The Promotion of Employee Ownership and Participation

Proposals for the European Action Plan

EFES Position Paper

European Federation of Employee Share Ownership

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Abstract

These proposals are referring to the study published by the European Commission as a conclusion of the Pilot Project on "The Promotion of Employee Ownership and Participation" on October 28, 2014.

The European Federation of Employee Share Ownership supports the proposal of a European Action Plan as it is mentioned in the Study.

However, some proposals in this draft action plan might be revised or even removed, being unadequate or uneffective, while several counterproposals could be better.

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Promotion of Employee Ownership and Participation
Proposals for the European Action Plan

These proposals are referring to the study published by the European Commission as a conclusion of the Pilot Project on "The Promotion of Employee Ownership and Participation" on October 28, 2014 (hereafter: the Study).

The European Federation of Employee Share Ownership (EFES) supports the proposal of a European Action Plan as it is mentioned on page 62 of the Study.

However, some proposals in this draft action plan might be revised or even removed, being unadequate or uneffective, while several counterproposals could be better.

Action Plan - in short

1. Launch a Virtual Centre.

We support a counterprosal which will be more adequate and more effective than this Virtual Centre.

2. Set up a Commission Expert Group.

We support this proposal , with some corrections and additional proposals.

3. Implement an Action Programme to raise awareness.

We support this proposal with some additional proposals.

4. Launch of Code of Conduct.

We don't support this proposal which would be redundant with the existing codes and best practice guidance that the EC already financed some years ago.

5. Legislative proposal for a Common Optional European Regime.

We support a counterproposal, in line with the EESC Opinion, which will be more adequate and more effective than this Common European Regime.

In addition, some remarks and additional proposals have to be considered and some particular mistakes have to be pointed out and corrected in the Study.

Action Plan - Point 1
Launch a Virtual Centre

In short: A Virtual Information Centre would be launched, with an annual budget of 780,000 Euro. This Virtual Centre would provide a short summary of dedicated legislation, as well as fiscal, social, political and cultural aspects, in each of the 28 countries of the EU.

This proposal sounds good and reasonable. However, it already exists in several versions, available on the Internet, and it is for free.

For instance, such virtual centre can be found on page:

http://www.efesonline.org/Virtual%20Centre.htm

"The virtual centre would be highly useful to companies at an early stage of their search for information (i.e., internet research)" (page 73)... "at low cost" (page 75). On page 74, Table 21 shows the "Cost calculation for a virtual EU Centre", the total per year being 780,182 Euro.

What would be the effectiveness of the proposed "Virtual information Centre"? Following the Study, the centre would be used by "10,000 companies per year" (page 104). This number has to be considered in regards to the potential number of companies that are likely to be interested.

Here is the calculation of the potential number of companies:

"Applying the 36.37 per cent figure to the total population of private companies in the EU (1.65 million companies), one arrives at a total of 600,111 companies that are likely to offer ESO schemes" (page 38)... "However a margin of error of 50 percent is allowed to account for the unobserved characteristics" (page 39)... leading to 300,056 as the "potential number of companies with a margin of error of 50 per cent" - roughly 300,000 companies (page 40).

A margin of error of 50% seems significant. However, it has also to be considered that the exact number of enterprises in the EU was not 1.65 million but well 20,399,291 in 2013 (European Commission, Annual Report on European SMEs 2012/2013, October 2013). This is 12.4 times more than the Study calculates, leading to a margin of error of 620 per cent rather than 50 per cent.

The number of 21 million enterprises was used by the EU expert group on business succession in 2002. Considering a 30 years professional life length for business owners, this led to an estimate of some 690.000 business transfers annually during the next ten years. In 2011, after the baby-boom effect was behind us, this number was revised to 450.000 firms looking for successors annually, "affecting up to 2 million employees", leading to the "risk of losing approximately 150,000 companies and 600.000 jobs" every year as mentioned on page 103. The average size of such companies being 4 employees, it is suprising that they are excluded from the potential number of 300.000 companies as seen above.

