

The Employee Voice from Employee Share Scheme Participants

David Craddock is a recognised authority in the UK and worldwide on employee share schemes, share valuation and employee share ownership economics and is the author of *Tolley's Guide to Employee Share Schemes*. In this article, David describes and analyses the beneficial contribution that company respect for “the voice” of the employees in voting and in participation makes to the effectiveness of direct employee share ownership.



The Employer Leadership for Employee Share Ownership

The initiative for the introduction of the employee share ownership project, in whatever form it takes, comes from the employer. Although best practice on the implementation is to consult the employees and generate employee interest, the development of the terms and conditions of the rules and the share scheme contracts, and indeed the supportive communications, is always employer-led. Yet, the intention is genuinely not one of an imposition; rather it is an invitation to share with the existing shareholders in the returns of income dividends and capital gains.

The Positive Motive for Wealth Creation

The employee share ownership project is, therefore, driven by positive motive. As identified by Louis Kelso, the founder of the modern-day ESOP, the intention is to lessen the differential between the growth in the capital value of the company and the growth in pay for the employees. Interestingly, this occurs by increasing the latter while, at the same time, the same initiative is intended to increase the former. This is, in essence, the genius of employee share ownership. Furthermore, it is intended to forestall any negative employee voice that traditionally has been expressed through industrial unrest, i.e. strike action, work-to-rule, protests

and demonstrations that detract from business efficiency and productivity.

How is the Employee Voice Expressed?

The employee voice becomes effective through a dual expression as follows:

1. Through Voting Rights Attached to the Employee Shares

The identity of interest between the shareholders, management and the wider workforce is to establish, as closely as possible, an identity of share rights between the shares held by the shareholders and the shares that form the basis for the employee share scheme. Remember that, although the employee shareholders will always

be in the minority, attaching voting rights to their shares reinforces the respect given to the employees and encourages their “voting voice” to be taken seriously based on their “shopfloor” responsibility for output and productivity.

2. Through Employee Participation in the Daily Activities of the Business

The truly holistic appreciation of the concept of employee voice complements the “voting voice” with the “participation voice”, the latter given the opportunity for expression in the multiple human resources sister policies that support the effectiveness of employee share schemes. The effectiveness of this approach is evidenced by many key studies: the New York Gorm Winther Study in 1987, the US General Accounting Office Study in 1988, the Manchester Metropolitan University Study in 1991 and the Keele University School of Human Development Studies with Wedgwood from 1991 to 1992.

The Participation Voice Illustrated in a Case Study

1. The Case Study of Wedgwood

This case study is close to my heart as during the 1980s and 1990s I was the architect and implementer of the company’s highly successful employee share ownership programme and associated policies. The Wedgwood case study illustrates the effectiveness of the “participation voice” through the introduction of compatible human resources policies in support of the “voting voice”. Wedgwood operated the tax-approved profit-sharing employee share scheme trust, allowing every employee share scheme participant to indicate their voting preference, thereby



allowing the trustees to exercise their voting rights in accordance with the expressed employee voting preferences.

2. Care for the Employee Share Scheme

There is a principle in good coaching practice in football that says: “look after the ball and the ball will look after you”. The capacity of the employee share scheme to contribute to the output and productivity of the business depends on how the employee share scheme is profiled in the business through meaningful and relevant employee communications and supported

by the compatible participation policies. Give care and attention to the employee share scheme, therefore, and the compatible human resources policies and they will reap rewards for the company on output and productivity.

3. The Employee Communication Policy

The lubricant that gives maximum efficiency to the compatible human resources policies is the employee communication policy, delivered through direct and honest communications authorised by the Board of Directors and cascaded down through the organisation by suitably trained communicators.





The Compatible Human Resources Policies in the Wedgwood Case Study

1. Training and Development

The correlation between (1) the company's commitment to employee training and development and (2) the success of the employee share scheme to motivate and incentivise, is well documented in the empirical studies, notably in the Manchester Metropolitan University Study in 1991. The emphasis on the acquisition of knowledge and skills is essential to the value development of the company through enhanced output and productivity.

