy an annual bonus (normally 5-10 per cent of salary) determined by a published formula of added value compared with employee costs. The resulting bonus is distributed in the form of ICI shares, which gives employees exactly the same rights and benefits as other shareholders. In addition, since 1980, the company has operated a 'Save-As-You-Earn' share scheme."

COMMUNICATIONS GROUPS AT MARKS AND SPENCER

Marks and Spencer employ some 60,000 people in the UK.

"We believe that good human relations at work are essential to the continued development and success of our business. Communication of the company's principles, objectives and performance has always been part of our philosophy.

We use tried and tested methods for passing information down to staff. Management hold regular briefing meetings, keeping staff up to date on matters affecting their own store and on company-wide policy changes. A wide range of material is used, including video presentations, for communication and training.

Since the mid 1970s, a system of 'communication groups' has been developed to encourage problem solving and improve upward communication. Staff are elected as representatives of each category in a store and hold these positions for a period of two years. One of the group is nominated as chairperson and is trained to plan and control an effective meeting. The group meets every 4-6 weeks to discuss issues raised by staff, which range from minor in-store queries to wide-reaching questions on company policy.

An agenda is prepared in advance and firstly, the group discuss and solve all minor problems themselves. The store manager then joins the meeting and responds to those items requiring management comment. If the group wish to take an issue to a higher authority they are encouraged to do so. Minutes are displayed on the notice board with copies sent to divisional management and to the employee communications manager in head office.

Specific topics are also passed down to the groups from head office for comment, increasing the scope for involvement and providing the company with staff views before the implementation of new policies.

Communication groups provide our staff with the opportunity to contribute to the everyday running of their store, and to the wider development of their business."

ICL AND THE "INVESTING IN PEOPLE" PROGRAMME

International Computers Limited (ICL) is a major operating company within the STC Group engaged in the development, manufacture and marketing of information systems. ICL employs 22,000 people in 70 countries worldwide, including 15,000 in the UK.

"ICL operates in a knowledge based industry, selling creative solutions to solve business problems, and as such its success is led by people first and products second. Employee involvement is fundamental to that success and ICL believes this is primarily embodied in the relationship created between managers and their staff.

To support this relationship ICL has a worldwide programme 'Investing in People' which defines the standards for the development of people to be used by all ICL managers and their staff. These are described in a handbook given to all employees which covers objective setting, appraisal, performance improvement, career development and training.

ICL is committed to developing its employees to the full extent of their potential. This development is maximised through regular discussion with each employee in which the manager:-

- defines the objectives each employee should achieve in order to contribute fully to the company's business (the basis on which individual performance will be measured).

- appraises this contribution and identifies ways to help each employee improve their performance.

- determines the most suitable career direction for each employee and the specific development actions to achieve this.

- plans the necessary training within the £25m per annum budget.

In these ways ICL has recognised that employee involvement and people development are basic requirements for business success in its industry. This philosophy is further emphasised at the Managing Director's quarterly reviews of each business unit in ICL which include a specific focus on the organisational capability (people, structure and processes) of each individual business. These reviews consolidate the contribution of the individual managers and ensure that the needs of the ICL business are matched with those of its employees in order to stimulate the fastest possible growth for both."

PROFIT-RELATED PAY AT VAN DEN BERGHS & JURGENS LTD

Van den Berghs & Jurgens Ltd (a subsidiary of Unilever) is the UK's leading manufacturer of margarine, low fat spreads and other edible oil products. It employs 2,500 people.

"Employees are involved in the company's activities through various channels. In recent years VdB&J has ensured that the twice-yearly company council only discusses important business topics. On a site basis, the joint works councils meet more frequently to discuss company and local issues. Employees' interests are looked after by representatives of various departments and employee groups, although the traditional links with trade unions are still important and are fully maintained.

More recent moves towards greater employee involvement have resulted from two initiatives. The total quality management (TQM) programme calls for greater employee influence on the way that they work. Team briefing provides employees, on a monthly basis, with information about the company, on topics such as profit and trading performance. These initiatives are supported by extensive training.

As part of this general scheme of employee involvement and participation, VdB&J introduced a profit-related pay scheme at the beginning of 1988. The scheme distributes 6 per cent of the trading profit to all eligible employees on a quarterly basis. The scheme encourages employees to take a real interest in the company trading result when it is announced at team briefing. By seeing the direct link between company performance and their own pay, employees are encouraged to relate their own performance to the overall health of the business."

CONFIDENTIAL

(A)

File
E&M.A.
(Training)
cc PU

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

18 September 1989

EMPLOYEE INVOLVEMENT

Thank you for your letter of 11 September enclosing a draft of your Secretary of State's planned booklet on employee involvement.

The Prime Minister has seen this material. She can see the attractions of such a booklet if it could effectively get over the Government's approach. But she fears that, as presently drafted, the booklet could receive criticism from those who want to go a step further and make a framework directive from the points set out on pages two and three of the draft. She has also commented that it is difficult to have employee involvement when a bid is in the offing and, as the document recognises, on commercially confidential information.

She would therefore be grateful if your Secretary of State could take a further look at the drafting of the booklet, and for the Policy Unit to be associated with this work. She would also be grateful for a sight of the revised draft.

I am copying this letter to John Gieve (Treasury), Stephen Wall (Foreign and Commonwealth Office) and Neil Thornton (Department of Trade and Industry).

PAUL GRAY

Clive Norris Esq
Department of Employment

CONFIDENTIAL

CONFIDENTIAL

PM
EAM-A.
(Dunlop)

ANDREW DUNLOP

EMPLOYEE INVOLVEMENT

You will want to see the Prime Minister's reactions to these papers which she saw over the weekend - I enclose a copy of my covering minute with her comments.

I had the chance to have a brief word with the Prime Minister before she left for Japan this morning. She is not resolutely opposed to the idea of a booklet, but feels it is not right at the moment. She has not focused on your specific drafting comments and I have therefore also suggested in my letter to Norman Fowler's office - also attached - that you should be associated with the re-drafting work so that you can feed in your points direct. I think the Prime Minister will reserve judgment on whether the booklet should go ahead until she has seen a revised draft.

PAUL GRAY

18 September 1989

CONFIDENTIAL

EA

CC PO

dti

the department for Enterprise

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Clive Norris Esq
Principal Private Secretary
to the Secretary of State for
Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
01-215 5000

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 01 215 5622
Our ref PB5AAW
Your ref
Date 18 September 1989

Dear Clive.

Thank you for sending me a copy of your letter to Paul Gray, enclosing a draft of a booklet which your Secretary of State is proposing to publish on employee involvement in Britain.

My Secretary of State has seen the draft and very much welcomes this initiative. He feels that it will be valuable, both in drawing attention to the positive achievements in this field of Government and business in the UK, and in explaining our attitude to the Commission's proposals.

Mr Ridley does wonder, however, whether the very brief reference, towards the foot of page 7 of the draft, to the Commission's proposals in the draft 5th Company Law Directive is likely to give the Commission the opportunity to criticise the UK for being misleading and thus deflecting the very valid points we are making. The paragraph could perhaps make it clear that there are other options both in the draft 5th Directive and in the draft European Company Statute for ways of involving employees besides worker representatives on boards.

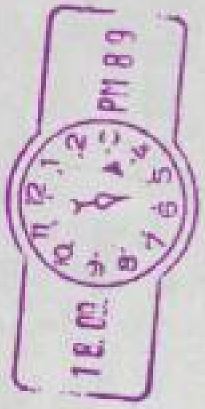
I am copying this letter to Paul Gray and to other recipients of your letter.

Yours ever,

Neil Thornton.

NEIL THORNTON
Private Secretary

Recycled Paper


PM 89

CONFIDENTIAL

PRIME MINISTER

EMPLOYEE INVOLVEMENT

Norman Fowler proposes to publish a booklet on employee involvement describing British achievements and Government policy. He envisages doing this before the EC Social Affairs Council at the end of October, and to give his booklet a wide circulation.

His office have now circulated a draft of the booklet (Flag A). It takes the form of some general material, appended to which are a number of case studies.

Andrew Dunlop (Flag B) welcomes the idea of the booklet and commends the material contained in it. But he points out that the drafting is rather woolly and wordy and makes a number of specific comments. Perhaps most important, he recommends the introduction of an executive summary in bull point form.

Content for me to minute out welcoming the idea of the booklet but also recording Andrew Dunlop's detailed comments on it?

PRCG.

PAUL GRAY
15 September 1989

I fear that the booklet will receive rather a lot of criticism from those who would want to go a step further and make a framework directive out of p 2 + 3. Also it is difficult to have employee involvement when a bid is in the offing, and as the document recognises, Rat on commercially confidential information not

CONFIDENTIAL

PRIME MINISTER 14 September 1989 B

EMPLOYEE INVOLVEMENT

Norman Fowler has sent you a draft of a booklet he intends to issue on employee involvement.

The objectives of this booklet are to provide:

(a) a guide for British industry to best practice in this field.

(b) a means of influencing European opinion in the debate on the Social Charter in the run-up to Strasbourg.

The booklet is in two parts:

- the first part sets out the Government's general position, the specific policies to promote voluntary employee participation and the case against the Commission's attempt to impose a legal straight-jacket. (This has been written by ex-TIMES journalist, Julian Havilland.)

- the second part is a series of 26 case studies of particular companies who are leaders in the field of employee involvement, including IBM, NFC and John Lewis. These studies are written in the companies' own words. Each of these studies will be accompanied by suitable pictures and the logo of the company concerned. This should enhance the attractiveness of the presentation.

COMMENT

Overall, the booklet is an excellent idea and all the right arguments are contained within it. But if it is to have impact, it must grab attention when it lands on the desks of busy people. Part One is too wordy to achieve that impact.

My **specific suggestions** are as follows:

1. After Norman Fowler's Foreword there should be an Executive Summary in Bullpoint form which sets out the guts of the Government's case and record. The Policy Unit could, perhaps, assist DE in drafting this.

2. The roles of employee share ownership and profit sharing need to be given greater prominence. This would help to draw out the point that the most effective way to encourage the commitment of employees is to offer them a direct stake in the company. These points need to head the list of practices on page 2 of the draft, not buried away in its middle.

3. The Government's record on promoting profit sharing and employee share ownership needs to be brought out in greater detail. e.g. the action taken in 9 out of the last 10 budgets and the increase in the number of share option schemes since 1979.

4. The relevance of section (a) on page 4 is not immediately obvious. Surely it is not a general exposition on the UK's economic performance in the last 10 years that is required. It is a specific reference to the contribution that the voluntary system of employee involvement (promoted by the Government) has made to the renaissance of the UK economy. The results of the work done by the Industrial Participation Association (see Appendix), demonstrating the correlation between profit sharing and industrial performance, could be usefully deployed in this section.

RECOMMENDATION

Commend Norman Fowler's booklet, and offer comments along the lines suggested above .

Andrew Dunlop.

ANDREW DUNLOP

APPENDIX

Table 5.18 *Performance ranking: percentages of profit sharing and non-profit sharing companies in the top two quartiles*

		1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	Average 8 years
Return on equity	Profit sharing companies	59.8	54.9	52.2	63.7	62.8	63.1	61.8	57.7	59.5
	Non-profit sharing companies	46.3	48.0	49.2	44.6	45.2	45.2	45.7	47.2	46.4
Return on capital employed	Profit sharing companies	60.7	60.2	54.9	61.9	64.6	64.9	64.5	55.8	60.9
	Non-profit sharing companies	45.4	46.1	48.1	45.3	44.5	44.5	44.7	47.9	45.8
Earnings per share	Profit sharing companies	51.4	61.1	63.6	62.0	63.9	62.3	63.9	61.2	61.2
	Non-profit sharing companies	49.3	45.2	44.3	45.3	44.5	44.9	44.8	45.7	45.5
Return on sales	Profit sharing companies	66.4	68.1	65.5	68.1	69.0	68.5	69.6	65.4	67.6
	Non-profit sharing companies	43.5	42.7	44.1	43.2	42.9	43.2	42.7	44.2	43.3
Growth in sales	Profit sharing companies	59.8	55.8	52.2	64.6	63.7	63.1	63.6	54.8	59.7
	Non-profit sharing companies	46.3	47.6	49.2	44.5	44.9	45.2	45.0	48.2	46.4
Growth in equity	Profit sharing companies	58.9	58.4	50.4	61.9	61.9	59.5	57.3	54.8	57.9
	Non-profit sharing companies	46.6	46.3	49.7	45.5	45.2	46.5	47.2	45.2	46.9
Dividends per share	Profit sharing companies	44.3	47.2	52.7	50.5	50.0	55.9	56.7	55.6	51.6
	Non-profit sharing companies	51.3	48.4	47.0	49.2	49.4	46.3	45.4	46.5	47.9
Total investor returns*	Profit sharing companies	48.5	57.3	60.2	61.2	61.2	46.6	52.4	46.7	54.3
	Non-profit sharing companies	50.4	46.9	45.8	45.4	45.4	51.2	48.8	51.2	48.1

*Total investor returns are for calendar years 1978 to 1985

A Cofs.

Department of Employment
Caxton House, Tothill Street, London SW1H 9NF
Telephone 01-273 . . 5803 . . .
Telex 915564 Fax 01-273 5821

Secretary of State

Paul Gray Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

11 September 1989

Dear Paul,

EMPLOYEE INVOLVEMENT

As you may know, my Secretary of State intends to publish a booklet on employee involvement describing British achievements and setting out Government policy.

I enclose a draft of the booklet, on which I should be grateful for any comments by 18 September. (I should say that some revision may be needed on page 4 to take account of new employment figures.)

My Secretary of State's present intention is to publish the booklet towards the end of October, before the meeting of the EC Social Affairs Council on 30 October. He would intend to give the booklet a wide circulation, especially in Europe.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Foreign Secretary and the Secretary of State for Trade and Industry.

Yours sincerely,

Clive Norris

CLIVE NORRIS
Principal Private Secretary

Draft 11.9.89

PEOPLE AND COMPANIES

Employee involvement in Britain

Foreword by Secretary of State

Employee involvement is one of the major success stories of British industry in recent years. Many of our leading companies, and many of our top managers, give it the highest priority. They believe that encouraging employees to be involved in the work of their organisations, and committed to their success, is a key factor in improving productivity and performance.

That is why the Government has asked a number of companies to contribute the studies in this booklet, each one bringing out some of the special features of that particular firm's employee involvement and participation arrangements. These studies show how much has been achieved by the British approach.

The Government has a special role in encouraging financial participation through the tax system. We have given incentives for profit-sharing, employee share ownership and profit-related pay, in a succession of budgets. We have ensured that employees have been given the opportunity to obtain shares in privatisations. We have encouraged direct communication between employers and employees.

Successful employee involvement is best developed on the basis of voluntary agreement. It depends on a spirit of co-operation, not on legal requirements. You cannot force people by law to co-operate with one another. And it has got to be suited to the specific circumstances of the particular firm and its employees. There is no master plan which meets every firm's needs. That is why the Government has consistently opposed pressure for legislation which would impose rigid requirements in place of flexibility and diversity.

I hope all those who read the booklet will be as impressed as I am by the vigour and the variety of employee involvement as it is practised in companies in Britain, and will be encouraged to think about adopting some of the practices which other firms have found to be successful. I believe they are a very powerful demonstration of the strengths of the voluntary approach.

The Government is wholly committed to the promotion and encouragement of employee involvement and participation as the foundation of good business practice and therefore as an essential element in the pursuit of prosperity and of secure employment.

The Government's view is shared by a large and growing number of British employers, many of whom are among Europe's leading exponents of the best modern practice.

This booklet gives a picture of what British employers have achieved, without compulsion, in the field of employee involvement.

We invited a number of British companies to illustrate from their different experiences the many faces of thoroughgoing employee involvement and participation as it is understood and practised in Britain today. Their responses, printed below, show how well British employers understand both the obligations and the needs of modern business, and recognise that employee involvement is the key to business success. They reveal the fruitfulness of the voluntary involvement by firms of their employees and the value of the developments which statutory controls would put at risk. They also show that both the needs of employees and the proper responses to those needs are as varied as the businesses themselves - so varied, indeed, that they defy external prescription.

What is employee involvement?

The wisest employers regard the people they employ as their most precious asset; and the most successful businesses are commonly those which pay the closest attention to the needs of employees at every level - to maintaining their morale, advancing their careers, developing their skills, mobilising their energies, stimulating their imaginations and satisfying their natural ambition to play the fullest possible role in the success of their firm. Employee involvement or employee participation (the phrases are used interchangeably in this booklet) are the phrases most commonly used today to embrace all the myriad daily activities, formal and informal, which in British business are devoted to these ends.

In Britain, those organisations which strive to promote the fullest participation of their people do so in many different ways. Perhaps the only thing they all have in common is their attitude: a genuine commitment to the interests of their employees which alone, they believe, can earn and elicit a reciprocal commitment to the success of the whole enterprise.

This attitude may be expressed in a number of established practices, which include for example:

- the production and communication to all employees of a clear statement of corporate principles and objectives;

- the giving of a high priority to the needs of each individual through training and job design and by a careful programme of human resource development;

- the provision of opportunities to all employees to influence decisions which directly affect them;

- systematic, two-way communication;

- team briefings to ensure effective upward and downward communication;

- regular consultation through channels covering all employees;

- the use of teamwork, eg in problem-solving groups designed to use the skills and enthusiasm of all employees;

- maximum devolution of responsibility;

- profit-sharing;

- the promotion of employee share ownership (including ESOPs, employee share ownership plans);

- the removal of internal barriers by the harmonisation of all employees' terms and conditions of employment, so that blue-collar and white-collar workers enjoy the same status;

- the provision of career break opportunities and child care facilities;

- the availability of attractive pension schemes;

- company support for community work.

Employee involvement needs to be a total package. The message it seeks to convey is that people matter. Every aspect of the relationship between the firm and its employees must reinforce that message, and nothing should contradict it.

It will be seen (and the examples given later in this booklet confirm) that there is an immense variety of ways in which different organisations have decided to tackle employee involvement and participation. These examples show, too, the depth and strength of the British approach.

Why does it matter?

(a) Its importance for Britain

Encouraging employee involvement must remain a national objective. It is an important part of the Government's drive to improve the flexibility and efficiency of the labour market.

That drive has already had dramatic effects on the British economy. Since 1979 the Government has implemented a wide range of policies aimed at removing barriers to employment and encouraging practices which lead to greater prosperity and more jobs. As the 1980s have progressed and these policies have become embedded, there have been remarkable changes. The problems of the recession of the early 1980s are behind us and we are now into the eighth successive year of sustained growth averaging more than 3 per cent a year.

Against this background of strong and steadily increasing output, employment has flourished. In December 1988 the workforce in employment in Great Britain stood at just under 26 million, its highest ever level. Since March 1983, when job growth resumed after the recession, there has been the longest and most productive period of job creation in the post-war period. Nearly 3 million jobs and training places have been created in under 6 years. Unemployment in the UK has recently been falling fast.

An underlying cause of this economic growth has been improved productivity. Since 1980 manufacturing productivity has grown by over 50 per cent, an average of 5¼ per cent a year - faster than in all the other major industrialised countries. Over the previous two decades the UK was at the bottom of the productivity growth league.

The Government believes that its step-by-step programme for the reform of industrial relations and trade union law has made an important contribution to these improvements. During the 1980s

British employers and employees have wasted less energy in disputes and devoted more to producing quality goods and services on time and at the right price.

A second and vital contribution to this success has been made by those British firms which have led the way in promoting employee involvement and participation. In the automotive industry, for example, a number of firms have given the highest priority to employee involvement and it has been crucial to the industry's improved labour relations and improved productivity - up by more than 80 per cent since 1980.

(b) Its importance for British business

The advantages of effective employee involvement are all-pervasive. Among those which are cited most often by firms are:

- a more co-operative atmosphere at the workplace leading to greater understanding of the business on the part of employees and to less industrial conflict;

- increased flexibility, including better utilisation of skills;

- improved joint problem-solving, with more consistent emphasis on quality;

- increased job satisfaction leading to greater commitment to work and reduced turnover among employees;

- smoother introduction of major changes including the introduction of new technology.

With greater emphasis on the quality of products and services, induced by increasing competition, recognition by British employers of the importance of employee involvement is growing. The changing economic structure and new technologies mean that many unskilled jobs will be displaced and the number of jobs demanding individual decision-making will rise. The sort of people employers need for those jobs will not respond to challenges if they are treated as cogs in a machine. Increasingly, employees are demanding more say in their work. They want to know how their business is doing. They have ideas about improving its performance which they want to contribute. They have skills and enthusiasms which need to be harnessed and made use of. Those companies which value their people are benefiting from their creativity, and are better able to attract and keep the best employees.

Companies which have generated commitment to success on the part of all their employees are themselves successful, better able to meet the needs of their customers and more adaptable to changing market conditions. In addition to the examples in this booklet, many impressive success stories have been reported by companies which have found that greater attention to employee involvement increased their prosperity and productivity. Examples were given in the CBI's publication "People - the Cutting Edge of Competitiveness" (November 1988).

What is the Government's role?

The Government is keen to do all it can to encourage the development of employee involvement. It has a particular part to play in promoting **financial** participation,through tax reliefs. One of the most effective ways of increasing commitment is to give employees a direct stake in the ownership and prosperity of the business they work for. There is research evidence of an association between financial participation and firms' commercial success. Profit-sharing, employee share ownership - including employee share ownership plans (ESOPs) - and profit-related pay are all important in this context. Tax reliefs to stimulate financial participation have been introduced or extended in nine out of the last ten Budgets. These cover both reliefs for employees from income tax on their gains from shares obtained under approved employee share schemes, and on their profit-related pay - in both cases up to a given level - and relief for companies from corporation tax on their contributions towards ESOPs.

Good pension provision can also play an important part in motivating employees and strengthening their commitment to the success of the business. The Government has made major changes to allow employers and employees greater flexibility in pension provision. Besides occupational pensions, the Government has created scope for personal pensions and for money purchase pensions, which make it easier for employees to move from firm to firm.

The Government also has an important role in promoting training. The message of this booklet is that businesses will succeed only if employees know where the business is going and have the skills and commitment to take it there. Earlier this year the Government launched the Business Growth Training Programme to help demonstrate the benefits of training and to encourage businesses, particularly smaller businesses, to link their training to business objectives. The programme makes consultancy assistance available to help employers plan how to involve employees fully in their business, through training and incentives and in other ways.

The European Community's approach

Since the early 1970s the European Community has explored ways of requiring member states to conform to a uniform pattern of employee involvement. Two draft Directives have been discussed, amended and further discussed within the Commission and the Council. Proposals in the so-called Fifth Directive, concerned with harmonizing company law in the Community, have always included schemes for the participation of workers' representatives at board level in EC companies. The Commission has consistently maintained that wide-ranging mandatory requirements on worker participation were essential as a matter of social justice as well as for the smooth running of companies. The draft European Company Statute, which was published in August, incorporates similar requirements. The Government has from the first firmly resisted these suggestions.

Over the years the propositions advanced in Europe have changed. The current idea is to give individual countries a limited choice between the statutory models they must impose. The Government, on the other hand, believes in giving greater choice to **individual companies**, without compulsion.

A parallel (and to some extent overlapping) set of proposals originated with the so-called Vredeling Directive, published in 1980, which advanced ideas for statutory procedures governing the consultation by companies of their employees and the supply of information to them. These proposals the Government has also resisted.

The Government's objections have always been based as they are now on the belief, which others share, that compulsion is not conducive to the healthy development of wholehearted employee participation and involvement. It should be emphasised that the Government has always accepted the underlying proposition - that the fullest participatory arrangements are essential for successful businesses.

Why the compulsory approach is wrong for the UK

For a number of reasons the Government believes that the proposals which have been put forward in the European Community for compulsory legislation on worker participation would not be worthwhile for workers or for their employers in the UK and could on the contrary destroy what they were designed to build.

The Government believes that it is important to preserve the freedom of firms to choose for themselves the policies and practices that they wish to develop. No single blue-print can be suitable for every company. Forcing employee involvement into a legal straitjacket would destroy the diversity which in Britain has allowed a thriving, effective voluntary system to take root.

Among the graver disadvantages, in the Government's view, are these:

a. Legislation would divert firms' energies into trying to satisfy irrelevant new statutory requirements instead of developing practices which suited them best. Managers do not have unlimited resources to devote to employee involvement, and things which were vital would not get done.

b. Compulsory co-determination, through worker representatives on company boards or a requirement to secure the consent of an employee council, could have serious effects on management decision-making. The danger of placing key decisions over employment in the hands of boards where workers' representatives may be able to block vital changes was vividly demonstrated by the recently abolished Dock Labour Scheme, which forced up costs, demoralised management, preserved inefficient patterns of work, diverted business to "non-scheme" ports and destroyed the employment it was designed to protect. Again, the Post Office experimented with worker directors in the late 1970s, but the scheme was abandoned and an independent study concluded that it was not a success.*

c. Although communications and consultation with employees are vitally important, new legal requirements are liable to impose inflexibility and delay. In addition to the time needed to carry out the statutory requirements,

*Unions on the Board: E Batstone, A Ferner, M Terry. Blackwells 1983.

there may be an appeal to the courts on the grounds that consultation or communication was inadequate or that proper procedures were not followed. The result is that important decisions are held up and sometimes overturned, and managers and board members are driven to choose not the best course but the line of least resistance. By contrast, the example of Japanese as well as British companies shows that statutory requirements are not necessary in order to develop co-operation and teamwork.

d. Formalism and legalism have often been found to be the enemies of effective employee involvement which depends on co-operation and mutual trust. A recent British example is the privatisation of the Royal Dockyards in 1987, where the trade unions brought a legal action in the High Court to stop privatisation on the ground that they had not been properly consulted as required by the Transfer of Undertakings Regulations. The court held that all reasonable steps to inform and consult had been taken. The trade unions admitted frankly at the hearing that their aim throughout had been to delay privatisation. Mr Justice Millett said in his judgment: "If there is a lesson to be learned from what has taken place it is that effective consultations cannot take place with those who do not wish to be consulted".

e. Where matters for consultation involve commercially confidential information, there is a particular need for mutual trust and confidence. These are things which need to develop naturally; they cannot be imposed from outside. Nor can confidentiality be secured by statutory provision.

f. The demands of statutory machinery for consultation at representative level can easily push direct communications between management and employees into second place so that middle management and supervisors find themselves less well informed than workers' representatives. The future lies with firms which can find opportunities and which take the trouble to inform all employees in a direct, open and personal way about their business plans and performance.

Other countries, with different industrial relations traditions, attach great importance to legal requirements governing worker participation. They are right to follow the path best suited to their conditions and their circumstances. But these traditions are not ours. Ours is a voluntary system and, for us, successful employee involvement is best developed on the basis of voluntary agreement. Firms in the UK must remain free to adopt whatever forms of employee participation they like. If a company wishes to have worker representatives on the board, it is free to do so; but there should be no compulsion.

It needs to be remembered that the industrial relations tradition of European countries are very diverse. This is reflected in the different levels of trade union membership. In Denmark, about 80 per cent of the working population are trade union members. In France, Portugal and Spain trade union members make up less than 20 per cent of the working population. The UK is in the middle of this range with trade union membership of about 45 per cent. Such diversity makes it difficult and undesirable to try to impose a single pattern of industrial relations.

Conclusion

It will remain the Government's policy

- to give every encouragement to the voluntary development of employee involvement and participation; and

- to resist new statutory requirements on worker participation.

What is needed is to reap the benefits of employee involvement while avoiding the disadvantages which compulsions could bring: a lessening of management control and effectiveness, delays in the decision-making process and possible problems over commercially confidential information.

Freedom for companies is important to their commercial success. The Single European Market and the removal of barriers will stimulate trade and increase prosperity, including jobs. The Government strongly supports the changes necessary to achieve this. But it must not be forgotten that European firms are competing in a global market, against the USA, Japan and the countries in the Pacific whose skills base now rivals Europe's. If the European Community imposes legal requirements which impede and delay management decision-making, that simply makes EC firms less competitive. The real "social dimension" of the Single Market lies in reducing unemployment and increasing prosperity across the whole of the Community. That demands more flexibility not more regulation.

The Government has no doubt that it would be unwise to submit well-run businesses, in which high morale and motivation of the workforce already ensure high productivity, to a regulatory regime which would encumber management without advancing the interests of employees. Many of the ideas which are being put forward within the European Community, by making novel demands on the time and energies of senior staff, would be bound to increase costs, delay decisions, reduce the responsiveness of companies to changing market conditions and so hurt shareholders and employees alike.

In the Government's view, regulation is not the way to implant good employment procedures. It may ensure that the formalities of participation are observed: it can do nothing to promote the real thing - the need, which all good employers and managers recognise, to deal directly with those with whom they work so that regular consultation and involvement at all levels of a business become second nature.

Insofar as the European Commission's present ideas are designed to improve both the performance of European firms and the position of their employees, they cannot compete with the disciplines of today's tightening labour market. Businesses are finding, and will increasingly find, that the workers they wish to recruit or retain are in a position to choose. Employers who set a proper value on their human resources will engage the commitment of their employees and will thrive; those who undervalue their people will fail.

The coming of 1992, by increasing the field of choice for employees, will also increase the pressure on employers to pay proper attention to employee involvement and participation. Both the opportunity and the spur will become Community-wide. No statutory provision could be devised which would apply anything like such effective and benign pressure to Europe's employers.

The Government hopes this booklet will make plain that British employers know best themselves how their businesses should be run and that their employees have nothing to gain from any fresh legislative constraints in this field. The Government believes it must be self-defeating to offer workers new statutory rights which, while giving them nothing tangible, would weaken the businesses on which their prosperity rests.

NFC: THE IMPORTANCE OF EMPLOYEE OWNERSHIP

NFC (National Freight Company) employ some 26,000 people in their transport, distribution and storage operations in the UK.

'For many companies employee involvement may be regarded as desirable. For NFC it lies at the very heart of the company and is indeed the reason for the company's existence in its current form. NFC owes its existence to the fact that over 10,000 employees, pensioners and their families were prepared, in February 1982, to raise the equity capital necessary to buy the company from the Government.

This has dictated a sense of responsibility towards the employees as shareholders; a corresponding interest in the company's affairs, evidenced by turnouts at annual general meetings regularly exceeding 2,000; and a commitment to communication with employee shareholders.

Although progress of time, and more recently flotation, have reduced the original 82¾ per cent per cent level of employee and pensioner ownership, the employee stake as owners in the business has recently been reinforced by the mechanism, unique to NFC, which gives employee shareholders twice the voting power of other shareholders. Employee ownership has also been reinforced by the introduction of the NFC profit-sharing scheme, unique in its concept and unusual in the amount of profit (up to 15 per cent) which the company is prepared to allot to it. Part of the scheme is in essence a savings scheme by which employees who contract to save a percentage of salary, which is used to buy shares for them, are awarded a further issue of free shares.

The other part of the scheme provides annual distributions of shares which, apart from a small basic element, are related to salary and length of service.

Managers are expected to manage and to make profits. NFC is no less demanding in that respect than any other company. Managers are, however, expected to take their decisions after having involved the people reporting to them and to be prepared to explain the reasons for the decision once taken. Our policy documents contain a clear statement of the right of each individual to have a voice in the decisions which impact on his or her working life."

