

Employee Ownership Australia & New Zealand Conference and Awards Night 2014

Opening Address

Tony Smith MP – Federal Member for Casey

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The electorate I represent covers some suburbs in the outer-east of Melbourne, most of the Yarra Valley, and part of the Dandenong Ranges.

It comprises nearly 2,500 square kilometres of diversity; from small and large rural towns to older and newer suburbs.

This diversity can be viewed through the large number of small and medium enterprises.

From furniture and other manufacturing in the suburbs to advanced food manufacturing in both the suburbs and the rural areas.

From services in the suburbs to horticulture and viticulture in the Yarra Valley.

And across the spectrum, from traditional trades to advanced trades. From retail to hospitality to tourism and more.

There are few mass employers.

Instead, there are masses of small and medium sized businesses that collectively employ many.

They are the employment backbone of today and the employment hope of tomorrow.

Many are highly sophisticated.

They are continuously competitive and constantly innovative.

Most know that to succeed into the future, they must play to their strengths, and always be seeking to find that extra fuel additive to increase their velocity.

The successful have a few things in common. Strong and clear leadership. An ambition to continue evolving and growing. They invest in plant and equipment, they invest in marketing, and critically, they invest in key staff.

Of course, as a Member of Parliament I frequently visit local businesses.

A couple of years ago I was invited to visit a business in Silvan. It was once a fruit co-operative. Today it is a leader in advanced food manufacturing producing lines of jams, cordials, garlic, sauce and olive oil for our supermarkets.

It doesn't make the cheapest, but produces amongst the best. It is in a constantly transformative state to stay in the game.

It is not a massive operation, employing about 50 staff. But it is nimble and focussed on its strengths, building on them where it can; rejecting expansions where it believes it will over-reach.

Early this year I visited a relatively new business in Lilydale.

They are a leading manufacturer of gluten free and organic chips and snacks – a temptation test for a snack addict like myself.

They don't compete on price with the well-known brand names – such as the chip brand that shares my surname!

They recognize their opportunity is in fresh, high quality products.

They have grown from a staff of 5 about ten years ago to 75 now.

As a result of this growth, they have shifted premises a couple of times within the Lilydale industrial estate – an area where you will easily find a panel beater but wouldn't expect to find a leading food manufacturer.

These businesses are always looking to the next step they can take to drive enterprise and innovation.

Likewise, governments should be looking to the next policy step it can take to help pave the road ahead.

I believe deeper and more widespread employee share ownership is a next big step that would potentially benefit many businesses like these.

I mentioned those two examples at the outset not because they *are* obvious exhibits of the potential benefits of employee share ownership, but because they *are not*.

The opportunity is rarely obvious to either employers or employees. And in many cases, dare I say, rarely to their elected representatives.

When the policy subject of employee share ownership is discussed, most people think of the big corporates and small start-ups, but rarely the possibilities for small to medium sized enterprises.

While for many small and medium sized businesses it may not be an approach they wish to pursue or that suits their business, it is a case that in the right circumstances employee share ownership could provide that vital additional gear for growth and success.

Let's never forget the story of the Springfield Remanufacturing Corporation told by Jack Stack in his employee share ownership bible – A Stake in the Outcome.

An ailing and failing manufacturing company with a stock price of 10 cents in 1983 grew to an 'appraisal value of just over \$80 by 2001. In the same time, sales increased tenfold, and staff numbers increased nearly ninefold.

The title of the book – A Stake in the Outcome – tells us the how and the why of the success.

Giving employees a Stake in the Outcome created the transformative effect to unleash the capacity, co-operation, collaboration and confidence of the employees.

We have 150 federal electorates in our country. All have some businesses operating today that could achieve similar successes with deep and integrated employee share ownership.

Further, there are many that would find it hugely beneficial in providing a sensible and realistic ownership succession pathway, through what for many businesses is a dead end alley.

You don't need me to tell you what is needed. We all want Australia to unleash an employee share ownership revolution and to reap the associated benefits.

Your unstoppable and irrepressible Chair, Angela Perry, and members of the expert panel have benchmarked how our policy settings compare with other major nations such as the UK and the USA.

Your association has also advanced a suggested policy reform process involving taxation, regulation, and education.

They have argued the case with government officials, and they have been to Canberra to present to the Government backbench Economic and Finance Policy Committee that I Chair.

It is no surprise that like you, I would have been very pleased to see as a first step in the Budget, a reversal of Labor's detrimental tax changes of 2009.

I said as much a few months ago in the Australian Financial Review.

But the real issue is whether there is the combined dedication amongst the relevant Ministers and the backbench to drive reform, and I am very confident there is.

From the outset, this has been a Government that has made clear that it is determined to lift the regulatory burden on business and put in place the right policy framework to show Australia is back open for business.

