



Esop Centre Members' Webclave 14 October 2021

The Centre hosted its fourth inter-active on-line members' networking event "The Employee Voice" on 14 October 2021. The 65-minute webclave, chaired by Professor Michael Mainelli, Executive Chairman of the Z/Yen Group, which operates the Esop Centre, provided an ideal platform for lively debates on key employee share scheme issues.

Thank you to Damian Carnell, Founder Director of CORPGRO, for introducing the topic at the event and for his work on the paper on which this discussion was based; and to Anna Watch, Senior Manager Corporate Governance, BT and Jennifer Rudman, Industry Director at EQ for giving the company and administrator viewpoints to spark further discussion.

Present:

Angela Gibson, Burberry

Anna Watch, BT

Charlotte Dawber-Ashley, FS Club

Damian Carnell, CORPGRO

Fred Hackworth, Esop Centre

Heather Simmons, Sonardyne

Jennie Webb, Prudential

Jennifer Rudman, EQ

Juliet Wigzell, Esop Centre

June Davenport, Shareworks

Laurie Olivent, Linklaters

Lynette Jacobs, Pinsent Masons

Matt Carter, JTC

Michael Mainelli, Z/Yen Group

Patrick Jones, Ocorian

Sarah Anderson, RM2

Simon Mills, Z/Yen Group

Stuart Bailey, Computershare

Suzannah Crookes, EY

Wendy Butcher, EQ

The Employee Voice

Chairman's Welcome

The subject of the employee voice arose from a steering committee discussion on how to move the purpose of employee share ownership forward. One of the points that arose was that we were ignoring the employee shareholders – noting that more transparency might create engagement and productivity, and that many employees undervalue the votes that they do have.

We ask for your views on whether this is something that might be added to company reports.

Damian Carnell – setting out the case for transparency on employee shareholder votes

The idea came from early days of Eso when there was much enthusiasm for both employee financial and management participation – companies were listening to the employee voice, respecting the employer-employee relationship.

In the 1980s the aim was to spread the word of employee share ownership. Now most companies have an Esop but the plans have become part of the background and the early messages have been lost along the way. Recently there have been questions about whether it is now time to re-think capitalism. Should we then, be thinking differently about Eso?

A forgotten benefit of Esops is the vote. The problem is that the Esop vote in the register is a very small percentage, so employee shareholders do not have much say. Could we though listen to the employee vote as a separate category and feed the outcome back to the board to compare with votes over time and with institutional investor votes? This could be a source of participation and information for the company.

There is a proviso – share options do not have a vote; so we would need some sort of synthetic vote to allow all Esop participants to have their voice heard.

Audience poll: Is it a good idea that employee share ownership votes should be separately counted and reported; provided this is practical?

- A) Yes – 70%
- B) No – 13%
- C) Don't know – 20%

Anna Watch – The Company View

BT has offered Esops since its privatisation in the 1980s. It offers a suite of plans which have good take up. BT engages with colleagues in a number of ways throughout the year (not just Esop participants), e.g. with employee surveys, and conduct an Esop survey each year to understand employee views e.g. why they do or don't participate.

In implementing Section 172 of Corporate Governance – “understanding what employees are thinking” (an issue that was brought up in Damian's discussion paper) - BT has a good test of that via a “Colleague Board”, which reports to the company board, has representatives throughout the business, and puts out frequent intranet invites for comment. These methods work well in seeing how engaged employees are.

Jennifer Rudman – The Administrator View

As a group, employees might be holding shares in a number of vehicles apart from Esops. Do we identify how many shares an employee has and then look at how they vote those shares on that whole diverse holding? (Some may be in a vehicle where the nominee may not be extending the vote to individuals). To track down all those shares would be a challenge.

As an example we can look at SIPs. The SIP rules determine whether the trustee can extend the vote to participants. None of EQ's current SIP trustee rules expressly prevent voting, but can state that votes “may” be extended, so the trustee then asks the sponsor company to direct them. Twelve percent choose not to allow SIP participants to vote, so we need to look at how to encourage voting in the vehicles we currently have. It is not usual practice for SIP trustees to report individual participants' voting instructions back to the company.

Getting all the information from the diverse institutions is the heart of where the administration issues lie.

Where employees can exercise their vote at the moment, SIP stats show that, on average, only four to six percent of participants vote and the number of SIP shares voted on is six to eight percent. So less than 10 percent of all SIPs achieve a level of voting of only 10 percent of participants. Overall employee voting is very low.

Companies need to tell employee shareholders that they have voting rights and that they want to hear what they have to say.

The logistical challenge needs to be balanced with what you are going to learn, unless you can encourage everybody to be voting in the first place, then balance the cost with the work being done.

We need to consider if there is an easier way of learning what employees are thinking; do you need to go as far as finding out exactly how many shares an employee has over multiple vehicles or just want to hear the employee voice regardless of how many shares held?

Panel Discussion

Initial Idea: A company should be able to say to an employee “you are in this plan which we are sponsoring and paying for, and we would like you to engage with us on this ownership journey, because, like an owner, you have a share and therefore have a say. And you have a vote.” This should then give an indication of sentiment.