This is how the Study positions this question:

"ESO provides a potential solution to the business succession problem, effecting a smooth transition of the ownership and management of family enterprises and SMEs... This is a serious problem... Every year, there is a risk of losing approximately 150.000 companies and 600.000 jobs due to inefficient business transfers" (page 10)... "a field, where employee share ownership plans could play a crucial role" (page 13).

"As the largest employers, SMEs and micro-enterprises are crucial to economic and labour market policy. According to 2011 figures, each year some 450,000 firms in the EU look for successors, affecting up to 2 million employees. Every year, there is a risk of losing approximately 150,000 companies and 600,000 jobs due to inefficient business transfers. The Commission, the European Parliament and the European Economic and Social Committee (EESC) have highlighted employee buyouts as one possible solution to the business succession problem of European SMEs" (page 103).

As a conclusion, the number of 300,000 potential companies appears to be underestimated.

Anyway, what could be the effectiveness of the proposed "Virtual information Centre"? Following the Study, the centre would be used by "10,000 companies per year" (page 104). On this base, 30 years would pass before all 300.000 potential companies could have theoratically been joined. This effectiveness would be quite low.

This confirms the poor results of previous attempts to set up such a virtual centre. The "Pro-EFP Platform" funded by EC grant VP/2010/013/0084 did never get more than some hundreds visits (the Pro-EFP website was recently removed from the Internet). In the same sense, Professor Lowitzsch' videos on YouTube got 695 visits from April to November 2014 (8 months).[1]

By comparison, the EFES website gets 350.000 visits annually, showing that something can be done, when meeting real needs.

A better proposal has been made in this sense: An EU coordinate platform of 28 virtual information centres.

This proposal is in line with the conclusions of the Public Hearing of March 22, 2012 in the Parliament and with the requisites of the Pilot Project (an information centre in each Member State).

The key-points for this coordinate platform are:

To be effective, the information to be provided has to be much richer than the Study considers, and it has to be adapted to national languages and cultures.

[1] From 7.4.2014 to 19.11.2014, Prof. Lowitzsch' video "Capital at Work" was visited 62 times in short English version, 46 times in long English version, 229 times in short German version, 29 times in long German version, 37 times in short French version, 115 times in long French version, and the video "Introducing the CETREPS" was seen 177 times, leading to 695 times in total.

In this sense, the EU coordinate platform would be the adequate tool for the third point of the Action Plan ("Implement an Action Programme to raise awareness").

The same budget of 780.000 Euro annually as it is proposed in the Study would be adequate for this project.

As a conclusion, we will invite the Commission to amend the proposed Action Plan, chosing for an EU coordinate platform of 28 virtual information centres rather than the single centralised Virtual Information Centre as it is proposed in the Study.

Some additional remarks have to be done here:

On page 74 of the Study, Table 21 shows the "Cost calculation for a virtual EU Centre", the total per year being 780,182 Euro. On page 86, we can see that "The cost of launching the Virtual Centre and the CETREPS Calculator for a pilot period of 18 months is estimated at EUR 75,000. Once tested, the operating cost for the Calculator (EUR 100,000 per year) and the annual operating cost of the Virtual Centre (EUR 250,000 per year) are estimated to be roughly EUR 1 million for a pilot phase of three years." These numbers seems not to be coherent.

The "CETREPS Effective Tax Rate Calculator" appears as a tool to calculate the value of various EFP schemes "in % of annual salary". This is pertinent only for schemes which could be compared to salaries (considered as the basic form of remuneration). Focusing so on EFP rather than on ESO, it is focusing on remuneration. Remuneration is just a partial aspect of ESO. ESO investment in sociedades laborales, in workers' cooperatives or in employee buyouts have typically no place in this tool. This means that the whole question of business successions appears to be ignored.

