



## **Working paper Financial participation for employees in the European Union” ETUC comments**

The ETUC welcomes the Commission's intention to launch consultations on financial participation, with a view to giving a fresh impetus to the debate on financial participation at European level. However, the ETUC considers it somewhat less helpful to indiscriminately lump together a multitude of "actors" (see p.3 of the working paper). Like the Commission, the social partners and the Member States have a key role to play: the Commission must take that into account especially in the announced action plan.

The ETUC would like to stress that financial participation is a complement to employee participation. Financial participation will have a positive impact only if it is embedded in a whole system of workers' involvement, starting at the workplace and ending at the level of the undertaking or the group of undertakings.

Member States have extremely diverse systems for financial participation. The same form of financial participation is more or less pronounced depending on national circumstances and the country's industrial relations systems. No system and no form of financial participation can be merely transferred from one country to another, adjustments will always be necessary. Employee preferences are increasingly differentiated. That is another reason why every European action plan and every European measure for financial participation should be designed to afford the greatest latitude for tailoring to national specificities.

### **The forms of financial participation**

There are different forms of financial participation:

- Asset formation and saving schemes
- Profit participation
- Capital participation

The Commission's paper focuses on profit participation and capital participation. The ETUC considers that capital participation and profit participation should both be more rigorously and accurately defined in the working paper.

„In the case of profit participation“, states the working paper, „profit is shared between shareholders and employees whereby, in addition to their wages, the latter receive a bonus which depends on the company's profit“ (p. 4). To say that employees are paid a profit-related bonus in addition to their wages tells us nothing of the relationship between wages and profit-related bonuses. It is conceivable, according to the wording in the working paper of the Commission's services, that wages would be made to vary with the amount of the bonus. Employees would thus carry a double risk.

In the ETUC's view, profit-related bonuses are sums paid over and above fixed wages. These sums can be paid in cash or in the form of shares or other securities. Where payment is in shares, disposal can be frozen during a relatively long blocking period. Whether or not one applies such blocking periods depends on the objectives attached to financial participation.

In the working paper, capital participation is defined as „a profit participation based on shares which is realised in the form of dividends, of capital gains on the sale of shares by an employee or by a combination of the two“ (p. 4). For the ETUC, capital participation means shares or a similar interest in an undertaking's equity offered by that undertaking to its employees for free or at preferential rates on the basis of an agreement concluded with employee representatives.

The ETUC demands that the Commission review the terms and definitions of financial participation set out in the working paper.

In the working paper, the Commission presents the purpose of financial participation too one-sidedly. It places the focus exclusively on the relationship between financial participation and productivity gains (pages 5, 8 and 9). A contrario, the ETUC stresses the fact that financial participation may have several objectives:

- Corporate objectives (such as productivity increase and encouraging employee loyalty to the company)
- General economic objectives (such as growth of overall economic productivity, promoting employment, price stability)
- Distribution policy objectives (changes in income and wealth distribution to the benefit of employees)
- Social policy objectives and objectives linked to the society (such as reducing the concentration of political and economic power in the hands of few)

The objectives linked to financial participation may vary according to whom pronounces himself in favour of financial participation. The ETUC demands that in the European action plan, the Commission take into particular account above all social and distribution policy objectives. The present draft is too one-sided and risks over-simplifying financial participation, by limiting financial participation to productivity gains only.

The Commission's working paper refers solely to employee participation at company level. There is no reference to schemes of financial participation that go beyond the company level. The ETUC invites the Commission to reflect on the following question: how can employees of small and medium-sized enterprises enjoy the benefits of financial participation. How can the employees of public sector and public services enjoy the benefits of financial participation? At a time when professional careers are no longer marked by a life-time's service in a single company, there should be some reflection on how to enable as many employees as possible to benefit from financial participation.

### **Need for critical reflection**

The Commission's working paper contains several references to the abundant experience acquired in the most diverse Member States and repeatedly mentions the comprehensive studies undertaken on financial participation. All in all, however, the Commission's approach could be more critical. Many crucial questions are left unasked. The fact that in a country like Germany four decades of asset-building policy for employees has not succeeded in changing the trend of asset concentration or the assetless status of wide sections of the population should raise a few questions. The fact that, despite investing considerable legislative and financial means to promote financial participation, France has seen only very limited growth in the overall economic weight of profit and capital participation, or that the share of additional income generated by profit and capital participation schemes in the United Kingdom is very low (as recent studies show) is all the more reason why existing financial participation instruments must be re-appraised.

