EUROPEAN ACTION PROGRAMME

FOR EMPLOYEE OWNERSHIP AND PARTICIPATION

(PEPPER POLICY)
You find herewith the “Summary and conclusions” part of the final report of the First European Workshop for Employee Ownership and Participation.

The Workshop of 30th April was an important step forward for a policy of employee share ownership and participation in Europe:

- the main European institutions (European Parliament, European Commission, Council of Ministers, Economic and Social Committee) were around the table. Their representatives were all strongly in favour of an active and voluntary policy to promote employee ownership and participation.

- an action plan was drafted, including what role of national and European organisations and institutions could play in implementing it.

The “Summary and Conclusions” of the Workshop are aimed to be a clear, short, and concrete document. It basically consists in an action plan for policy developments in employee ownership and participation.

The complete final report also includes the “Minutes”. Please fill in the order form and send it to the EFES secretariat if you wish to receive them.

In the framework of the Second European Meeting of Employed Shareholders in Warsaw on 12th and 13th November, the EFES is organising a meeting to follow-up the April Workshop.

Please do not hesitate to ask us for any further information.

With very best regards,

Marc Mathieu
Secretary General
FIRST EUROPEAN WORKSHOP
FOR EMPLOYEE OWNERSHIP AND PARTICIPATION
30 April 1999 – European Parliament, Brussels

FINAL REPORT

Summary and conclusions

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The FIRST EUROPEAN WORKSHOP FOR EMPLOYEE OWNERSHIP AND PARTICIPATION was organised with the support of the EUROPEAN COMMISSION, Directorate-General for Employment, Industrial Relations and Social Affairs, and of the SOFICATRA.
Summary and conclusions *
(* The complete report on the conference is available in both French and English from EFES.)

The First European Workshop for Employee Ownership and Participation was held on 30 April in the European Parliament, at the instigation of the European Federation of Employed Shareholders. Initially planned for 40 participants, it was a success, attracting 80. The quantity and quality of contributions made it possible to achieve the objectives set for the day: deciding what activities to undertake and the ways and means to promote employee share ownership and financial participation within the European Union.

The meeting was endorsed by the European institutions and the social partners. In particular, it was supported by the European Commission's Directorate-General for Employment, Industrial Relations and Social Affairs (DGV), and was held in the European Parliament.

One of the main speakers was Ms Elisa Maria Damiao, Member of the European Parliament, who came to express the support of Ms Pauline Green, President of the Group of the European Socialist Party. The European People's Party and the European Liberal Democratic and Reformist Party were also represented.

As Ms Odile Quintin, Deputy Director-General of DG V, emphasised, financial participation in general and employee share ownership in particular are complex issues for the European institutions. They touch on the sphere of competence not only of several Commission departments, but also and more importantly of the Member States and social partners. Hence the participation of Mr Manuel Hernández López, Director at DG II (Economic and Financial Affairs), accompanied by a number of other representatives from DG II and some from DG III (Industry), DG VI (Agriculture) and DG XXIII (Enterprise Policy, Distributive Trades, Tourism and Social Economy).

In the context of the German Presidency of the Council of Ministers, Dr Peter Mozet, of the German ministry for labour and social affairs, took part in the workshop’s opening session, which included many German speakers and participants.

Mr Antonello Pezzini attended on behalf of the Economic and Social Committee of the European Communities and its President, Ms Béatrice Rangoni Machiavelli.

Mr Wolfgang Kowalski, for the European Trade Union Confederation, expressed his support for financial participation and set out the conditions for its implementation, outlining the possibility of constructive dialogue on the matter.

A working paper prepared by the secretariat general of EFES – the "1999 EFES draft memorandum" – was distributed to all the speakers and participants. In particular, the document detailed the benefits of employee share ownership and the action already undertaken by the European institutions, and pinpointed, among the recommendations of the Council of Ministers and European Parliament, some initiatives to be implemented at European level:

1. **A standing working party** comprising representatives of the social partners and employee shareholder associations, members of the European Parliament, Commission experts and representatives of the Member States.
2. **A European programme endowed with the financial resources** needed to promote the pooling of information and good practice and provide training on financial participation systems for the social partners.
3. **Organisations and legislative measures** at national level to promote employee share ownership...
Participants agreed on the need to develop models of good practice in financial participation at European level. They reviewed the benefits of employee share ownership and discussed the factors involved in making the most of them. These factors must be included in the models of good practice to be developed. They also mentioned the obstacles to developing financial participation and a European policy in this area. Lastly, proposals were issued on the action required at Community level and the means to be employed.