To this end there is a strong dedication from both the relevant Ministers and the backbench to drive reform that will build a stronger economy after six years of the debt and deficit disaster under Labor.

Last year I mentioned here at this very conference the critical importance of the taxation white paper, should we win election.

That process will be underway shortly, and it presents a once in a generation opportunity to argue for and focus on a world's best tax approach to employee share ownership.

But in the immediate weeks ahead, the Government's Industry Investment and Competitiveness Agenda is further considering how to build the best environment for entrepreneurs to be successful and to grow more of the smart industries of the future.

As you are aware, a review into the current policy settings including for employee share ownership was undertaken earlier this year. The issues raised will be addressed through this Competitiveness Agenda process. Not only are the taxation arrangements for employee shares being considered, so too is support for research and development, and commercialising good ideas.

Along with our determination to rebuild the budget, this is a Government that also understands the need to consult with industry about key issues.

I urge you to continue to argue your case for change in the days and weeks ahead with my colleague the Industry Minister Ian Macfarlane, whose broad portfolio covering so many of our economic drivers is characterised by stakeholder engagement and consultation.

I will continue to argue the case as well, and I can assure you that every time I see Macca, I'll be in his ear about employee shares.

What high taxes don't drown, excessive red tape strangles – so as well as the tax challenge, there is also a critical need to drive reform on the regulatory front with respect to ASIC's prospectus requirements.

With a renewed focus on red tape reduction, there is a strong appetite within government to act where we can to simply and reduce costs. In so many respects this is equally important.

While the tax settings are largely a barrier to employee participation, the regulatory settings are largely a barrier to employer participation and offering in the first place.

The other critical barrier is perhaps and the most obvious and I believe in many respects the most critical. That is, the lack of awareness generally about the benefits.

The types of businesses I mentioned at the outset – those in the non-listed sector - would not have employee share ownership on their radar.

There are a range of reasons for this. They are extremely busy running their enterprises, and due to lack of employee share scheme penetration in their particular sectors, they not only have no experience of the possibilities. They have no second hand domestic evidence to ponder.

That similar businesses in the UK and USA have embraced employee share ownership and all its benefits would surprise them; but it is hard to see the worth of something when it is largely invisible in our own policy architecture or economy.

It is hard to imagine the lost opportunities that simply cannot be seen.

That is why the big task is not just about policy building – as I said last year - it is about constituency building.

This is a long term project requiring dedication at a number of levels.

It requires the advocates within business to tell their stories more forcefully. The Association is doing its bit, but I believe individual companies can do more to bring to life the success stories overseas – to candidly explain what we are missing out on in our hyper-competitive

world. The successes in Australia today – many here today – need to tell their story of how they have succeeded against the tax and regulatory gale – in the hail.

As well as getting the policy settings right, I believe government should establish a permanent expert advisory and facilitation panel comprising the private sector, key public servants and regulators to drive greater participation.

Key priorities for such a panel would be for it to operate as a one stop shop and problem solving area to get past the necessity to deal with multiple agencies multiple times. Having a small number of private sector experts on an advisory panel with key senior public servants and regulators would both force and focus resolution of issues.

It should also produce template documents and explanatory material for employers and employees, as well education material on the benefits of employee share ownership.

This is the sort of commitment required to build for the future.

A three pillar reform approach – tax, regulation, and education.

While reform of any pillar will help, I think we all know that if we ignore any one, it is hard to see the widespread take-up and economic transformation that all want to see not just in the years ahead, but in the decades ahead.

I want you to feel optimistic.

Labor's 2009 tax assault was devastating.

The last five years have been arduous and frustrating for many of you.

But I believe momentum is building; within the business community and within the government backbench.

As Chair of Coalition Backbench Committee on Economics and Finance, I was pleased to invite and host your Association in Canberra earlier this year.

The visit to Canberra by Angela and her colleagues focussed a number of new members in the new Parliament on the necessity for change.

So let me finish where I started, not with jam and chips, but with some local Liberal members and their electorates.

My electoral neighbour, the new Member for Deakin, Michael Sukkar is a strong advocate, as is the new Members for Banks here in New South Wales, David Coleman. Likewise fellow New South Wales Member for Eden Monaro, Peter Hendy, West Australian Member for Pearce Christian Porter, Queenslander Bert van Manen and South Australian Matt Williams.

They are now looking in their own electorates and seeing the possibilities for enterprises that could embrace employee share ownership, if only it was available in the way we all think it should be and taken up by more businesses that can benefit.

I am a fully paid up supporter of employee share ownership – but what we need to do is grow the membership base – and we have started to do so with these outstanding new fans in the parliament. And I know as we all keep working together in the coming months, there will be more and more who join our cause.

Thank you very much.