EMPLOYEE INVOLVEMENT AND FINANCIAL PARTICIPATION IN ICI

ICI is one of the world's major chemical groups with a broad and varied range of products. ICI's headquarters and main technological base are in the UK where the company employs 50,000 people.

"Emphasis is placed on employee involvement at work team level whilst, above that primary level, employee representatives are involved in joint consultation at each significant level of the organisation. At corporate level, since the 1920s, the ICI Chairman and Executive Directors have had a large meeting with employee representatives. These annual meetings, which take place separately with blue and white collar employee representatives, enable people from all locations to discuss business issues, comment on the need for policy changes and give focus to employee aspirations and concerns, including, where appropriate, formal motions to the ICI Board.

Between annual meetings, various sub-committees meet with members of the Board and senior management to continue the consultative process. These include permanent committees to consider business and investment matters, issues of general concern, pensions and catering. Specific one-off or recurring topics are frequently referred to ad-hoc working parties. The total system, although operating through properly agreed constitutions, nevertheless remains flexible and capable of adaptation and change as management, employees and their trade unions together see necessary.

One product of the annual meeting with the Board in the 1950s was a proposal from the representatives to create an "Employee Profit Sharing Scheme". A formal system of financial participation has existed since, which currently allows all the 50,000 employees on UK salary terms to enjoy an annual bonus (normally 5-10 per cent of salary) determined by a published formula of added value compared with employee costs. The resulting bonus is distributed in the form of ICI shares, which gives employees exactly the same rights and benefits as other shareholders. In addition, since 1980, the company has operated a 'Save-As-You-Earn' share scheme."

COMMUNICATIONS GROUPS AT MARKS AND SPENCER

Marks and Spencer employ some 60,000 people in the UK.

"We believe that good human relations at work are essential to the continued development and success of our business. Communication of the company's principles, objectives and performance has always been part of our philosophy.

We use tried and tested methods for passing information down to staff. Management hold regular briefing meetings, keeping staff up to date on matters affecting their own store and on company-wide policy changes. A wide range of material is used, including video presentations, for communication and training.

Since the mid 1970s, a system of 'communication groups' has been developed to encourage problem solving and improve upward communication. Staff are elected as representatives of each category in a store and hold these positions for a period of two years. One of the group is nominated as chairperson and is trained to plan and control an effective meeting. The group meets every 4-6 weeks to discuss issues raised by staff, which range from minor in-store queries to wide-reaching questions on company policy.

An agenda is prepared in advance and firstly, the group discuss and solve all minor problems themselves. The store manager then joins the meeting and responds to those items requiring management comment. If the group wish to take an issue to a higher authority they are encouraged to do so. Minutes are displayed on the notice board with copies sent to divisional management and to the employee communications manager in head office.

Specific topics are also passed down to the groups from head office for comment, increasing the scope for involvement and providing the company with staff views before the implementation of new policies.

Communication groups provide our staff with the opportunity to contribute to the everyday running of their store, and to the wider development of their business."

ICL AND THE "INVESTING IN PEOPLE" PROGRAMME

International Computers Limited (ICL) is a major operating company within the STC Group engaged in the development, manufacture and marketing of information systems. ICL employs 22,000 people in 70 countries worldwide, including 15,000 in the UK.

"ICL operates in a knowledge based industry, selling creative solutions to solve business problems, and as such its success is led by people first and products second. Employee involvement is fundamental to that success and ICL believes this is primarily embodied in the relationship created between managers and their staff.

To support this relationship ICL has a worldwide programme 'Investing in People' which defines the standards for the development of people to be used by all ICL managers and their staff. These are described in a handbook given to all employees which covers objective setting, appraisal, performance improvement, career development and training.

ICL is committed to developing its employees to the full extent of their potential. This development is maximised through regular discussion with each employee in which the manager:-

- defines the objectives each employee should achieve in order to contribute fully to the company's business (the basis on which individual performance will be measured).

- appraises this contribution and identifies ways to help each employee improve their performance.

- determines the most suitable career direction for each employee and the specific development actions to achieve this.

- plans the necessary training within the £25m per annum budget.

In these ways ICL has recognised that employee involvement and people development are basic requirements for business success in its industry. This philosophy is further emphasised at the Managing Director's quarterly reviews of each business unit in ICL which include a specific focus on the organisational capability (people, structure and processes) of each individual business. These reviews consolidate the contribution of the individual managers and ensure that the needs of the ICL business are matched with those of its employees in order to stimulate the fastest possible growth for both."

PROFIT-RELATED PAY AT VAN DEN BERGHS & JURGENS LTD

Van den Berghs & Jurgens Ltd (a subsidiary of Unilever) is the UK's leading manufacturer of margarine, low fat spreads and other edible oil products. It employs 2,500 people.

"Employees are involved in the company's activities through various channels. In recent years VdB&J has ensured that the twice-yearly company council only discusses important business topics. On a site basis, the joint works councils meet more frequently to discuss company and local issues. Employees' interests are looked after by representatives of various departments and employee groups, although the traditional links with trade unions are still important and are fully maintained.

More recent moves towards greater employee involvement have resulted from two initiatives. The total quality management (TQM) programme calls for greater employee influence on the way that they work. Team briefing provides employees, on a monthly basis, with information about the company, on topics such as profit and trading performance. These initiatives are supported by extensive training.

As part of this general scheme of employee involvement and participation, VdB&J introduced a profit-related pay scheme at the beginning of 1988. The scheme distributes 6 per cent of the trading profit to all eligible employees on a quarterly basis. The scheme encourages employees to take a real interest in the company trading result when it is announced at team briefing. By seeing the direct link between company performance and their own pay, employees are encouraged to relate their own performance to the overall health of the business."

CHILD CARE ARRANGEMENTS AND MANAGEMENT OPPORTUNITIES AT MIDLAND BANK

The Midland Bank Group employs 49,000 people, over half of whom are women.

"In line with its business strategies, the Midland Bank Group has set itself the objective of making possible more rewarding jobs for more people, whatever they are doing, at whatever stage in their careers. This means, amongst other things, placing a special emphasis on the particular needs of female employees since they are in the majority.

A comprehensive range of programmes is in place to respond to these needs. Notable amongst these are the workplace nurseries, scholarship and 'retainer' schemes. These complementary arrangements are aimed at easing the problems of staff (men as well as women) who wish to return to work and pursue both a career and family.

Each workplace nursery, or creche, is managed by the bank, or in collaboration with another major organisation whose employees share the facilities, or by a managing agent employed for that purpose, and offers around 35 places. All employees are eligible to nominate a child for these places. The aim is to provide good child-care facilities which are both affordable and convenient, thereby overcoming the main obstacle for women returning to work after maternity leave.

The 'retainer' scheme is open to career men and women and allows for a break in service of up to five years. Staff rejoin the bank at the completion of their career break with no loss or grade or status.

During the career break, communication and contact is maintained with staff and each career-break employee attends an annual one-day updating session.

In 1989, Midland is introducing a programme of university scholarships of up to one year for around 50 individuals. The CAMPUS (Career Advancement through the Midland Programme of University Scholarships) programme aims to increase potential for advancement into management roles. It is hoped that the scheme will encourage large numbers of applications from women and people from minority groups as these employees are currently under-represented in Midland's management grades."

CO-OPERATIVE PARTNERSHIP AT JOHN LEWIS

The John Lewis Partnership employs nearly 38,000 people in stores throughout the country, mainly in 22 department stores and 85 Waitrose supermarkets.

"Founded in 1864 in a small draper's shop in Oxford Street, the company has since 1929 been run on co-operative principles. All the ordinary share capital is held in trust on behalf of those who work in it. It is thus one of the oldest as well as one of the largest companies in the world with this degree of employee involvement.

The employees receive all the profits after provision for reserves, non-contributory pensions and fixed dividends on a small number of non-voting shares held outside. The employees' share of the profit, the Partnership Bonus, wholly additional to market pay rates, is distributed in cash at the end of the trading year as a percentage of pay. For 1988 this amounted to £47 million (22 per cent of pay).

Five out of the twelve directors are elected annually by the Partnership's central council, the majority of whose members are elected, in turn, by employees.

The Partnership's constitution enables its members to enjoy full information about it, to express their views freely, to co-operate in shaping its policies and to share in its rewards.

The Partnership has grown to its present size from two shops and a membership of 2,000 in 1929. Over the past 25 years it has remained consistently, as it is currently, one of the most profitable and competitive of the UK's large-scale retailers. An independent study has suggested that the Partnership's commitment to employee involvement is a major reason for its ability to maintain faster productivity growth than its competitors, and that this has been combined with a very strong record on employment growth."

BP - INFORMATION AND CONSULTATION

The oil business, in all its aspects, is still BP's principal activity, although it is also engaged in a variety of other businesses. BP employs about 30,000 people in the UK.

"BP's general objective is for all the companies in the Group to be efficient and profitable whilst meeting their responsibilities in society. In pursuing this objective we seek to attract the willing co-operation of our employees.

Employee involvement takes many forms in BP so we make sure that everyone understands what we are doing by producing a booklet, which is updated each year, describing the spread of arrangements in the UK.

Each BP company exercises the widest freedom to adopt, in consultation with its employees, the form of involvement best suited to its operations. However, regular management/employee discussions on work related issues provide something of a common thread for employee involvement at the work-unit level. The kind of issues discussed might typically include: the setting of work objectives, ways of improving efficiency, the working environment, personnel procedures, progress towards objectives, safety and training.

We also have more formal consultative arrangements which have developed in different ways in the operating companies. BP Chemicals, for example, have a structure of formally constituted committees, based on a staff representative system covering both junior and managerial grades; while BP Oil, last year, decided to form a committee to discuss with staff the arrangements for a new office block.

Pensions are seen as an important component of our arrangements. A system of pensions councils provides a consultative forum at which elected representatives and company nominated representatives can receive, consider and raise issues which concern scheme members.

It remains, however, a fundamental principle of the Group's employee involvement policy that the responsibility for taking timely and effective decisions in the best interests of the business rests with management."

OPEN LEARNING AT JAGUAR

Jaguar plc employs 13,000 people in the UK.

"The Jaguar Company Mission includes a commitment to employee communications and involvement. This is spelled out in the company policy on communication and involvement which has as its goals:

- to ensure that all employees understand the company's aims and policies;

- to gain the commitment, determination and involvement of employees in achieving company objectives;

- to continually improve attitudes and motivation.

Jaguar currently invests the equivalent of 1.5% of its sales turnover level on employee involvement covering a variety of activities, some of which are more formal than others e.g. Joint Production Committees and Pensions Committees, and some of which are more social and voluntary in nature e.g. the Jaguar Hearts and Minds Programme. In recent years there has also been keen support for new training initiatives within the company, such as Open and Distance Learning.

Employee involvement operates at all levels within the company. Briefing groups are held weekly covering company performance and local topical items. More strategic matters are discussed at Management Conferences involving all levels of management. Quality Circles and a suggestion scheme also operate across the company and video programmes, a company newsletter, management bulletins and notice boards are other well used media.

On a formal employee relations basis the company conducts an Information Review Meeting twice each year at which the Chairman and key executives meet national trade union and local officials to discuss company performance and plans and other relevant matters. This is in addition to the formal procedures for negotiations.

The Hearts and Minds Sporting and Social Programme commenced in 1982 with Family Evenings and an Open Day attended by up to 35,000 people. Under this programme, a great variety of activities are administered by employee volunteers, including sporting competitions, a Company Fun Run and Summer Fayre, Hill Walking, Pantomime excursions and Bonfire Evening. These have been well supported and enormously successful, bridging the gap between work and play. Employees also contribute towards their own Sports and Social Club which has extensive facilities including modern clubhouse facilities, swimming pool, sauna, trim-gym, tennis courts, bowling green, football and cricket facilities.

The most exciting development, however, has been the Company Open Learning Scheme. This was established in 1985 to provide in-company study facilities for any employees who in their own time wished to study for formal qualifications, enhance skills or broaden knowledge on a general basis. A variety of computer and lecture based studies are available covering a range of job based and recreational subjects. Over 3000 employees have participated, some of whom have worked through from GCSE level to degree level.

The general conclusion is that the various involvement activities have gone a long way to cementing the Jaguar spirit within the company. As the company moves ahead with its Total Quality Management philosophy, the benefits of employee involvement will become increasingly apparent, the ultimate aim being to continually improve the quality of product and service to the customers."

MB GROUP'S FLEXIBLE WORKING ARRANGEMENTS

The MB Group's worldwide operations include food and beverage packaging, speciality packaging and engineering systems, heating and bathroom products,and cheques and business forms. The Group employs 28,500 people in 23 countries across the world, including 16,200 in the UK.

"MB Group (formerly Metal Box) has set itself stretching targets of international competitiveness which require continuous improvement to all aspects of its business. Its strategy has been based on investment - in capacity, in technological leadership, in market responsiveness and, crucially, in the people working for it.

As part of that process of continuous improvement, MB has introduced radical reforms of working practices and bargaining arrangements, with full involvement of employees and their trade unions. Innovations at various factories have included:

- long-term pay agreements and de-centralised bargaining;

- progression towards common conditions;

- cross-skilling and team-working;

- flatter grade structures with opportunities for progression through training and re-training;

- flexible shift patterns to accommodate continuous plant running.

Managers are explicitly accountable for their effectiveness in involving employees and their representatives in decisions which affect them at the workplace. They are also expected to maintain a continuous dialogue with the people for whom they are responsible so that the best ideas and contributions are adopted, wherever they come from.

There is no single company-wide prescription for how to involve employees. Rather, there is concentration on developing methods appropriate to the particular business or factory. Recurring features include:

- briefing groups;

- joint task forces to justify investment needs and plan implementation;

- flexible team-working;

- Total Quality Management, QED - "Quid Each Day" (staff suggestion scheme) and First in Service programmes;

- joint training in problem-solving and statistical process control;

- widespread information-sharing on competitiveness, performance targets and prospects in each business.

No-one is satisfied that enough has yet been done. But employee involvement itself is subject to continuous improvement - driven by the recognised need to build on the resourcefulness, commitment and contribution of employees at all levels to make the Group a world leader in its chosen fields."

SAINSBURY'S PROFIT SHARING AND SHARE OWNERSHIP SCHEMES

Sainsbury's employ some 74,000 people in their stores throughout the country.

"To quote Alison Williams, aged 23, who has worked for Sainsbury's for some five years and became entitled to shares under the company's profit sharing scheme after two years with the company, 'Being a shareholder makes you take more care.' Alison's comment is typical: Sainsbury's managers have no doubt that profit sharing and share ownership play an important part in their staff's commitment to the business.

Sainbury's profit sharing scheme provides for the creation of a profit fund which is determined by an objective formula related to the company's profit margin. The fund is divided amongst qualifying employees according to pay and may be taken in the form of cash or company shares. After the qualifying period all employees, full-time and part-time, participate. Since 1980, when profit sharing was introduced, the total number of UK employees has risen from 37,500 to 74,000 and the percentage of participating employees from 45 per cent to just over 50 per cent. As a percentage of an individual's annual pay the profit share has risen from 4 per cent in 1980 to 10.6 per cent in 1988. Over £100 million has been paid out through the scheme, with about 45 per cent used to subscribe for over 30 million shares (adjusted for capitalisation issues) or approximately 2 per cent of the company's current issued share capital. More than 30 per cent of the company's UK staff are shareholders, either directly or through the profit sharing scheme. Put another way, about 27 per cent of the company's shareholders (including those holding shares through the scheme) are employees.

Sainsbury's is careful to distinguish between share ownership and profit sharing. Employees have always been able to take their profit share in the form of cash although the advantages of taking shares under an approved scheme have always been underlined. Board commitment to communications is an essential ingredient: each year the company carries out a major communications exercise with employees about the business performance of the company. This takes the form of company meetings and is accompanied by a video and a special employee report on the year's progress."

NISSAN - EMPLOYEE INVOLVEMENT AND CONTINUOUS IMPROVEMENT

Nissan Motor Manufacturing (UK) Limited employs some 2,500 people at its car manufacturing plant in the UK.

"Nissan's absolute commitment to involving employees is based on its view that this is the only way to achieve the highest standard of quality and productivity and, at the same time, a satisfying and rewarding working life.

The Nissan approach begins by recognising that all staff are individuals and all can contribute beyond their specific task. Thus they have real responsibility not only for the quality of their own work but also 'continuous improvement' - the concept which recognises that a person doing a job knows more than anyone how to improve it and that, by genuinely seeking contributions from individuals and having them 'own' the change, all can benefit.

Employee involvement also means that everyone knows what is going on. All communication is face to face; for five minutes every day the team simply talk together about matters affecting their group. Rarely are there 'corporate messages' and rarely does the grapevine get there first. Thus people are totally involved in those matters they can directly affect, and fully informed about those they cannot.

Employee involvement for Nissan is not a technique to be debated or negotiated, nor is it something undertaken just once a month with elected representatives. It is simply the best way of running a business. It is a continuous process involving all the people all the time - and it is successful."

ADAPTING TECHNOLOGY TO PEOPLE - TASK FORCE AT GLAXO

Glaxo Pharmaceuticals Limited is the UK's largest producer of prescription medicines and is part of the British based Glaxo Holdings PLC. Glaxo Pharmaceuticals employs 3,500 people in the UK.

"Glaxo Holdings PLC has expanded rapidly in the past 10 years moving from 20th to 2nd place in the Pharmaceutical World League. A consequence of growth has been constant change. The need for high levels of understanding and commitment on the part of staff to this change is recognised in the manufacturing division's published statement of Mission & Values which recognises the need to:

- exploit best manufacturing practice

- Create teams of committed, well motivated people at all levels working towards shared common objectives

- Foster open 2-way communications.

Each manufacturing site is charged with creating an open environment, in which staff are informed, understand and have the opportunity to influence the developments and changes which affect them. Experience has shown that "locally grown" initiatives generate much greater enthusiasm than centrally imposed ones. Amongst the many mechanisms in use for creating this environment are quality circles, team briefing, joint consultative committees and task forces.

The task force has been a particularly effective means of involving staff. This is an ad hoc group of 8-10 staff representing all grades of staff either from within a single department or across a number of departments. It is convened for a specific purpose and once its objective has been accomplished, it disbands. It is chaired by an appropriate manager with authority to make decisions in the area concerned, and membership is voluntary.

This method has been used extensively, and most effectively, by the company to involve staff in the design of new multi-million pound facilities, though it can be used in a variety of circumstances. Typically, all staff within the area affected are given a presentation on the planned investment and the purpose of the task force, which is to ensure that the proposed facility meets the needs of the business and the staff who will be working there. Volunteers are then invited. Volunteers may include an existing union or staff representative, but the scope of the task force excludes consideration of matters of collective bargaining, such as terms of employment; and if suggestions arise for changes in work patterns, for instance, they are progressed through established consultative mechanisms. Training is provided in the skills of co-operative problem-solving and the work of the group is given high visibility.

The use of task forces ensures a wide spread of involvement of people with real contributions to make. They have served an invaluable team building role and all staff see a very visible output from the efforts of the group."

TEAM BRIEFING AT PEUGEOT TALBOT

Peugeot Talbot Motor Company Limited employs over 5,000 people in its UK production, administration and distribution operations.

"In late 1979 John Garnett, then Director of the Industrial Society met with Peugeot Talbot's then managing director, George Turnbull, and his top management group to explain 'Team Briefing'. In essence it was simple:-

- each manager/supervisor would regularly meet his team face to face

- in characteristic cascade sequence

- giving information about the relevant performance indicators

- identifying targets and reporting on progress and achievements

- and develop "points for action"

The result for employees should be a better understanding and closer identification with the objectives of the organisation and an increased commitment to their achievement.

Commitment from the top was and remains absolutely crucial. Commitment, leadership by example and action.

An existing Management Committee became the vehicle for regular monthly briefing meetings at which the managing director and other directors reviewed all the major company indicators. Their "core brief" was cascaded through the organisation, picking up local information en route, until 48-72 hours later the car assembly track was stopped, office workers left their desks and computers and all employees were briefed by and fed back their views to their immediate boss. (Every manager/supervisor in the briefing chain being thoroughly trained in the briefing philosophy and technique).

It was quite a shock to the corporate system at first. Now, ten years on, we at Peugeot Talbot do not regard 'Team briefing' as a panacea but it remains an essential cornerstone of an integrated communications strategy, regularly and consistently delivering factual information, not propaganda, to all our employees enabling them to understand and become more involved in the success of the business.

Whilst we are always seeking to improve our systems 'Team briefing' has in our view been of significant assistance in helping the people in Peugeot Talbot turn a £100m plus <u>loss</u> making concern less than a decade ago into a £100m plus <u>profit</u> making business last year."

EMPLOYEE COMMUNICATION AT IBM

IBM develops, manufactures and sells a wide range of information-handling products, employing 18,000 people in the UK.

"At the heart of IBM's employment philosophy is the basic belief of respect for the individual. To reinforce this concern for every employee, IBM has built up a framework of principles and personnel programmes. These include the practice of full employment allied with promotion from within and a continuing focus on education and training, the Appraisal and Counselling programme, the merit pay concept, open communication channels and grievance procedures. Respect is a joint responsibility: just as the company has obligations to the individual, so employees have obligations to IBM.

IBM is committed to fostering trust and responsibility among its people. The employee-manager relationship is seen as crucial to maintaining respect for the individual and achieving the optimum contribution from each employee.

Employee career counselling and planning is embodied within an Appraisal and Counselling Programme (A&C). It provides for an assessment of an employee's performance against objectives, by his manager, normally on an annual basis. An important element of the programme is the opportunity for a discussion of performance, areas for improvement and career potential. The A&C process provides employees with reassurance, the challenge of agreed, clear targets and the possibility of assessing new areas of experience, while providing an opportunity for agreement on goals and role, as well as a sense of common purpose.

Two-way communications underpin IBM's approach to employee communications. The logic of having everyone in the company understand the business objectives,and the plans and strategies that are being employed to reach them, is obvious. So, too,is the need to provide open channels that enable employees to clarify their understanding of those objectives, and to question those plans and strategies.

One of IBM's ways of discovering problems at an early stage is the Speak Up! programme. It allows the individual to submit a comment, complaint or request for more information on a policy question in written form and obtain a reply from the person in the company best qualified to answer. All questions are handled by a co-ordinator who protects the writer's anonymity.

Opinion surveys are carried out for each major operating unit within a two year cycle. They give employees the opportunity to express views - with the security of guaranteed anonymity - on key aspects of working for IBM. Questions help to solicit employee responses to IBM's performance against the three basic beliefs of respect for the individual, customer service and the pursuit of excellence. Other questions cover subjects including pay, benefits, working conditions, health and safety, communications and management performance. Employees are also asked how well the company is handling change. The answers are used to construct various indices which act as a check on the health of IBM's employee relations.

IBM's challenge in employee relations is to keep its practice in line with its principles. One measure of the company's success in this respect is that its system has stood the test of time and change without any major revisions."

UNIPART - A COMPANY OWNED BY ITS EMPLOYEES

Unipart employs some 4,200 people in the manufacture and sale of automotive parts and accessories.

"Privatisation of the Unipart Group of Companies in January 1987 took the form of a management buy-out from what used to be British Leyland. Careful thought was given to the policies that would guide the company through the future and it was decided that 'amongst the company's values, nothing is more fundamental than its respect for the individual' and that 'the Group will create and maintain an environment in which individual employees may contribute to and share in the fortunes of the business in a fair and consistent manner'.

It would have been possible to provide free or discounted shares to all employees, but the management concluded that the decision had to rest with the individual and that individuals should make a free and informed choice whether to own a stake in their business.

The challenge was to find the most appropriate way of putting together an interesting and balanced account of the risks and opportunities that a shareholding stake would bring. This was done by staging a four-hour theatrical show, in fact, putting the 'prospectus' to music. This unique approach won wide acclaim and resulted in the majority of the Group employees applying for the share offer which was twice subscribed.

Following privatisation, every single employee has been invited to participate in a series of two day 'Putting People First' courses, which concentrate exclusively on inter-relational skills. These courses gave rise to a demand from managers and employees to learn more about the activities of the Group and sister divisions. A regular video news programme entitled 'Grapevine' has been introduced and is viewed by all employees in natural management groupings, providing the opportunity for comment, discussion and feedback.

Employees in the Group know that they can and do make a difference and this is demonstrated by the financial results. At the end of its first full year as a private sector company, the Group delivered an earnings growth of 40 per cent and exceeded all its key financial commitments. In its second full year, its key financial objectives were again bettered with an earnings growth of 30 per cent, providing the company with the confidence to embark on its highest ever capital investment programme."

DIRECT COMMUNICATIONS AT PIRELLI

Pirelli employ some 3,600 people in the UK in the manufacture and distribution of tyres, motor accessories, footwear and seating suspension systems.

"If British manufacturing industry is to compete in the world market-place, all involved in the business have to work for the common good. Continuous improvement means a healthy company and a better quality of life for all.

There is no better way of communication than by word of mouth, directly to the people involved. The person doing it should be the chief of the function (eg the Manufacturing Director) and it must be done on a regular basis.

In Pirelli this started in 1979. Simply to survive, new investments had to be utilised better and people had to come to work more regularly.

In 1982, in common with much of manufacturing industry, we were in serious financial trouble. We had to re-structure substantially and establish a two-year savings programme in order to save the factories from closing. By 1982 the level of education was such that an understanding had developed and everyone believed in the actions required. Numbers employed were successfully reduced by 25 per cent: the prize - our factories stayed open.

In 1989 direct communication sessions are still held and everyone looks forward to them. It is vital to communicate when news is good, not just when it is bad. The level of education now is sophisticated. We cover turnover, market shares, key customers, productivity levels, competitive comparisons, etc. Together we agree both strategic and shorter-term objectives.

Since those dark days of 1982, we have achieved 60 per cent volume growth; 100 per cent improvement in productivity; lead times reduced by 70 per cent; working capital (stocks) down 40 per cent; export volume has grown to 42 per cent of production.

We are now all fully committed to continuous improvement of quality and service. We work <u>together</u> and the result is growing prosperity for the company and for the individual. It is an unbeatable combination."

CMG COMPUTER MANAGEMENT GROUP - THE STATUS FREE COMPANY

CMG is Europe's largest independent provider of management consultancy, information technology consultancy and business systems. It employs 900 people in the UK.

"Since its foundation 25 years ago, CMG has evolved and developed an unusual corporate philosophy of employee involvement and inter-employee relations.

Briefly stated, the CMG philosophy is this:

- CMG encourages employees to be as entrepreneurial and resourceful in their work as possible. Staff are encouraged to develop their strengths and accept responsibility within small manageable groups, with each unit benefiting from the total strength of the group.

- CMG pays top salaries, provides excellent conditions and offers maximum opportunities to attract the best people in the industry.

- Responsibility and pay are the only distinguishing features between directors, managers and staff. All other terms of employment are the same. All staff receive a good salary, non-contributory life assurance, BUPA and Permanent Health Insurance. CMG's non-contributory pension scheme provides substantial benefits, including payment to surviving spouses and children, for both male and female employees.

- All management appointments are from within, providing a clear career path for employees.

- All information about CMG is available to all employees without exception. There are no confidential reports, inaccessible minutes or closed personnel files. In every way, open management is practised - at CMG, no subject is taboo.

- Everyone is engaged in the decision-making process through regular staff, management and policy-forming meetings. Information flow in CMG is considered of prime importance and great stress is placed on internal communications. Regular opinion surveys are carried out with opinions from employees on careers, training, management etc.

- CMG is independent of any outside business interest and is entirely owned by its employees. All staff are eligible to purchase shares and over 80 per cent have done so. Shares are available once a year from the CMG 'Stock Exchange' to employees and their close relatives.

CMG recognises that no one aspect of its philosophy is unique, but the totality is certainly very special. With no secrets and no status symbols, CMG can genuinely be described as the 'status-free' company."

TEAM BRIEFING AT COLOROLL

Coloroll is the largest home fashion group in the UK, producing wallpaper, textiles, carpets and all types of tableware.

Team Briefing

"Coloroll has a very active employee involvement programme, the first step of which is Coloroll's excellent two-way communication system. Every month 10,000 employees stop work for 30 minutes and meet in teams of 8 to 15 to receive the team brief. The purpose of the team brief is to disseminate only relevant information to every employee in the Group. There is input from the employees' supervisors and managers at every level up to, and including, the group managing director.

The success of the system is the result of the open and honest attitude of the management team and the willingness to answer questions, however difficult or challenging these may be. This is made possible by a unique system which ensures that an answer is obtained from the most suitable person (often the managing director), and automatically returned to the originator within a week. The team brief is supported by a lively group newspaper.

At team briefs people begin to ask 'How are we doing?'. Coloroll takes this opportunity to involve them more by providing 'How are we doing?' boards. These are designed by employees and give up-to-date information on production, sales and quality.

Ideas Scheme

The ultimate aim at Coloroll is for employees to gain greater job satisfaction by involvement in the day-to-day running of the company. To help them, an extremely successful ideas scheme has been set up with an award system paying the originator 20 per cent of the first years' savings. In the first 12 months ideas were received from 50 per cent of employees and 17 per cent of these were adopted.

QUIPS (Quality Improvement Programmes)

By taking much of the mystique out of quality improvement Coloroll has succeeded in setting up effective quality improvement programmes offering an even greater degree of employee participation.

Family Atmosphere

However, Coloroll's employee involvement programme goes further than this. In an endeavour to bring a family atmosphere to the group, Coloroll has set up a children's educational trust, with an annual budget of £100,000 to benefit employees' children. Furthermore, to enhance the lively atmosphere the walls everywhere display large bright posters which wholeheartedly encourage people to take advantage of the involvement programme."

ROADCHEF - THE FIRST UK EMPLOYEE SHARE OWNERSHIP PLAN

Roadchef, which employs 850 full-time staff, is the largest privately owned company operating on motorway service areas. It is a catering, shop, and petrol retailing business.

Roadchef introduced its Employee Share Ownership Plan (ESOP) in January 1987. It was claimed to be the first ESOP introduced into the UK and the first allocation of shares took place on 3 April 1987. Nearly one-third of full-time employees are shareholders in the ESOP.

Roadchef agreed a management buy-out in July 1983 involving 30 of its company managers. It wanted to involve more of its workforce in owning shares in the business and set itself the following criteria:-

1. All shares would be allocated free of charge to staff.

2. All shares would be of equal standing and status as any other shares already in the company.

3. There would be a qualifying period of service to encourage employees to stay.

4. On leaving employment shares would be repurchased back to the company.

The purpose was to involve staff as shareholders with a long term share in increased profitability and not to generate a bonus scheme of annual cash payments.

The qualifying period for eligibility is three years service by 1 January each year. All shares allocated are equally given to all grades of staff and without regard to full or part-time work.

We found that by the use of the trust mechanism we were able to write our own criteria and objectives to meet our particular needs. The emphasis was on share membership so that the staff had the legal right to information and accountability from the directors which they were not necessarily able to claim as just employees.

On the introduction of the scheme the Managing Director personally presented to all the branches the booklet which explained how the scheme worked and visited each site in turn and talked to the staff in small groups.

The most important element of the scheme was communications. The company introduced a magazine called 'Traveller' which explained the Group's performance and policy. This is issued twice a year in December and June. Two years on from the introduction of the scheme the company has produced a new updated booklet which the Managing Director and Personnel Director have taken personally to all the branches and presented to the staff to reinforce the objectives behind the ESOP. Seventy per cent of all employees have attended the sessions."