Action programme

The aim of EFES and the participants at this workshop is to achieve a degree of convergence and promote good practice in Europe, both by lobbying governments and national institutions and by working through the Community institutions. It is neither to impose employee share ownership nor to harmonise the existing systems through legislation.

Professor Erik Poutsma of Nijmegen Business School kicked off the debate by proposing a six-point programme which generated considerable interest among participants.

1. Developing clear models of financial participation practice and pooling the relevant information (on the British trustee system and French savings plans scheme, for instance).
2. Defining a common overall framework for tax incentives. A solution must be found, in particular for multinational companies.
3. Developing capital savings systems, enabling capital ownership to be shared between workers and other holders.
4. Pooling good practice, particularly by means of information and training for workers.
5. Lifting legislative barriers. There should, of course, be a European framework to promote financial participation and, at the same time, interaction between the three pillars of participation. The three pillars will necessarily reflect individual cultural environments, which will have an impact on financial participation. Dialogue within the works councils depends on the procedures established by each company. Obstacles can therefore also arise inside companies. Better use must be made of financial participation to encourage dialogue within companies.
6. Supporting the social partners’ programmes. Action at European level should essentially aim at getting the social partners involved in these issues. The many meetings organised by German trade unions for the year 2000 are worth mentioning in this respect.

An action programme at both European and national level can be identified on this basis, as follows:

At European level
Developing employee share ownership and financial participation requires research and analysis, pooling of information (on legislation and taxation systems, good practice in the various countries and administrative and tax barriers) and corporate governance.
Participants unanimously agreed on the need to:
- Draw up models of good practice by organising exchanges and meetings, while bearing in mind the diversity of European cultures and the need to apply the models in a flexible manner which is consistent with the policy in each country. Initial steps for drawing up these models were identified.
- Define the social values that are fundamental to EO so that it can be promoted on a common basis. This point was stressed by a number of participants who consider that EO is not a goal in itself, but rather a means for reaching the common objectives.
- Organise the pooling of information and good practice.
- Develop methods for measuring, evaluating and comparing the implementation of the PEPPER report in the Member States.
- Stimulate research by disseminating information and results relating to completed research projects and undertaking new ones.
- Promoting employee share ownership and participation through training and information.
At national level
Participants pointed out that implementing the PEPPER report was the responsibility of national governments and the social partners.

- Implementation of the 1992 Council recommendation and 1998 European Parliament resolution (see the EFES memorandum)
The participants stressed the need to take account of the January 1998 resolution of the European Parliament and to implement the Council’s 1992 recommendation. In the latter, the Member States proposed inter alia to recognise the benefits of employee share ownership and financial participation, and to provide for an appropriate legislative framework in order for them to be introduced in good conditions.

- Establishment of national institutions
There was particular support for the idea – already expressed in the European Parliament’s resolution – of establishing national institutions to promote financial participation.

- Pensions
The question of pensions and of social welfare was raised as a general policy issue. But it is not just a political issue; it also has macroeconomic implications. Participation plans are an additional source of income, but they cannot replace the current system of social welfare and pensions, and they do not, by themselves, resolve the pensions problem.

- Promoting a share ownership and participation culture through the provision of information on training. Particular attention was devoted to the idea of "rating agencies", which would supply information on the performance of companies offering participation schemes.

Ways and means

Financial resources
Action at European level entails securing adequate financial resources. Everyone agreed that the Community institutions must do more. As soon as the new Commission is up and running, it must play its part in this area.

- Use of existing resources
Mention was made of the European Social Fund and RTD programmes. DG V is providing assistance for public events such as the First and Second European Meetings of Employed Shareholders, along with smaller-scale activities such as a meeting on financial participation by employees in multinational companies and a survey of barriers to the introduction of participation plans. All existing resources should be examined with a view to PEPPER-related projects (developing SMEs, research, Structural Funds, CEECs, etc.).

- Development of an appropriate financing programme
The European Parliament called on the Commission to "implement an adequately financed programme to promote the exchange of information and best practice, together with training for both sides of industry in financial participation schemes". The European Parliament – and in particular the Committee on Social Affairs, the Committee on Economic Affairs and the Committee on Budgets – has its own role to play in this area. During the budget procedure it must press for a specific European programme endowed with its own budget, enabling it to support the pooling of information, dissemination of good practice and promotion of research and training to build on the PEPPER report.

