ETUC position on conditions for employee financial participation (EFP)

Adopted at the Executive Committee Meeting of 5-6 March 2013

Introduction

Ongoing debates, research studies and recommendations coming from the European Parliament¹ and the European Commission on employee financial participation (EFP) pursue the idea that short termism in shareholder value orientation could be better avoided through better access for employees in profit sharing schemes or share ownership of their company. One point of reference is the report of the European Economic and Social Committee drafted by A. Graf von Schwerin from October 2010.² This report underlines the fact that EFP brings advantages for businesses (increase of productivity and thus competitiveness, improved credit rating, secure business’ future etc.), but also for employees (benefit from supplementary remuneration, building up investment capital as additional long term resources, increased participation and having a say in the company’s strategy for the future, improved job security, joint approach to restructuring etc.). Open questions remain transferability, taxation and employee participation in the sense of better workers’ involvement. Special attention must be given to the risks for the assets of workers who participate in such schemes, as quite important losses are possible.

A new point of reference, recently published, is the Commission’s communication of 12 December 2012: “Action Plan: European Company Law and Corporate Governance – a modern legal framework for more engaged shareholders and sustainable companies”³. In it, the Commission explains its intentions in one short point with regard to EFP: The Commission believes that employees’ interest in the sustainability of their company is an element of any well-functioning governance framework. The Commission believes that employees becoming shareholders could play an important role. The Commission intends to analyse this subject in more detail, identify and investigate potential obstacles to trans-national employee share ownership schemes and subsequently take appropriate action to encourage it. The Commission will launch a call for a project promoting employees’ financial participation in European companies.

In the light of Europe’s biggest financial and political crisis, mainly due to high sovereign debts as a result of banking bail outs, the ETUC reiterates its conviction that financial markets need stricter regulation. The most pressing problems are currently high unemployment (particularly for young people), the slowdown of the economy, the negative consequences of ongoing consolidation programmes and austerity, the reform of labour markets, the flexibility agenda etc. EFP schemes are the object of a diversified approach and occupy different positions on the agenda of trade unions in Europe. In the event of crisis, being tackled by management and workforce jointly,

² http://www.eesc.europa.eu/?i=portal.en.soc-opinions.11454
³ http://ec.europa.eu/internal_market/company/modern/index_en.htm
EFP could be considered as a tool to stabilize a company and to ensure long-term employee participation in the recovery of the company.

In view of these different European debates, the ETUC Worker Participation working group proposed to reiterate the joint trade union view already developed ten years ago and to update this position where necessary. The following updated position on core principles on financial participation is therefore based on the previous resolution adopted by the ETUC Executive Committee 19-20/11/2002.

Common principles

The ETUC underlines that Social Partners and Member States have a key role. In Member States there are several forms of EFP depending on national circumstances and industrial relations. Employee attitudes and preferences are also different. The ETUC recalls that it puts wage negotiations at the top of the agenda, as well as a secure and transparent income for workers. The ETUC can only subscribe to EFP if the following prerequisites are met:

a) EFP has to be embedded in a whole system of worker involvement at all levels. One element should not compete with other elements or replace it. The different participation models should complement each other as in the triangle of information, consultation and participation each being beneficial for well functioning corporate governance. Schemes should include the possibility, in those countries where these systems exists, of employee representatives in company decision making, preferably through seats on the board.

b) EFP should always provide additional income and not be a substitute for fair pay. EFP should not be considered as an alternative to collective bargaining and to wage increases. Financial participation is equally not an alternative to public pensions or to collectively agreed pension schemes. Negative effects of the fiscal or parafiscal status of financial participation on national systems of social security have to be compensated. Employees have the right to get their fair share of the results of a company and their income must represent a fair share of the national income. However, the trend is going into the opposite direction: the classic indicator of income inequality, the GINI coefficients, has increased in most OECD countries in recent years. Under no circumstances should EFP worsen inequalities of income inside a company or in society.

c) EFP schemes must be open to all workers within the company, including part-time workers.

d) The introduction and design of EFP should be the subject of prior consultation and agreement with worker representatives and trade unions. The details of EFP have to be introduced through negotiations between social partners and collective agreements should set the framework for EFP. Collective funds are a form of EFP which is safer than others. The funds should be protected from insolvency. Provisions for the case of insolvency should be established.

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4 ETUC Resolutions 2002 p.31
5 Spain, Portugal, Ireland, Greece and Italy are at the top of the GINI ranking, with the highest level of inequality. On the other hand, Finland, the Netherlands and Austria show much less inequality. Belgium, Germany and France are in the middle.
e) Collective ownership of shares in a trust is preferable – where it exists - to individual share ownership as this will enhance workers’ voice in the company. Shares should be allocated on an equitable basis to avoid reinforcing existing pay differentials. Allocation should not depend on the ability of workers to buy shares, as this will reinforce existing pay differentials.

f) Special attention must be given to the impact on gender equality.

Only with these conditions fulfilled can EFP have a positive effect.