THE BODY SHOP AND COMMUNITY CARE

The Body Shop makes and sells products that cleanse, polish and protect the skin and hair.

"As an expanding and profitable company with 380 employees in our own shops and nearly 3,000 people worldwide in our larger franchising operation, our concern about the responsibility of profits matches our determination to continue to make them. It is a partnership of profits with principles. The company operates within the environment, the community, the world. That is where our responsibilities lie: we want to give back to society.

We do this in a variety of ways. We endeavour to develop relationships with the non-industrial countries providing employment and trade. We are committed to raising public awareness on a variety of environmental issues and we ensure our practices are as ecologically sound as possible. We are concerned with both global and local issues, and see our immediate communities as one focus for our activities. Of primary importance to us is our programme of community care.

All our shops, offices and warehouses world wide are encouraged to participate in community projects; this covers franchises as well as The Body Shop International. These range from creating employment opportunities, providing sensory therapy and make-up instruction for the blind, giving time to individuals rehabilitating from drugs, caring for hospice patients, and prison visiting, to planting trees and participating in conservation work. The list is endless ..!

This work is done during office or shop hours and is entirely voluntary. The individual workplace will establish links within the community and respond to the specific needs of that community'.

They will make a regular commitment to the respective group and may well become involved in raising funds to help maintain that organisation.

Fund raising is done on an on-going basis for both local groups and for the charities The Body Shop International supports. For example, The Body Shop raised enough money to build a complete Boys' Town in India to house 85 boys at any given time. These boys go to local schools and also receive agricultural and other training.

The commitment to caring for the community is shared by all our staff. It has been quoted as being the 'best thing about the company'. In fact a number of our staff come to us because of our philosophies. We believe the individual is now looking to work for a company that values them more as an individual than as a means for increasing profits. They want work that engages the heart as well as the mind and body, that fosters friendships and nourishes the earth. They want a company that contributes to the community and is part of the community. They want not just something to invest in but something to believe in!"

EATON - QUALITY THROUGH COMMUNICATION AND INVOLVEMENT

Eaton Truck Components is a major supplier of axles and gearboxes to the world's truck manufacturers. The company has [ ] employees in the UK.

"The main operations of the company within the UK are located at Aycliffe (Co Durham), Basingstoke (Hampshire) and Manchester. Each of these plants have developed their own form of involvement but they all share certain common factors.

All three plants have established long term pay deals and harmonised conditions of employment. It is felt that this has allowed more time to develop employee involvement positively. The drive for quality has become a major pre-occupation throughout rather than something related purely to manufacturing operations.

Communication with all employees is a continuous process through formal systems such as team briefing, plant-wide meetings, as well as informal aspects such as walking the job. It is intended that all employees should have a full understanding of the business situation.

Involvement programmes again vary from quality circles to task teams and working parties. Typically groups are organised around their supervisor and seek assistance from other specialists. Targets set by these groups are largely cost reduction and quality improvement orientated.

Initially from its experiences with quality circles the company was impressed by the ability and application that was shown by employees. This has proved a constant encouragement to the company in its drive for employee involvement.

No new machinery is installed without operators being involved with the machine tool supplier. The supplier is made aware of the operators' requirements from the equipment. Equally if quality problems are being experienced with raw materials then the operator will be involved in discussions with the supplier aimed at bringing about improvements.

'No one group has a monopoly on ideas or intelligence.'
'You cannot inspect quality into the product - it has to be built in at all stages.'

A couple of quotes that help to express clearly the attitude change that is being brought about."

BULMERS' EMPLOYEE COUNCIL

Bulmers is a large drinks manufacturer employing 1,400 people.

"Employees have a 3 per cent stake as a result of a profit share plan introduced in 1988. Under this scheme up to 5 per cent of profits are used to buy shares which are then allocated to employees.

One of the company's earliest participation ideas was the establishment of an Employee Council, an elected body with the representatives from unions, supervisors and managers. The company publishes a statement of company objectives which is decided in consultation with the Employee Council.

When the cider market hit problems and over 300 redundancies were called for, the Employee Council agreed a fair and just redundancy policy. As a result only a handful of compulsory redundancies were necessary. Consultants were engaged to advise anyone wanting to set up business and the company monitored progress of those who left to seek other employment.

Major news items are communicated to the workforce by personal letter from the Chief Executive which supplements other communication methods such as a company newspaper.

The company's annual report and half-yearly results are mailed direct to all employees as well as shareholders. An Employees' Annual General Meeting takes place on the same day as the Shareholders' AGM, when a full report on the activities of the company is given.

Bulmers have developed a close working relationship with their unions and they supply directors of the profit share scheme and trustees of the pension fund."

EMPLOYEE SHARE OWNERSHIP AT TULLIS RUSSELL

Tullis Russell is one of Europe's leading independent papermaking and specialist coating groups.

"Our commitment to employee share ownership is fully part of our corporate culture. We are a private company and see our future prosperity and independence best served by spreading the responsibility for our success among all our 1450 employees.

Sharing in the wealth of our company is the ultimate incentive for our people and the involvement of all employees in the ownership of the company, along with the original family owners, gives everyone an interest in the successful implementation of the company's strategy.

A regular employee briefing system was an important first step, breaking down barriers and building trust between the various levels in the company.

In our experience employee share ownership has increased the responsibility of management to perform well. In addition, elected trustees of the share scheme give our employees a real say in key decisions.

In 1986 a cash profit sharing scheme and our fledgling employee share ownership plan was introduced. In a matter of months the positive effects began to feed through to the business. A recent £7m capital investment programme resulted in a product of the highest quality well ahead of schedule and below budget. Those involved believe that employee profit sharing and share ownership played a significant role in this achievement.

Each year some of our profits buy for our employees a bigger stake in our business. At the same time we increase the size of our group by re-investment and by acquisition. At the Tullis Russell Group, business growth and the growth of employee share ownership go hand in hand."

F.I. GROUP: WORKCENTRES AND HOMEWORKING

F.I.Group PLC is a UK-based software systems company. Its 1,000-strong workforce benefit from extremely flexible working patterns.

"In the summer of 1987 the senior management decided that, as people were both the strength and the most valuable asset of FI, it was important to go out and discover what FI people thought of their company and needed from their employers.

Specialist market researchers undertook a thorough workforce survey. The results of this research led to many structural changes within the company. This was a turning point. Innovations since then have proved to be highly effective for both the workforce and FI's clients.

The main innovation was the establishment of WORKCENTRES - regional offices where staff could continue to work flexible hours and would use on-line computers, have access to technical equipment unavailable at home and feel part of a team.

Workcentres also enable FI teams to operate and maintain clients' information technology systems from FI premises. This releases valuable office space for clients.

With ever-changing technology, training is imperative and workcentres provide ideal sites for major training programmes.

To make them easily accessible, the workcentres are situated near motorway exits. A sophisticated network links them all. At the moment there are 10 such centres with plans for another 10 in the next five years."

CC OL / DW

PRIME MINISTER

6 December 1985

PROFIT-SHARING

Ministers have been arguing for years that lower pay rises would help to increase employment. But they have rightly rejected any form of incomes policy. As a result, many commentators have accused the government of indulging in empty rhetoric.

One way round this problem may be to encourage more profit-sharing. Employees might be willing to take lower wage rises (or even lower real wages) if they gained a substantial share of profits.

The Treasury have been examining some interesting proposals that would make such profit-sharing attractive by increasing - and retargetting the current tax incentives. Treasury Ministers have not yet made up their minds on the issue, but discussions are continuing.

We believe that the idea is well worth pursuing, not only because of its possible effects on wages, but also because of its wider effects on employee attitudes towards wealth creation and industrial relations.

Are you content for us to work further on this with Treasury officials?

Yes - moreover a share of profits to employees is not an increased cost.

OLIVER LETWIN

David Willetts

DAVID WILLETTS

MT

Ca. depend

17 May 1985

QUOTES

National Freight Corporation:

"I think it's what helped make the National Freight Corporation such a unique company. You realise that part of this truck - it might be a very small part, a nut or a bolt - it's your money. It gives you that little edge."

"Nice to see all the Board sitting up there on the rostrum at the shareholders' meeting. They're only there because you put them there. No-one else. You ~~were~~ are the shareholder."

"The National Freight Corporation awakened my interest. Then I bought some ~~issue~~ share in British Telecom, a big privatisation issue. I've now got a few in Whitbreads, one of our big customers."

Wandsworth council house purchaser:

"Well, let's be honest about it. When you own a house, you look after it more. You not only look after your own property, you also look after the surroundings as much as you can. Well, I mean, even out at the front here, we have looked after that. Once upon a time we had no gates going through there. Made a right mess of it. From one gate to another there used to be a pathway. Well, now it's all green. You try and keep it tidy."

Purchaser of British Telecom shares:

"If I go to a bank and invest my money, I get 6%, 7% or something unexciting. But when you can see it in the

Stock Exchange, in the papers, moving up or down, it's exciting. I really enjoy it."

Jaguar employees, asked whether they watched the share price, replies that they like watching it "going up and down, a lot of interest in it".

28 February 1985

PRIME MINISTER

AT 1/3

I met Mr Jonathan Charkham on 26 February. He was once the Under Secretary responsible for the Public Appointments Unit, and is now employed by the Bank running the PRO NED Non-Executive Director Register.

His close association with the senior management of British industry, and his study of the progress of British enterprise, have led him to the following conclusions:

1. The average performance of British companies is very weak compared with their American and Far Eastern rivals.

2. The trouble begins at the top: Boards are not adequate for the task.

3. Too often, powerful Chief Executives surround themselves with weak Boards, and then pursue wrong policies. Or weak Chief Executives surround themselves with scarcely participating co-Directors, who fail to jog the business onto the paths of success.

4. The shareholders, thanks to the large institutional holdings, are largely divorced from the process of

management, exercising no control over the Board and rarely using their voting powers.

5. Insufficient numbers of companies have strong audit committees staffed with good non-executive directors capable of investigating and bringing to account the executive directors on the Board.

Discussion

My experience as an institutional investor bears out much of the Charkham analysis. The institutions are full of men of straw. Because they wish to pursue their own legitimate business ends with the companies in which they are investing, they rarely stand up to the Boards or demand the necessary changes until it is too late. The only successful examples of institutional shareholders intervening and changing the shape and direction of the Board have come once the company has hit clear and defined trouble, eg Rank Organisation.

So we do need to put some more pep back into the shareholder's powers, and we do need to strengthen the position of the audit committee and of the non-executive directors.

Jonathan Charkham's main recommendation is a short Bill setting out a minimum percentage of Board members to be non-executive in a company of a certain size; and laying down a procedure for the election of these people which makes it more difficult for them to be merely the place men of the Chairman or Chief Executive.

In the USA, a similar arrangement operates through the rules of the New York Stock Exchange; in the UK the Stock Exchange is reluctant to go this route during a period of change, and in view of the ruffled feathers it might create.

Recommendations

The first part of the problem is to encourage genuine shareholder democracy. To do this, we need to strengthen our drive to wider share ownership by:

1. Giving the pension funds to their members by enforcing in legislation the requirement that every member of a pension fund should know the unit value of his holdings (calculated on a simple actuarial formula); and have the right to switch his holding to some personal investment vehicle approved for tax and pension purposes, if he wishes.

2. Advertising and encouraging more share and profit-sharing schemes, management buy-outs and so forth.

3. Using a more vigorous privatisation programme to spread ownership of companies more widely.

4. Discussing with the Stock Exchange, in the context of Norman Tebbit's White Paper on Financial Services, ways of strengthening audit and non-executive functions in British companies.

5. If 4 fails to consider amending company law.

Only by these means do we have a chance of breaking down class barriers, the "them and us" mentality, and the current chronic weakness of the owners in British public companies.

JOHN REDWOOD

Prime Minister (4)

The Industrial Participation Association (President - Nigel Vinson) have sent you their report of an attitude survey on employee shareholding.

Following is a summary.

21 November 1984

MR BARCLAY

DUB 21/11

THE INDUSTRIAL PARTICIPATION ASSOCIATION'S ATTITUDE SURVEY ON PROFIT-SHARING AND EMPLOYEE SHAREHOLDING

Please p.a.

DUB 26/11

The report reveals that there are between 500 and 600 all-employee profit-sharing schemes, with between 1.5 and 1.75 million participants. These schemes may be related to profits or added value or sales.

The survey of 2,703 members of profit-sharing schemes, spread across 12 companies, shows the following points:

86 per cent think profit-sharing is good for the company and for the employees. And 76 per cent think it means people take a greater interest in the profits and financial results of the company.

Those schemes providing deferred shares showed about half the members feeling more a part of the company than before they became shareholders; and over 80 per cent taking a greater interest in the company's results. 68 per cent watched the movement in the share price, and 85 per cent say they intend to hold the shares for a long time. 55 per cent of those concerned said they would not worry about day-to-day fluctuations in the value of the shares. Of the restrictions imposed on the share schemes, the most unpopular is having to wait for 7 years to get full income tax relief, with 84 per cent of respondents disliking that the most.

The survey then goes into details of the 12 schemes.

An Annex written by Corey Rosen - Executive Director of the National Centre for Employee Ownership in Arlington, Virginia - sets out the US experience. Picking up Reagan's remarks in 1980 that the inequitable distribution of ownership created a threat to democracy and capitalism, since far too few people had a clear stake in the current economic system, he goes on to examine the moves made over the last few years in the US to encourage employee-ownership.

Over 6,000 firms have now established plans, with Congress backing employee stock-ownership plans vigorously. Around 4 per cent of the total workforce are now covered. On maturity, the employees will end up with at least 20 per cent of the company's shares. Around 10-15 per cent of the plans will involve employees owning the majority of the company's stock; and the employee will come to benefit by some 5-15 per cent of his salary.

Studies show that in the employee share-owning plan companies, profits and productivity grow much faster than in comparable non-employee-owned companies. Management/ employee participation is following the transfer of some ownership.

His note concludes that "It is not far-fetched to think that employee-ownership may become as significant a part of employee relations by the turn of the century as unions have been throughout the century".

Amen to that.

JR

JOHN REDWOOD

PRIME MINISTER

There are three different approaches:

(i) introduction of new incentives for direct holdings of equities, eg Loi Monory, Business Expansion Schemes, share options, etc, to counter existing bias;

(ii) elimination of most existing reliefs and creation of a new regime which encourages long term saving but without discriminating between different savings media;

(iii) a compromise with some reliefs being scaled back, as suggested in John Redwood's note, in order to finance new special schemes.

The way forward is for John Redwood to have discussions with the Treasury to establish their thinking. After he has reported back you could hold a meeting with the Chancellor. This should be in December to be in time to influence this year's budget preparations. - Doubtful whether we could do it in time.

Agree this approach?

AT

Yes - follow up discussions with the Treasury But leave well alone mortgage relief (except to increase the limit) and Building Societies for reasons in my note on p. 3.

MT.

18 November 1983

SECRET

17 November 1983

PRIME MINISTER

WIDER CAPITAL OWNERSHIP

The Problem

House mortgage apart

The present system for encouraging greater wealth ownership is largely designed to thwart the individual owning assets direct. If I buy National Savings Certificates, I receive the interest tax free. If I invest in an insurance policy savings scheme, I receive tax relief on my premium. If I save for my retirement, all of the contribution is tax free within generous Inland Revenue rules. If I invest my money under the Business Expansion Scheme, I receive full income tax relief. If I buy a house, I receive tax relief on my interest payments on the mortgage. If I put my money in a building society deposit, the building society pays less tax on the interest than if I put the money into a bank deposit account, and pays less Corporation Tax than a bank. However, if I wish to buy a share or government security for myself, I get no tax relief at all. The whole system is designed to encourage the amassing of savings in impersonal institutional hands and, in the main, to penalise direct wealth holdings, particularly of equities.

This is direct ownership

This tax policy has been successful in squeezing the proportion of private shareholdings. Between 1975 and 1981, the proportion of shares owned by private individuals direct fell from 37.5 per cent of the total to 28.2 per cent. In the early 1960s, more than half of all company equity was owned direct by individuals.

The Dangers of Institutional Ownership

The creation of large amounts of wealth controlled by the institutions is damaging:

1. The individual has no direct responsibility as a shareholder and is often unaware of the companies in which he is indirectly invested.

2. The institutions are usually negligent shareholders, as they have other business interests at stake which makes them reluctant to take company managements to task when the need arises.

3. The existence of large quantities of tax relief if money is channelled through institutional hands makes the industry

SECRET

less responsive to the customer and gives it bigger profit margins at the public expense.

4. It can be argued by our opponents that privatisation substitutes for the dead hand of the Treasury the somnolent bodies of the institutions.

What can be done about it?

The present incentives to buy a home are important as ever wider home ownership remains a central goal. But we should also now encourage a much wider direct ownership of company assets and government securities. To do this, we need to consider the following lines of approach:

1. Removal of barriers to direct shareholding. This could be done in a similar way to the Loi Monory by giving people tax relief on a certain amount of saving through shareholdings each year. In order to avoid the loss of any net tax revenue, some of the financial benefits going to institutional saving could be removed. For example, the £600 million per annum of life assurance relief could be abolished, which is mainly used as a savings mechanism; and the estimated £100 million of favourable tax treatment for building societies could also be removed. These savings could finance a modest scheme of direct encouragement to equity investment.

This goes to home purchase

2. An alternative method is to create a fiscally-neutral policy as between saving for retirement, saving under insurance schemes, direct saving by the individual, and saving through any given financial institution. The Revenue could draw up a package so that there was no longer any favoured treatment either for saving for retirement or for saving through an institutional scheme compared with direct investment. All saving would attract the same amount of tax relief.

3. Pension Funds. Our drive towards personal portable pensions opens up the possibility of direct individual ownership of assets accumulated for retirement. A radical scheme of unitising all existing pension funds would give the average individual £11,000 immediately, along with control over future contributions. A less radical scheme would enable the

individual to control the expenditure of his own new contributions, and would be a useful first step. As much as £3,000 million per annum tax relief is given out for pension funds at the moment and is little appreciated.

Conclusion

It is recommended that:

Am I absolutely clear about changing building society savings. See below

1. We look closely at reducing or eliminating the reliefs on insurance and building society savings schemes other than those for retirement or house purchase. This would meet some of the Chancellor's criticism of the current tax holidays granted to savers.

2. We spend some of the extra tax revenue collected to encourage direct shareholdings in companies. This is most easily done by a further widening of the rules under the Business Expansion Scheme to cover virtually any kind of company investment. This would enable employees to buy a stake in their own business on a more favourable basis. Share option schemes should be chargeable to capital gains rather than income tax. Alternatively, we could devise a new Loi Monory type scheme, but this would be more difficult to establish.

3. We keep up the full pressure for personalised pensions as agreed at the recent meeting.

I would like to see how the Treasury are following up the discussion you had with David Young and the Chancellor concerning the restrictions on the Business Expansion Scheme and Employee Share Option Scheme, and to pursue the ideas above.

JOHN REDWOOD

The point about the lower rate of tax on building societies is that ~~more~~ some people who put their savings in those institutions would not attract the standard rate of tax. The lower rate on building societies takes this into account. The higher rates of tax are charged individually. not

FINANCIA[L]
Tuesday Noven[ber]

Fewer shares in private hands

BY JOHN MOORE, CITY CORRESPONDENT

More than a quarter of the total value of UK company shares are now held by pension funds while the proportion held by individuals is declining, according to a Stock Exchange survey published yesterday.

The survey, by the Exchange's economics department, shows the trend of ordinary share ownership until the end of 1981. The last survey, showing the trends until the end of 1975, was published by the Industry Department.

Between 1975 and 1981 pension funds' proportion of holdings in shares rose from 16.8 per cent to 26.7 per cent. In the same period private investors' share of total holdings fell from 37.5 per cent to 28.2 per cent.

At the end of 1981 the pension funds held £26.5bn worth of shares compared with £7.5bn in 1975 while private investors' holdings were worth £28bn compared with £16.7bn.

"The survey says the percentage decline in personal shareholdings can be attributed in part to the growing funds available to institutional investors from individuals.

Methods of indirect saving by individuals have grown enormously in the last few years. "In large measure these trends have been substantially supported by the impact of the tax system."

Share purchases, the survey says, have to be financed from post-tax income "while the tax-free contributions to pension funds, financed only in part if at all, by employees all have been a powerful incentive to channel funds through this type of intermediary."

The "final salary" pension has become an important part of an employee's total benefits, "especially to those who make their career with one employer. There appears, therefore, a less perceived need to provide individually for retirement."

Throughout the 1970s, says the survey, the economic climate "has not appeared to favour direct investment and savers have adopted safety-first attitudes. Where savings growth has occurred it has been concentrated in deposit-type investment through banks, national savings and, most particularly, through building societies."

The decline in the proportion of personal shareholdings may be arrested as the benefits of wider share ownership "are now being more fully understood."

The introduction and subsequent growth of profit-sharing schemes and the introduction of the Business Start-up Scheme, subsequently extended into a more general Business Expansion Scheme, may help to stop the decline, the survey says.

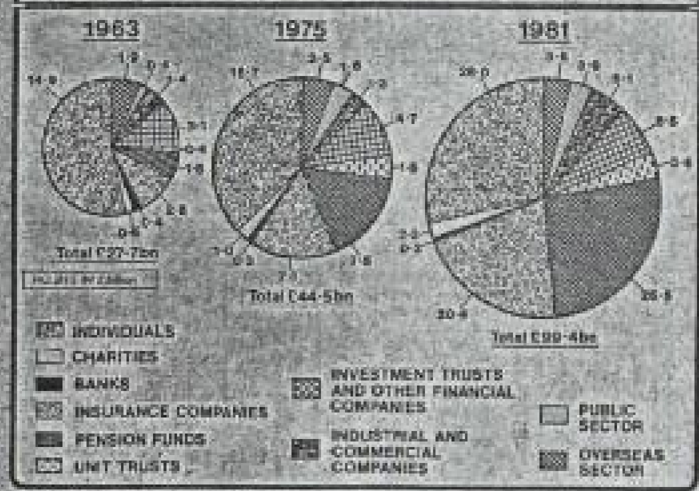
"However, we have yet to see any substantial move to encourage a revival of direct investment in established Stock Exchange listed businesses."

Among other institutions, the proportion of investment trust and other financial companies' holdings fell from 10.5 per cent in 1975 to 6.8 per cent by 1981, and the proportion of unit trust holdings declined from 4.1 per cent to 3.6 per cent over the same period. The proportion of insurance companies' holdings rose from 15.9 per cent to 20.5 per cent.

The Stock Exchange said this might be the last survey which can be carried out using present methods because of the increasing amount of shares held in nominee names on companies' registers. "Analysis of these nominees, totalling a little over one-third in the present survey presents a major difficulty. The growth of overseas interest in UK stocks is likely to increase nominee holdings still further."

The Stock Exchange Survey of Share Ownership, a supplement to the Stock Exchange Fact service; published by the Stock Exchange.

Distribution of shareholdings between categories of beneficial shareholder by market value



Babcock

French Communist pit chief quits

Prime Minister (2)
To be aware of this
AT 9/11

PRESS NOTICE

ISSUED JOINTLY BY THE DEPARTMENT OF EMPLOYMENT AND THE DEPARTMENT OF TRADE AND INDUSTRY

November 9, 1983

GOVERNMENT SEEKS VIEWS ON EC PROPOSALS ON EMPLOYEE PARTICIPATION AND COMPANY LAW

MT

The Government is seeking the views of industry, commerce, the professions and trade unions on European Commission proposals on employee participation and company law harmonisation in a consultative document published today.

The consultative document contains the European Commission's revised proposals on the draft Directive on Procedures for Informing and Consulting Employees - the draft 'Vredeling' Directive - and the draft Fifth Directive on the Harmonisation of Company Law. It is published jointly by the Department of Employment and the Department of Trade and Industry.

The revised proposals were published this summer by the European Commission and examination of them has now begun in Brussels by officials from Member States.

Industry and commerce in the United Kingdom have expressed much concern about the proposals for prescriptive legislation on employee participation and about the proposals in the draft Fifth Directive on the board structure of public limited companies. Although the Departments of Employment and Trade and Industry are already well aware of these anxieties, the usual consultation procedures are being undertaken in order to ensure that the views of UK interests are fully represented during forthcoming negotiations.

Comments are sought by the end of February 1984. Copies of the consultative document are available on request to any individuals or organisations who require them.

Commenting on the draft Directives today, the Employment Secretary, Mr Tom King said:

"It is difficult to see how legislation that imposes the rigid set of procedures set out in the draft 'Vredeling' and Fifth Directives contributes to the creation of a 'common market' of goods and services. Instead of strengthening trade links between Member States these Directives look likely to reduce the competitiveness of industry in the Community.

"The Government welcomes moves to promote the involvement of employees in the enterprises for which they work, but it believes that the main initiative is best left to employers and employees, who are in the best position to judge what best suits their particular circumstances. European Community law in this field would be cumbersome, would increase costs for employers and would harm industrial relations by disrupting the many flexible and effective arrangements which have evolved in the UK voluntarily.

"That is not the only risk in these proposals. The draft 'Vredeling' Directive in particular has not only aroused much concern from business interests within the UK and other Member States but also from those outside the Community, especially in the USA and Japan. The Government believes that if these proposals were to become law they could discourage investment in the Community. There are, in any case, already OECD and ILO voluntary guidelines on informing and consulting employees and the Commission has produced no evidence that these are not working satisfactorily.

"I am very dubious of the value in the European Community issuing Directives which conflict with well established and perfectly legitimate differences in industrial relations policy and practice between Member States.

"There is evidence of significant growth in recent years of employee involvement under the voluntary approach preferred in the UK, and the Commission has not even attempted to show why this approach should now be discarded."

NOTES TO EDITORS

1. Copies of the consultative document can be obtained from and comments sent to: Stephen Walker, Department of Employment, (IRA3), Rm 350, Caxton House, Tothill Street, London SW1H 9NF, telephone 01-213 3915/6848.

2. A history of the development of the Directives, the main features of the Commission's revised proposals and the Government policy are contained in the attached background note.

PRESS OFFICE
Department of Employment
Caxton House
Tothill Street
London
SW1A 9NF

01-213 7439

PRESS OFFICE
Department of Trade and Industry
1 Victoria Street
London
SW1H 0ET

01-215 3789

BACKGROUND NOTES

THE REVISED DRAFT DIRECTIVE ON PROCEDURES FOR INFORMING AND CONSULTING EMPLOYEES

1. The EC Commission issued a revised text of the draft "Vredeling" Directive in July 1983 following consideration of the first draft of the Directive (published in October 1980) by the Economic and Social Committee and the European Parliament.

2. The revised proposal, like the first, would, if implemented, require head offices of larger companies (including multinationals) and other employers to inform and consult employees in subsidiaries or separate establishments through local management.

MAIN FEATURES OF THE COMMISSION'S REVISED PROPOSALS

3. The new proposals would apply to organisations employing 1,000 or more workers within the EC. Employees' representatives would have to be given, once a year, substantial general information on the group as a whole and specific information on their own subsidiary or establishment, although certain business secrets could be withheld. Employees' representatives would be able to approach head office direct in writing should local management fail to communicate this information.

4. Management would also have to inform employees' representatives before decisions liable to have "serious consequences" for employees' interests were taken and consult them 30 days before these decisions were implemented. Where business secrets were withheld, the Directive would require that consultation should still take place. If management did not fulfil the consultation requirements, employees' representatives could appeal to a tribunal or other competent national authority to compel them to do so. This authority could also impose penalties on management for failure to comply with both the information and consultation provisions; and would be empowered to settle disputes over the secrecy provisions.

5. The appointment of employees' representatives would be left to the laws or practice of member states (previous UK legislation in this field provides that representatives should be the representatives of independent recognised trade unions). A new feature of the latest draft of the Directive is a provision that member states might also allow employers to inform and consult their employees directly.

GOVERNMENT POLICY

6. Although firmly committed to the principle of employee involvement, the Government believes it is best introduced voluntarily in the UK and sees no need for EC legislation in this field. It therefore continues to have strong objections of principle to the Commission's revised text of the Directive. In addition to the inappropriateness of Community legislation on employee information and consultation, however, the draft 'Vredeling' Directive raises important issues of extra-territoriality (both between member states and as regards third countries). Moreover, many of the definitions and substantive provisions of the draft Directive appear at present to be faultily drafted.

NEGOTIATIONS

7. The revised proposal has been referred to a working group of officials from capitals and the Commission within the framework of the Council of Ministers. Early resolution of the complex issues involved is not expected.

THE REVISED DRAFT FIFTH DIRECTIVE ON COMPANY LAW HARMONISATION

8. The first text of the draft Fifth Directive on the Harmonisation of Company Law was issued by the Commission in 1972.

9. It proposed board level representation for the employees of public limited companies (PLCs) with over 500 employees by means of worker directors on the upper or supervisory tier of a German-style two-tier board, as well as putting forward wide ranging changes in respect of more traditional company law matters. Following consideration of the original proposals by the

Economic and Social Committee and the European Parliament, the Commission issued a revised text of the Directive in August 1983.

10. The Commission's revised text would require employee participation provisions in PLCs which alone or with subsidiaries employed 1,000 persons or more, although the participation of the employees of subsidiaries in a group scheme would not be compulsory. No participation would be required where the majority of a PLC's employees oppose it.

11. The methods of employee participation provided for in the revised proposal from which a choice would have to be made are: worker directors (either elected or co-opted on to the supervisory board of a PLC with a two-tier board structure, or elected as "non-executive" directors of PLCs with a one-tier board structure - which the new text would permit); a works council; or a system established by collective agreement. Except where worker directors were co-opted on to a supervisory board, all employees' representatives (including those participating in a system established by collective agreement) would be elected by proportional representation through a secret ballot of all employees.

12. The alternative participation systems are intended to be equivalent in effect. Worker directors would have rights to the same information as supplied to other members of the supervisory board (or other non-executive members of the one-tier board, as the case may be), as would the representatives of employees in other methods of participation. This would include the rights to receive a written report on the PLC's affairs every three months and the draft annual accounts and report, and to request special reports and undertake investigations where necessary. In addition employees' representatives under the works council or collective agreement option would have to be consulted on major decisions such as the closure, transfer or extension of the activities of the PLC.

13. There would be an overlap between the draft "Vredeling" and Fifth Directives because certain PLCs would have to comply with both of them.

COMPANY LAW

14. The draft Directive also represents a substantial proposal in company law terms. Irrespective of board structure (one- or two-tier) all PLCs would be required, contrary to law and practice in the UK, to distinguish between those directors who manage and those who supervise the managers. For example, on the one-tier board which is universal in the UK, so-called "non-executive" directors would supervise the activities of the executive directors.

15. In addition, those member states which do not provide for two-tier board would be required to make them available. The draft Directive also contains 50 other articles dealing with the harmonisation of member states' laws on directors' duties and their enforcement, the conduct and powers of the general meeting, and the functions and liability of auditors, most of which would require changes to the law in the UK.

GOVERNMENT POLICY

16. The Government holds the same fundamental reservations of principle to the employee participation provisions of the draft Fifth Directive as it does to those of the draft "Vredeling" Directive. The Government also objects to the very lengthy and detailed nature of the purely company law proposals which do not appear designed to improve the efficiency and competitiveness of UK - or European - industry.