2. Quality Circles

A quality circle is the resolve to bring together a group of employees from a particular discipline within the company to seek solutions to work-related problems, recognising that the employees are closest to the practical operations of the business and, therefore, best placed to find the solutions to enhance the performance of the discipline in which they work.

3. Suggestion Boxes

A suggestion box is a practical motivation mechanism for encouraging employees to "voice" their opinions and ideas for business improvement through setting out their thoughts on a card which is then posted into an internal posting box. The company typically encourages the employees to identify themselves on their completed cards.

4. Fair Pay

All effective company relations with employees are predicated on the perception by the employees that they are paid fairly. The "participation voice" is encouraged through active employee

involvement in the job evaluation process, at the very least in the employees writing their own job descriptions, and potentially in the determination of job factors derived from the company's values which themselves can be determined with employee involvement.

5. Performance Management

Assessment of employee personal performance is typically encouraged as a two-way dialogue between employee and reporting manager, identifying training needs, directing aspiration and career development, and empowering the employee.

6. Delegation Policy

Delegation is essential to enhance productivity and to facilitate the growth of the organisation, with its growth and success dependent on entrusting employees with problem-solving, decision-making and the management of other workers.

7. Works Committees

The works committee arrangement facilitates consultation with a representative group of employees on matters of a more overall corporate nature in comparison with the quality circles which are



more concerned with business and work processes.

The Implications of Companies Act 2006

The Companies Act 2006 specifically identifies factors to which the company's directors must give regard and that includes "the interests of the company's employees". The directors have a statutory duty to consider the interests of the employees when making decisions to promote the success of the company. Section 172(1) Companies Act 2006 establishes, therefore, by implication a wider definition of stakeholder to include employees, and indeed others, rather than restrict stakeholder to the company's shareholders. The natural corollary of these implications is to ensure that the collective "voting voice" of the employees is heard and recorded by the directors. Although the employees may be minority shareholders, individually and as a group, their voice is significant as they are the people in the company upon whom the production depends.

Section 172(1) Companies Act 2006: The duty to promote the success of the company

"A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to –

- the likely consequences of any decision in the long-term,
- the interests of the company's employees,
- the need to foster the

company's business relationships with suppliers, customers, and others,

- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct,
- the need to act fairly as between the members of the company."

Various Lessons from an Interlude into Ancient Times

1. Ancient Greece: Lesson on "Employee Voice"

Democracy has its origins in the city-state of Athens in Ancient Greece in the 5th century BC. The word "democracy" is derived from the two Greek words: (1) "demos" meaning "people" and (2) "kratos" meaning "power". So, voila! – "democracy" means "people power". Fast forward to 2025 and it is "empowerment" that is required for the employees within a commercial business. Note that it is not democracy that is being proposed

for the employee shareholders, and that in itself should take away any fears on the part of management in encouraging "employee voice" in its many manifestations. Rather the proposal is to empower the employees through participation. The likeness of the modern-day corporate setting to Ancient Greece is that the city-state of Athens operated a direct democracy for its population as those eligible to participate cast their votes directly and with a small electorate were able to exert a discernible influence. Modern day "liquid democracy" of course, operating through electronics in an adapted form for companies, is direct democracy; in other words, voting on every issue, as in Athens of ancient times.

2. The Judeo-Christian World: Lesson on Employee Share Ownership

In the Old Testament of the Bible, King David promoted the principle of partnership in the First Book of Samuel, Chapter 30. On returning home from war with the Amalekites, King David ruled, contrary to the wishes of his fighting forces, that



the support team at home should also join in the share of the spoils, just as the all-employee share ownership programme allows a share in the company's success through the "wages of capital" in respecting and crediting the contribution of all who are involved in the enterprise.

The Significance of Voting Rights for the Employees

1. Symbol of Trust

Although the "employee voice" to be effective must go beyond the "voting voice" to embrace the "participation voice", the "voting voice" is the totem expression, the emblem of the "employee voice", the symbol of trust from company to employee.