"The CETREPS would make information on general taxation, social security contributions and specific tax incentives relevant for different EFP schemes from all 28 Member States for any given scenario (corresponding to the inserted parameters) available in order to calculate effective rates of differing taxation, personal status and situations" (page 84)... "It would permit European SMEs to gain a quick and up-to-date EU overview online, providing a cost-effective alternative to buying expertise from private consultancies. Once the decision to introduce an EFP scheme is made by an SME, their accountants could calculate the exact values for the chosen EFP scheme by using the CETREPS database" (page 85).

"To attract and convince these potential partners and to market the tool, a promotional film demonstrating the functionality of the Virtual Centre for EFP and the CETREPS Tax Rate Calculator was produced. This video illustrates how the tool can solve actual problems showing in particular benefits at the firm level" (page 87).

The usefulness of this calculator seems doubtful.

As a matter of fact, it is based on the assumption that tax rates are the key-element for SMEs willing to extend their employee share plan across borders. In fact, fiscal incentives are much more important than tax rates in this whole matter (the incentive rate rather than the tax rate).

In addition, the proof was already done: The video was seen 183 times from February to November 2014 (9 months), while all experts in the field were duly informed about its existence. Even the thousands experts in the field didn't give a look at this. Such a small number seems enough to conclude that there is no real value and no interest for the tool.

ACTION PLAN - POINT 2
SET UP A COMMISSION EXPERT GROUP

We support the setting up of a Commission Expert Group.

However, this Expert Group has to comprise experts and practitioners before all: Employee shareholders, companies organising employee share plans, specialised lawyers and service providers having practical expertise.

As it is proposed in the Study, such group would be made of: "Employers' organisations; employees' organisations; civil society organisations close to SMEs (e.g. chambers of commerce); interest groups and associations dealing with EFP; companies offering best practice models of EFP schemes; research organisations/universities, involved in the update of country data; chosen organisations from the aforementioned willing to participate in the pilot phase of the Virtual Centre for EFP and the Effective Tax Rate Calculator". Such group would rather be a representative body.

We do believe that in such a technical matter, the Commission would get a useful expertise from a true Expert Group rather than a new representative body.

Following the Study, the Expert Group should notably prepare the elaboration of a Code of Conduct for EFP. This would replicate existing works which the Commission already funded (see hereafter).

On the other hand, in addition to other tasks mentioned in the Study, we think that the Expert Group should supervise the setting up of a reliable information and statistical tool about employee share ownership in European companies which appears to be lacking in the Study and the draft action plan (see hereafter).

ACTION PLAN - POINT 3
IMPLEMENT AN ACTION PROGRAMME TO RAISE AWARENESS

We support this proposal.

Of course, "this could provide general information on the activities of the Commission in the area" (page 52) and help for the "development of a network of officials and politicians at the EU level".

In addition to that, the action programme to raise awareness should be mainly dedicated to the fact that the public at large and policy-makers in most European countries are still not aware of the benefits of employee share ownership.

Raise awareness about the benefits of employee share ownership, leading to adequate supporting legislation in each country should be a major part of this action programme.

A coordinate platform of 28 virtual information centres (as seen hereabove) would be the best tool for this proposal.

ACTION PLAN - POINT 4
LAUNCH OF CODE OF CONDUCT

We don't support the following proposal:

"Another potential option for the Commission could be to develop a Code of Conduct providing (i) a standard template for companies that want to implement EFP schemes... and (ii) a guide for employees on EFP" (page 46).

As a matter of fact, this proposal would be redundant with the existing codes and best practice guidance for which the European Commission already gave the adequate funding some years ago.

For instance, "Common features of best practices" can be found on page http://www.efesonline.org/fasuk181.htm and "Model plans" can be found on page http://www.efesonline.org/fasuk261.htm.

These pages are referring to the Communication (COM) 364 by the European Commission in 2002, in which criteria for employee ownership and EFP at large have been already detailed, as well as the engagement of the European Union in supporting participation policies.

ACTION PLAN - POINT 5
LEGISLATIVE PROPOSAL
FOR A COMMON OPTIONAL EUROPEAN REGIME

We support a counterproposal, in line with the EESC Opinion of October 21, 2010, which will be more adequate and more effective and immediately enforceable than this Common European Regime.