NEGOTIATIONS

17. Consideration of the revised proposal, by a working group of officials from capitals and the Commission within the framework of the Council of Ministers, has just begun and is expected to last several years.

jfh

lcl PA.

27 November 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 25 November enclosing your survey on employee involvement. I shall place this before the Prime Minister at the earliest opportunity.

MS

Sir Raymond Pennock.

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
Telegrams Cobustry London WC1

From the President
Sir Raymond Pennock

Prime Minister

Mrs 27/11

(4)

CBI

CONFEDERATION OF BRITISH INDUSTRY

25 November 1981

Dear Prime Minister,

EMPLOYEE INVOLVEMENT

I hope you will be interested to see the enclosed survey on employee involvement which we are publishing today.

This is an area where I, personally, feel British management still has much to achieve, and I very much hope that this publication will help to alert everyone both to the potential of employee involvement and the size of the tasks still to be done.

Yours sincerely,

Ray Pennock

enc

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

Current employee involvement practice in British business

CBI

PUBLICATIONS

Current employee involvement
practice in
British business

CBI PUBLICATIONS

© Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
November 1981
£5.00

Printed in England by
Saffron Press Ltd,
Saffron Walden, Essex.

Contents

Foreword
CBI President, Sir Raymond Pennock

The promotion of employee involvement has long been a priority for the CBI and for me personally. Today it is more vital than ever that companies ensure that their employees really are involved in decision-making. Otherwise, many of the lessons of economic reality, painfully learnt through and during recession, could be lost in the future by short-sighted actions and industrial conflict.

Employee involvement is not an objective in itself; it is about getting results through people, about earning the trust and understanding of employees, about greater efficiency. These tasks require a great deal of commitment from the top, and that means more than words – it means personal conviction, time and money. We launched this extensive survey to try to find out what was actually happening about employee involvement within companies, and whether it was working.

The results are encouraging but not satisfactory. We need to redouble our efforts in all our businesses to review and develop our policies; and the survey will convince doubters of the potential benefits and the enthusiasm which managers have for involvement.

Given the debate about policy in this area, I should stress that the main role of this report is to set out the answers to the questions we asked so that companies can relate this information to their own experience and practice. We have generally avoided drawing conclusions or suggesting interpretations in the text, but at the end of the report we have tried to draw together some of its implications.

Finally, I would like to thank Unilever Ltd for undertaking the data processing of the survey results in an efficient and speedy manner which substantially contributed to the success of the project.

Ray Pennock

I: Background to the survey

A number of trends have helped to foster the increasing involvement of employees in their companies' decisions:

- Employees increasingly see consultation and communication – a say in their companies' decisions – as reflecting wider social aspirations, progress towards a better quality of life.
- Company managers increasingly recognise that better employee involvement can bring substantial material benefits for their own companies and, in a broader sense, for the country's economy as a whole.
- The growth of trades unions means that today collective bargaining is the main way of determining employees' pay and conditions and, in some companies, other issues as well.

It is inescapable that the "them and us" theme has adversely affected British companies and the British economy. Generalising, employees have been too obstinate in accepting the need for change while management has been too secretive.

The CBI's overriding priority is the improvement of our economic performance so as to bring about prosperity and more jobs. And we believe that the prosperous companies of the future will rely heavily on co-operation, trust, understanding and respect between all managers and employees.

However, this ideal state of affairs, and the fundamental changes in attitude needed to achieve it, can only come through voluntary developments. Our failings up to now have reflected the general attitudes and behaviour within our society. It is naive to think that any law is capable on its own of improving human relationships and attitudes within companies. No law, however cleverly composed, can take adequate account of each company's unique circumstances or change these attitudes without the full backing of those affected. We believe legal intervention would probably hamper improved relationships and damage company performance.

The CBI decided to undertake this survey to find out how voluntary development was progressing, its failings and successes. We believe that unless British business can adapt itself of its own free will then, whatever the shortcomings of legislation, the rest of society will attempt to bring about change through the law.

II: How the survey was undertaken

British business and industry has a unique organisation and history. It has developed over a longer period than its equivalents elsewhere and against a background of the rise and fall of a great empire; it has not faced – as some other countries have – the need for total rebuilding as a result of war; it sustains an economy more dependent on international trade than any other. One result is that, compared with its main rivals, British business is more concentrated: our large companies produce a high proportion of our total output.

This is not the same as concentration of decision-making and central direction of day-to-day affairs or even important matters of policy. The ways companies have developed – through mergers, take-overs and subsidiaries, new products, markets and technologies – mean that no two companies are the same. Each is constantly developing arrangements which best suit its needs and history. This variety makes it difficult for any survey to fix on a common basis from which to draw comparisons and conclusions.

In previous detailed CBI surveys*, we have used either a random selection of establishments with a common questionnaire or a more detailed approach involving questionnaires tailored to each type of company selected from a broad, cross-representation. We adopted a third approach for this survey because of the need for a common questionnaire which could be answered at any level within a company in any business sector, because of the importance of having as large a coverage of employees as possible and because of the relative emphasis in public debate given to the role of large employers. For these reasons:

- We selected the 836 largest subscribers to the CBI (excluding employer organisations and nationalised industries).
- They were chosen on the basis of subscription levels because these are an approximate guide to the number of employees
- For balance, 211 smaller independent companies (with between 50–500 employees) were selected by the 13 CBI Regional Offices, each region's quota roughly reflecting the level of private sector employment in that region.

The survey was based on two questionnaires:

- The first, a short one, was sent to the "Chief Executive" and designed to establish his commitment to, and views on, involvement.
- The second, more substantial, was designed to discover actual involvement practice and was to be completed by the most senior manager of an individual operating unit. It was left to each participant to decide the appropriate level at which each questionnaire should be completed but it was suggested that for manufacturing companies, the most appropriate level would be generally at an establishment while the appropriate level for non-manufacturing might be higher – division, area or even for the company as a whole.

The 500 largest companies were sent one Chief Executive questionnaire and three operating unit ones; the next 160 received one Chief Executive questionnaire and two operating unit ones; the next 109, one Chief Executive and one operating unit, and the remaining 278, including all the regional selection, received only one operating unit questionnaire. All 1,047 companies were free to ask for additional questionnaires. A further 14 Chief Executive and 62 operating unit questionnaires were sent out in answer to such requests. Questionnaires were sent out so as to avoid wastage or the possibility of annoying potential participants and thus affecting the response rate.

During the survey, the telephone enquiries and accompanying letters and comments with the returned questionnaires showed how thoroughly those companies choosing to participate

* *Pay determination structures in manufacturing industry*, CBI, to be published. *Employee Relations Policy and Decision Making*, Gower Press, to be published.

undertook their tasks. Considerable thought went into the selection of operating units, including the requests for additional questionnaires, in order to give a fair representation of the company's practices. Senior managers within operating units often consulted each other on the response to questions, particularly those requiring a subjective assessment or an expression of opinion. This was done to ensure an accurate reflection of the views of the management team rather than of one individual.

All the questionnaires were sent to the Chief Executive himself and were completed and returned between May 15 and July 20 1981.

III: The participants

413 companies employing 3,154,405 employees participated in the survey. These companies returned 280 Chief Executive questionnaires (an additional 19 were returned after the closing date). A few participants decided that their operations were so decentralised that it would be inappropriate for them to complete the questionnaire; others did complete it while stressing that parts of it were not really relevant to their particular organisational structure; and a small number requested additional questionnaires because they operated in effect with more than one Chief Executive. Smaller companies, as stated before, did not receive a Chief Executive questionnaire.

616 'operating unit' questionnaires were returned (an additional 67 came in after the closing date and their results were manually tabulated and found to be consistent with the main bulk of the questionnaires). Companies completed a varying number of questionnaires with the majority returning two or three. The questionnaires were completed at a variety of levels within the participating companies depending on where employee involvement practice was centred. Many were in respect of a single establishment or site but an equal number were completed for multi-establishment groupings such as divisions, areas and occasionally companies as a whole. *It is important to remember, therefore, that the replies do not correspond to either establishments or enterprises but to companies' own definitions of relevant operating units.*

Breakdown by size

The operating unit questionnaires broken down by size were

Employees	*Number of units*	*Average unit size*
Less than 250	184	138
251–500	151	369
501–1,000	119	734
More than 1,000	162	4,150

The majority of the units with less than 250 employees were part of a larger organisation and it is incorrect, therefore, to treat this group as entirely representing 'smaller firms'. However, 64 questionnaires were returned from smaller, independent companies and the bulk of these had less than 250 employees with the remainder having less than 500.

Sectoral breakdown

Respondents were asked to list their main products or services and these were then classified into sectors by reference to the official Standard Industrial Classification. The sectors themselves are aggregates of the standard industry breakdown because given the number of respondents and the subject under study it was judged best to seek only broad differentiation of products or services.

Sector	*Number of units*	*Average unit size*
Food and Drink	71	812
Chemicals & Petroleum Products	98	1,348
Mechanical Engineering & Metal Products	151	1,334
Electrical Engineering	54	908
Textiles and Footwear	32	1,606
Bricks and Timber	44	776
Paper and Printing	42	901
Construction	20	1,290
Retailing, Distribution & Leisure	45	2,829
Banking, Insurance and Finance	59	2,099

It is an indication of the consistency with which companies determine 'units' for employee involvement that only a few had activities which fell into more than one sector. In these cases the predominant activity determined the final classification.

Collective bargaining
80 per cent of the respondents recognised trade unions for collective bargaining purposes. This is higher than expected from the results of other surveys, (ie around 70 per cent in manufacturing) and reflects the fact that the selection of the sample meant that the survey was geared to large companies which tend to be more heavily unionised.

Representativeness of participants and accuracy of results
The respondents to the survey can in no way be termed a 'representative sample' because their initial selection was biased towards large CBI members and there was considerable discretion on their behalf as to whether they replied and what units they replied for. Nevertheless, we believe that the results of the survey are valuable and are a reasonably accurate reflection of actual policy and practice in private business (although with an emphasis on what happens in larger organisations). There are two main reasons for believing this.

- Firstly, the size of the sample is relatively large with participating companies employing around 25 per cent of those in private business employment in the relevant sectors. This proportion rises sharply as one excludes employment in smaller firms, for instance below 20 or below 50.
- Secondly, the findings are consistent with the results of other surveys. For instance, the 62 per cent of CBI's respondents having a Works Council or other representative committee compares with 63 per cent of organisations with more than 2,000 employees having the same as revealed in a survey of employees in employment carried out by Opinion Research and Communication. Although there are critical differences between the two surveys' methodologies this illustrates the compatability of their findings.

IV: Involvement policy and methods

The first parts of both questionnaires dealt with involvement policy. The main questionnaire for operating units stressed that if the unit had different policies for different groups within it then the questions should be answered in respect of the largest group. It was also pointed out that the word 'establishment' would be used throughout the questionnaire although we recognised that in many cases the unit would be larger than a single establishment.

Chief Executive activity
Chief Executives were asked which of the following activities they undertook personally. Table 1 sets out their responses.

Table 1: Chief Executive activities

	Yes	*No*
Chair a Company Council of management and employee representatives	17%	83%
Regularly address groups of employees or their representatives	61%	39%
Take part in video or other presentations to explain your company's position to employees	54%	46%

The majority (60 per cent) of Chief Executives also say that they spend less than 10 per cent of their time specifically on employee involvement, although 36 per cent do spend between 10 and 25 per cent of their time on this issue. Some say that it is extremely difficult to distinguish between normal management activity and involvement. Others remark that they want to spend more time on the subject but are unable to because of the constraints of other business demands. Seventy per cent report that a member of the board (or a senior manager) is specifically accountable for involvement policy and practice within their company.

Methods of involvement
Operating units were asked which methods they used for implementing involvement policy and their answers are summarised in Table 2.

Table 2: Involvement methods
Proportion of units with:

Face-to-face meetings between employees and the most senior manager	89%
Works council or other joint consultative committee	62%
Formal agreement (or written policy) governing information and consultation	32%
Less formal arrangement giving employees the right to regular information and consultation	70%
Company newspaper or house journal sent to all employees	67%
A special employee report on company results	62%
Use of briefing groups	55%
Any form of financial participation	58%

The number of units reporting face-to-face meetings between the most senior manager and employees is probably higher than many would have expected but it includes more than just a formal gathering of all employees and an address from the senior manager. Often where a questionnaire was completed for, say, a division, this question was answered in respect of the senior managers at establishments within the division rather than in respect of the senior manager for the division as a whole. Thirty-six per cent of units say that face-to-face meetings take place every month, 33 per cent say every 2–3 months, 18 per cent every 4–6 months and 9 per cent every 12 months. Some say that they take place as needed and therefore the frequency varied, while others indicate more than one category, suggesting regular meetings with different formats.

Of those having a Works Council etc, 95 per cent give representatives time and facilities to report back to their constituents and gather their views. In some cases units say that they have both a formal agreement and an informal arrangement governing information and consultation, so while the overwhelming majority have either one or the other there are a few responses which say they have neither. This would not be clear from adding up the answers to each.

The majority (55 per cent) of those having a company newspaper send it to their employees every 2–3 months; 25 per cent send it every month or more frequently and 19 per cent send it less frequently than every three months. As one would expect, the vast majority (78 per cent) of units having a special employee report publish it annually with 15 per cent doing so half-yearly and 6 per cent quarterly.

Seventy per cent having briefing groups say that generally speaking all their employees are involved and the overwhelming majority (97 per cent) say that they work reasonably well.

Financial participation

Table 3 sets out the responses of those units having financial participation in various forms.

Table 3: Forms of financial participation

Proportion of units with some form of financial participation having:

Employee shareholding approved under 1978 and 1980 Finance Acts	33%
Employee shareholding (other)	14%
Annual profit sharing	26%
Employee bonus schemes	63%
Employee savings trust	4%
Other	8%

The percentages add up to more than 100 because some report that they operate more than one form of participation. This is particularly so amongst the units reporting employee shareholding under the recent Finance Acts as they have sometimes had another scheme already in operation.

Recent change

The main questionnaire also asked when the main methods of involvement had been introduced. Table 4 sets out answers from those units having each of the items:

Table 4: Introduction of involvement methods by those having them

	Less than 3 years ago	*More than 3 years ago*
Works Council or joint consultative committee	17%	83%
Formal agreement (or written policy) governing communication and consultation	23%	76%
Company newspaper/house journal	19%	81%
Special employee report	28%	72%
Briefing groups	38%	61%
Any form of financial participation	36%	62%

It is clear that 'briefing groups' and 'financial participation' are the two most extensive recent developments but even the pace of change here is relatively slow. This is especially apparent when those introducing new methods are shown as a proportion of all units.

Around a fifth of operating units have, therefore, introduced briefing groups or some form of financial participation (in some cases additional to an existing one) within the last three years; and nearly a fifth have introduced an employee report in that time.

Table 5: Recent introduction of involvement methods by all units

	Less than 3 years ago
Works council or joint consultative committees	10%
Formal agreement (or written policy) governing information and consultation	7%
Company newspaper/house journal	13%
Special employee report	17%
Briefing groups	21%
Any form of financial participation	21%

Variations by size and sectors

The only significant variation which we found in involvement methods according to unit size was, as one would perhaps have expected, that in Works Councils.

Table 6: Works Councils etc by unit size

Proportion of units having a Works Council etc

Less than 250 employees	50%
250–500 employees	61%
501–1000 employees	70%
More than 1000 employees	73%

It is worth repeating that the bulk of the smallest unit category consists of parts of larger organisations rather than independent companies. The lower incidence of Works Councils would, therefore, indicate a relationship primarily with the size of the unit rather than any aspect of its ownership or control.

There are also significant differences in the incidence of Works Councils by sector as Table 7 illustrates.

There is a consistent relationship between the size of a unit and the incidence of Works Councils and chapter III showed that each sector has a variation in average unit size. The table therefore needs to be adjusted to take account of these variations in order to give a more accurate sectoral comparison. On this basis Food and

Table 7: Works Councils etc. by sector

Proportion of units within each sector having a Works Council etc

Food and Drink	69%
Chemicals etc	78%
Mechanical Engineering	64%
Electrical Engineering	52%
Textiles etc	44%
Bricks etc	64%
Paper etc	62%
Construction	60%
Retail and Distribution	56%
Banking, Insurance and Finance	49%

Drink, Chemicals, Bricks etc and Paper etc, all have a higher incidence of Works Councils than the average; and Textiles, Retailing and Distribution and Banking and Insurance are below average.

Another significant variation between sectors is the number of units having some form of financial participation.

Table 8: Financial participation by sector

Proportion of units within each sector having financial participation

Food and Drink	68%
Chemicals etc	55%
Mechanical Engineering	50%
Electrical Engineering	63%
Textiles etc	34%
Bricks etc	66%
Paper etc	48%
Construction	65%
Retail and Distribution	56%
Banking, Insurance and Finance	81%

There are no significant variations in the incidence of financial participation by unit size so no adjustments to the table are needed. Banking and Insurance, therefore, is well above the average level of units having financial participation followed by Food and Drink, Bricks and Construction. Textiles and Mechanical

Engineering are the sectors furthest below the average level.

Information on performance
Another question on involvement policy was whether information was given to employees on the performance of the establishment (or company, as a whole). The overwhelming majority (93 per cent) of respondents say that it is and Table 9 sets out how it is given.

Table 9: Ways of providing information on performance
Proportion of units giving information using each of the following

For the whole establishment:	
• By face-to-face communication	75%
• By written communication	65%
At departmental level:	
• By face-to-face communication	73%
• By written communication	33%

The closeness of the two results for face-to-face communication probably indicates that information is passed on down the management 'line' so that each department receives information about the unit as the whole. The slightly higher figure for information given for the 'whole establishment' probably indicates the occurence of meetings larger than at departmental level. Written information is concentrated at 'establishment' level probably reflecting the use of a house paper with the relatively infrequent incidence of written information at departmental level either supplementing this or replacing it in cases where certain categories of employees do not receive the general publication.

The Table 10 below shows that variations in ways of communicating information on performance according to unit size.

Table 10: Ways of communicating information by unit size

Proportion of units in each size range using each of the following methods	*Less than 250*	*251–500*	*501–1000*	*More than 1000*
For the establishment as a whole:				
• By face-to-face communication	73%	70%	80%	78%
• By written communication	54%	61%	67%	78%
At department level:				
• By face-to-face communication	63%	76%	74%	81%
• By written communication	29%	22%	38%	42%

Predictably, the significant differences in the results show that larger units use written communication more frequently than others, with smaller units having the emphasis on face-to-face communication. Furthermore, larger units have a higher frequency of face-to-face contact at departmental level reflecting the greater ease which smaller units have in holding larger-than-departmental meetings.

The variations in ways of communicating information according to sectors almost entirely reflects the differences in average unit size. So for instance, Banking and Insurance and Retailing etc have the emphasis on written communication and face-to-face meetings at departmental level, because of their larger average unit size. The most notable exception to this trend is Food and Drink which with a relatively low average unit size nevertheless uses all methods of communication each more than the bulk of the other sectors.

Patterns of involvement methods
In all then, the questionnaire asked operating units which of nine separate methods they had for involving their employees. Table 11 sets out their responses in order of popularity for each method. The order is much as one would expect, with a formal involvement agreement (or written policy) being the least popular.

Table 11: Involvement methods by order of popularity
Proportion of units having each method

1	Information to employees on company performance	93%
2	Face-to-face meetings between the senior manager and employees	89%
3	Informal arrangement providing right to regular information and consultation	70%
4	Company paper or house journal	67%
5	Works Council or joint representative committee	62%
6	Employee report	62%
7	Some form of financial participation	58%
8	Briefing groups	55%
9	Formal agreement (or written policy) governing involvement	32%

Table 12 shows the proportion of units having each number of methods from 0–9. In the majority of cases a formal agreement and informal arrangement are seen as alternatives and therefore those having eight methods can be regarded as having the entire range. The small number reporting nine are those who have both a formal agreement (or written policy) and an informal arrangement.

The main implication of this table appears to be that around 40 per cent of operating units are heavily committed to involvement using all or nearly all the involvement methods available. A further 40 per cent are at the other end of the spectrum where, while they have a number of involvement methods, they appear to be less committed. The remaining units span the gap in between.

Table 12: Proportion of units having any number of involvement methods

Number of methods	*Proportion of units*
0	1%
1	2%
2	2%
3	6%
4	11%
5	17%
6	21%
7	22%
8	17%
9	3%

(The numbers add up to more than 100 per cent because of rounding up).

Training and formal involvement survey
Two subsidiary questions were finally asked about involvement. Thirty-two per cent of Chief Executives report that their company has undertaken a formal survey of its own involvement arrangements (ie seeking manager and employee opinions on current arrangements and drawing up a written report). A considerable number of respondents did not answer this question, possibly indicating uncertainty as to whether a survey had or had not been done.

Operating units were asked if they had provided 'systematic training specifically related to employee involvement'. Fifty-two per cent say that they have done so for managers, 50 per cent for supervisors, 34 per cent for employee representatives and 15 per cent for managers and employee representatives jointly. Thirty-nine per cent of units provide no training. [The figures add up to more than 100 per cent because some units provide more than one system of training.]

V: Involvement in issues at work

The main questionnaire addressed to operating units identified 15 separate work issues and asked how they were treated in terms of employee involvement. Respondents were given the options of answering

- *Communication* (defined in the questionnaire as 'without direct reference to employees' views but communicating the decision to them').
- *Consultation* (defined as 'seeking employees' views and taking them into account before decisions are made').
- *Negotiation* (defined as 'seeking agreement before a decision is made').
- *No employee involvement.*

Sometimes, of course, they indicated more than one form of involvement and on occasions such as where an issue was inappropriate to the unit answering, did not indicate any. Finally, there was no specification in the question as to whether the involvement was carried out formally or informally.

Chart 13 shows the aggregate results for all the units' responses on all the issues. As one would expect, 'pay', followed jointly by 'lay-offs and redundancies' and 'changes in industrial relations policy', are the issues most subject to negotiation. It should be noted that some small units which do not recognise unions for collective bargaining nevertheless replied that they negotiated over pay in the terms of the definition in the questionnaire. Again as one would expect, 'investment in other companies and take overs' is the issue most commonly not having any employee involvement, followed by 'research and development' and 'company/establishment investment'. Communication is most frequently used for 'new products (or services)', 'company/establishment investment' and 'quality control'.

Consultation is the main means of involvement in seven issues at work with the 'working environment' (84 per cent of units) being the issue most dealt with by consultation followed closely by 'health and safety' (83 per cent). The issues most likely to be dealt with by more than one method of involvement are 'production and work methods' (a mixture of negotiation and consultation with the latter dominating), 'changes in industrial relations policy' (a mixture of negotiation and consultation more evenly balanced) and 'health and safety' (predominantly consulted upon but with a few also negotiating).

New products (or services)

Overall this issue is mainly subject to communication with a roughly equal number of units (around 17 per cent) either consulting or having no employee involvement. Larger units are far more likely to communicate on new products (or services) than smaller ones. In the latter consultation and no employee involvement are more prevalent with 28 per cent of units having less than 250 employees consulting on the issue and 18 per cent having no employee involvement. Looking at sectoral differences, all the service sectors score higher on consultation than the overall average and lower on communication. Indeed 5 per cent of units in these sectors say that they negotiate on this issue. Bricks etc and Textiles have the highest level of no employee involvement, around 25 per cent of units.

Changes in industrial relations policy

Nearly half the units (49 per cent) consult on this issue, followed closely by 46 per cent who negotiate. The main variations by size are that smaller units are less likely to negotiate on this issue (only 38 per cent do so) and that medium size units are less likely than both larger and smaller units, to communicate on changes in industrial relations policy. The main differences by sector are that units in Construction are most likely to communicate (40 per cent do so) and not consult or negotiate. On the other hand, those in Food and Drink and Chemicals (65 per cent and 53 per cent respectively) are above the average in terms of negotiation with at the other end of the spectrum only 29 per cent in Banking and Insurance and 35 per cent in Textiles using negotiation. These two also score highest on no employee involvement. These tendencies are amplified when adjustment is made for variations in average unit size between the sectors.

Manning levels

Consultation is the main method of involvement on this issue (47 per cent of units) with a roughly equal number communicating (27 per cent) and negotiating (31 per cent). Larger units are more likely to negotiate over manning levels (40 per cent of all those with more than 500 employees against 18 per cent of those with under 250) with smaller units reporting a higher incidence of no involvement. As one might expect given the nature of their business, 35 per cent of units in Construction have no involvement and a further 30 per cent communicate on this issue. On the other hand, Paper and Printing have a very high (69 per cent of units) score for negotiation.

Pay

Pay is predominantly subject to negotiation with larger units being more likely to negotiate on this than smaller ones (88 per cent for those over 1000 employees and 61 per cent with under 250 employees). Looking at the sectors the results are obviously influenced by the extent and type of bargaining arrangements. Only 50 per cent of units in Construction negotiate whereas 35 per cent communicate and 15 per cent have no employee involvement [Construction of course mainly follows a national agreement with domestically arranged bonuses]. Banking and Insurance (51 per cent) and Retailing and Distribution (62 per cent) are also below average for negotiating on pay having a higher incidence of communication and no employee involvement.

Of the manufacturing sectors, Electrical Engineering (the least unionised) shows the lowest scores for negotiation and the highest for communication.

Company/establishment investment

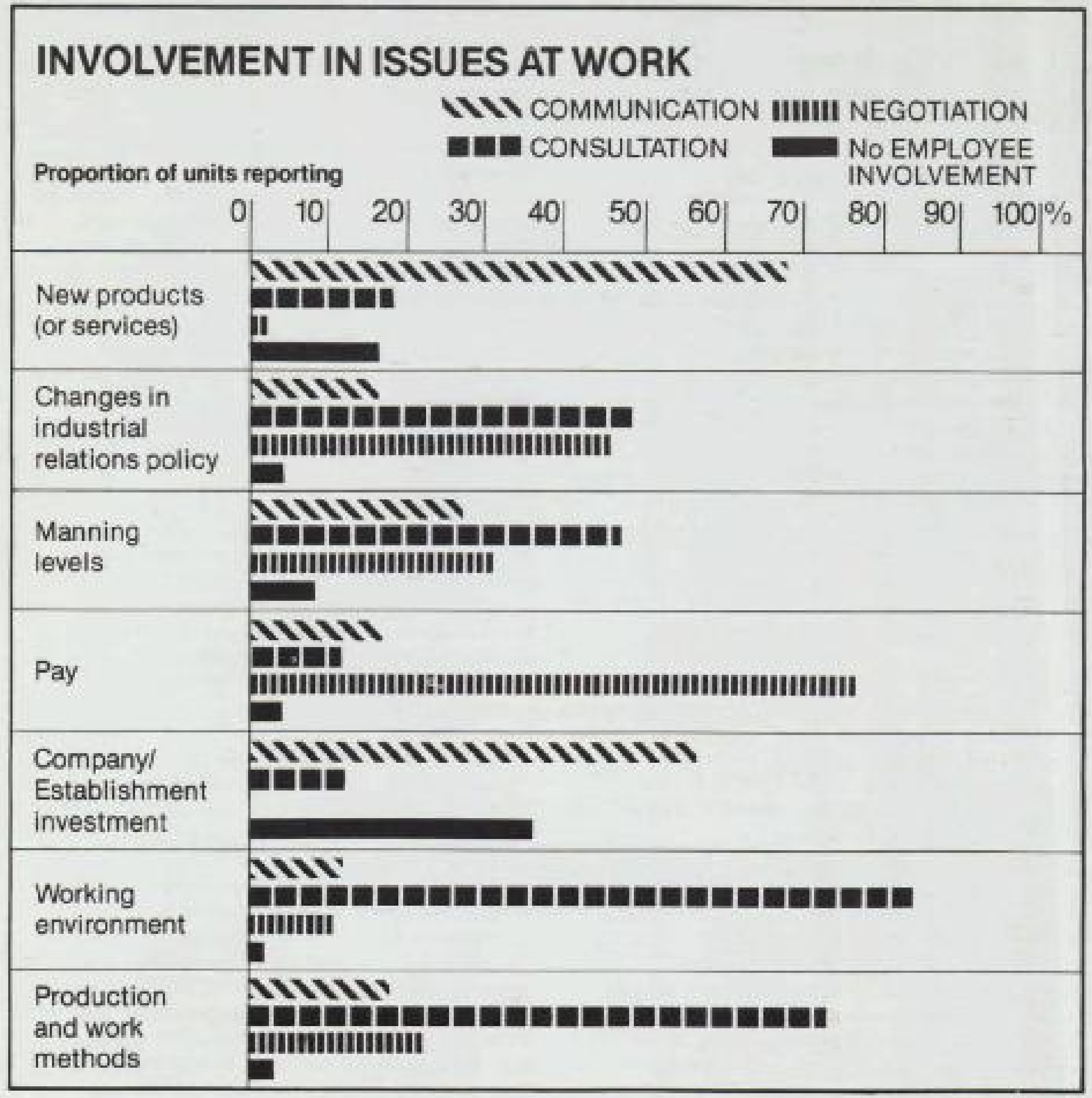
56 per cent of units communicate on this matter while 36 per cent have no involvement at all. No unit negotiates on it but 12 per cent consult. Again larger units are more likely than smaller ones to communicate and consult on the issue. Chemical (70 per cent of units) and Food and Drink (63 per cent) have a higher incidence of communication on the issue while Banking and Insurance (25 per cent) and Construction (35 per cent) are below the average. Paper and Printing (29 per cent) and Food and Drink (21 per cent) have a higher number of units consulting on investment.