A standing framework for exchange and dialogue

- Formation of a working party
A priority set out in the European Parliament resolution is for the European Commission to establish a working party comprising representatives of the social partners and associations of employee shareholders, together with Members of the European Parliament and Commission experts. Participants also called for the establishment of a group of experts comparable to the Davignon Committee, which made it possible to break the deadlock on the European company statute.

- Creation of a European institute
A European institute for financial participation should be established, along the lines of the national institutions for promoting participation and employee share ownership. This institute will act at European level by helping the social partners and national institutions to coordinate their strategies and encourage governmental measures.

- Formation of a European Parliament intergroup
The importance of policies on employee share ownership and financial participation should be
Initiatives to be taken by the European institutions

European Parliament

Given the now acknowledged significance of financial participation, the European Parliament should monitor the issue on an ongoing basis. The formation of an ad hoc parliament intergroup will be a useful step forward. The European Parliament – and in particular the Committee on Social Affairs, the Committee on Economic Affairs and the Committee on Budgets – has its own role to play in budgetary matters. During the budget procedure it must press for a specific European programme endowed with its own budget, enabling it to support the pooling of information, dissemination of good practice and promotion of research and training to build on the PEPPER report. It should also follow up, supervise and guide the action to be taken by the Commission, in particular regarding its participation in the working party it has called for.

European Commission

The next step for the European Commission is now to submit a proposal for an appropriate European financing programme for the PEPPER policy to the European Parliament and the Council. It is also up to the Commission to take measures for the establishment of a standing framework for sharing information and promoting dialogue, such as the working party requested by the European Parliament and a European institute for financial participation.

Economic and Social Committee

An own-initiative report will shortly be issued by the Economic and Social Committee.

A framework for action at European level

Although a policy on worker participation is the responsibility of Member States and the social partners, this does not mean that the European institutions do not have an important role to play in areas such as promoting exchanges of information, experience and good practice between the Member States.

- The contribution of employee share ownership to the European employment strategy

Ms Quintin reviewed the initiatives undertaken by the Commission (see the EFES memorandum) and added that, with regard to wider policy initiatives, employee share ownership and financial participation had been considered in the context of work organisation. The Commission’s document “Modernising the organisation of work – a positive approach to change” (November 1998) identifies the role of the social partners in this field, and mentions financial participation as an area to be investigated.

What is the link between modernising work organisation and stimulating the expansion of dynamic firms? The answer is the European employment strategy, also known as “the Luxembourg process”. It is based on four "pillars": employability, entrepreneurship, adaptability and equal opportunities. Two of them are relevant to financial participation and employee share ownership. Work organisation plays a crucial role in “encouraging adaptability”, and risk capital markets are mentioned under “developing entrepreneurship”.

- The fundamental role of the social partners and social dialogue

The social dialogue, involving trade unions, employers and employee shareholders, is crucial. Participants stressed the vital role of the social partners in employee share ownership and participation, at both national and European level, as regards establishing legal frameworks and implementing participation plans within companies. The social partners must be involved.

- Realistic goals: the harmonisation issue

Given the current policy environment – enormous disparities between Member States and a lack of Community competence in areas (mainly social affairs and taxation) relevant to employee share ownership –, the EU’s decision-making procedures and the obstacles mentioned earlier, Community harmonisation, meaning a common framework to be imposed on all Member States by means of a directive, is neither realistic nor – for some – even desirable.

- Action at all levels of power and decision-making, under the principle of subsidiarity

Subsidiarity, in European jargon, means that decisions should be made and action taken as close as possible to those directly concerned. This involves doing at Community level only what cannot be
done at a lower level, and leaving decisions in other cases to the Member States, the social partners or individual companies. Models or principles formulated at Community level should be implemented in a flexible manner to ensure that each country’s specific features are respected.

- **Incorporating action into a broader international context**

In particular, there is the prospect of the accession to the EU of a number of central and eastern European countries (CEECs), and participation in networks such as the Capital Ownership Group, an informal worldwide network whose purpose is to establish an international coalition with a view to promoting wider ownership of productive capital, reducing inequalities, contributing to stable growth, facilitating the development of productive capacity and improving quality of life and living conditions for everyone.