As a matter of fact, we see the present proposal as expensive and uneffective.

The Study is based on the two following assumptions: Fiscal incentives are not a prerequisite for the development of employee share ownership; the main obstacles to cross border schemes are the multiplicity of regulation.

This is in contradiction with most experts and practitioners in the world. A report was recently published on this point, see on page:

http://www.efesonline.org/INDISPENSABLE/Manifesto.htm

Here are the main assumptions and developments in the Study:

"The legal framework - being a premise for implementation schemes - is the most fundamental of the measures in place to promote EFP" (page 22). "Tax incentives ... do not appear to be a prerequisite to the development of financial participation" (page 23). "Tax incentives - not a prerequisite for EFP" (page 44). "The main barrier to implementing cross border EFP schemes is the patchwork nature of the national rules for schemes already in place" (page 89).

The "Common European Regime in EFP"... "would offer employers and employees a choice between two alternative EFP regimes one originating in national legislation, the other in European legislation" (page 89).

"Laws governing taxation and social security contributions are difficult to harmonise and EU competence does not extend to direct taxation. Labour law and laws governing employee participation in decision-making also remain under exclusive national jurisdiction. Thus employee rights under labour law would not fall under the Common European Regime on EFP... Furthermore, the Common European Regime on EFP would exclude taxation issues and thus impose no tax incentives; national rules would apply" (page 94).

"The proposal for a Common European Regime on EFP... would confine itself to a set of definitions and principles" (page 96). The proposal is "excluding taxation issues" (page 100). "The scope of the Common European Regime on EFP would be limited as some areas of law are not included either due to a lack of necessity (i.e., company law) or a lack of competences (taxation, social security contributions, labour law)"... taxation could be "at a later stage" (page 101).

By contrast, here are the experts' and practitioners' common vision:

Fiscal incentives are indispensable prerequisites for thez development of employee share ownership or EFP.

The main obstacles or barrier to cross-border schemes are the absence or the weakness of fiscal incentives in many countries. This is the key-point.

The "Common European Regime" could NOT offer a choice between two alternative regimes, one originating in national legislation, the other in European legislation. This is pure academic vision. The real difference between the two regimes will be that the national ones (at least some of them) will organize fiscal incentives, while the European one will not. By nature, the two regimes will be different, the national ones organizing the indispensable fiscal prerequisites, while the European one couldn't. So they couldn't be an alternative.

The European Regime could not involve the essential: Taxation and labour law. It would be confined to inessential details.

After the European Regime would have been defined, the key point would still be the same as it was before: Fiscal incentives through national taxation and labour law.

Here is the counterproposal to the "Common European Regime":

In short, each EU Member State would implement a dedicated legislation, providing "an optional simple, uniform incentive model, with the same tax arrangements and incentives".

This proposal was first defined in 2008 in the framework of the French Presidency of the EU. It was described in the "Political Roadmap" for employee ownership in Europe (see on page http://www.efesonline.org/ROADMAP/EN.htm). The precise proposal for this optional, simple, uniform model was defined in the Roadmap as an Employee Share Purchase Plan (ESPP), with a 20% discount free of tax and social security contributions, up to 5.000 Euro annually.

It was later included in the EESC Opinion in 2010 and was supported by the Belgian Presidency of the EU 2010. The EESC Own-Initiative Opinion in 2010 in its recital 4.2.1 said: "An optional simple, uniform incentive model, with the same tax arrangements and incentives throughout the EU, could considerably boost the number of cases where there is a willingness to introduce EFP, as this would make it easy to structure schemes available throughout a group of companies." As the expert for Group III of the EESC, the EFES Secretary General Marc Mathieu brought this proposal which was included in the EESC Opinion.