2. Compliance with Law

Failure to elicit the opinions of the employees when making decisions to promote the success of the company would technically, under Section 172(1) Companies Act 2006, constitute a flagrant disregard for the law through non-compliance in fact.

3. Failure in Corporate Governance

The failure at the Board of Directors not to consider the views of the employees constitutes disregard for the UK Corporate Governance. Furthermore, it is not wise for the Board of Directors not to know, as it were, about views held by the employees which, if known by the Board of Directors, would require action to promote the success of the company. Particularly interesting for the Board of Directors would be to know any differences between voting decisions made by the employee shareholders and voting decisions made by non-employee shareholders on the same issue and to investigate why those differences have arisen.

The Corporate Benefits of "Employee Voice"

The corporate benefits of "employee voice" emanate through the impact on the employee mindset:

- a. To enfranchise employees to higher levels of personal self-esteem.
- b. To empower employees to higher levels of personal productivity.

- c. To enrich employees to higher levels of prosperity through "the wages of capital".
- d. To embody employees into a sense of belonging and identity with the company.
- e. To encourage employees into contribution, creativity and entrepreneurship.

Operating as the minority shareholders does not in any way undermine the significance of the employee vote, either individually or collectively, given the importance of the workforce to the strength and, indeed, the survival of the company. The testimony of employee share ownership is that it operates most successfully when (1) within the context of the private company, there is a majority shareholder to stabilise the company's independence, to provide leadership and to authorise the employee share scheme initiative, or (2) within the context of the quoted company, the stability given by the institutional shareholders.

The "Employee Voice" as Freedom of Speech

In the USA, "freedom of speech" is enshrined in the First Amendment to the United States Constitution and adopted on 15th December 1791 as one of the ten amendments that constitute the Bill of Rights stating: "Congress shall make no law respecting an establishment of religion or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances." If the wise men of the Founding Fathers chose to give such prominence to freedom of speech it is worth giving significant thought to how that freedom of speech is best expressed.





In the corporate setting the “employee voice”, as contained within the “voting voice” and the “participation voice”, constitutes that expression. Subsequent writings over the centuries identify freedom of speech as the basis for other key freedoms, namely freedom of thought, freedom of assembly and freedom of communication, which are the freedoms that have the capacity to realise potential for the business and have the employees operating with an entrepreneurial mindset while employed by the company.

Final Thoughts on “the Employee Voice”

Voting rights for the employees is often the forgotten employee benefit. However, properly introduced and communicated to

employees, it has the capacity to deliver productivity increases for the company. Companies owned by EOTs are introducing the compatible sister human resources policies but, as with the far-sighted Wedgwood approach in the case study from the 1980s and 1990s, they fit equally well, indeed supremely well with direct employee share ownership.

On the precise mechanism for registering employee votes, modern technology facilitates ease of approach to the administration that is required to introduce a corporate form of “liquid democracy”. Remember: management neglects “employee voice” at its peril, whether through the “voting voice”, which will inform management and forestall future problems arising from discontent, or through the “participation voice”, which has the capacity for significant increases in productivity arising from the employee involvement and identification with the company. The power of the “employee voice” is supported by the lessons of history, the principles of political science and economics, and the empirical evidence derived from well-executed studies within the practical world of business and commerce.

David Craddock, the Founder and CEO of David Craddock Consultancy Services and David Craddock International, has been advising on employee share schemes and share valuation for over 40 years. He advises on every aspect of the implementation process, working personally with the client at each stage, and offers solutions and expertise on all the technical questions that require clarification during the entire consultation. David is also a member of the Steering Committee of The ESOP Centre, the Educational Director and Fellow of The ESOP Institute and the Technical Secretary and Senior Adviser to the Share Valuation Team that meets regularly with HMRC to discuss the interaction between employee share schemes and share valuation.



David Craddock welcomes an opportunity to discuss your Employee Share Schemes Initiative with you. Please feel free to contact David at:

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