### Obstacles to a European policy

Only 6% of European firms have provided for financial participation to date. Hierarchy still prevails in both public- and private-sector organisations. In some countries, such as France and the United Kingdom, financial participation is officially recognised; in other countries it is just a form of salary given to the executives.

- **No Community competence**

Industrial relations, taxation, social security and pension systems, and wages policy are exclusively the preserve of Member States and of the social partners. The EU can at most promote pooling of information and a Europe-wide social dialogue in these areas.

- **Great disparities between Member States**

In the spheres of taxation and industrial relations – and employee shareholding and financial participation –, many disparities remain between the Member States, relating to financial markets, forms of participation, the purpose of participation schemes, and worker protection and representation.

- **Fragmented markets**

The European financial market is too fragmented, unlike that of the United States. In Europe, there are a number of legal barriers to listing on the stock market, there are relatively few large companies and the great majority of firms – SMEs and micro-enterprises – do not have access to the financial markets.

- **Dubious or hostile social partners**

At European level, the European Trade Union Confederation (ETUC) has expressed support for employee shareholding and participation but has laid down a set of conditions reflecting the fundamental concerns of its members (72 national trade unions and 15 sectoral organisations, from 33 European countries). ETUC’s priority is to maintain and promote employment, and it is by linking the financial participation and employment issues – and removing the connection with wages – that it can promote it most effectively both among its national members and at European level.

ETUC nevertheless emphasises that no Europe-wide framework agreement can emerge unless European employers, represented by UNICE, express their stance on the matter.

### The benefits of employee share ownership and participation

A survey commissioned by the Dublin-based European Foundation for the Improvement of Working and Living Conditions showed that firms with high participation levels are more innovative than others, and also benefit from other positive effects such as increased motivation, productivity and wage flexibility.

The workshop confirmed the advantages outlined in the EFES draft memorandum:

- **Staff motivation – improved business performance**
- **Fairer distribution of corporate wealth**
- **Job preservation and creation**
- **Fostering of entrepreneurship**
- **Sustainable development**
- **Additional resources for staff**
- **A more stable society**

The workshop identified the following additional benefits:
- Controlled inflation
Growth without inflationary pressure is fundamental for Europe. One of Bill Clinton's economic advisers has evaluated the effect of the USA's lead in developing employee share ownership and financial participation at 100 additional basis points in GDP growth.

- Wage flexibility
The surveys have shown that financial participation increases wages instead of replacing them, except in specific circumstances.

- Capital formation, accessible to people with small and medium incomes.

- Corporate independence
EO strengthens the independence of companies, which belong to local owners.

Outline of good practice models

The participants indicated a set of prerequisites for making the most of financial participation.

- Participation in decision-making
In Europe, participation breaks down into direct participation, representative participation and financial participation. The best way to improve participation is to improve the interaction between these three "pillars". Financial participation complements the other types of participation. It must be combined with participation in decision-making, information and adequate training for workers (corporate governance).

- Restricting or covering risks for workers
Shares are risk capital. Safeguards can be introduced against speculation, the risk of losses for workers and inappropriate use of participation plans (to get rid of the devalued shares of a troubled company, for instance).

The means put forward to restrict or cover risks include: legal certainty, tax breaks and economic stability; professional legal advice and a sound financial partnership to back the introduction of the participation plan; and the creation of investment companies.

- Voluntary participation
Most participants agreed that worker participation must be voluntary, under both national and corporate regulations. This is not the case in France, where employee share ownership is a legal obligation. The French argument for a mandatory framework is based on the desire to make good an imbalance between employers and workers, which prevents fair bargaining and freedom of choice for employees.

- Respect for the rights of all workers
Financial participation and the resulting involvement in decision-making should not undermine the workers’ existing rights relating to participation in works councils, information and access to decision-making, whether or not they are employee shareholders. Also, they must be without prejudice to applicable collective agreements.

- Training and information for workers
For employee shareholders to enjoy full access to their rights and to balanced dialogue alongside the company’s other shareholders, provision must be made for training and information on fundamental business issues and the company's management. In addition, an ethos of shareholding and participation must be promoted.

- Access to shareholding and participation for all employees
A number of participants stressed the need to reduce rather than increase discrepancies between company employees and the importance of redistributing income through employee share ownership and participation. This implies that participation plans must be available to all employees rather than just senior executives as is, unfortunately, sometimes the case.