Working environment

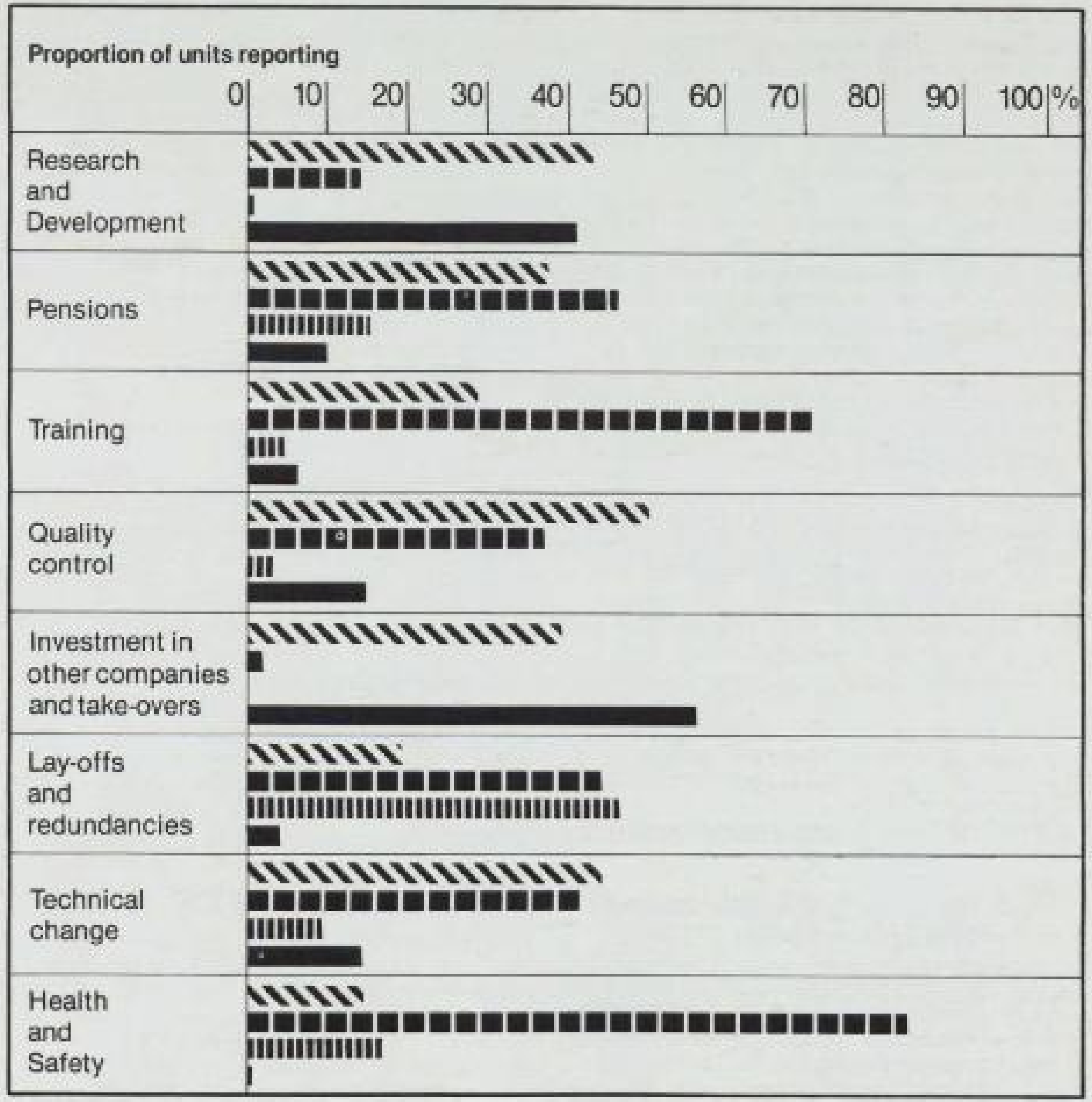
Not surprisingly this issue is more subject to consultation than any other (84 per cent of units). A roughly equal number communicate (12 per cent) and negotiate (11 per cent) and a tiny minority (2 per cent) have no employee involvement. There are no really significant variations by size or sector.

Production and work methods

Again this issue is predominantly consulted over, with roughly the same proportions negotiating (22 per cent) and communicating (18 per cent) and a tiny minority (3 per cent) having no involvement. There is no significant variation by size except for the expected one of larger units being more likely to negotiate than smaller ones. Looking at the sectors, Textiles and Construction are more likely to communicate on this issue than the average and less likely to consult. Paper and Printing is also below the average in consulting but well above (31 per cent) in negotiation.



INVOLVEMENT IN ISSUES AT WORK
COMMUNICATION
NEGOTIATION
CONSULTATION
No EMPLOYEE INVOLVEMENT
Proportion of units reporting
0 10 20 30 40 50 60 70 80 90 100 %
New products (or services)
Changes in industrial relations policy
Manning levels
Pay
Company/ Establishment investment
Working environment
Production and work methods



Proportion of units reporting
0 10 20 30 40 50 60 70 80 90 100 %
Research and Development
Pensions
Training
Quality control
Investment in other companies and take-overs
Lay-offs and redundancies
Technical change
Health and Safety

Research and development

Slightly more units (43 per cent) communicate on research and development than have no involvement (41 per cent). A smaller number (14 per cent) consult and virtually none negotiate. Perhaps contrary to common expectations, smaller units are more likely to consult (19 per cent) or even negotiate (1 per cent) on this issue than larger ones who show a greater tendency to communicate or not involve employees at all. The most surprising sectoral variation was the high proportion of units in Construction (35 per cent) and Banking and Insurance (34 per cent) which consult in this area. In manufacturing sectors, Electrical Engineering showed the lowest proportion having no employee involvement (31 per cent), perhaps not surprisingly given the nature of business in that sector.

Pensions

Pensions are mainly subject to consultation (46 per cent), followed closely by communication (38 per cent) with only a minority (15 per cent) negotiating or having no involvement (10 per cent). Predictably larger units have a higher tendency to consult (64 per cent of those with more than 1000 employees compared to 28 per cent of those with less 250) and negotiate (25 per cent compared to 14 per cent), with the reverse true of communication and no involvement. There are no really significant differences between sectors other than what one would expect as a result of the variations by size.

Training

This is mainly dealt with by consultation (70 per cent of units) and communication (29 per cent) with a small number negotiating (5 per cent) or having no involvement (6 per cent). As with many of the issues around 8 per cent of units indicated more than one means, in this case often both communication and consultation. There are no really significant variations by either size or sector.

Quality control

Quality control is mainly subject to communication (49 per cent) but with consultation coming close behind (37 per cent). 15 per cent of units have no involvement and a tiny number (3 per cent) negotiate. There are no significant differences by size of unit but looking at the sectors Electrical Engineering is more likely to consult over the issue (48 per cent) than the average while Food and Drink have a higher number (68 per cent) communicating. 10 per cent of units in Construction negotiate on this subject while Chemicals (22 per cent) and Retailing and Distribution (24 per cent) have the highest number without any involvement.

Investment in other companies and take overs

The majority of units (56 per cent) do not involve their employees at all on this issue, although 39 per cent communicate. An insignificant number consult and hardly any negotiate. Again there are no meaningful differences by size of unit but in sectoral terms nearly half the units in Food and Drink (49 per cent) communicate on this issue compared to only 28 per cent in Textiles (the lowest scoring sector).

Lay-offs and redundancies

Roughly equal proportions negotiate (46 per cent) and consult (44 per cent) with probably around 10 per cent doing both. 19 per cent communicate and 4 per cent have no employee involvement. The likelihood of a unit negotiating on this issue rises with its size so that 59 per cent of those with more than 1,000 employees negotiate compared to 35 per cent with less than 250 employees. Negotiation is most common in Food and Drink (63 per cent) and Paper and Printing (62 per cent) and least common in Banking and Insurance (22 per cent) – (in part reflecting the infrequency of lay-offs and redundancies in this sector – and Construction (15 per cent).

Technical change

Again roughly equal proportions either communicate (44 per cent) or consult (42 per cent) with 14 per cent having no involvement. Only 9 per cent of all units negotiate on this issue but this figure increases with size so that 16 per cent of those with more than 1,000 employees do so. The incidence of consultation is fairly constant over size but the likelihood of communication reverses with it. Paper and Printing (with 21 per cent of its units) and Banking and Insurance (17 per cent) are the sectors most generally negotiating on this issue. The latter sector is also the one with the highest number of units (56 per cent) consulting closely followed by Electrical Engineering (52 per cent).

Health and safety

The overwhelming majority of units (83 per cent) consult on this matter with only a small number negotiating (17 per cent) or communicating (14 per cent). An insignificant number do not involve their employees. There are no major differences according to unit size nor really across sectors. Mechanical Engineering does have more units (22 per cent) negotiating on this issue and Textiles more consulting (94 per cent). Construction places the emphasis on communication with 25 per cent of its units doing so.

VI: Assessment of effectiveness

Both Chief Executives and the senior managers of operating units were asked if their company's (or if appropriate unit's) policies on involvement have improved its performance in a tangible way, and if so which of eleven alternative results have been achieved. Obviously this question will produce a very subjective answer closely related to the individual opinion of the manager (although it should be noted that many respondents did consult other managers before finally completing it). Nevertheless, it provides an indication of the results of involvement policies which more objective tests would reveal; and it certainly shows the beliefs of managers that involvement pays off in a practical way. 84 per cent of Chief Executives and 87 per cent of senior managers running operating units think there have been tangible gains in performance. Tables 14 and 15 show the specific results indicated by Chief Executives and for operating units respectively.

Table 14: Specific results of involvement policies – Chief Executives (%)

Proportion of respondents saying that involvement has improved performance also indicating each of the following:

Improved delivery times	21	(18)
Greater realism in pay bargaining	75	(63)
Improved quality	31	(26)
Improved morale	69	(58)
Reduced scrap rates	20	(17)
Improved consumer service	37	(31)
Reduction in number of disputes	51	(43)
Reduced energy usage	26	(22)
Readier acceptance of new technology	57	(48)
General improvement in efficiency	63	(53)
Other	9	(8)

The figures in brackets are the results expressed as a proportion of all Chief Executives.

Table 15: Specific results of involvement policies – operating units (%)

Proportion of respondents saying that involvement has improved performance also indicating each of the following:

Improved delivery times	26	(23)
Greater realism in pay bargaining	66	(57)
Improved quality	44	(38)
Improved morale	74	(65)
Reduced scrap rates	23	(20)
Improved consumer service	48	(42)
Reduction in number of disputes	54	(47)
Reduced energy usage	28	(24)
Readier acceptance of new technology	60	(52)
General improvement in efficiency	69	(60)
Other	15	(13)

The figures in brackets are the results expressed as a proportion of all operating units.

Interestingly, Chief Executives place 'realism in pay bargaining' ahead of 'improved morale' in terms of specific results whereas operating units reverse that order. Both results, of course can be seen as rather abstract but it is important to remember when the survey was undertaken, particularly the effects of the economic recession. A critical factor affecting companies' ability to survive has been the achievement of pay settlements realistic to each company's particular position. It is not surprising, therefore, that in successfully achieving the considerable task of voluntary pay moderation Chief Executives place such store on the involvement of their employees. On the other hand, the managers running individual units have had to do so through a recent period of substantial labour-shedding which undoubtedly has considerable negative effects on the remaining work-force. So again it is not surprising that against this background these senior managers should put more emphasis on the benefits involvement has for morale, an aspect of performance which while vague in name is crucial in practice. Indeed, many of the results

specified under the 'other' category in the question referred to 'attitudes', 'team-spirit' or 'common purpose'.

The other significant differences between the two sets of results probably reflect the proximity of operating unit managers to day-to-day business affairs. They cite improvements in 'delivery times', 'quality', 'customer service' and 'general improvement in efficiency' more frequently than Chief Executives.

Variations by size

Table 16 shows the breakdown of specific results by unit size. The percentage figures show the proportion of those units saying that involvement policies have improved performance, indicating each specific result. There are no significant variations between unit sizes saying that their involvement policies have improved performance.

Table 16: Specific results of involvement policies – by size of unit (%)

	Unit size			
	Less than 250	*251–200*	*501–1,000*	*More than 1,000*
Improved delivery times	33	22	27	22
Greater realism in pay bargaining	54	64	71	75
Improved quality	49	49	38	37
Improved morale	80	77	68	69
Reduced scrap rates	24	27	21	19
Improved customer service	54	48	43	46
Reduction in number of disputes	43	59	56	60
Reduced energy usage	26	31	21	32
Readier acceptance of new technology	46	53	70	72
General improvement in efficiency	75	73	61	64
Other	12	13	12	20

The variations in results by size appear to continue the trends revealed in the different responses from the Chief Executives and operating units. The smaller units put greater emphasis on the more practical aspects of day-to-day affairs such as again, 'delivery times', 'quality', 'scrap-rates', 'customer service' and 'general improvement in efficiency'. They also put a considerably heavier emphasis on 'improved morale'. Larger units on the other hand, score the more 'strategic' elements higher, such as 'realism in bargaining', 'reduction in disputes', 'acceptance of new technology' and to some extent, 'reduced energy usage'. The largest units also indicate a much greater number of specific results grouped under the 'other' heading.

In all there are eleven possible specific results which units could indicate as resulting from their involvement policies. The mode number (the number most frequently recurring) of results was four, with 18 per cent of relevant units scoring four results from the choice of available; 17 per cent score five and 15 per cent three. There are no significant variations from this according to unit size.

Variations by sector

There are some significant differences between sectors in units saying that their involvement policies have improved their performance in a tangible way. These are illustrated in Table 17.

Within these variations there are also differences in specific results indicated by units within each sector. These are shown in Table 18. The figures indicate the proportion of the units saying that their involvement policies have improved performance, indicating each of the specific results.

Table 17: Proportion of units in each sector indicating that their involvement policies have improved performance (%)

Food and Drink	90
Chemicals etc	93
Mechanical Engineering	84
Electrical Engineering	83
Textiles	84
Bricks, Timber etc	84
Paper and Printing	83
Construction	75
Retailing and Distribution	89
Banking and Insurance	97

Table 18: Specific results of involvement policies – by sector (%)

	Food and Drink	*Chemicals*	*Mechanical Engineering*	*Electrical Engineering*	*Textiles*	*Bricks, etc*	*Paper and Printing*	*Construction*	*Retailing and Distribution*	*Banking and Insurance*
Improved delivery times	13	19	37	36	19	35	29	40	18	19
Greater realism in pay bargaining	72	73	75	73	48	76	57	33	50	47
Improved quality	50	30	39	69	52	60	43	67	30	40
Improved morale	83	67	69	82	74	62	63	80	80	95
Reduced scrap rates	23	23	23	40	37	30	23	20	8	5
Improved customer-service	36	41	44	42	41	57	51	33	73	70
Reduction in number of disputes	64	57	69	64	48	54	54	33	38	18
Reduced energy usage	47	30	27	24	26	27	20	20	30	16
Readier acceptance of new technology	70	63	58	80	59	54	57	47	38	56
General improvement in efficiency	75	75	69	78	52	73	54	67	65	63
Other	34	13	9	9	4	11	17	13	18	14

Taking each result in turn, the sectoral variations generally reflect the differences in business activity. The high scores for 'improved delivery times' in both Engineering sectors, Bricks etc and Construction indicate the greater influence of labour in determining production rates (ie batch production compared to continual process, for instance in Food and Drink). The sectors scoring 'realism in pay bargaining' lower than the average are those either with a lesser extent of collective bargaining or with strong external influences such as national agreements. Electrical Engineering and Construction both show high marks for 'quality' again probably reflecting the relatively greater emphasis on quality of the final product in their business.

The variations between sectors on the emphasis given to 'improved morale' would not appear to reflect any difference in structure or activity except perhaps tentatively being inversely related to the degree of unionisation. The high scores for 'reduced scrap rates' in Electrical Engineering and Textiles again reflects the importance of controlling wastage in these sectors, although the score for Mechanical Engineering is lower than we would have expected. The importance and immediacy of customer relationships underlie the emphasis given to improvement in this area in Retailing etc. and Banking and Insurance. Other points worth noting are the high rating in Electrical Engineering given to 'readier acceptance of new technology' and the exceptionally high level of 'other' results specified in Food and Drink. Perhaps only a higher degree of enthusiasm for employee involvement explains the high score in this sector.

Looking at the number of results rather than each one individually then the sectors with mode scores above the average, which is four, are Mechanical Engineering at five, Electrical Engineering very strongly at five and Paper and Printing at five. Those with scores below are Textiles at three, Construction at two and Banking and Insurance at three. These variations might indicate that involvement policies have been more effective in some sectors than others. But equally they could indicate variations in the rigour with which involvement policies are assessed.

Variations in effectiveness by variations in involvement policy

The way issues are dealt with at work in terms of different approaches to involving employees, will obviously influence how a unit sees the effectiveness of its policies. We therefore developed four alternative models of involvement approaches, namely the "highly communicative" and the "highly consultative" and the "extended bargaining" and "minimum involvement" models.

The highly communicative units (ie those with six or more issues subject to communication) have no significant variation from the overall average. Those which are highly consultative (ie those with seven or more issues subject to consultation) show a higher proportion (95 per cent) reporting that their involvement policies have improved their performance in a tangible way. Four relatively day-to-day aspects of work show a significantly higher score than the overall average, namely 'improved delivery times', 'improved quality', 'reduced energy usage' and 'readier acceptance of new technology'.

The extended bargaining model (ie those with five or more issues subject to negotiation) shows the same proportion of units reporting that their involvement policies have improved performance but there are some specific results which score much higher, namely 'greater realism in pay bargaining,' 'reduction in disputes' and 'readier acceptance of new technology.' As one would expect, the units conforming to the low involvement model (ie those with five or more issues subject to 'no employee involvement') score poorly on whether their involvement policies have improved performance. All the specific results for this group are significantly less than for the overall figures.

Variation in effectiveness by variations in involvement methods and time
Another factor affecting the way an operating unit sees the effectiveness of its involvement policies is the number of methods it has for involving its employees and the time they have been in existence. Table 19 sets out the comparison of results between those units having had three or more methods for over three years and those having three or more methods introduced within the last three years. Both sets of figures refer to the proportion of units reporting that their involvement policies have improved performance.

Clearly then, in the eyes of management, involvement policies tend to produce more results in the longer term rather than in the short run. Of course it is possible that the accuracy of the comparison will be influenced by the fact that management teams which have introduced involvement methods more than three years ago are more enthusiastic about the benefits of involvement than more recent entrants. But on the other hand they have had a longer exposure in which to become more realistic than idealistic. The particularly strong divergence on 'realism in pay bargaining' and 'quality' would certainly indicate that results here do take time to show through, and also to some extent in the 'reduction in the number of disputes.' The much higher rating given to 'other' improvements indicates that the longer involvement methods have been in existence the more multifarious the benefits. On the other side, only 'improved customer service' is significantly higher amongst units with recently introduced involvement methods. This could indicate that this aspect of work is particularly susceptible to improvement through involvement or merely that recent change is highest in the service sectors which rate this aspect particularly highly. The equal scores for 'morale' and 'general efficiency' indicate that these less tangible concepts are once and for all gains which though maintained, do not grow over time.

Table 19: Variation in effectiveness by introduction of involvement methods

	With 3 or more methods within the last three years and saying that their involvement policies have improved performance	*With 3 or more methods, more than three years ago and saying that their involvement policies have improved performance*
Improved delivery time	21%	25%
Greater realism in pay bargaining	57%	73%
Improved quality	28%	43%
Improved morale	76%	77%
Reduced scrap rates	17%	22%
Improved customer service	57%	48%
Reduction in number of disputes	45%	56%
Reduced energy usage	23%	33%
Readier acceptance of new technology	68%	69%
General improvement in efficiency	74%	69%
Other	11%	21%

Employees' reactions
Following their assessment of the effectiveness of their employee involvement policies senior managers were asked to choose from a list of statements those which most accurately described their employees' reactions when information had been provided on the company's operations. At the same time by courtesy of an Opinion Research and Communication's survey, employees were asked to choose from the same list of statements which described their reactions when information is provided. Table 20 gives the comparative results.

Table 20: Employee reactions to information

	Senior Manager responses	*Employees' own responses*
Welcome it	82%	50%
Ask for more	39%	28%
Treat it with suspicion	23%	17%
Ignore it	9%	2%
Give management credit for trying	33%	17%
Do not understand it	18%	5%
Regard it as insufficient	12%	18%

The results perhaps not surprisingly indicate that managers over estimate employees' enthusiasm for information (although both groups place if firmly as the most common reaction) and the credit given to management. Employees would tend to underscore 'do not understand it' and so the real incidence of this probably lies between 18 per cent–5 per cent. Encouragingly both groups give the lowest response to 'ignore it' and given the differences in the survey's methodologies, both managers and employees seem roughly to share the same views on how commonly employees 'ask for more', 'treat it with suspicion' and 'regard it as insufficient'.

The main variation by size is that managers of larger units score 'ask for more' and 'regard it as insufficient' much higher than those in small units. This possibly indicates that the quality of information is better in smaller units or alternatively, that employees are more enthusiastic in larger ones. There are no really significant differences between the sectors, or between the various models of involvement policy, on which one can confidently base any conclusions.

Plans for the future
Finally, in this section the managers of units were asked what plans they had for the future. 54 per cent said that they intend to review their involvement arrangements, 32 per cent intend to extend them and 10 per cent are planning to introduce some form of financial participation. There was a relatively high non-response rate to these questions indicating that the managers themselves are not sure whether plans are in hand or not.

VII: Management opinions

Both the Chief Executive and operating unit questionnaires' had three sets of questions designed to discover opinions on various aspects of employee involvement. The first of these was the influence of recent economic and political developments on the degree of employee involvement within their company (operating unit).

Table 21: *Effect of economic developments within last 3 years on degree of involvement*

	Chief Executives	*Senior Managers at operating units*
Increased it	63%	64%
Decreased it	3%	2%
Had no effect	33%	32%
No opinion	1%	3%

There is a strong belief then that our recent economic circumstances have increased the degree of employee involvement in business and certainly no significant view that it has decreased it. There are no real differences in opinion between Chief Executives and their senior managers but looking at responses by unit size there is a variation in those believing it has increased involvement between larger units (70 per cent) and smaller units (56 per cent).

Table 22 shows the responses to a similar question on the effect of political developments in the last three years.

Table 22: *Effect of political developments within last 3 years on degree of involvement*

	Chief Executives	*Senior Managers at operating units*
Increased it	36%	25%
Decreased it	3%	2%
Had no effect	60%	65%
No opinion	1%	7%

The majority thus believe that this particular factor has had no effect on the degree of involvement. There is some difference between Chief Executives and senior managers probably reflecting the former's greater involvement in the political arena. There are no significant variations in managers' views according to unit size.

Europe

Two major Directives are currently being discussed within the EEC which affect employee involvement, namely the draft Fifth Directive and the draft Vredeling/Davignon Directive. The latter is the proposed mandatory imposition of new procedures for informing and consulting employees in companies of so-called complex structure particularly trans-national companies. The Fifth Directive would involve the imposition of new company laws affecting employee participation in order to harmonise national practice within the EEC.

The questionnaires set out to discover the level of awareness of these directives. They both therefore asked if the respondent 'broadly knew what was being proposed' in each without any guidance as to their content or any further explanation. The questionnaires then set out two statements for respondents to tick if they were aware of what was being proposed. One statement was positive and another neutral. No negative statement was included because of the difficulty in wording one that was precise yet concise. Our existing consultative arrangements had shown that objections to the directives rested on three main beliefs, namely on principle against legislation and on the belief that they would impair efficiency and/or harm the development of better management/employee relationships. Those who held negative views were, therefore, contained within the non-response category and within the broader opinion-probing covered later. Respondents, however, found difficulty in dealing with this by not answering, and with hind-sight it would have been better to have included a list of alternative negative statements. Many answering 'make no difference' did so while holding more negative views.

Table 23: *Awareness of and opinion on, the draft Fifth Directive*

	Chief Executives	*Senior Managers*
Proportion of respondents broadly knowing what directive was proposing	69%	48%
Proportion of those knowing what was proposed believing that it would:		
Help improve involvement	10% (7%)	14% (7%)
Make no difference	74% (51%)	71% (34%)
Non response	16% (11%)	15% (8%)

Figures in brackets show answers as proportion of *all* Chief Executives or senior managers.

As one would expect, Chief Executives are more aware of the Directive than senior managers although only an equally small number of both believe that it would help improve involvement. The very high score for 'make no difference' (as noted above) must be treated with great caution as many respondents indicated this statement simply as it was more preferable than the only alternative *and* as they were unwilling not to respond. A considerable number made additions to their response expressing their hostility to and grave doubts about, this directive.

Awareness of this directive is less than that of the fifth directive with again there being a noticeable difference between Chief Executives and senior managers. All the reservations expressed earlier in regard to the answers about the Fifth Directive, and particularly on its effects, also apply here. Many of those indicating no difference held negative views as they were not willing to not answer the options.

Table 24: *Awareness of and opinion on, the draft Vredeling/Davignon Directive*

	Chief Executives	*Senior Managers*
Proportion of respondents broadly knowing what directive was proposing	51%	30%
Proportion of those knowing what was proposed believing that it would:		
Help improve involvement	8% (4%)	17% (5%)
Make no difference	68% (35%)	60% (18%)
Non-response	24% (12%)	23% (7%)

Figures in brackets show answers as proportion of *all* Chief Executives or senior managers.

General opinion

The final section on opinion posed nine statements and asked both Chief Executives and senior managers to indicate their reaction to each by ticking one box from a scale 5–1, from totally agree to totally disagree. The combined total of 896 respondents represents a significant proportion of the total senior management workforce and so one can be confident that the views expressed are a fair reflection of this group's opinions.

'There has been a distinct improvement in the quality of involvement in British Industry over the last five years'

	Totally agree	*On balance agree*	*No opinion*	*On balance disagree*	*Totally disagree*
Chief Executives	8%	70%	12%	10%	—
Senior Managers	7%	63%	11%	15%	2%

A considerable majority of senior management believe that the quality of involvement has improved over the last five years, with Chief Executives having a slightly higher tendency to agree. But the bulk of those in agreement are only so 'on balance' and therefore not completely convinced that the statement is true. Managers in smaller units are on the whole more sceptical about there having been any improvement; this scepticism is shared by managers in Retailing and Textiles but those in Food and Drink and Electrical Engineering take a much more optimistic view. As one would expect, the managers of those units corresponding to our 'low involvement model' show the lowest agreement with the statement (54 per cent) and the highest disagreement (29 per cent). There are no significant variations between the other models.

'Laws on employee involvement would do little to improve the quality of working relationships at plant level'

	Totally agree	On balance agree	No opinion	On balance disagree	Totally disagree
Chief Executives	50%	29%	1%	18%	3%
Senior Managers	48%	35%	2%	13%	2%

There is again a considerable majority, this time indicating opposition to the role of law in improving involvement at plant level. Interestingly, more Chief Executives disagree with this than managers of operating units.

'If laws on participation could concentrate less on board representation and more on rights to information below board level they could be a positive force for good'

	Totally agree	On balance agree	No opinion	On balance disagree	Totally disagree
Chief Executives	32%	49%	4%	11%	4%
Senior Managers	24%	54%	5%	13%	4%

There are no significant variations in opinion by size, sector or involvement model. Given that 'providing information on company performance' is the most common involvement method it is not surprising that so many agree with the statement.

'Providing adequate consultation and communication at the immediate place of work is much more important than providing representative structures at the top of the company'

	Totally agree	On balance agree	No opinion	On balance disagree	Totally disagree
Chief Executives	81%	16%	1%	1%	—
Senior Managers	73%	24%	1%	2%	—

As one would expect, the overwhelming majority of both Chief Executives and senior managers agree that involvement should centre at the workplace and not at the top of the company. With such a substantial majority there are no significant variations.

'Managers should bother less about involving employees and more about managing their business'

	Totally agree	On balance agree	No opinion	On balance disagree	Totally disagree
Chief Executives	5%	15%	8%	47%	26%
Senior Managers	4%	12%	5%	44%	34%

Some respondents remarked that the statement was contradictory and that 'managing' and 'involving' are the same. However, this rather provocative statement was included so as to provide some outlet for those managers who feel that too much time and effort has been spent on 'theorising' about involvement at the expense of getting down to the running of a business. The majority of managers, however, disagree with this view suggesting a belief that successful involvement and successful management go hand-in-hand. The only categories of management disagreeing with this are to some extent those in Paper and Printing (24 per cent agreeing to statement) and those managers running units which correspond to the low involvement model (30 per cent agreeing).

'The UK cannot expect to go on being an 'odd man out' in Europe in having no laws on employee involvement'

	Totally agree	On balance agree	No opinion	On balance disagree	Totally disagree
Chief Executives	4%	28%	11%	41%	16%
Senior Managers	4%	26%	12%	38%	20%

A majority, but only just, believe that the UK can go on with having no laws on involvement. However, managers in Construction and Banking and Insurance do not share this view, with slight majorities the other way.

'Unless forced to do so by legislation, companies will take insufficient action on employee involvement.

	Totally agree	On balance agree	No opinion	On balance disagree	Totally disagree
Chief Executives	3%	27%	7%	44%	18%
Senior Managers	4%	32%	6%	45%	13%

Although the majority believe the voluntary approach to involvement will work, the number holding a strong belief on this is relatively small. Indeed, more than any other statement, this one shows managers scoring 'on balance' in either direction, high. This indicates some uncertainty one way or the other. Managers in smaller units tend to be less sure about the voluntary approach and these reservations are expressed even more strongly by those in Textiles and Construction.

Moreover, managers of units which correspond either to the low involvement model or the extended bargaining model also have stronger than average doubts that sufficient action will be taken without legislation.

'Employee involvement is vital to this country's economic recovery and future prosperity.

	Totally agree	On balance agree	No opinion	On balance disagree	Totally disagree
Chief Executives	40%	45%	5%	8%	2%
Senior Managers	37%	49%	5%	8%	2%

The overwhelming majority of managers agree that involvement is vital to the country's recovery and future prosperity. Interestingly, even managers of units corresponding to our low involvement model agree with the statement in similar proportion to the rest.

'This company's management style has become more 'open' and participative in the last three years.

	Totally agree	On balance agree	No opinion	On balance disagree	Totally disagree
Chief Executives	39%	46%	4%	8%	4%
Senior Managers	39%	45%	3%	8%	4%

By courtesy of the survey conducted by Opinion Research and Communication, the following question was put to employees

'Your company has become a lot less secretive in the last three years, and they now tell you more about what is going on and take your views into account when they make decisions'.

All Employees	15%	37%	19%	19%	10%

Whereas a large majority of managers agrees with the statement, only a small majority of employees does so (although there is a much larger divide with those actually disagreeing). In Banking and Insurance fully 97 per cent of managers agree with the statement compared to roughly around the average for the other sectors. At the other end of the spectrum, managers runing low involvement units have a lower tendency to agree with the statement, although the majority still do.

Overview of opinions
Looking at the opinions as a whole, managers are convinced of the importance and benefits of employee involvement (paras 12 & 15) and that matters in this area have been improving (paras 8 and 16). However, they are more convinced about the advances within their own company (16) than industry as a whole (8). They remain firmly opposed to legislation which will bring board representation (9, 11, 13) but most are nevertheless willing to accept laws on rights to information (10). Finally, although generally confident that further voluntary developments will be made they are not entirely convinced that sufficient progress will be made (14).

Conclusion

In September 1979, the CBI published its *Guidelines for Action on Employee Involvement* with the aim of promoting and encouraging the voluntary development of involvement. The guidelines stressed that there was nothing new in the concepts surrounding involvement and that they were concerned, in essence, with developing a more open style of management rather than with changing the manager's role in decision-making. Involvement, they argued, was about improving the quality of decisions and achieving the consent needed to turn decisions into actions. What then does the survey suggest about the original aims and approach of the guidelines?

- The survey underlines once again the complexity and variety of business organisations into which patterns of involvement must fit. There can be no one model for successful involvement.
- The extent of methods used primarily for communicating with employees is higher than perhaps many would have expected. Providing information on performance and face-to-face meetings between senior management and employees are common throughout business while about two-thirds of participants have a company paper and/or employee report. Less common, however, are Works Councils or joint representative committees as the main formal means of consulting employees and where they do exist the vast majority came into existence more than three years ago. Only a third of those answering have expressed strong commitment to involvement via a formal agreement but over half the participants have some form of financial participation and a third of these have introduced it within the last three years.
- Overall managers say that consultation is the predominant means of involving employees on about half the issues arising at work. Over half the remaining issues are mainly dealt with by communication.
- Nearly 90 per cent of participants believe that their involvement policies have improved performance in a tangible way with 'improved morale' and 'greater realism in pay bargaining' being the most commonly cited specific results.
- Over three-quarters of managers believe that there has been a distinct improvement in involvement in industry over the last five years.