About the EESC Opinion, the Study expresses the following conclusion:

"An optional Common European Regime on EFP was suggested in the 2010 EESC Own-Initiative Opinion as an entrirely new approach for creating a framework for EFP at the EU level. It would constitute an optional second contract law regime parallel to national legislation on EFP, providing employers and employees with an option between two regimes, one originating in national legislation and the other - the Common European Regime on EFP - in European legislation... see SOC-371, EESC 1375/2010, recital 4.2.1" (page 55).

This is not what the EESC Opinion proposed. The only common point between the EESC proposal and the "Common European Regime" or "29th regime" is that it would be "optional". However it would be a non sense to define this "simple, uniform model" as a "European regime", because its key point is the proposal of "the same tax arrangements and incentives throughout the EU". These tax arrangements and incentives couldn't be managed at EU level, they belong to the Member States' competence. The Roadmap and the EESC were calling for each Member State to introduce in its national legislation the same optional, simple incentive model, with the same tax arrangements and incentives.

As a conclusion, the Study confirms that the "Common European Regime "would be far from all embracing as for example it would exclude labour law or taxation issues" (page 57)... "it would exclude taxation issues" (page 60). This is the exact opposite of the way chosen in the Roadmap and in the EESC proposal.

It is surprising that this proposal was not analysed in the Study.

As a conclusion, we will invite the Commission to analyse the feasibility of the proposal of the implementation in each EU Member State of a dedicated legislation, providing an optional simple, uniform incentive model, with the same tax arrangements and incentives.

This proposal is in line with the Treaties and the engagement of the Commission (COM (2011) 78 final – Review of the Small Business Act) in submitting a legislative proposal for a Common Consolidated Corporate Tax Base (CCCTB) and a new VAT strategy aiming notably at reducing tax obstacles and administrative burdens for SMEs in the Single Market.

THE FOCUS OF THE ACTION PLAN HAS TO BE MAINTAINED ON EMPLOYEE OWNERSHIP

Finally, the focus of the Action Plan has to be maintained on employee share ownership rather than to be shifted to EFP as it is in the Study.

The Public Hearing on March 22, 2012 in the Parliament and the requisites of the Pilot Project focused on employee share ownersip.

This is how the Study justifies the shift from ESO to EFP: "Since employee share ownership is often funded by profit sharing schemes, this Study reviews the entire range of EFP although the focus of the Pilot Project is on employee ownership" (page 9).

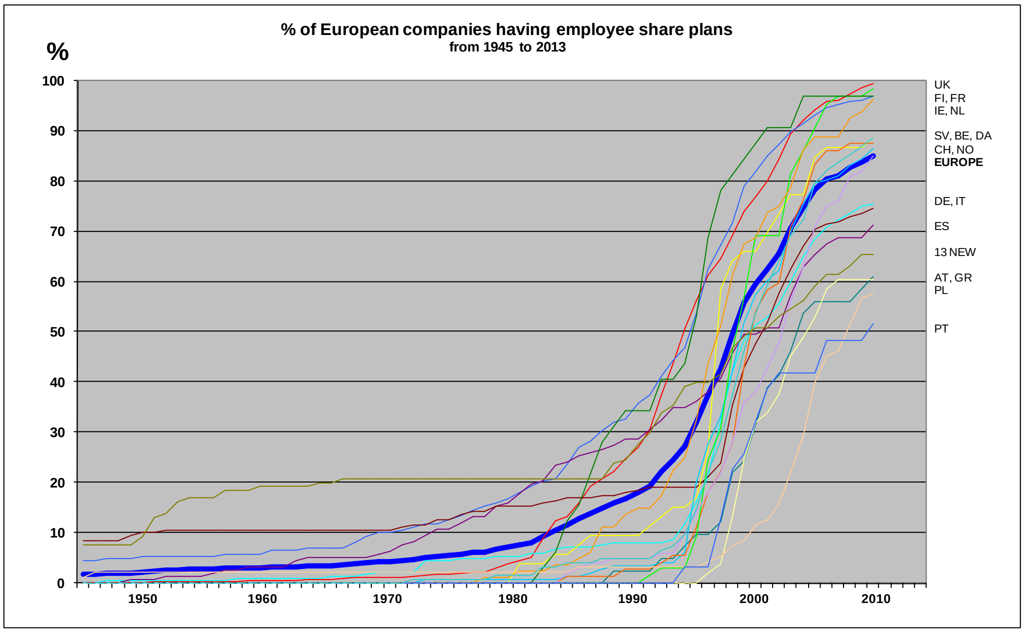
This assertion is so light and superficial that it couldn't be accepted to justify the proposed shift. Similarly, employee share ownership is much more often funded by salaries and savings; it wouldn't be a sufficient reason to shift the focus from ESO to global remuneration or to employee savings in general.