- Participation in SMEs, unlisted companies and public services
SMEs also play a very important role in the economy, alongside multinational companies. They must be taken into account, together with firms which are not listed on the stock exchange, in the drafting of models and legislation. Introducing participation plans is costly for SMEs, so provision must be made for specific aids and tax relief measures. The benefits of participation in public services were also mentioned.
Conclusion and follow-up

This European workshop was an important step in developing the EFES campaign to make 1999 the year of public support for employee share ownership and financial participation in Europe. It met with a favourable response from all the European institutions. Priorities for action were decided, with each institution having its own role to play. EFES will ensure that the conclusions of this First European Workshop are acted on; a first follow-up workshop will be held during the Second European Meeting of Employed Shareholders, in Warsaw on 13 November 1999.
I am grateful for the chance to be here, and for the job of rapporteur, which is very beneficial, since makes you listen to everything that is said, and think about it.

I am a member of EFES because of two things: I led a buyout of Tullis Russell, a paper manufacturing company employing about 1200, into 100% employee and trust ownership in 1994; and I am chairman of Job Ownership Ltd, which has been lobbying in the UK on employee ownership matters for over 20 years.

I will try to summarise and make a few comments on the main points of the conference as I see them, under two headings: the benefits of employee ownership and participation, and what we can do at the European level to promote it.

The Benefits of Employee Ownership and Participation.

A wide range of benefits has been identified.

At the macro-economic level, a major benefit is growth without increasing inflationary pressure. One of the US president's senior economic advisers is on record as concluding that if employee ownership was spread throughout the US economy then GNP could grow a full percentage point faster with no inflationary pressure. That of course feeds directly into employment.

The mechanism by which this occurs is mainly wage flexibility, and we heard from the unions on that; but we also heard that research shows that generally employee share ownership is on top of wages, and is not associated with reduced wages except in special circumstances.

At the micro-economic level, the main benefit is improved company performance. More and more people are realising that the old authoritarian structures - which are still standard in our cultures, with the inevitable Trade Union reaction to such a system - are more costly than structures of involvement. On this question of company performance and employee ownership, the distinguished economist Professor Richard Freeman gave a series of lectures at the London School of Economics recently in which he presented the conclusions of a meta-study of all the research into this question: he says that there is now no doubt whatsoever that improved performance follows from employee ownership combined with other forms of involvement.

We also heard about capital formation, which is a newer and less studied angle on employee ownership. In the UK two working groups have been set up to design new schemes: one is on this question of using equity incentives in start-up high tech companies.

But there is also no doubt that employee ownership makes people more entrepreneurial in their attitudes. The performance effect comes about primarily through engendering greater commitment. One aspect of employee ownership that was not mentioned is that it tends to keep companies independent and locally owned too.

Beneficial social effects identified in the conference include the fact that employee ownership spreads wealth more widely. Of course this only happens if the schemes are designed to do so. I would like to add this observation: some speakers seemed to assume that the main way of generating employee ownership is for employees to save their wages and use these savings to buy shares. This does not have any wealth spreading effect: if companies do well then share values rise much faster than wages, so the employees will lose out. Instead, the company must use some of its cash flow to achieve the transfer of ownership into employee hands: this is the only way in which capital ownership can be spread to any significant extent. The fundamental insight behind the US ESOP system, from back in the 1950's, is that business assets pay for themselves. This fact allows them to be leveraged to pay for the transfer of ownership, and the borrowings repaid out of future earnings. I do not know of any studies on the spread of wealth, but it must happen: in the UK 50% of households have less than £50 in liquid assets, but the employees in the buyout I led will have shares worth at least a year's salary when they retire, that is genuine wealth redistribution, with this magic ingredient too: it is wealth redistribution achieved in a way that enhances company performance - unlike redistributive taxes.

We also heard how employee share ownership leads people to become more involved in wider capital ownership, owning shares in other companies too.

A second beneficial social effect is the greater involvement of employees in their companies, in two main ways: as shareholders they have rights to information, and to influence. In fact it is only when these are systematically developed that the strong performance effects are seen.