Looking at the results as a whole, there does on the face of it seem to be some contradiction between on the one hand the high degree of consultation on work issues, the sizeable number of tangible benefits of involvement and the recent progress reported in this area, and on the other hand the comparatively slow development of formal methods of consultation and of formal agreements. There are, of course, different ways of interpreting this and the results generally but in the opinion of the team which undertook this study this contradiction emphasises the importance of informal procedures and methods in British industrial relations.

In particular, the strength with which managers agreed that their companies' management style had become more 'open' and participative, coupled with the extent of consultation over work issues, reflects that progress on involvement has been centred on improving relationships between management and employees at the workplace rather than through the development of formal, representative structures.

While formal methods are highly 'visible' and easy to measure they do not necessarily reflect improved relationships. By way of analogy, a law could compel a husband and wife to speak to each other every day, but there is no guarantee that this would improve their relationship – indeed it might harm it. There will only be any certainty that relationships at work will improve if all parties want them to improve and are willing to achieve this through communication, give and take and a desire to reach agreement.

The survey's results suggest therefore that improvements are being made, particularly through informal methods, and this is supported by employees themselves with 52 per cent agreeing that their company had become more 'open' and participative in the last thre years and with only 29 per cent disagreeing. But there remains a gap, reducing but real, between the potential for involvement and the practice.

Ind. Pol.

MLS

MR. SCHOLAR

COPEMAN PATERSON PAPER

With reference to your note of 2 October. I did attend the Copeman presentation at the Treasury on 16 September. I found it rather disappointing and I suspect the Treasury people who were there were also not very happy with the presentation.

It all had an air of great unreality about it. All their examples had rates of real return on assets of between 20% and 30%. The average rate of return on assets in manufacturing industries is probably near zero. They explained that the results were to apply only to the dynamic companies. Well I think we have few problems with them!

So far as I could see there was very little that was new in it, but I did prepare a little note at the time which I attach. My recommendation would be that the Prime Minister does not write. I don't think there is any useful purpose to be served by pursuing it. The Treasury may wish to take up some of the particular recommendations about tax changes, etc, but I think that is for them to decide.

7 October 1981

ALAN WALTERS

This I think is correct file but I can not find previous ref. 13/10

(2)

P2
PPS

Copeman Paterson

10 BUCKINGHAM PLACE, LONDON SW1E 6HX TELEPHONE: 01-828 9253

Prime Minister

Alan Walters – who attended the Treasury meeting – sees no point in pursuing these ideas here: the Treasury are already considering individual points which were raised.

I have acknowledged on your behalf.

I suggest no need for further action here.

MCS 8/10

Agreed
MT

1st October 1981

GC/CD

Rt Hon Mrs Margaret Thatcher MP
Prime Minister
10 Downing Street
Westminster SW1

MT.

Dear Prime Minister,

Following on from your letter of 3rd August and the presentation which Peter Moore and I made at the Treasury on 16th September, I enclose a cut-down version of our paper, giving only the philosophy of "Team Enterprise and Wider Share Ownership", together with the supporting figurework. All the detailed proposals which are relevant to various Government Departments are excluded. The enclosed is therefore specific to the needs of speech - writing.

You will no doubt agree that it would be inappropriate at this stage for any reference to be made to any further action by Government. That would only create "planning blight", with all action by industry ceasing while they waited for future Government action.

As you have pointed out, the main legislation is already on the statute books. The main requirement now, in my view, is a clear indication that the Government really believes in it and expects it to be used.

Yours sincerely,

George Copeman

George Copeman

Enc:

COPEMAN PATERSON LIMITED. Directors: George Copeman, Ph.D.; Martin Paterson, M.A., F.P.M.I.; Peter Moore, Ph.D., F.I.A.; Brian Moir, A.C.I.I., F.P.M.I., N.A. Walter, M.A., M.Inst.P.
Registered in England No. 1339924. · Registered Office: As above. · Associate company: Martin Paterson Associates Ltd.

TEAM ENTERPRISE

AND

WIDER SHARE OWNERSHIP

by

George Copeman and Peter Moore

George Copeman is Managing Director of Copeman Paterson Limited, management consultants, and a Deputy Chairman of the Wider Share Ownership Council. Peter Moore is Deputy Principal and Professor of Statistics and Operational Research at the London Business School.

Copeman Paterson Limited, 10 Buckingham Place, London SW1E 6HX, Telephone:01-828 9253

CONTENTS

INTRODUCTION

We present here information on two areas of discovery: the first concerns our Computer Model of Financial Participation, developed by Professor Peter Moore in consultation with myself and my consulting colleagues. This shows that the scope for motivational profit sharing in cash and shares is far greater than generally believed. Peter Moore describes the results of his work, but he does not devote space to the mathematical development of the work, as there is an Appendix on this at the back of this paper. I then draw attention to the consequences of his work for national economic policy, particularly its effect in reducing the direct cost of labour, raising the level of investment and increasing the level of employment without wage-push inflation.

Following this I go on to describe the other area of discovery. It arises from working with 130 client companies in the last few years, about 100 of them concerned with employee share schemes, some of these with cash schemes as well and the remainder nearly all concerned with cash incentives. This second area of discovery is concerned with how in practice the "credibility gap" in British industry and commerce may be closed, how the work on the Computer Model may be applied on a widely acceptable basis to create profit-linked pay systems in each type of industry, in spite of the changing rate of inflation. What we are particularly concerned with is the speed with which any company, through the use of appropriate mini computer programmes, may apply a reliable profit-linked pay formula to its own performance figures, in the confidence that the system cannot run wild and make payments that are unrealistic in relation to company performance.

George Copeman

SUMMARY

SECTION I

Professor Peter Moore's Computer Model of Financial Participation is described and examples are given showing that it is worthwhile for both shareholders and employees to introduce cash and share bonus incentive systems which reward high company performance, in terms of return on capital, with bonus rates beyond the levels acceptable within the Investment Protection Committee Guidelines.

SECTION II

The case is made for using profit sharing schemes, involving cash and shares, to restrain the demand for higher basic pay rates whilst allowing those who are able and willing to earn more to do so via profit sharing. Whilst economists in the past have dismissed this solution because profit sharing was regarded as cosmetic, the Computer Model of Financial Participation provides evidence that, when significantly larger bonuses are paid for higher profitability, profit sharing is a way of enabling an economy to recover from recession without wage-push inflation, hence with higher levels of investment and employment than would have been possible if basic pay rates had been increased.

SECTION III

The philosophy of Team Enterprise is told in the course of describing the history of development of the technology of profit sharing, including the current use of norms and rates of sharing which employees readily accept as being fair, which accommodate themselves automatically to varying rates of inflation and which are protected against the prospect of paying out bonuses beyond the company's cash flow resources. The development of electronics ensures that such profit sharing systems can be disseminated accurately and quickly to company managements via inexpensive mini computer programmes of a type which finance directors are already becoming accustomed to using in their budgeting work.

SECTION IV

Experience in installing incentive schemes suggests that the teach-in process involved provides a unique opportunity to convey the philosophy of Team Enterprise to employees, for they want to know <u>why</u> the proposed system is fair as well as <u>how</u> it operates. Companies which can initially offer only a small profit share can make the most of the situation with this slogan:

DOUBLE YOUR PROFIT SHARE AND
YOU DOUBLE THE SECURITY OF YOUR JOB.

SECTION I

MAIN RESULTS OF THE COMPUTER RUNS

As Appendix II gives detail on our methodology and also several tables of results. I want to concentrate here on drawing attention to the specific value of our results in emphasising the scope for motivating employees with bonuses of equal amounts in cash and shares if, in response to the prospect of earning a certain level of bonus, employees work together so well as a team that the company achieves a certain increase in return on capital.

This is a case of no extra bonus if there is no increase in performance. The Computer Model traces twelve years of assumed performance at certain levels of return on capital, also assuming the payment of a steady eight per cent dividend on capital, hence a bigger total dividend as the capital increases.

Figure 1 shows the situation when employee shares are purchased in the market. It is assumed that employees will receive 10 per cent of profits in total bonus if they achieve a 20 per cent return on capital, and a 14 per cent total bonus if they achieve a 25 per cent return on capital. In the former case, over 12 years the original shareholders' capital and their dividend grow to 238 per cent of their former levels, in real terms. In the latter case, they grow to 364 per cent. This is certainly a good deal for shareholders - better than they have had in all but a small minority of British firms in recent years.

Employees too do quite well. Apart from their cash bonuses, the aggregate share capital of those who stay for the whole 12 years, assuming they do not sell any shares, grows to 71 per cent of the level of employees' annual pay plus national insurance and pension costs, in the case of the 14 per cent bonus. This, moreover, is assuming that capital employed is equal to employee costs; if $\frac{CE}{EC}$ is actually 2, they will accumulate twice as much capital relative to their pay.

Figure 2 shows the same structure as in Figure 1 except for a change in assumption about share acquisition. In Figure 2 the shares are newly issued, not purchased as in Figure 1. One would expect the capital to grow faster if more money is retained in the business, which is shown to be the case by comparing Figure 2 with Figure 1.

In the case of the 14 per cent bonus, shareholders' capital grows in 12 years to 470 per cent of the original level, as against 364 per cent for the case of share purchase. However, the difference is primarily due to the assumption that the capital value paid to shareholders from whom shares are purchased is ignored. So we must not rule out share purchase if this is the better policy for maintaining the independence of the company.

Finally, in Figure 3 we repeat Figure 1, the case of share purchase, adding on a 16 per cent bonus level and giving two rows which make it possible to compare growth rates. One does not, after all, know in advance whether the prospect of sharing 14 per cent of profits is enough to encourage employees to raise the return on capital to 25 per cent, or whether a promise of 16 per cent of profits is necessary. As the figures show, the first case is obviously a better deal for existing shareholders, but if they have to pay 16 per cent, this is still very worthwhile. Their capital and their dividend rise by 32 per cent above what these might have been if they had merely continued paying bonuses of 10 per cent of profits, without the promise of more.

P.G. Moore

FIGURE 1

CAPITAL GROWTH AFTER 12 YEARS WHEN SHARES PURCHASED FROM EXISTING HOLDERS

	Owners capital as % of original capital	Employee share of capital	Initial employees capital as % of EC
10% Bonus 20% ROC	238	0.20	0.42
14% Bonus 25% ROC	364	0.28	0.71

FIGURE 2

CAPITAL GROWTH AFTER 12 YEARS WHEN SHARES ARE NEWLY ISSUED

	Owners capital as % of original capital	Employee share of capital	Initial employees capital as % of EC
10% Bonus 20% ROC	275	0.18	0.40
14% Bonus 25% ROC	470	0.24	0.65

FIGURE 3

CAPITAL GROWTH AFTER 12 YEARS WHEN SHARES PURCHASED FROM EXISTING HOLDERS

		Owners capital as % of original capital	Employee share of capital	Initial employees capital as % of EC
(1)	10% Bonus 20% ROC	238	0.20	0.42
(2)	14% Bonus 25% ROC	364	0.28	0.71
(3)	16% Bonus 25% ROC	313	0.32	0.79
	Percentage increase from (1) to (2)	53%	40%	69%
	Percentage increase from (1) to (3)	32%	60%	88%

SECTION II

CONSEQUENCES OF THE DISCOVERIES MADE

The consequences of this work on the computer model may be summed up as follows:

1. It shows industry how to move out of the era of cosmetic share schemes and pay real bonuses in cash and shares.

2. It makes possible restraint on basic pay in the market sector because of the potential size of the extra earnings.

3. It lowers the cost of labour, transferring part of the former cost to profit-sharing.

4. It increases the propensity to invest more money and to employ more people.

5. It makes possible a higher level of employment without inflation.

6. It demonstrates the efficacy of basing a profit-sharing share scheme on the purchase of existing shares.

7. It makes possible a build-up of "loyal" shareholders against takeover bids.

One can only describe it as a tragedy for the market economy if unemployment has to be high and bankruptcies have to be high in order to restrain pay demands. Keynesian ideas on full employment are no longer popular because attempts to put them into practice, relatively successful in the immediate post-war period, have been accompanied by increasing rates of inflation. One of the great fears in recent years has been wage-push inflation. However, the missing item in the Keynesian analysis is profit-sharing, for the simple reason that until recently profit sharing has been regarded by economists and Governments as cosmetic. The sort of levels of profit share which it was thought could be paid, typically in a range up to 5% of pay, were not regarded as having any significant impact on either company or Government policy.

The Computer Model of Financial Participation indicates ranges more in the area of 10% to 20% of pay. Companies installing schemes are now, in our experience, frequently ready to discuss paying bonuses of this level.

SECTION III

HOW IN PRACTICE THE CREDIBILITY GAP MAY BE CLOSED

In the writer's view the major cause of the credibility gap in British Industry is seen summed up in a "Financial Times" survey published in 1975, which was conducted by Professor E. Victor Morgan of Reading University. This showed that only 3.8% of people of working age and above directly owned any shares.

Anyone who was charged with responsibility for re-designing the social system could hardly be expected to consider planning it on a basis that 100% of the adult population had votes but only 3.8% had shares. They would not expect this to work - and it does not, as we see around us. The working population does not by and large believe in the system.

Henry Ford said that "history is bunk" and perhaps he had a case - at least for economic history, which is traditionally described as a movement from feudalism to capitalism to socialism. Perhaps we can understand the credibility gap better if we replace these three traditional words with a different set of concepts.

I prefer to look upon economic history as a movement from slave-based civilisation to migrant-based civilisation and then, hopefully, on to team-based civilisation. I find that this fits better as a framework for explaining much that is going on around us.

Most of the great constructions of early history, such as the Pyramids of Egypt, the Parthenon in Athens and the Coliseum in Rome, were built, at least as to a large part, by slaves. In a slave-based economy, the slave is tied to the job. The development of free enterprise was part of the movement towards freeing the slave. In Britain the semi-slave of the middle ages was a manorial serf. When he escaped or obtained his freedom and took a job in a town, he worked for a cash wage.

The development of free enterprise was very important for the development of political liberty but it also produced an enormous increase in productivity. In spite of this, however, in due course it alienated its own workforce.

Now we are, in my view, entering the era of team enterprise. Employees remain free to come and go, to take a job or to leave, but in some cases they now have a sense of belonging. They have ties to the firm and relationships with it, such as membership of a share scheme, which were not thought important when free enterprise first developed.

We should also note that many of the economic miracles in history are based on migration. For example, the British industrial revolution was preceded by an agricultural revolution. Before that, traditionally about 80% of the population were occupied on the land, because four-fifths of the people were needed to produce the food. The agricultural revolution created such an improvement in farm efficiency that the population on the land fell from 80% to 33% (by 1811). Thus some 47% of the population, or almost half, moved from the country into the town. Here was Adam Smith's labour market of people available for hire and fire.

The United States is by any standards an economic miracle, but it is also a nation of immigrants. In one century alone, from 1821 to 1920, 30.6 million people crossed the Atlantic from Europe to the United States. This is more than the population which was there before they came.

The post-war German economic miracle was preceded by the arrival of 12.3 million people from Eastern Europe, before the Berlin Wall was built. This is about one-third of the number of people in Western Germany at the end of the Second World War. After the wall was built, more people came up from Italy, Yugoslavia, Turkey and elsewhere in Southern Europe.

The Japanese economic miracle has not involved anyone coming in from abroad, at least not in significant numbers. However, in the first ten years alone after the Second World War, 14 million peasants came in from the farms to work in the cities. They have since continued to come in large numbers.

The movement of peoples throughout history has been an important factor in the development of freedom and of economic prosperity. People have very often moved in order to escape from slavery or persecution. However, the migrant, whether he moves from the country into town or from another country, is an alien when he arrives. Moreover, in the ultimate, freedom is alienation. A man who is freed from his wife is also in an important sense alienated from her. Sharing always means giving up some freedom. The movement of people has made them free but it has left them unattached, without a sense of belonging, and not participating in the growth of capital which takes place in successful enterprise. Throughout the history of company law, the members of the company have traditionally been the shareholders. The employees were not members and indeed are still not. In this sense they are aliens. It was not thought that they should participate, or even could participate in the capital ownership. They collected their wages or salaries and that was that.

There are three alternative ways of describing how capital is accumulated which have a bearing on how it might be shared. Adam Smith said that capital comes from parsimony. This could have been more or less right for his time, before the development of income tax or corporation tax and indeed before the development, to any significant extent, of the joint stock company. The personal saving of the businessman was then also the personal capital accumulation of his business. Therefore the capital which grew in his business if it was successful, could be seen by him as growing in his own pocket. His virtue as a businessman could be seen as that of someone who restrained himself from spending his capital.

Karl Marx said that capital comes from exploitation of the workers. Whilst this emotive approach has undoubtedly been an inspiration to some sections of the labour movement, it does not, in the writer's view, take sufficient account of the nature of competition and the importance of marketing. The Beatles, for example, became millionaires by singing songs. They were marketed well but they hardly employed anyone. They could scarely be accused of exploitation.

The writer first developed a theory of how capital is accumulated in his book "The Challenge of Employee Share Ownership", published in 1958. This fits with the idea of team enterprise and with the idea that capital quite often comes from teamwork.

The short title to this theory is "The James Effect", named after Mr John James of Bristol, whose development of a post-war business was the first such case studied by the writer. Mr James spent his gratuity on starting one radio shop in Bristol and about twelve years later he had developed a chain of some 200 shops, which he sold for £6m. The James Effect says that "the essential tax reliefs for business growth are a major cause of concentrated capital ownership and of the exclusion of the majority of people from participation in capital ownership".

The costs of growth of a business are largely tax-free and no country wants to alter this because nobody wants to discourage the growth of firms. An economy consists of growing firms, stagnant firms and declining firms. If the growing firms are discouraged, unemployment can rise rapidly and the standard of living can decline rapidly.

It is worth looking at a model of how Mr James built up £6m worth of capital in twelve years at a time when income was being taxed at rates of up to 97½%. Let us suppose that his profit on his first shop was £10,000 before tax. He would not in fact pay tax on £10,000 because much of this profit would be used in starting other shops. He would have to start many shops a year in order to build a chain of 200 shops in twelve years. Suppose his taxable profit on the first shop was £1,000, then his taxable profit on 200 shops could be £200,000. These are the profits after deducting the costs of growth, such as arranging the lease of new shops, decorating them, putting in staff and paying them until the shop had gained enough customers to be self-supporting, also capital allowances on any machines and equipment.

If, after developing a chain of 200 shops, Mr James decided not to continue the growth of the chain, his profits per shop could be £10,000, since there would no longer be any costs of growth. Thus his total profit on 200 shops could be £2m. If he sold the chain of shops on a valuation basis of three times earnings, the value could be £6m - which is what it was.

To test out the James Effect on the nation as a whole, in 1976 the writer conducted a study on behalf of the British North American Research Association, an off-shoot of the Confederation of British Industry. This was a ten-year study, 1965 to 1974, of the National Income Blue Book figures on capital formation in Britain. It was found that national capital formation over this ten-year period broke down as follows:

Business	52.5%
Government	22.9%
Financial Institutions	22.4%
Non-profit organisations	1.1%
Personal saving	1.1%
	100%

It was clear to the writer from these figures that if employees were ever to become significant capital owners of industry, there would have to be employee share schemes. Personal saving, other than contractual saving through financial institutions concerned with house mortgages, pensions, life insurance and hire purchase, would not provide the necessary funds. Employees could only participate significantly in the process of capital formation if they earned their way in, rather than saving their way in. They could earn their way in through incentive systems within the business. They could cut in on the James Effect and build up personal capital in a successful business, but to justify their stake they could be expected to do so on an incentive basis - by earning their share of capital formation through helping to increase the productivity and profitability of the business. The idea was conceived that self-made, successful people should no longer be almost solely those who had a new and very clever marketing technique or product which became very popular. In any business employees could justify having a stake in the capital formation if they worked well together as a team to make it more successful. An increase in the proportion of owner workers and a consequent reduction in the proportion of absentee owners could in itself make a business more effective.

So much for the concept; the problem in practice was how to develop norms and ratios for incentive bonus systems which would give employees their fair share of profits without cutting too much into the profits needed for financing the business. How could incentives be arranged by which both the employees and the company always gained? Moreover, is the right rate of sharing 5% of profits or 15%? What is the proper guideline?

A most important clue to development in this area can be seen in the work of Allen W. Rucker, an American management consultant who made a study of the U.S. Census of Manufactures figures from 1899 to 1954. He found that during this long period in each industry - except the extractive industries where commodity prices rose and fell rather violently - the ratio of employee pay to added value was constant. This period covered two world wars and a major economic recession, yet the consistency of the ratio was remarkable. It was of course constant for the industry, not for the individual firm which could have been subject to ups and downs of prosperity.

Added value, it may be recalled, is sales revenue minus bought-in costs, which is equivalent to profit plus employee costs. What Rucker was saying, in effect, was that in any particular industry, due to various factors such as its capital intensity, there was a steady relationship between profit and pay, for these two made up the added value. Rucker concluded that, if there is a constant relationship between profit and pay, one ought to stop bargaining and create incentive systems which in effect promise employees their share of the take. If, for example, in a particular industry the normal relationship between profit and pay is 1 to 3, then whenever there is an increase in the added value, employees should have three parts of it and profit one part. This could provide a magnificent incentive system.

The trouble in applying it is that profits of individual firms do bounce up and down with changing circumstances. If we look at the following figures, we see the potentially disastrous consequences of promising employees an instant restoration of their share of added value each year.

Added Value	=	Profit	+	Pay
1,000	=	250	+	750
1,200	=	450	+	750
1,200	=	300	+	900
1,200	=	375	+	825

In the above table, the first line represents the position in a firm before there is an increase in added value. The second line shows an increase of 200, which let us suppose begins as an increase in profit, so that the profit goes up from 250 to 450. If, then, there is a division of the extra profit on the basis of Rucker's finding, the result is shown in the third line where profit receives 50, or one-quarter of the increase, and employees receive the other three-quarters, because the normal ratio between profit and pay in this particular industry happens to be 1 to 3.

Such a division does, however, mean that the employees take the lion's share of the extra profit and the company is almost certainly left with an inadequate amount of cash to finance the extra business which the extra profit represents.

Hence a typical compromise in some of the early Rucker schemes for motivating employees was to split the employees' share of the increase 50/50 between the company and the employees. Psychologically this is not a good idea. If it really is the employees' share, why should they split it with someone else? However, the effect of this is as shown in line 4 of the table. It enables more money to be kept in the business, to finance its growth.

In order to put the Rucker concept into effect but to do so on a more systematic basis which ensured that the company kept enough cash in the business and yet at the same time kept faith with employees, the writer worked with Peter Moore in the development of a hunting factor and an exponential bonus system. A hunting factor is merely a proportion of the employees' share of added value which is immediately paid to them in bonus, but the word "hunting" is used because this is a feed-back control system which hunts to a norm. The employees may, for example, receive only 30% of their Rucker share immediately, but it does not stay at a constant share. Using the exponential bonus formula, the employee share rises steadily if permanent progress has been made and the increase in profitability is sustained. The employee share rises steadily until the "Rucker norm" relationship between profit and pay is restored.

This can been seen graphically in Diagram 1. The exponential curves represent different hunting factors. It is not unrealistic to have a hunting factor as low as .2 . The hunting factor of the I.C.I. profit-sharing share scheme is effectively .17, although no such calculation is explicitly made. This is fairly typical for a capital intense industry. However, as can be seen from Diagram 1, regardless of the hunting factor, whether high or low, all the curves must by their exponential nature rise to touch the top horizontal line of the graph somewhere over to the right. In principle they only reach it at infinity, but in practice they get very close to the top in just a few years. This means that however low the hunting factor, however much capital has to be retained in the business, the system restores the Rucker norm and therefore it keeps faith with employees. Nevertheless, it preserves company cash flow, to finance an increase in business.

Diagram 2 shows the same exponential bonus formula applied to a situation where the business is not making any permanent progress in profitability. It is merely bobbing up and down with the state of trade - doing better at some times and worse at others. The effect of the formula is to smooth the bonus pattern. The thick line on Diagram 2 shows a typical movement in a bonus worked out on Rucker principles, on the basis of immediate restoration of the norm. The dotted line shows the same bonus smoothed by application of the exponential formula. Thus it may be seen that with the one formula, which as we shall see is a simple formula, two things are achieved - firstly, the company obtains first bite of the cherry as regards using increased profits to finance expansion but at the same time it keeps faith with employees by steadily restoring the Rucker norm, and secondly, the bonus system is smoothed and this has the additional advantage that it usually cuts out negatives. On the rare occasion when it does not, they can be carried forward, through the system.

Hunting factors and exponential systems are readily understood by employees because they understand feed-back controls. The whole of the engineering

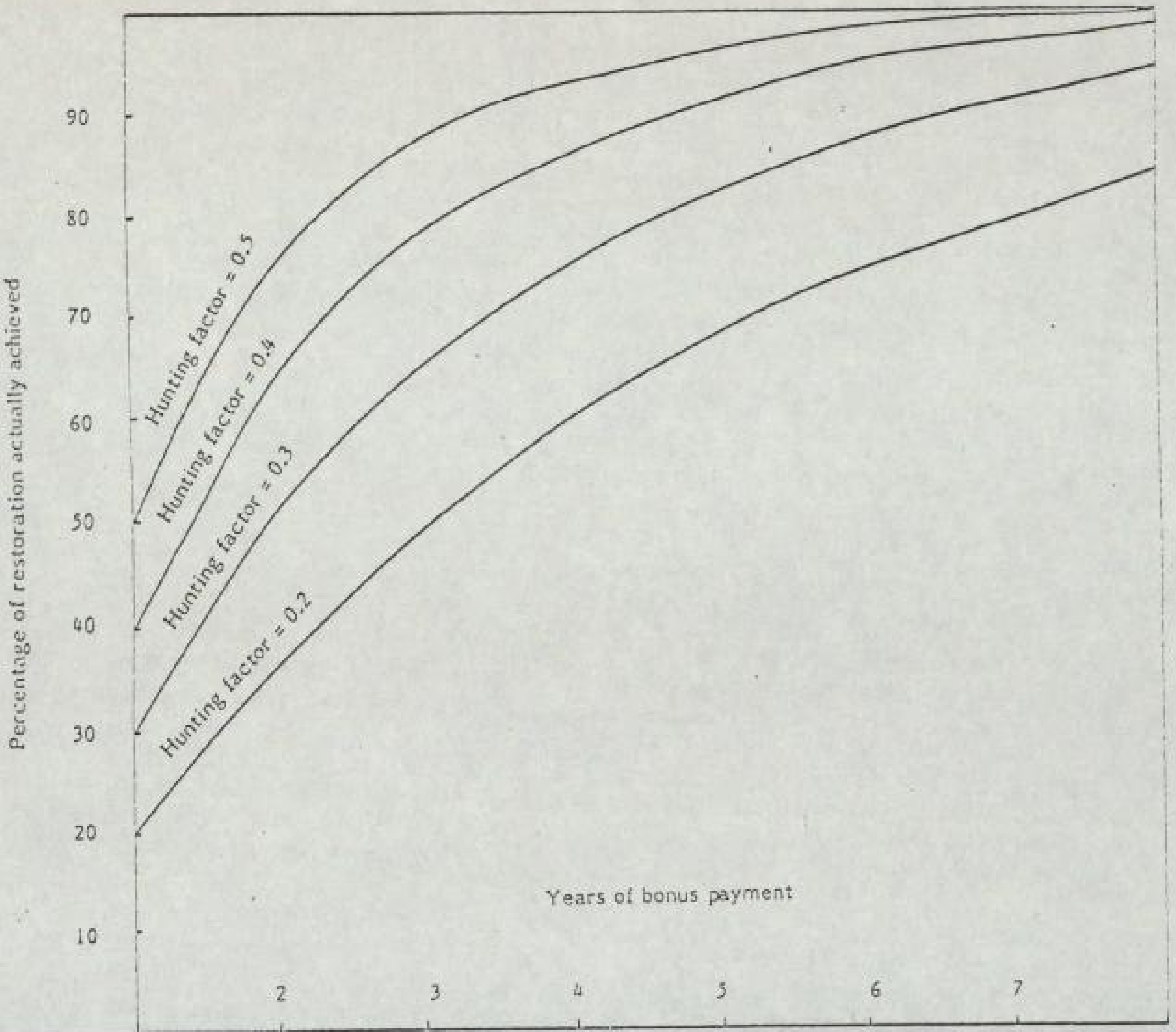
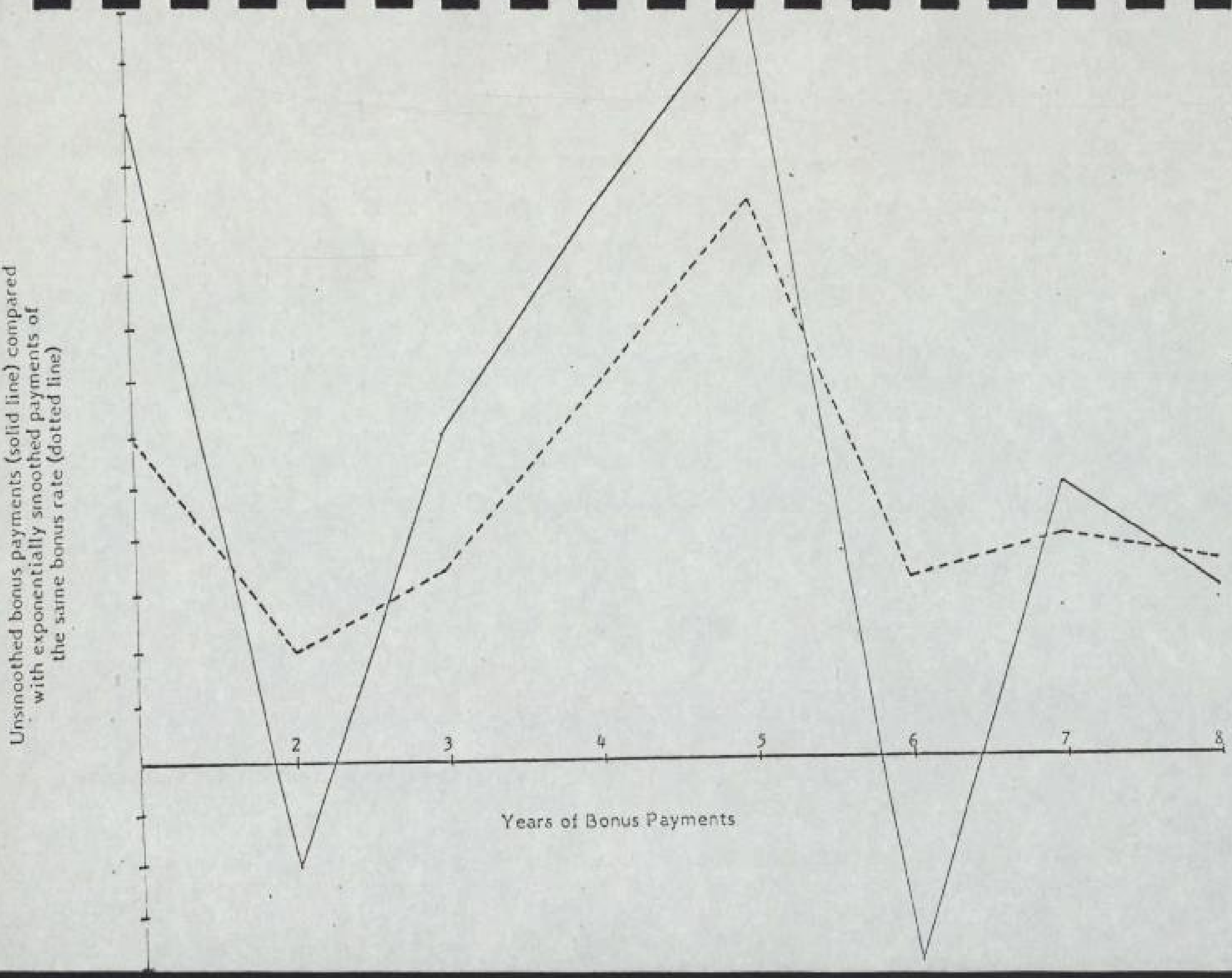

Percentage of restoration actually achieved
Years of bonus payment
Hunting factor = 0.5
Hunting factor = 0.4
Hunting factor = 0.3
Hunting factor = 0.2
10
20
30
40
50
60
70
80
90
2
3
4
5
6
7

Diagram 1

Diagram 2


Unsmoothed bonus payments (solid line) compared
with exponentially smoothed payments of
the same bonus rate (dotted line)
2
3
4
5
6
7
8
Years of Bonus Payments

industry, food processing and chemical processing use feed-back systems to control their operations. If some activity wanders away from its normal situation, information is fed back to enable the control to be adjusted and return it to normal. Moreover, the human body is full of feed-back controls which hunt to a norm. For example, the temperature of the body is expected to stay around 98.4°F and there is a very elaborate control system for feeding back information if the body becomes too hot or too cold. In the former case the glands are opened and the body perspires in order to create cooling. In the latter case, the lungs and heart work faster, more heat is created and pumped around the body. Employees readily understand hunting factors and feed back controls, provided they are human beings, not ghosts.