For many reasons, the concept of EFP appears to be confusing, especially regarding corporate governance. We don't go further on this point here.

PARTICULAR MISTAKES TO BE CORRECTED

Some particular mistakes have to be pointed out and corrected in the Study.

1. Following the Study, "both the offer of EFP schemes by enterprises and their take-up by employees have picked up surprising momentum between 2000 and 2013" (page 9). This is not exact. As can be seen through the well-known graph hereafter, the momentum was ten years before, between 1990 and 2000 (the percentage of European listed companies having employee share plans reached the 50% in 1995):



2. Following the Study, "the most recent rounds of various cross-country surveys (conducted in the last five years) show that EFP generally has continued to expand in Europe despite of the 2008-09 crisis" (page 11).

This is unfortunately not exact. Several recent Surveys showed that employee share ownership didn't expand anymore since 2011 in Europe. The "Economic Survey of Employee Ownership in European Countries in 2012" pointed out the fact that: "For the first time since the financial crisis occurred, the number of employee shareholders in Europe didn't increase last year" [2]. The "Economic Survey of Employee Ownership in European Countries in 2013" pointed out the fact that: "For two years now, the number of employee shareholders in Europe didn't rise anymore. This may be related to political uncertainties occurring about employee share ownership in a number of countries, including France and the UK" [3]. A recent publication by the Société Française des Analystes Financiers was "sounding the alarm over the stagnation in the number of employee shareholders in Europe" [4].

NEED FOR A RELIABLE INFORMATION AND STATISTICAL TOOL

Many numbers and data in the Study are not reliable, as seen above.

A preceding study entitled "Employee Financial Participation in Companies' Proceeds" was made for the European Parliament in 2012, which showed that "there are very few sources of information on the availability and take-up of financial participation schemes across countries". This study pointed out the existence of "four

[2] Economic Survey of Employee Ownership in European Countries in 2012, EFES, Brussels 2013.
[3] Economic Survey of Employee Ownership in European Countries in 2013, EFES, Brussels 2014.
[4] Avancées et menaces pour l'actionnariat salarié européen en 2014, Revue de la Société Française des Analystes Financiers, Paris, 2014.

main sources of information" (EFES database, EWCS, ECS and CRANET enquiries)[5].

The demonstration was made that the EFES database is the only existing database about employee share ownership and financial participation in the European Union. This database is the only reliable information tool presently, being based on Annual Reports (which means systematic, audited and certified information, annually), while EWCS, ECS and CRANET are periodic enquiries based on interviews or mailings.

It is therefore surprising that the EFES database was not used or even not cited in the Study.

On the other hand, most empirical evidence in the Study is based "on the second (2009) and third (2013) European Company Survey" (Chapter III, page 29).

To see how consistant are ECS surveys, we had a detailed look at both 2009 and 2013 methodologies, based on telephone interviews (see appendix). As can be seen in appendix, questions and samples are so different from Survey 2009 to Survey 2013 that it couldn't provide a reliable information regarding employee share ownership or financial participation.

As a conclusion, we will invite the Commission to add a complementary point in the Action Plan, aiming at the setting up of a reliable information and statistical tool which appears to be lacking in the Study. This would be an additional task for the Commission Expert Group as it is mentionned on Point 2 of the Action Plan.