AGM Resolutions: Do we think employees know what they are voting on at the AGM? Is this the best way of understanding what they are thinking compared to other methods of sharing this information? A number of resolutions are framed in a way that is obvious to institutional investors but not clear to employee and retail investors. But if we want employees’ participation and involvement in the capital of the company and genuinely listen to their voice, communications should be two-way, therefore asked in a way that is clear on the implication of how their vote might be considered in isolation.

Section 172: Listed companies are compliant, but there is a general expectation, beyond the letter of the law, of allowing employees to have a say and their interests being taken into account in corporate decision making. How are we doing that? Are we using all our best methods? We have a participation tool here – they have a right to vote if holding shares directly.

Synthetic Vote: This would look at all employees with no need to track back over every share held. Employees would have a chance to vote on a resolution even though it would not count in the actual vote, but you would be able to see from this, what the employees thought on it. The synthetic vote would be good to explore.

Future Voting

Role of technology: The technology now available gives more opportunity for people to take part.

New generation: EQ’s *Shareholder Voice* survey showed that younger generations have a different attitude to participation in shareholding and are more likely to vote. They are more interested in what the company is doing e.g. with ESG. Going forward, we are likely to have more people wanting to vote. This growing importance applies to younger companies, too.

Confidentiality: Voting would need to be confidential and comply with data confidentiality laws.

FTSE 100: What do corporations want to see?

We would expect there to have been an uptick in voting during the pandemic, as the nature of meetings has changed. People are no longer expected to attend in person, making the meetings accessible to more people.

Do employee share holders forget to vote; forget they are shareholders; or think that they are in a share plan and therefore can’t vote? The responsibility on companies is to ensure employees are voting and they are engaging with their workforce.

The Point: We want companies to say “We want to count your vote as a group – alongside the vote from the institutional investors. We then report it to the board and back to you.”

Group Discussions

- The attitude of the trustees of SIPs regarding voting was discussed. It was stated that SIP trustees are obliged to vote if directed to do so by members. Failure to do so would be in breach of HMRC rules and would breach their tax status. A trades union could poll members to determine voting intentions and pass this information on to trustees.
- The proposal to separately count the votes of Esop participants was discussed in the context of company (and registry) size. The question was posed that the costs may not be justified for large companies as employee votes would have a minimal impact on outcomes. Although it was noted that this would be a good way of gathering employee feedback.
- If we wish to promote employee engagement, perhaps soundings of employees should be taken earlier and more regularly ahead of the formal shareholder resolutions. Otherwise employees are either not part of the true process and over-ridden by institutional votes, OR the firm engages employees but has a resolution they don't like and then they vote against it – two bites at the cherry.
- The size of institutional holdings for most organisations might mean that there is significant tension created when employee votes go in an opposite direction.
- If a responsible institutional investor decides that something, in the round, is right for the stakeholders, e.g. a merger, but employees are against it, might the exposure of voting patterns reveal such conflicts and disincentivise the institutional investor from voting for what is right?
- It was noted that retail investors were becoming more active and vocal. This includes employees. The use of employee votes as a method of getting items onto the agenda at AGMs was highlighted. The example of Google was cited – through voting, employees managed to get an item on the climate impacts of the company's activity onto the agenda, despite boardroom opposition.
- One reason for the growing influence of retail shareholders could be the ease of buying retail shares through apps. Could an app be created to make it easier for Esop participants to exercise their votes- this would make data collection easier as well.
- The legal ramifications of discrimination risks were raised. Women and ethnic minority members of staff may have less influence in voting due to their positions within the company hierarchy. A "synthetic vote" to gauge staff attitudes and opinions could be designed to counteract this.
- People were concerned about the confidentiality of voting given that you could be voting on your own boss. The idea of having much more information about voting, e.g. by employee numbers, by shareholdings, by options, raised the question of how anonymity might be kept under intense analysis.
- A question was raised regarding the ability of directors or CEOs to vote themselves back into position using their shares as the number of shares they owned could outweigh those of the staff.
- Much discussion centred on whether employees did or didn't understand shareholder resolutions, though this wavered between 'time to get started' and 'are we being condescending'.

- Could distinguishing a class of shareholder reporting really be creating a separate class of shares – shouldn't all shareholders be equal?
- Is regulation needed to enhance the effectiveness of employee voices? The opinion of companies would need to be gauged; however, it was pointed out that employee shareholders should have the same rights as any other shareholder to exercise a vote.
- The example was raised of one firm that already provides a small dividend premium to those who do exercise their vote.

At the end of the group discussions the poll question was asked again. Over two thirds of the webclave participants still thought that employee share ownership votes should be separately counted, provided it is practical to do so.

A final Poll asking: "Given the debate today should this separate employee vote concept be shelved, or explored further?" returned an overwhelming response (97 percent) that it should be explored further.

Looking forward

We aim to host members' webclaves (or similar) twice a year.

We thank members for their participation and look forward to comments and suggestions for improvement.
