

27th October 1988

LAST ADDRESS

The choice of subject for my last address to you as chairman has been on my mind for some time. Finally, I have chosen to talk to you about my dream corporation of the future. Somewhere during my career, I was made acutely conscious of the fact that the forces represented by capital and labour are simultaneously interlocked and opposed.

The one can't get very far without the other, yet they are in constant conflict.

Prior to that realisation a number of employee programmes had been put into place in our company, more by intuition than by design and largely because I was the product of a culture that set great store by consideration of others.

The first policy actually formulated in 1954 sounded something like this.
"employees will not suffer financial loss for reasons beyond their control with the caveat that this did not include a guarantee of employment as that is beyond the capacity of any enterprise to give".

Another policy adopted early was the provision for retirement as a right rather than a ploy to retain employees.

The implementation of this policy, constantly update, id without doubt have a profound influence in the company, because whereas financial loss is only experienced by a few unfortunates, aging is experienced by all.

The trustees of the super fund were elected by the employees from the start in 1956.

Retirement ages were placed on positions not people. Other people programmes followed. Naturally our cost increased, but despite predictions to the contrary, so did our profits. This phenomenon revealed the notion that "caring of itself desirable – also pays" This however was not what I referred to earlier.

That was caused by a question put to me by a young graduate who had studied our latest's annual report. He had calculated the income and the profit per employee and figured that the profit per employee was in excess of the average income per employee for that year.

His question was: "Did I think that was right?"

The question stung!

- Firstly, because I had never figured profits that way
- Secondly, if his figures were correct, I could not give an opinion on whether such a division was equitable- never having thought about it.

It is around that time I read in the introduction by tawny to a reprint of 'the protestant ethic and the spirit of capitalism' the following. I quote

"All revolutions are declared to be natural and inevitable once they are successful and capitalism is clothed today with the unquestioned respectability of the transparent fact nut in its youth, capitalism was a pretender for it involved a system of relations that were sharply at variance with venerable conventions. So questionable an innovation demanded of the pioneer who first experimented with

it as much as originally, self-confidence and tenacity of purpose as is required today of those who would break from the net that it has woven". (unquote)

The time referred to was the turn of the last century.

The young man's question and this quotation merged in my mind into other questions. What is the something in the net that capitalism has woven that causes so much turmoil in the workplace today despite its unquestioned contribution to rising standards of living wherever it is practiced.

Was the profit versus income question putting the spotlight on that something? An excursion through history shows that politically free people have always fared better and fought better.

In this day political democracy is the minimum requirement for individual well-being. Could it be that corporate democracy is a minimum requirement for economic well-being as well? Should we be sharing more equitably in addition to caring? I concluded the answer to that question had to be yes. From that time dates the concept of benefit sharing in our group in addition to the caring practised since inception.

Over many year shareholders have had proposal put to them to implement this concept and employees have benefited greatly from shareholders near unanimous approval thereof.

Employees have responded in a million ways that are reflected on the bottom line, because in retrospect, I believe that the surge in lend lease profitability is closely related to the employees awakening to what was going on and acting on it. In fact, \$100 invested at the inception of the company calculated by the accumulation method was worth \$100 000 at 30th June Last. Until quite recently, peer reaction to our actions was almost universally negative for our practices involve a system of relationships between shareholders and employees that is sharply at variance with conventional wisdom.

Indeed, it required of us as pioneers breaking from the net that capitalism had woven all of the originality, self-confidence and tenacity of purpose as tawny had predicted it would. Whilst initially flying solo, I have had the fortune to encounter in Stuart Hornery a man of like mind and it is he who has led the effort that rescued the concept from getting bogged by regulatory intervention as evidenced by the resolutions that I will put to you for approval shortly.

Whilst I consider these proposals the maximum achievable at this point in time, they fall short of my vision of the ultimate corporate democracy that might hopefully evolve sometime in the next century. Which brings me to my dream which of course represents only an intensely personal view, not necessarily that of the board. Whilst the principles of political democracy are pretty well understood, those of the corporate world are not.

The prevailing relations between shareholders and employees are heavily loaded against the employees which I see as the root cause for poor performance of Australia as an economic entity, despite the riches with which it is endowed by nature. My blueprint for a truly democratic corporation of the future would be based on but a few basic principles.

I see the future corporation as a joint venture between capital and labour. Management would constitute a third group independent of the others. Managements role under current law is a result of history when capital and management were one and the same. The corporation then was two dimensional, whereas today, with the advent of professional management, most large corporations are three dimensional.

The law however still persists with the notion that the control of a corporation vests in the board of directors which is elected by the shareholders and the further notion that the directors represent all shareholders. Everyone in business knows this to be a myth when one or more shareholders are

dominant on the register. The law is extensive in its efforts to protect small shareholders from oppression by large ones the need for which is a de facto admission of my proposition.

The law is silent however on the protection of employees who in recent years are bought and sold as chattel in tens of thousands. This leads me to envisage democratic voting as the basic principle guiding the corporation of the future.

- In practice this requires legal recognition of the separate and distinct role of management, particularly its legal accountability to all participants in and those affected by the enterprise.

It also requires for the appointment and dismissal of the management to be by democratic vote of all the participants in the enterprise as the only realistic way to ensure that attention is paid equally to those partners. Shareholders to have as now, one share one vote.

Employees to have one vote per person.

A practical proposal may be something on the following lines:

- One single employee share be created by law initially in each public company to cover all current employees from time to time.
- This share to be held in trust by trustees elected by the employees on the one person, one vote principle.
- Trustees would need to canvass the individual vote of employees by secret ballot and vote accordingly
- The total employee vote never to exceed the actual shareholders vote cast, but nothing to prevent anyone crossing the floor.
- The voting to be subject to independent audit.
- The key issue to be voted on would be the election of the members of the board comprising independent and executive directors E.G. The management

A further basic principle would be the equitable sharing of the surplus of the enterprise, enabling employees to experience ownership and the benefits and motivation that comes with it. The sharing formula should recognise that employees have obtained a prior slice of the payroll and other people cost. Existing central wage fixing procedures should continue to operate, but the sharing formula could be determined at industry or enterprise level to reflect the economics of the day.

Where is shareholders' compensation to come from should a scheme like this be phased in over a period of time, you may ask?

As in the case of lend lease, through reduction in waste from lost time and generally improved productivity through ownership motivation. It would remove the conflict component in the relationship between capital and labour that now prevents their respective contributions to blossom to their fullest potential for the benefit of all. A utopian dream of a retiring chairman?

Perhaps, but I recently reread the first agreement I made with the building unions in 1958, the terms of which were then nothing short of revolutionary. Today, 30 years later, they have become commonplace. Profit sharing and employee share ownership not so long ago were concepts abhorrent to unions and employers alike. Today, the time for these concepts has arrived judging by the sharp increase of participants in the practice.

In America. 8000 enterprises employing 8 million people now have employee share ownership plans. In the U.K. There are only a few so far, but many are being formed according to recent reports. In Australia, such plans are still mostly for the senior executives, or predominantly so.

Luckily for Australia, my generation, comprising many true diehards, is rapidly disappearing over the horizon and is being replaced by a generation that clearly is determined to make Australia a better place not only for themselves but for all.

Ladies and gentlemen, I now reluctantly wake up to discharge my final duty of guiding you through the special resolutions that are part of the step by step realisation of my dream in lend lease and it by example, hopefully, in the larger public arena.

Thank you.