[5] See more information on page: http://www.efesonline.org/INDISPENSABLE/The%20EFES%20database%20and%20other%20sources%20of%20information.pdf

Appendix about the European Company Surveys

The European Company Survey (ECS) was carried out by the European Foundation for the Improvement of Living and Working Conditions (Dublin Foundation) in 2004, 2009 and 2013. See http://eurofound.europa.eu/surveys/ecs for more details.

The 2013 ECS survey

The latest ECS survey in spring 2013 was based on telephone interviews with managers and employee representatives, based on a sample of 29,950 companies (in fact: establishments) with 10 or more employees in 32 countries.

It was through 48 questions on which two single sub-questions about "variable pay" involved employee share ownership.

Question 43–C to employee representatives was:

"Q43. Since the beginning of 2010, were there negotiations at this establishment between management and the employee representation with regard to... C. Financial participation (e.g. share ownership, profit sharing)".

Question H23-D-E to management representatives was:

"H23: Now I am going to read out certain variable payment options on top of basic pay that might be in place in your establishment. Could you please tell me for each of these options, whether or not they are available to at least some employees?... H23-D: Variable extra pay linked to the results of the company or establishment (profit sharing scheme). H23-E: Variable extra pay in form of share ownership scheme offered by the company."

The 2009 ECS survey

The survey was conducted by computer assisted telephone interviews (CATI), based on a sample of 27.160 companies (in fact: establishments) with 10 or more employees in 30 countries. A management representative and, where possible, employee representative was interviewed in each company. The duration of the interviews was on average 20 minutes for management representatives and 15 minutes for employee representatives.

Only management representatives were asked about profit sharing and employee share ownership, through the following questions:

Question MM454

Do any of your employees – except for those in the top management - receive specific elements of pay that depend on the performance of the individual, a working group or the department? These elements of pay can be either cash or in the form of shares of the company.

Question MM455

Approximately what proportion of your workforce receives specific elements of pay that depend on the performance of the individual?

Question MM460

Is there any profit sharing scheme offered in this establishment?

Interviewer: Explain if necessary: Profit sharing schemes are specific elements of pay the amount of which depends on the company's success.

Question MM461

Is this offered to all employees of your regular workforce or is it offered to employees in specific positions only?

Question MM458

Are these profit sharing schemes determined by the management only or are they negotiated with the employee side, be it either with employees directly or with their representatives?

Question MM459

Why are you applying profit sharing schemes? Please tell me for each of the following potential motives whether they play a large role (1), some role (2) or hardly any role (3) for the application of the system. To increase productivity? To increase the motivation of our staff? To attract and keep well qualified staff? To increase active employee participation in the improvement of work processes or products? In order to reduce the wage costs in times of low order volume? Or due to any other reasons?

Question MM463

Is there any share ownership scheme offered in this establishment?

Question MM464

Is this offered to all employees of your regular workforce or is it offered to employees in specific positions only?

REMARKS

Following the Study, "Empirical evidence on EFP according to the 2nd (2009) and 3rd (2013) European Company Survey... the average proportion of private companies offering ESO schemes has increased from 4.7 per cent to 5.2 per cent (a growth of about ten per cent) since the 2nd European Company Survey (ECS)... In the 2009 ECS sample, 1.388 of 20.828 private firms (weighted average 4.7 per cent) reported ESO implementation. Of these more than half implemented the scheme broadly, i.e. to all employees. Unfortunately the 2013 round of the ECS survey did not distinguish between broad and narrow based schemes; therefore Chapter III reports on EFP schemes in general" (page 29).

It is obvious that ECS surveys are not reliable regarding employee share ownership.

Questions and samples are so different from Survey 2009 to Survey 2013 that the difference from 4.7 to 5.2 per cent doesn't clearly tell anything significant.

ECS surveys consider employee share ownership through the prism or variable pay. Doing so, they miss the essential.

Finally, the Sudy affirms that "the ECS sample is a statistically representative sample of EU companies". This is not the case, knowing that "The ECS covers only firms with 10 and more employees" (page 29) and that the so-called "firms" are not firms but establishments.