The exponential bonus formula is very simple. It is a fraction of the Rucker bonus rate calculated for this year plus a fraction of last year's bonus, which of course is already known. The fraction taken from this year's calculation and the faction taken from last year's bonus depend upon the hunting factor.

Another point which can be gained by looking at Diagram 1 is to note that because, on cash flow grounds, employee bonus must lag behind company profitability, i.e. money must be re-invested in the business which might otherwise have been paid out in bonus, this in itself is a justification for having an employee share scheme and for having at least part of the bonus paid in new issue shares. Some of the money which has to remain in the business in order to build it up and create jobs may be regarded as money re-invested in the business on behalf of employees. Therefore if part of the bonus is in shares, employees are obtaining a stake in this re-invested profit. The lag built into the exponential bonus formula - essential for providing a motivation system but at the same time conserving company cash, is compensated for through a share scheme.

Thus it can be seen that share schemes are an important part of paying optimum rates of reward to employees. The total level of pay that the company can afford is always higher if part of it is taken in shares. This is basic to the building of the Computer Model of Financial Participation - a realisation that optimum reward consists of an exponential bonus system, part of which is in cash and part in shares. This is the type of system which is best for the company and for the employees. There are, however, refinements which have had to be built in and tested - such as how to ensure that the company's return on capital is adequate before profits are shared, how to allow for inflation, indeed for varying rates of inflation, and how to start a scheme from a position of low profitability or even loss.

Once this system has been built, however, one can go on to add a method of adjusting basic pay rates on a profitability basis. That is, pay rates are changed in accordance with changes in the cost of living, as modified by a profitability factor. This is readily understood and appreciated by employees. They like to keep up with the cost of living, but they can understand that if one has a well designed bonus system and if the firm has a period of very high profitability, they will receive from the formula more than the increase in the cost of living, though on the other hand if the firm has a period of low profitability or loss making, they will receive less than the increase in the cost of living. In between these high and low performance levels is a range of profitability for which they will receive full cost of living adjustment, neither more nor less.

We may sum up the work done in this area by saying that the Computer Model of Financial Participation developed for Copeman Paterson Limited by Professor Peter Moore has made it possible to design and test incentive systems which:

1. Are on a more generous reward scale in relation to performance than hitherto thought possible.

2. Are built on an exponential formula which:

   (a) conserves company cash flow, yet;

   (b) maintains faith with employees, in accordance with Rucker principles; and

   (c) effects some smoothing of bonuses from one period to another.

3. Typically involve both cash bonus and share bonus.

4. Are "fool proof" against running wild and paying out ruinous sums.

5. Solve the problem of how to apply a varying rate of annual inflation to company performance figures.

6. Provide for realistic lead-in bonuses when a company is climbing out of a difficult period, yet allow the lead-in bonus to be overtaken by the normal profitability bonus.

7. Allow for six-monthly cash payments where appropriate, in spite of share allocations being annual.

8. Can provide for the linking of cost-of-living change and company profitability level, to determine a realistic adjustment of basic pay.

9. Are more easily, more cheaply and more quickly disseminated throughout the nation's entire market sector than ever previously possible, through the ability to examine alternative possibilities for incentive schemes more rapidly than hitherto by the use of inexpensive mini computer programmes of a type which finance directors are becoming accustomed to using in their budgeting work.

The Computer Model of Financial Participation demonstrates how powerful team motivation can be derived from people earning their way into the capital of a business, via profit sharing. I emphasise the importance of earning. This motivation is partly lost if the share scheme requires that participants must save before they can acquire any shares. The need to require employees to save in advance is surely based on a misunderstanding of Adam Smith. Certainly saving is important to the establishment and financing of a business, but as we have seen, today most of the nation's industrial saving takes place inside the company, not inside the pockets of individual people. In effect, the employees are constrained to save by limiting pay and the company accumulates the capital. The credibility gap and the need for higher productivity in Britain are such that, in the writer's view, whenever possible shares should be made widely available to employees via a profit-related share scheme. Some of the savings related schemes have recently been attracting less than 5 per cent participation by eligible employees, which inevitably means almost all the participants are in management and the main offices. Yet the country is not short of savings media or of savings. It is short of well motivated people who believe in the economic system and can make the existing businesses more productive.

Saving does, however, have a role to play in share schemes. This arises over the question as to how long employees will hold on to shares issued to them under a profit sharing share scheme.

It is instructive to look at what has happened when employees have become shareholders. Since 1954 when I.C.I. issued its first profit sharing shares, there has been a myth that employees "rush to sell at the factory gates". In fact after the

I.C.I. scheme had been running for 17 years, the company took a census of its share register and found that 37% of all the shares ever issued to employees were still in the same hands. All this happend before tax relief was available to employees for share schemes. (At this point one should acknowledge the pioneering role of I.C.I. in ensuring that their employee share scheme involved the use of proper, ordinary shares, in contrast to the special shares used in many previous schemes. The movement towards Team Enterprise would be badly betrayed if Government ever deferred to pressure to allow special shares in an employee share scheme. In this respect the present legislation is, in the writer's view, right.)

One of the pioneering companies that developed profit-sharing share schemes, assisted by the writer, before the Finance Act 1978, was House of Fraser. They were one of the first to convert over to the Finance Act 1978 provisions, with an approved scheme. Their first appropriation of shares to employees took place on the 7th July 1979 and these shares became freely saleable on 7th July 1981. The company had prepared an elaborate and extremely efficient computer programme for handling a rush of employees to sell the shares, after the announcements were made on the notice boards and accompanying every employee's pay slip, telling them that they were now free to sell the first appropriation of shares. In the first three weeks after the 16,716 participants in the first appropriation of shares were free to sell, only 9 applied to sell. I mean 9 people, not 9%. Since then, there has been a steady trickle of sales by two or three participants a week. Even if one attributes part of the "hold on" capacity of House of Fraser employees to the threat of a takeover bid to the company, it is remarkable to obtain such a high level of consensus for any one course.

SECTION IV

THE CHANGING OF ATTITUDES

In the writer's experience, the designing and installation of new pay systems, of a highly motivational kind, provides a unique opportunity to enable employees to develop new attitudes to the nature of business enterprise and the importance of teamwork. Whereas in the normal course of events one cannot teach any new philosophy of enterprise to employees without it being suspected that they are being got at, when it comes to installing a new incentive system, they are ready to learn why the scheme is being installed as well as how it works. Teaching why is as important as teaching how. The former requires that they should be taught a philosophy and history of development such as that outlined in Section III of this paper.

Individual ethics may be verbal but corporate ethics must also involve figures. Perhaps the best known statements of individual ethics are contained in the Ten Commandments and the Sermon on the Mount, so far as Western Civilisation is concerned. Companies which have tried to develop similar statements of corporate ethics, as many did in the 1950's and 1960's, found that so long as they confined themselves to words, they achieved very little. Corporate ethics must also include figures and mathematical relationships, for a business enterprise is a flow of revenue and of expenditure and also a pool of resources in the form of capital. How much revenue comes in and how the expenditure is shared is of importance to all concerned, as is also sharing in the growth of capital.

Team Enterprise is a message as well as a plan.

> It provides a sense of belonging as well as actual ownership and sharing.
>
> It is a new set of principles for people to believe in and provide them with a unifying sense of purpose at their place of work.
>
> It provides an opportunity to appreciate that the market economy is on the whole fair and free but that rewards can be effectively related to the performance of the organisation and these rewards can generally include a stake in the capital.

It provides a basis for realistic joint consultation, involving the regular provision of company performance figures and the related bonus earnings which are undeniably of wide employee interest, whether the news is good or bad.

It makes possible an increase in the levels of investment and of employment without stimulating inflation, for better incentive rewards enable the same kind of precision to be used in the determination of basic pay rates as is generally used by a company in designing, producing and marketing a product.

Moreover, getting these matters right for the market sector is fundamental to providing better services and higher standards of living in the public sector.

Sometimes company managements say that the bonuses they can pay will not be enough. A small bonus can, however, be turned into a bigger bonus, for much is at stake. I offer a slogan for Team Enterprise during this period of recession:

DOUBLE YOUR BONUS AND YOU DOUBLE
THE SECURITY OF YOUR JOB.

APPENDIX I

DILUTION EFFECT

Concern is sometimes expressed that the ultimate level of holdings by employees could become large in relation to the total shareholdings and have an effect on managerial control. Employees do however retire, resign or die and also sell their shares. Hence there is a regular disposal rate and the following table shows the ultimate percentage shareholding by employees for various rates of bonus share issue (expressed as a percentage per annum of issued shares) and various rates of disposal (expressed as a percentage of total shares held by employees each year). For example, if ½ per cent of shares are issued and allocated to employees each year and the annual disposal rate is 10 per cent of shares held by employees, then the ultimate employee holding level is 4.8 per cent of all shares in issue.

Disposals percentage per annum (d)

		5	10	15	20	25
Issue rate	¼	4.8	2.4	1.6	1.2	1.0
per cent	½	9.1	4.8	3.2	2.4	2.0
per annum	¾	13.0	7.0	4.8	3.6	2.9
(k)	1	16.7	9.1	6.3	4.8	3.8

A long time will elapse before the ultimate level of 4.8 per cent, or anything near it, is reached. The year by year figures would be as follows:

Annual rate of issue: $\frac{1}{2}$%; Disposal rate: 10% p.a.

Year	Percentage holding	Year	Percentage holding
1	0.50	9	3.00
2	0.94	10	3.18
3	1.34	11	3.35
4	1.70	12	3.50
5	2.02	13	3.63
6	2.31	14	3.75
7	2.56	15	3.85
8	2.79	Ultimate	4.80

Since under the existing law there can generally be no sale of shares in the first 2 years a relevant case for consideration is as follows: no sales take place in the first two years after issue to employees; higher rates than usual apply in years 3 and 4 (say 25 per cent per annum) and then the usual rate as before. The following table shows the ultimate percentage shareholding by employees on these assumptions for various rates of share issue (k) and various rates of disposal (d) from year 5 onwards:

Disposals percentage per annum (d) from year 5

		5	10	15	20	25
Issue rate	$\frac{1}{2}$	6.9	4.5	3.6	3.2	2.9
per cent	$\frac{3}{4}$	9.9	6.6	5.4	4.7	4.4
per annum	1	12.7	8.6	7.0	6.2	5.7
(k)						

Thus it can be seen that if, for example, 0.75% of the share capital were issued each year then one could reasonably expect the ultimate proportion of the share capital that is in employees' hands to be under 9.9% and possibly significantly under that level.

P.G. Moore

APPENDIX II

FINANCIAL PARTICIPATION MODEL OF THE BUSINESS FIRM

Introduction

1. These notes are in two parts. Part A outlines the algorithm used for the model derived to investigate the effects of financial participation in a business firm. Part B gives the slightly modified and restricted model used for the current series of arithmetical studies, followed by some of the results derived from this modified model.

Part A

2. The model used for financial participation is in two sections, and has been devised in a form that is suitable for electronic computer calculations. Section 1 (attached) is a cash flow model on a year by year basis designed to show for each year the capital of the company, the profits, bonuses, dividends payable etc, and the effect of profits, bonuses and dividends on the growth of capital employed and share capital. The calculations necessary for each column are outlined in the notes attached to Section 1.

3. As shown in Section 1, the model incorporates no company taxation, it being assumed that the company concerned is growing at such a rate as to be able to write off all potential tax liabilities against new investment. (This assumption can be modified, if so desired, to assume a given average tax rate each year). Secondly, it is assumed that the shares are new issue shares, priced at n years profits per share at the time of issue. This assumption can again be modified to show the position if the bonus shares were purchased from existing holders at n' years profits per share at time of purchase.

4. Section 2 is an algorithm for determining bonus (either cash or shares, or both). This is based upon the principle of a certain proportion of the excess of the ratio of Added Value to Employee Costs above some defined norm being allocated to employee bonus. There is a smoothing system to spread

the bonus across years, and also some restrictions to avoid small cash payments, or share issues of a magnitude above some defined limit.

5. Both sections of the overall model have been put into a computer programme and are in use for calculation purposes.

Part B

6. For the illustrative tables in Part B, some simplifying assumptions have been made to trace the financial position of a series of hypothetical companies over 12 years. First, the rate of return on capital is assumed to be constant throughout at levels stated in each table. Secondly, the bonus for employees is a fixed percentage of profits each year and is equally split between cash and shares. If shares, the purchase price is based on three times the lastest years profits. (In some cases it is new issue shares, in others it is purchases from existing holders. In the latter case the purchase money is not retained in the company.) Thirdly, the dividend is 8 per cent per annum (in some cases based on share capital, in others on the shareholders total capital employed expressed on a per share basis). No fresh capital is injected into the company, other than by retentions.

7. In the tables that follow

Column (1) is the bonus rate, equally split between cash and shares, each year expressed as a percentage of profits.

Column (2) is the return on capital employed each year.

Column (3) is the rise in the capital held appertaining to the original shareholders over the twelve year period.

Column (4) gives the proportion of the total shareholding in issue that is held by the employees at the end of twelve years, assuming that the employees have continued to hold all the shares issued to them.

Column (5) gives the value of the shares held by those employees who were initial employees and remained with the firm over the twelve year period, expressed as a proportion of their employee costs (EC) taking the latter as equal to capital employed (CE). If the ratio of EC/CE is equal to λ, the corresponding figure in column (5) would be $1/\lambda$ times the figure given. For calculation purposes it is also assumed that EC rises year by year linearly with CE.

8. The individual tables given have the following characteristics:

Table B1 (i) Dividends are at 8 per cent based on total capital employed each year.

(ii) Bonus shares are purchased from existing original holders.

Table B2 As for Table B1, but with bonus shares as new issue shares.

Table B3 As for Table B1, but with the purchase price of bonus shares based on 3.3 times latest profits (in place of three times).

Table B4 (i) Dividends are at 8 per cent based on share capital employed each year.

(ii) Bonus shares purchased from existing original holders.

Table B5 As for Table B4, but with bonus shares as new issue shares.

Commentary

9. The figures below give the range of values obtained for each of the three indicators when moving from a base level of 10% bonus with 20% return on capital employed to a 14% bonus with 30% return on capital employed.

	Owners capital	Employee share of capital	Initial employees capital as % of EC
10% Bonus) 20% ROC)	238-302	0.18-0.20	0.39-0.44
14% Bonus) 30% ROC)	652-929	0.24-0.28	0.78-0.87

Thus the move from the lower bonus and lower ROC to the higher levels of both is highly beneficial to all the parties concerned.

10. The differences between the five cases considered in the tables are relatively small when compared against the changes noted in paragraph 9 above. Thus, considering original owners capital, it is lower after 12 years when bonus shares are purchased from the original owners (when they, however, have the use of the purchase money for consumption or investment elsewhere) as opposed to new issue shares when the money is effectively retained in the business. If re-investment for the capital released by purchase from original owners were allowed for, the differences vanish. Changing the purchase price from 3 times profits to 3.3 times profits makes a small increase in capital value, but it is not very marked.

11. The other two indicators considered in columns (4) and (5) of the tables vary only marginally in the various cases considered. In a very capital intensive firm it is noteworthy that substantial multiples of EC would be built up by employees within 12 years.

12. The extended version of Table B1 suggests that, even if a bonus rate of 16% were pledged against a return on capital of 30%, the gain in original owners capital from the base position of 10% bonus/20% ROC is extremely marked. The conclusion must be that a bonus scheme, in which the rate of bonus is tied to improvements in the return on capital, can be designed to be motivational to both the owners of capital and the employees concerned.

P.G. Moore

Section 1 Basic Financial Model

Year	Capital	Shares	Profits	Employee costs	Dividends	Bonus Cash (£)	Bonus Shares (£)	Retained	Cost per share	No. of shares from bonus	Capital carried forward	Shares carried forward
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1	C_1	$S_1 = C_1$	$k_1 C_1$	E_1	$D_1 = d_1 S_1$	b_1	r_1	$k_1 C_1 - D_1 - b_1$	$\frac{nk_1 C_1}{C_1}$	$\frac{r_1}{nk_1}$	$C_1' = C_1(1+k_1) - D_1 - b_1$	$S_1' = C_1 + \frac{r_1}{nk_1}$
2	$C_2 = C_1' + c_2$	$S_2 = S_1' + s_2$	$k_2 C_2$	E_2	$D_2 = d_2 S_2$	b_2	r_2	$k_2 C_2 - D_2 - b_2$	$\frac{nk_2 C_2}{S_2}$	$\frac{r_2 S_2}{nk_2 C_2}$	$C_2' = C_2(1+k_2) - D_2 - b_2$	$S_2' = S_2 + \frac{r_2 S_2}{nk_2 C_2}$
3	$C_3 = C_2' + c_3$	$S_3 = S_2' + s_3$	$k_3 C_3$	E_3	$D_3 = d_3 S_3$	b_3	r_3	$k_3 C_3 - D_3 - b_3$	$\frac{nk_3 C_3}{S_3}$	$\frac{r_3 S_3}{nk_3 C_3}$	$C_3' = C_3(1+k_3) - D_3 - b_3$	$S_3' = S_3 + \frac{r_3 S_3}{nk_3 C_3}$
4	-----	----	---	--	-----							
5	-----	----	---	--	----							

<u>Inputs required:</u>

Inputs required:	C_i and c_i	$i = 2, 3$ .....
	k_i	$i = 1, 2$ .....
	E_i	$i = 1, 2$ .....
	d_i	$i = 1, 2$ .....
	S_i	$i = 2, 3$ .....

(See Notes on next page)

Notes on Basic Financial Model

(2) Capital is assumed to be £C_1 divided into C_1 £1 shares. In future years, the capital carried forward may be added to by fresh capital from outside of c_i.

(3) The shares are assumed to be of £1 nominal each. At the end of each year some shares are bought with bonus profits at n years profits purchase value per share; extra outside capital of c_i purchases s_i new shares.

(4) Profits are K_i C_i.

(5) Employee costs are E_i for year i.

(6) Dividends are at rate of d_i S_i.

(7) and (8) See separate bonus algorithm for calculation.

(9) Retained profits as cash.

(10) Cost per new share is n years profits per share.

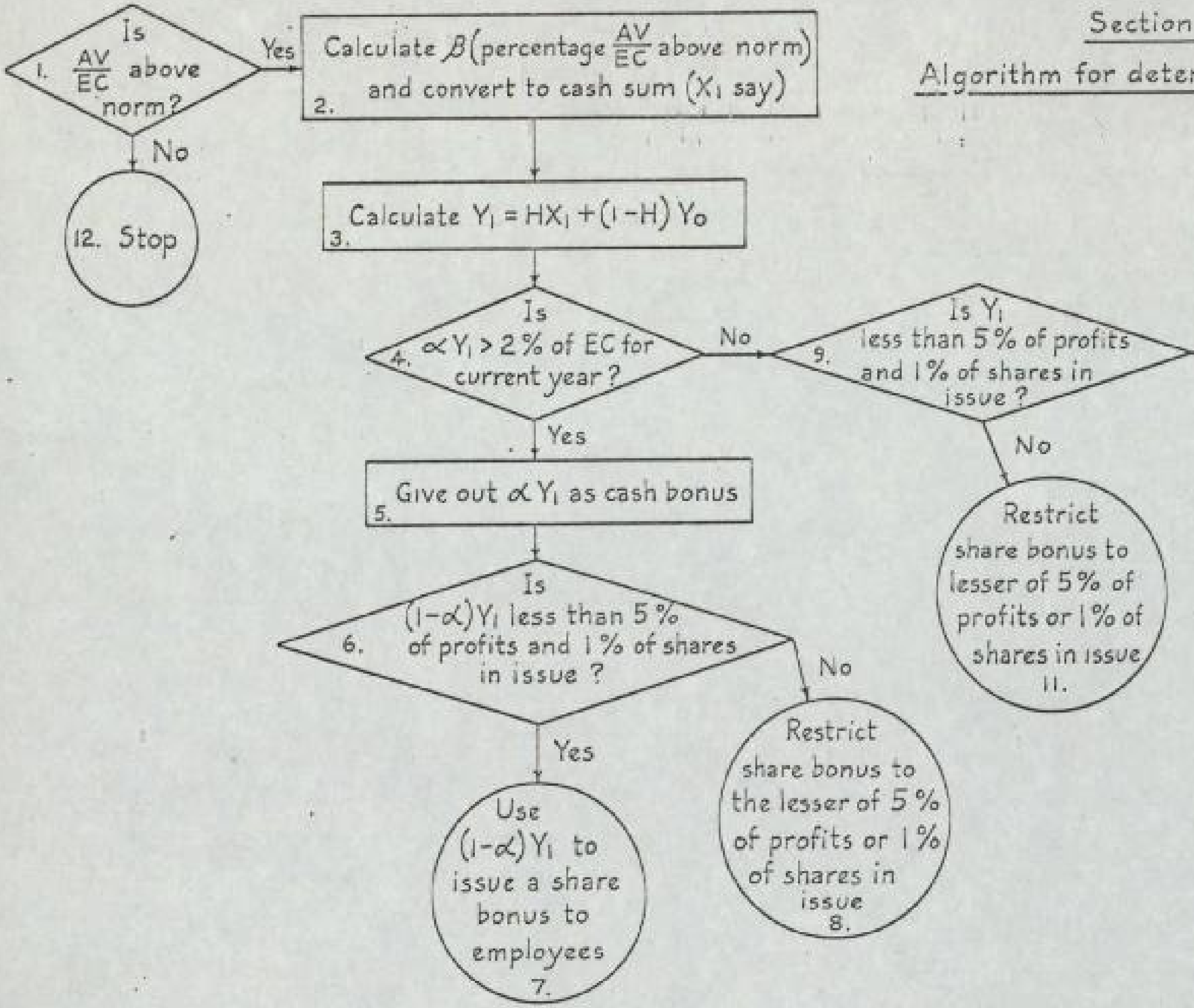
(11) Number of new shares purchased from bonus is (8) ÷ (10).

(12) Capital carried forward is (2) + (9).

(13) Shares carried forward are (3) + (11).

Section 2

Algorithm for determining cash and share bonuses



Notes

1. Current year is denoted by suffix 1, e.g. X_1.
2. AV = added value.
   EC = employee costs.
   P = profits.
   P + EC = AV.
3. Y = employee bonus.

Inputs Required

1. Norm for AV/EC.
2. β = allocated excess factor.
3. H = exponential smoothing factor.
4. α = split factor.

Bonus	Return on Capital	Original Shareholders Capital Increase Over 12 Years (%)	Employees Proportionate Shareholding After 12 Years	Initial Employees Capital Holding at end of 12 Years as Proportion of EC
(1)	(2)	(3)	(4)	(5)
10%	20%	238	0.20	0.42
	25%	478	0.20	0.53
	30%	850	0.20	0.64
12%	20%	205	0.24	0.50
	25%	419	0.24	0.62
	30%	747	0.24	0.75
14%	20%	175	0.28	0.57
	25%	364	0.28	0.71
	30%	652	0.28	0.85

Table B1

Dividends based on CE, share capital unchanged

Bonus (1)	Return on Capital (2)	Original Shareholders Capital Increase Over 12 Years (3)	Employees Proportionate Shareholding After 12 Years (4)	Initial Employees Capital Holding at end of 12 Years as Proportion of EC (5)
10%	20%	238	0.20	0.42
	22.5%	345	0.20	0.48
	25%	478	0.20	0.53
	27.5%	645	0.20	0.58
	30%	850	0.20	0.64
12%	20%	205	0.24	0.50
	22.5%	300	0.24	0.56
	25%	419	0.24	0.62
	27.5%	566	0.24	0.69
	30%	747	0.24	0.75
14%	20%	175	0.28	0.57
	22.5%	259	0.28	0.64
	25%	364	0.28	0.71
	27.5	493	0.28	0.78
	30%	652	0.28	0.85
16%	20%	147	0.32	0.63
	22.5	221	0.32	0.71
	25.0%	313	0.32	0.79
	27.5%	426	0.32	0.87
	30%	565	0.32	0.95

Table B1 Extended

Bonus (1)	Return on Capital (2)	Original Shareholders Capital Increase Over 12 Years ($) (3)	Employees Proportionate Shareholding After 12 Years (4)	Initial Employees Capital Holding at end of 12 Years as Proportion of EC (5)
10%	20%	275	0.1808	0.40
	25%	562	0.1808	0.50
	30%	1015	0.1808	0.61
12%	20%	249	0.2117	0.46
	25%	514	0.2117	0.58
	30%	933	0.2117	0.70
14%	20%	224	0.2417	0.51
	25%	470	0.2417	0.65
	30%	857	0.2417	0.79

Table B2

Dividends based on CE, new issue shares

Bonus	Return on Capital	Original Shareholders Capital Increase Over 12 Years (%)	Employees Proportionate Shareholding After 12 Years	Initial Employees Capital Holding at end of 12 Years as Proportion of EC
(1)	(2)	(3)	(4)	(5)
10%	20%	246	0.1818	0.39
	25%	491	0.1818	0.48
	30%	872	0.1818	0.58
12%	20%	214	0.2181	0.45
	25%	434	0.2181	0.57
	30%	771	0.2181	0.68
14%	20%	185	0.2545	0.52
	25%	380	0.2545	0.65
	30%	678	0.2545	0.78

Table B3

Dividends based on CE, share capital unchanged,
purchase price 3.3 years profits

Bonus	Return on Capital	Original Shareholders Capital Increase Over 12 Years (%)	Employees Proportionate Shareholding After 12 Years	Initial Employees Capital Holding at end of 12 Years as Proportion of EC
(1)	(2)	(3)	(4)	(5)
10%	20%	259	0.20	0.44
	25%	517	0.20	0.54
	30%	914	0.20	0.65
12%	20%	225	0.24	0.51
	25%	453	0.24	0.64
	30%	804	0.24	0.76
14%	20%	192	0.28	0.58
	25%	395	0.28	0.73
	30%	702	0.28	0.87

Table B4

Dividends based on share capital, share capital unchanged

Bonus (1)	Return on Capital (2)	Original Shareholders Capital Increase Over 12 Years (%) (3)	Employees Proportionate Shareholding After 12 Years (4)	Initial Employees Capital Holding at end of 12 Years as Proportion of EC (5)
10%	20%	302	0.1799	0.41
	25%	611	0.1799	0.51
	30%	1096	0.1799	0.61
12%	20%	274	0.2114	0.47
	25%	560	0.2114	0.59
	30%	1009	0.2114	0.71
14%	20%	248	0.2417	0.53
	25%	514	0.2417	0.67
	30%	929	0.2417	0.81

<u>Table B5</u>

Dividends based on share capital, new issue shares cc Mr. Lankester

10 DOWNING STREET

MLS

16 September 1981

Dear Peter,

I attended the Copeman/Moore meeting on "team enterprise and the job securing pay deal." I am afraid that many of the claims were wildly exaggerated. And much of the presentation was on a level little more than kindergarten. But even so, I think they had some ideas worth considering.

In particular, I think there is a very good argument for vesting similar to the way in which it is used in the United States. We have already argued in other contexts that vesting of pension rights is important for mobility. This may be preaching to the converted, but I think it is useful.

A second proposal is the removal of the £1000 per annum limit on appropriations of tax relieved shares. Copeman and Moore suggest that we go towards the United States system. And I can see considerable benefits in that.

A third point is the removal of shareholder approval for employee share schemes. This is a Stock Exchange matter, but I guess they would be amenable to a little persuasion. I think Copeman and Moore are right. There has been no abuse of this even mentioned in the United States. I am much more nervous about their suggestions for changes in Corporation Tax. What they have in mind seems to me to be a mare's nest of problems.

Finally, a little nostalgia. They deal with cases where the real rate of return on capital varies between 20 and 30%. If only we had problems like that!

Yours ever

Alan

P.J. Cropper, Esq.,
HM Treasury.

VLB

10 DOWNING STREET

THE PRIME MINISTER

3 August, 1981

Dear Mr Copeman.

Thank you for your letter of 24 June enclosing the paper on "Capital Rewards". I am glad to see that you are keeping up your good work in this field.

As you know, we made a number of improvements to the 1978 Profit Sharing Scheme in last year's Finance Bill, along the lines we had promised in the earlier debates and at the General Election. I think the scheme now commands very wide political assent.

It is very interesting to read that you are now developing ways of presenting the concepts opened up in the 1978 and 1980 legislation, and that you have been bringing in computers for this purpose.

I understand that Geoffrey Howe is asking his people at the Treasury to be in touch with you with a view to a presentation, jointly with the Department of Employment. I shall try and ensure that somebody from my office here also attends.

Yours sincerely

Margaret Thatcher

George Copeman, Esq.

→ PM to see TL has seen

Mr Lankester
Mr Vereker
KJ has moved since the MISC 14 discussion.
BJ 17/12.

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

16 December 1980

The Rt Hon James Prior MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1

Ind Pol

Dear Jim.

EMPLOYEE INVOLVEMENT

1 I have been giving further thought to our discussion on this subject at MISC 14, particularly whether the proposed NEDC initiative is really a sufficient response to the problem. I understand that initial soundings of the TUC suggest that little more than a monitoring exercise may result and this reinforces my feeling that we need to re-think the issues.

2 There are strong arguments for a more direct Government lead. Any long-term improvement in our industrial relations will require a readiness by management to inform the shop-floor and to consult on important decisions which affect them. Wider acceptance of the economic realities also depends critically on effective communications in industry; our own campaigns will not be enough. Yet such evidence as we have suggests that management performance in this area is at best patchy and that the impetus sparked off by fears of Bullock has been lost. The CBI and others in their various ways are doing their best but seem to be making little real impact, nor do these efforts add up to a coherent approach. At the same time we can all see the force of Michael Heseltine's warning that, unless we act, industry will be faced sooner or later with legislation of a damaging kind. There is your own forecast that we shall in any case eventually have to react to pressure from the Community.