### **Financial participation needs to be part and parcel of a whole system of worker involvement**

Financial participation is only one of many measures for promoting employee involvement. Financial participation can only succeed where it is part and parcel of a whole system of measures designed to promote employee involvement, where employees and their representatives are informed and consulted, where employees are capable of influencing decisions at company level and nominate representatives to administrative or supervisory bodies. Otherwise, if employee involvement is simply reduced to financial participation – considered, moreover, purely in terms of productivity gains – financial participation will fail. The ETUC asks the Commission to investigate this aspect more thoroughly in its announced communication and in the European action plan.

The Commission's working paper neglects two important preconditions for the success of financial participation measures: all employees within an undertaking must have the possibility of participating, and such measures

must be introduced on the basis of an agreement with employee representatives.

The ETUC has the impression that, in its working paper, the Commission takes the easy way out in dealing with the obstacles to financial participation. Cultural problems and acceptance difficulties on the part of employees are only too readily advanced. Acceptance problems on the part of employees cannot be eliminated by a public relations campaign. Employees' concerns must be taken seriously.

The ETUC submits the following proposals concerning for further reflection on financial participation:

### **Recommendation from the ETUC**

The ETUC regards financial participation as an element, which complements real employee participation. The positive impact of financial participation is greater if it is embedded in a whole system of workers' involvement, starting at the workplace and ending at the level of the undertaking or group of undertakings, where strategic decisions are taken. Financial participation will utterly fail if it is understood as an alternative to workers' involvement.

Asset creation plans or saving schemes for wealth creation are the simplest form of financial participation. They often open up the road to further involvement, for example in building up employee share ownership. These more traditional forms of financial participation should therefore be encouraged in all member states.

The ETUC prefers collective agreements to set out at least a basic framework for financial participation. We do so because we think that all workers should have an opportunity to participate in employee share ownership or asset formation. Funds, which operate at branch level, would offer an additional advantage. The capital built up by workers could help, at least partially, to accelerate the innovation in businesses in their sector. Many small businesses are in desperate need of capital for modernising their activities. Member States should move all legal obstacles to the creation of such collective funds.

Provisions covering insolvency should be established.

The ETUC believes that financial participation should under no circumstances strengthen inequalities of income neither within companies nor in the society in general. The ETUC prefers that financial participation would cover all workers within companies where it is adopted and that specific attention is paid to its impact on gender equality. However, precautions

must be taken in order to avoid that the practice of financial participation replaces wage negotiations and regular wage increases. The ETUC is sceptical concerning the idea of a wage system, where a part of wages would be reinvested in financial participation, out of principal reasons and because this would produce under-consumption, which would be rather dangerous under present economic circumstances.

For the ETUC, productivity gains are part of the wage strategy. The discussion on financial participation should be dissociated from any discussion on wages. Plans for financial participation should rather be linked to employment strategies.

Any collective funds established should be run jointly by the social partners (which are partners to the collective agreement). If there are employee investment funds at branch level, the day-to-day management should be carried out by professional managers supported by an administrative council, which should set guidelines for the funds. Spreading the risk should be the general principle to be applied in investments. Supervisory Councils of such collective funds should be made up of employers' and workers' representatives in equal numbers. A fund is less vulnerable than a company in the event of insolvency.

We may imagine a code of conduct for fund management regulating the framework of investments in all Member States of the EU: forbidding investment in the arms trade, encouraging investment in the ecological sector, transferability of capital from one country to another etc. (A code of conduct for pension fund management has been drawn up by Euresa and is supported by the ETUC).

### **In conclusion:**

1. Financial participation is complementary to other forms of participation and works best, where it is embedded into a network of workers' involvement. Financial participation rimes well with participation in decision-making at all levels of the undertaking.
2. The modalities for financial participation should be introduced through negotiation.
3. Financial participation should operate on an ongoing, continuous basis and should not be a singular experience.
4. Collective agreements should set the framework for financial participation.
5. There should be provisions for the insolvency.
6. Workers and management should jointly manage funds.

7. Financial participation provides additional income and is no alternative for wages. Neither is financial participation an alternative to public pensions or to collectively agreed pension schemes.

We call on the employers' organisation UNICE to make sure, jointly with the ETUC, that collective systems of financial participation are given prominence and that financial participation is well embedded into a general system of workers involvement, consisting of information, consultation and participation of workers and their representatives.