3 I recognise the major obstacles to legislation. There is our pledge and the difficulties in persuading our own supporters of the case as well as our view that additional legislation in general, and legislation affecting an employer in particular, should cease to proliferate as it has tended to do. The CBI can also be expected to be hostile. We shall need to make clear that we are getting right away from Bullock and reassure them that employers would not be placed in a strait-jacket.

/We shall ...

We shall also need to deal with their particular worries e.g about secrecy. But employers should be as alive as anyone to the dangers of doing nothing and if we present our case properly and with conviction the difficulties should not be insurmountable. We should of course avoid implying that limited moves on employee involvement would in any sense be a trade-off for further trade union reforms. We would need to argue that such action is sensible <u>in its own right</u>, providing a necessary balance in our overall approach to the rights and obligations of management and workers.

4 I should be glad to know what you think and to discuss if you feel this would help. If you and other colleagues do favour a more positive commitment we would clearly need to think hard about form and timimg.

5 I am copying this letter to Geoffrey Howe, Michael Heseltine and John Hoskyns.

Ever.

Keith

Dear Minister 2

This concludes the discussion on shares for employees. (unless Mr Heseltine objects).

[initials] 1/8

MR

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

28 July 1980

The Rt. Hon. Sir Keith Joseph, MP.,
Secretary of State for Industry

Dear Keith

SHARES FOR EMPLOYEES

As we seem now to be generally agreed on our approach to promoting employee shareholding in privatisation cases, I thought it would be helpful to set out, in the light of the various exchanges of correspondence, where we now stand.

Leaving aside Michael Heseltine's point about the £50 limit on free share offers, which I come to below, our approach is that a cash ceiling will be set on the amount of the disposal proceeds to be devoted to encouraging employee shareholding, equivalent to 5 per cent of the expected gross proceeds. Where 50 per cent of the equity is to be sold this should buy a minimum 2½ per cent employee shareholding and this figure could be increased reflecting the distribution between free offers and one for one schemes. I proposed that within the cash figure the precise balance between free offers and one for one offers would lie with the sponsor Ministers concerned to allow them to take account of the particular circumstances of each industry subject to confining free offers to £50 a head. No doubt E(DL) will want to consider proposals from sponsor Ministers in relation to particular flotations as they occur in order to ensure that broad consistency is maintained and no unwelcome precedents are set.

Michael Heseltine has suggested that there should be no limit on the size of free offers within the 5 per cent ceiling. There are of course differences of view about the relative importance of free offers and one for one schemes in obtaining the commitment of employees to their enterprise which our policies are designed to foster. My proposals were therefore designed to leave maximum choice to individual Ministers on this point. But I remain convinced that we need to maintain a limit on the level of free offers. £50 is reasonable in terms of costs and takes account of

/the interests

the interests of the taxpayer in relation to the disposals exercise. The free offer will inevitably be the most publicised element in our proposals and, unlike Michael, I think that wide differences in this element will give rise to criticisms on grounds of equity. It would be difficult to defend this by reference to the total cash cost as he suggests. That will vary from case to case and, in any event, the particular elements in the package will appear of unequal value to the recipient. Since no sponsor Minister has so far wanted to go further than £50 I hope that we can agree to leave the policy on this on the basis I have proposed.

I am copying this letter to the Prime Minister, other members of E(DL), Norman Fowler and Sir Robert Armstrong.

The press and public reaction to the British Airways proposals has been far from adverse. They have certainly been seen as much more than "a token"

GEOFFREY HOWE

Original on CR

10 DOWNING STREET

THE PRIME MINISTER

7 July 1980

Dear Tim,

Thank you for your letter of 13 June enclosing correspondence from the Chairman of the Staff Side Joint Negotiating Panel of the Nuclear Power Company.

I am pleased to see further evidence that we are right in thinking employee shareholding will be widely accepted. It is important to follow up the Manifesto commitment to expand and build on existing schemes for encouraging employee share ownership, and the provisions in the Finance Bill to encourage profit sharing and share option schemes are an important step in this direction.

It is of course up to the management of private sector companies to decide whether to take advantage of the incentives in the Finance Bill and put forward schemes for employee shareholding. In the case of the National Nuclear Corporation, which is not of course a nationalised industry, there are likely to be other major preoccupations at present including the need to make a success of our thermal reactor programme. But I can assure you that in the public sector, in cases where we are pressing ahead with our policy of privatisation, we will continue to look for ways of making shares available to employees.

Yours ever

Margaret

Tim Eggar, Esq., M.P.

Ind PSI

CONFIDENTIAL

cc HO C.Sec. jfh
FCO CO
Ind
LPO
Emp
MAFF
Trade
Eng

10 DOWNING STREET

From the Private Secretary 10 March 1980

Profit Sharing and Share Options

The Prime Minister has read the Chancellor's minute of 5 March on the above subject. She had also read the letter of 22 January from the Secretary of State for Industry, the letter of 14 February from the Secretary of State for Employment and the letter of 22 February from the Secretary of State for the Environment.

The Prime Minister has asked me to say that she is content with the Chancellor's proposals.

I am sending copies of this letter to the Private Secretaries to members of E Committee and to David Wright (Cabinet Office).

T.P. LANKESTER

A.J. Wiggins, Esq.,
HM Treasury.

CONFIDENTIAL

Prime Minister

The Chancellor was given discretion to reach a final decision on this.

Content?

Yes. TL 7/3

MT

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

PRIME MINISTER

PROFIT SHARING & SHARE OPTIONS

See minute at Flag A

Following our discussion in E Committee in January of the report by officials on profit sharing and share options (circulated under cover of E(79)76) I have been considering what changes I can introduce in this year's Finance Bill. I am now writing to let you know my decisions.

2. First, I shall be proposing improvements to the existing 1978 profit sharing legislation in line with the recommendations made by officials. These improvements which will take effect from 1980/81 will mean that the monetary limit on shares appropriated to a scheme participant in any one tax year will be raised from £500 to £1,000 and that the retention period will be shortened from its present five years to two years. The tax charge up to the release date - which will be the seventh instead of the tenth anniversary of appropriation - will be tapered.

3. Second, I shall be proposing tax reliefs for approved savings-linked share option schemes. These schemes, which will be generally available to employees, will be modelled very much upon the 1973 provisions, although for the savings link we intend to set up through the Department of National Savings a new SAYE arrangement linked exclusively to share

option schemes. This will permit monthly contributions up to a maximum of £50, to which will be added on the fifth anniversary of the contract a bonus equal to twelve times the monthly contribution or, if the money is left for a further two years, an additional bonus of like amount. A maximum contributor would thus have at the end of 5 years £3,600 , or at the end of 7 £4,200, at his disposal to exercise his option. No tax relief will be given for the contributions, but the bonuses will be tax free - and of course there will be no income tax charge upon the growth in value of shares between the grant and exercise of the option.

4. I believe that the changes I intend to make to the 1978 profit sharing provisions will be generally welcome and, I hope, will be helpful particularly to those involved with privatisation schemes. I have not felt able to go beyond £1,000 for the annual limit on shares appropriated because of the real costs involved and because I regard it as important that the 1978 provisions should continue to be seen as having the widest possible application. Here I find myself in agreement with both Keith and Jim, but not with Michael, whose letters to me you will have seen. Quite apart from the costs of doing so, I think that to introduce limits - particularly if they were in some way "graded" - of the order suggested by Michael would change the essential character of the 1978 arrangements and to be counter-productive to our efforts to ensure the widest possible take-up.

Flags B.C and D

5. After careful consideration, I have decided not to revive the 1972-type share option schemes. I recognise that there are arguments in favour of it and that many regard it as an essential part of the remuneration package

for senior executives. However, I think it would be unwise to revive any such arrangements so soon after last year's reductions in the top rates of tax. I have however asked Inland Revenue officials to consult with various representative bodies in order to assess the genuineness and effectiveness of these schemes with a view to considering reviving them in another year.

6. I am copying this letter to other E Committee colleagues.

(G.H.)
5 March 1980

SECRETARY OF STATE FOR THE ENVIRONMENT

Ind Pers

2 MARSHAM STREET
LONDON SW1P 3EB

CONFIDENTIAL

My ref:

Your ref:

22 February 1980

Dear Geoffrey

R 25/2

PROFIT SHARING AND SHARE OPTIONS

I have considered this whole matter further and I would like you to have my views.

The 1978 scheme with its limits of £500 per annum even if increased to £1000 per annum is a scheme of de minimis value for the key people in any company. In order to seriously motivate the people concerned they would have to see capital sums that would affect their behavioural pattern. To suggest that they should have the opportunity to accrue £1000 a year when most of these people would have received gains significantly in excess of this simply from the act of home ownership would have little if any effect. It may well be that looking back in the new economic regime of the next decade expectations will have changed dramatically; but we are concerned with the perceived expectations of today. A middle manager with a house which he purchased for £25,000 two years or so ago might easily have accrued a £15,000 windfall gain already and he is simply not going to work differently or invest differently if the upside benefit accrued is in terms so small as a proposed £1000 per annum.

If you want incentives the maximum annual allocation for senior and middle management has to be of a different order of magnitude and I would suggest it has to be at least £10,000.

I would not concern myself at this moment with variations of the 1972 scheme if you get the ceiling under the 1978 scheme right. You will appreciate that these figures are ceilings and, at the discretion of the company, it should be possible to vary these figures downwards, say to £500 per annum, so that different groups of employees can benefit in relation to their contribution to the company's success.

The virtue of the 1978 provision is that schemes under it have to be approved in advance. This should go a long way towards avoiding the excesses of creative finance.

CONFIDENTIAL

I am sending a copy of this letter to E Committee colleagues.

Yours ever

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

CONFIDENTIAL

2nd Pol

SECRETARY OF STATE FOR EMPLOYMENT

~~ST JAMES'S SQUARE LONDON SW1Y 4JB~~

CAXTON HOUSE
TOTHILL STREET
LONDON SW1H 9NA

Telephone: 01 213 6400
Switchboard: 01 213 3000

15/2

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON SW1P 3AG

14 February 1980

Dear Geoffrey

PROFIT SHARING AND SHARE OPTIONS

I should like to lend my support to Keith Joseph's view that an expansion of the 1978 profit sharing scheme along the lines you have proposed ought to have a high priority for inclusion in the forthcoming Finance Bill. Such an expansion would not only, as Keith rightly suggests, fulfil our Manifesto commitment and assist in the privatisation exercise; it would also be a strong public signal that we are serious in our intention to promote wider employee involvement in its broadest sense. And in the longer-term wider share ownership can, I believe, help to break down entrenched adversarial attitudes which are at the root of our poor industrial relations.

For the same reason, I am less keen on a revival of the 1972 share options legislation. I recognise the need to encourage enterprise, but I am not confident that improvements in the 1978 scheme would significantly dampen the controversy to which revival of the 1972 scheme would give rise. It would be presented as likely to be divisive and therefore to have the opposite effect on attitudes which improvements in the 1978 scheme are intended to promote.

I would hope, therefore, that in framing any proposals in this area for the Finance Bill you continue to follow the order of priorities you recommended to E Committee last month and which the Committee broadly endorsed.

I am copying this letter to other E Committee colleagues.

Yours

Jim

hd PM

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

22 January 1980

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW 1

Dear Geoffrey,

PROFIT SHARING AND SHARE OPTIONS

Following the discussion at E Committee last week, I thought it would be helpful if I wrote and set out my own order of priorities in this area.

Firstly, I regard an expansion of the existing 1978 profit sharing scheme along the lines you have suggested as an essential component of the forthcoming Finance Bill, both to fulfil our Manifesto commitment and to achieve one of our objectives in the privatisation of British Aerospace, namely, to secure the widest possible take-up of shares by employees. To enable BAe to make the necessary practical arrangements, it would be desirable to have the earliest possible announcement, although I appreciate the difficulty in making statements in this area in advance of your Budget statement.

Secondly, I should like to see in this Finance Bill a revival of the 1972 share options legislation. It is essential to encourage greater enterprise within medium and large companies, as well as in small firms: although reductions in the top rates of income tax have been useful in this way, it is the prospect of substantial personal capital accumulation which will motivate enterprise on the part of key people, in medium and large as in small firms. That is why I attach great importance to reviving the 1972 scheme. I believe the cost in lost revenue would be negligible in budgetary terms. I do not favour much widening, as compared with the 1972 scheme, since its aim is to appeal to the relatively few individuals whose efforts directly affect the firm's performance in a substantial way: it is not really similar in purpose to general employee share participation schemes aimed at a widespread identification of workforce with the firm. Although reintroduction of the 1972 scheme might be controversial, I do not think this need be over-riding if it is balanced by an increase in the limits for the 1978 scheme which we all agreed should go ahead.

/Although ...

Although I regard as desirable the proposals for expanding further the 1978 scheme by giving tax relief for share acquisitions, and for reintroducing the 1973 savings-based share options scheme, I do not think in the present circumstances these command the same priority as the two measures above and should not be considered for the 1980 Bill.

I am sending a copy of this letter to E Committee colleagues.

Yours,

Keith

CONFIDENTIAL

Ind Pol

Ref. A0915

PRIME MINISTER

Employee Participation

(E(79) 76)

BACKGROUND

This paper has its origins in the "Hoskyns Exercise", and in separate work which the Inland Revenue have been doing since the Election. It consists of an interdepartmental report and a paper by the Chancellor of the Exchequer making some slightly different proposals.

2. The report considers the 1978 profit sharing scheme introduced by the last Government, the two profit sharing and share options schemes introduced by the last Conservative Government, and cancelled by the incoming Labour Government in 1974, and some related proposals. The Official Group's proposals are in their paragraphs 21-23. The Chancellor wants to go further than officials recommended; but in slower time because we cannot afford to do it all at once. His proposals are in his paragraph 9. He also lists a number of other measures (paragraph 6) which were not in the interdepartmental report but are being looked at separately. Paragraph 6 is only a bit of scene-setting; he does not seek decisions on it.

3. The main proposals are straightforward budgetary material, which would normally be dealt with by the Chancellor alone. They come to the Committee because they deal with proposals raised by other Ministers, and because of their connections with "privatisation" of nationalised industries. This is helpful, because it allows Ministers to decide whether schemes of this kind should have priority over, for example, the small firms package which is the next item on the agenda - if indeed there is enough room in the next two or three Budgets for either set of proposals.

HANDLING

4. You will want the Chancellor of the Exchequer to introduce the paper and then to seek comments from the Secretary of State for Industry, the Secretary of State for Trade and Sir Kenneth Berrill. Other Ministers may wish to speak. I suggest you take the discussion in the following order:

(a) Does the Committee agree that the 1978 legislation should be extended on the lines proposed in paragraphs 4-12 of the officials' report? This seems the least contentious proposal; the first-year cost is relatively small; it is consistent with the previous Government's general approach and cannot be seriously attacked by them; it could be applied to "privatisation". (Do Sir Keith Joseph, Mr. Howell or Mr. Nott wish to comment? Sir Keith Joseph may want to give a preview of these measures in the Committee Stage of the Aerospace Bill.) The Chancellor divides these proposals into two: he supports more generous treatment for profit sharing as top priority - see his paragraphs 4(i) and 9(i) - but puts their extension to cover share participation schemes "some way off" - see his paragraphs 4(iii) and 9(iii).

(b) Do Ministers agree with the Group of officials that a revival of the 1972 "top hat" provisions would be counter-productive? This was Sir Keith Joseph's proposal. The arguments for and against are set out in paragraphs 15 and 16 of the officials' report. The Official Group came down against. The Chancellor (paragraph 2 of his paper) would like to revive the scheme, but thinks it would attract too much criticism at this juncture. Does Sir Keith Joseph agree?

(c) Do Ministers agree that the 1973 SAYE provisions, for financing share purchases in the employing company, should be revived? The Group (in paragraphs 17-19 of their report) gives it lower priority than the extension of the 1978 scheme. The Chancellor (paragraph 4 of his paper) puts it second on his list. Do Ministers agree? If so, are they content that the Chancellor should sort out the remaining details (paragraph 20 of the official report).

CONCLUSIONS

5. The Chancellor asks for agreement to his order of priority, not a final decision that all these proposals should go ahead this year. The conclusion might therefore be:

(i) To agree with the Chancellor's order of preference as in paragraph 9 of his paper viz. the more generous rules for the 1978 profit sharing scheme; reintroduction of the 1973 provisions on share options and SAYE; and in due course extension of the 1978 scheme to share participation.

CONFIDENTIAL

(ii) To note the other proposals bearing on wider share ownership, noted in the Chancellor's paragraph 6.

(iii) To agree with the Chancellor that the 1972 "top hat" provisions should not be pursued for the present.

RtA

ROBERT ARMSTRONG

11th December, 1979

REPORT OF THE INTERDEPARTMENTAL GROUP ON FISCAL ASPECTS OF THE STRATEGY EXERCISE

PROFIT SHARING AND SHARE OPTIONS

SUMMARY

Introduction (paras 1-3)

This report examines the case for extending the 1978 profit sharing provisions and for reintroducing tax incentives for share option schemes.

Extending the 1978 legislation (paras 4-12)

The report argues that the extension of profit sharing should encourage wider share-ownership and greater employee participation - with beneficial effects on workplace relations between employer and employee. The report argues that the 1978 provisions should be made more generous, and should be extended to apply to public offers of shares, including those associated with the privatisation of nationalised industries. The cost depends on take-up, which is difficult to predict: a rough estimate might be up to £400m a year after a few years.

Share option schemes (paras 13-19)

The report recommends against the reintroduction of incentives for "top hat" share option schemes on the lines of legislation introduced in 1972 (paras 14 to 16). This would be politically controversial and could damage workplace relations.

However, the report recommends in favour of reintroducing provisions to encourage savings-linked share option schemes on the lines of legislation introduced in 1973. This would constitute a further incentive for employee participation, and should again facilitate the privatisation exercise. The additional cost of these provisions could eventually be £100m a year. But priority should be given to the extension of the 1978 legislation.

PROFIT SHARING AND SHARE OPTIONS

Introduction

1. This is a report by an interdepartmental Group of officials - set up as part of the strategy exercise - to examine ways of providing further tax reliefs to encourage profit sharing and employee participation. Two further reports by the same Group cover a number of tax proposals directed towards investment in small firms.

2. The Group met under Treasury Chairmanship and included representatives from a wide range of Departments, the No.10 Policy Unit, the Central Policy Review Staff and the Bank of England.

3. The Group has considered in particular the possibility of:

(i) Extending the 1978 tax incentives for profit sharing.

(ii) Introducing new tax incentives for share option schemes on the lines of either the 1972 provisions (mainly limited to directors and senior executives) or the 1973 provisions (linked to SAYE contracts and open to more or less all employees in a company).

In the review, special attention was paid to the needs of privatisation. The objective was to devise schemes which may be used to facilitate the sale of shares to employees on the privatisation of various nationalised industries (the proposed arrangements for which vary from industry to industry).

Extending the 1978 legislation

4. The Government's Election Manifesto said: "we will expand and build on existing schemes for encouraging employee share ownership".

5. Limited incentives for profit sharing were introduced in 1978. The legislation provides that when the trustees of an approved profit sharing scheme allot shares to a participant, the usual income tax charge on the value of those shares does not apply. In particular, if the shares are held for 10 years, then no income tax is charged at all; while, if the shares are retained for between 5 and 10 years, the charge is tapered. The value of shares allotted to any one individual in any single tax year must not exceed £500.

6. The case for improving the existing arrangements for employee share ownership is that it should encourage a wider take-up of shares, which, in turn, should lead to a closer identification of the interests of the workforce with those of their employing company - with beneficial effects for productivity and industrial relations. It should, in particular, improve the general workplace atmosphere and help minimise restrictive attitudes.

7. In practice, the achievement of these kinds of benefits may take time to come through. In a large firm, the actions of individual members of the workforce are likely to be too remote to affect the overall performance of the company - and in these circumstances it is difficult to see that the employee shareholder would have much incentive to improve his own work performance. Moreover, employee share schemes are not costless to the company; they have to be paid for somehow, either out of retained profits (which will affect company liquidity), or by increasing prices, or by the dilution of existing share ownership. Finally, it may be undesirable to encourage an employee to put all his eggs in one basket, tying up in one company both his job and his savings particularly where there is doubt about the future performance of the shares. These arguments point towards the advisability of avoiding over-generous concessions in this area.

8. At the same time, there is a case for broadening the existing incentives for employee share schemes, particularly by providing a wider choice of possible arrangements. The aim should be to have a number of schemes which together offer a range suitable for the differing circumstances of individual firms, and, at the same time, provide sufficient flexibility to cover cases where the nationalised industries are privatised. The recommended package would cater for 4 main approaches to profit sharing. In brief, the circumstances covered would be:

(a) The issue of free shares as part of a continuing profit sharing scheme. The value of the shares would not attract income tax.

(b) The issue of free shares to employees on privatisation (or on a once-for-all basis), with the same income tax concession.

(c) Purchase at the market price, but with income tax relief provided to the purchaser, related to the cost of the purchase.

(d) A preferential issue at a reduced price, combined with income tax relief on the purchase as in the previous case.

Categories (a) and (b) are covered by the present legislation, (c) and (d) are the extensions.

9. In each case, the shares would have to be retained in trust for a period. This could be rather less than the 5 years retention period under the 1978 legislation. On balance, the Group recommends:

(a) A ban on the sale of shares held for 2 years.

(b) An income tax charge on 100 per cent of the original value of the shares (or the sale proceeds if less) on sales in years 3 and 4.

(c) An income tax charge on 75 per cent, 50 per cent and 25 per cent of the original share values (or sale proceeds) for sales in years 5, 6 and 7 respectively.

(d) No income tax charge on shares sold after 7 years.

10. The Group also recommends that an overall limit should be placed on the value of shares qualifying for tax concessions in any one year. It is suggested that this limit should be set at £1,000 per annum (as compared with the present £500 limit under the 1978 legislation). Whilst it could be argued that this limit might be extended in certain circumstances - for example, for a once for all issue of shares on privatisation -it was generally felt that £1,000 was sufficiently generous and that no exceptions should be made.

11. Directors and higher paid employees are taxable under the 1976 Finance Act on the value of loans from employers at less than a commercial rate of interest. The acquisition of shares at an under-value, or of partly-paid shares, may also be treated as an interest-free loan for this purpose. The Group recommends that if the 1978 legislation is extended to give relief for share purchases, there should be comparable relief from tax on the benefit of such loans by employers to assist withthe purchase of shares.

12. The cost of these proposals would obviously depend on the limits set and the take-up, and is difficult to determine. But if the proposals prove attractive to companies and employees, they could after a few years involve revenue losses of £400m a year or more. This is a very rough estimate, based on the assumption that about five million employees are

allotted £300 worth of shares each every year. This will be in addition to the cost of the 1978 provisions which could eventually reach £100m. The potential cost of the new proposals could be reduced by making the details of the scheme somewhat less generous.

Share option schemes

13. A rather more sophisticated method of encouraging employee share ownership is to give directors and employees an option to buy the company's shares at some future date at a price fixed at the time the option is granted.

14. The 1972 "top hat" provisions. Under provisions introduced in 1972 (and ended in 1974), fiscal incentives were provided for share option schemes designed to encourage the take-up of shares by directors and senior executives. Assuming the scheme satisfied certain conditions, there was no income tax liability (though there could be a Capital Gains Tax liability) on the difference between the market value of shares when acquired and the favourable price paid under the option. One of the conditions for the approval of such a scheme was that the options given to any one individual should not exceed four times his annual salary. The provisions meant that very generous tax reliefs - running into many thousands of pounds - could be available to participants.

15. The Secretary of State for Industry has suggested reviving the 1972 legislation or something near to it. His view is that, while much of the thrust of the Government's proposals for encouraging enterprise lies within the small firms field, it is no less important to ensure that existing medium sized and large firms make the most of the entrepreneurial talents within their organisation. The shift towards entrepreneurship within such firms and away from bureaucratic styles of management, could, he suggests, combine with existing market positions and manufacturing facilities to create a major source of innovation and enterprising activity. A share option scheme on the 1972 model would provide in effect an incentive to the relatively few people in a company who can individually affect its fortunes, and motivate them by a prospect of substantial capital accumulation. The scheme offers one of the few means available to achieve this kind of objective.

16. A scheme based on the 1972 legislation would raise some difficult presentational problems, even though the revenue cost would be likely to

be quite small. It would appear to run counter to the Government's general policy on perks and would be seen as directed to those who have benefited from the reductions in higher rate tax. The scheme would almost certainly be politically controversial, and would therefore undermine the improvement in workplace relations that is one of the main objectives of the extension of the profit sharing legislation discussed in the previous section. The Department of Industry would favour the introduction of such a scheme. The majority of the Group believes, on the other hand, that the scheme could well prove counter-productive, and therefore recommends against its reintroduction.

17. The 1973 SAYE provisions. Under provisions introduced in 1973 (and again ended in 1974), fiscal incentives were provided for share option schemes which were open to all full time employees in a company (so long as they were over 25 and had completed 5 years service). The feature of schemes set up under this legislation was that each participant had to save through an SAYE contract - of either 5 or 7 years. When the contract matured, the proceeds (savings plus terminal bonus) could be used to take up the share option, and income tax would not be chargeable on the difference between the market value of the shares when acquired and the favourable price paid under the option. There would be no income tax relief for the cost of the shares.

18. The Department of Trade regard the reintroduction of provisions on the lines of the 1973 legislation as a help to the privatisation programme. And the Group as a whole accepts that the reintroduction of these provisions would provide further encouragement for employee share ownership.

19. The Group recommends the introduction of tax incentives for share option schemes on the lines of the 1973 arrangements (in addition to the proposed amendments to the 1978 profit sharing legislation). However, if it is thought desirable to limit the overall amount of resources given to encouraging employee participation, priority should be given to extending the 1978 profit sharing legislation in the ways discussed earlier. The cost of reintroducing the 1973 provisions could eventually be £100m.

Recommendations

20. The Group recommends the following changes to the 1978 profit sharing legislation:

(i) An extension of the provisions to apply to (a) the issue of free shares as part of a continuing profit sharing scheme, (b) the issue of free shares to employees as part of the arrangements for any public issue of shares including those made on privatisation of nationalised industries, (c) purchase at the market price but with tax relief on the purchase, and (d) a preferential issue at a reduced price combined with income tax relief on the purchase.

(ii) A reduction in the period of time during which shares have to be held in trust and before which full income tax relief can be obtained. In particular, there should be a ban on sales of shares for two years, 100 per cent tax liability on shares sold in years 3 and 4, and 75 per cent, 50 per cent and 25 per cent tax liability on shares sold in years 5, 6 and 7 respectively. Thereafter, no income tax would be due on the sale of shares.

(iii) The limit on the annual take-up of shares under an approved scheme should be increased from £500 to £1,000.

21. The Group also recommends that the 1976 Finance Act be amended to exempt from tax the benefit of cheap loans made to assist with purchases of shares which would qualify for relief under the 1978 legislation if extended.

22. The Group also recommends, in principle, the introduction of provisions to encourage share option schemes linked to regular savings on the lines of the 1973 legislation. If there are problems of additional cost and legislative constraints, the Group recommends that priority be given to improving the 1978 scheme. Unless the 1973 scheme is introduced in April 1980, it may not be available for the privatisation exercise.

23. The majority of the Group recommends against the introduction of provisions to encourage share options for directors and senior executives on the lines of the 1972 legislation.

Treasury Chambers
Parliament Street
London SW1P 3AG

Ind Pol.

CONFIDENTIAL

Ref. A0298

PRIME MINISTER

Policy Towards Employee Involvement

(E(79) 40)

BACKGROUND

This paper complements the other two on the agenda to cover the Manifesto mention of employee involvement. It recommends Government encouragement not legislation. This seems to correspond to the Manifesto:

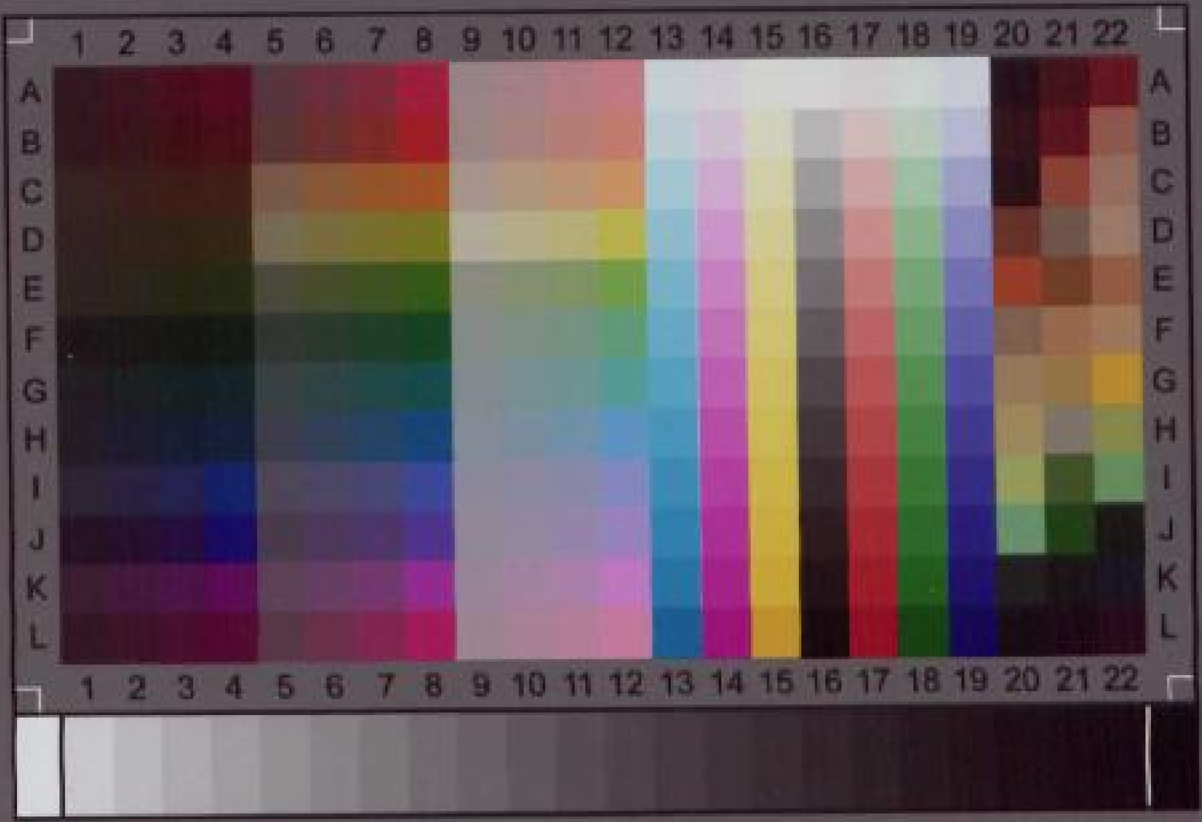
"It would be wrong to impose by law a system of participation in every company."

HANDLING AND CONCLUSION

2. Unless there is any dissent you might accept Mr. Prior's proposal.

(John Hunt)

25th September, 1979



IT8.7/2-1993
2009:02

Image Access

IT-8 Target

Printed on Kodak Professional Paper
Charge: R090212