There are in some cases strong personal benefits too: Tullis Russell is in Fife, which sent a communist party MP to parliament for 15 years, and where the mining culture made people hostile to the idea of share ownership. But after the buyout, I witnessed a number of employees change, sometimes quite suddenly, as they realised after the years of suspicion that the ownership system was real. The light went on and they became energetically committed. It is a wonderful thing to see.
I am also completing a study of two Italian towns now, one egalitarian town with 27% of all those employed working in cooperatives and one normal town, without cooperatives. In the egalitarian town mortality is lower, especially cardiovascular mortality; also the children stay longer in education (which I believe is because the people are less alienated from the institutions) and get better qualifications; and they are more socially active - voting more, joining more voluntary associations and giving more blood, for example. Employee ownership has wider effects than just in the companies.

So, this really is the age of participation. The time is ripe, and we are lucky to be here at this time.

But we also heard that there are many diverse interests involved, with many diverse views and cultures, and many concrete problems to solve. So it is necessary to set about the task of promoting employee ownership in a way that involves all the social partners, which is easier said than done. Each social partner has their own history and tradition, and both the trade unions and the employers will experience sometimes a sense of threat as they move into employee ownership. But we heard a message of careful support from the trade unions.

One of the great things about employee ownership is the way in which it manages to align interests that seem to be in conflict, changing "either...or..." into "both...and...". For example, we have seen that, done properly, it produces both wealth redistribution and company performance; one speaker asked whether the motivation is wealth or power or information - the answer is that it is all three together, and it is only when you get all three together that the full performance effect is achieved. From the Trade Unions we heard that it must not be an alternative to co-determination. But it is completely in line with co-determination, and even in the UK which does not have codetermination it tends over time to produce something very like it where it is implemented. In the case of United Airlines, where the unions led a buyout of 55% of the shares at a value of I think $5.4 bn, the union leaders now feel that they get more and better information, and have much more influence, and are doing much more beneficial things for their members than when they were on the outside in a negotiating posture.

Given all these benefits, it is not surprising that there is interest in employee ownership throughout the world. In the UK we are in the process of forming an official parliamentary body, a standing group on employee ownership. The chairman and two deputy chairmen are all senior MPs - one from each of the main parties. Given all these benefits, there is support from all across the political spectrum.

**What we can do at the European level**

Moving to the second topic: What we can do at the European level, the following points seemed to me to have led more or less to consensus:

Firstly, everyone wants the European institutions to do more. Of course there is a crisis at the moment, but when the new Commission is established, we all want it to do more on this question.

On the other hand there was unanimity that the target is not to impose employee ownership, nor even to harmonise systems by legislation. But we do want to work towards convergence, developing a good system across Europe, perhaps as much by bottom-up lobbying of each country's government and institutions as by working through the European institutions. The system must be voluntary at the level of the country as well as the enterprise. No one spoke in favour of the French system of requiring employee ownership by law.

However it is also clear that significant political parties are prepared to take legislative initiatives if we can identify key issues where it would be beneficial.

The main task identified was to gather ad disseminate information. People seek more research and analysis; systematic exchange of information on legislation, fiscal frameworks (e.g. those that best express the ethic of fairness); best practice from all the various countries; and barriers and problems, such as fiscal barriers and bureaucracy; also corporate governance issues. One of the main ideas is to develop a series of models.

At the same time, recognising the diversity of European cultures, there is a need to present these models in the way that best fits each country's particular circumstances. May I echo the appeal from the SME experts to keep it simple.

Some of the ideas presented were very novel - how to introduce employee ownership into organisations without ownership, for example. There is in fact an initiative just now in Scotland which is trying to develop a model based on employee ownership for the national health service, involving the patients.

The main method that everyone seemed to support is the idea for a standing working party. This would need to include the main social partners. It would carry out the various information tasks.

Other ideas were put forward for consideration: introducing the topic into works council agendas; working through the training and development initiatives; using the old tools while the present crisis prevents significant new developments; starting pilot projects using the European Social Fund; including the countries which will join Europe in future; and we have the American invitation to join in a truly global network on this topic.

To close the best I can do is repeat my conviction that this is an idea with a great future. This is the place to be. This is the program to carry forward.

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First European Workshop on
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1999 EFES draft memorandum

The European Federation of Employed Shareholders for Employee Ownership and Participation (EFES) has issued a call for 1999 to be the year of public support for employee share ownership and participation in Europe. In the context of the elections to the European Parliament and the establishment of a new Commission, we are calling upon all Europe's political groupings to take a stand.

Throughout Europe and around the world, employee participation in equity and profits has grown steadily. A new actor has entered the social stage – the employed shareholder, more than just an employee or just a shareholder: both salaried worker and co-entrepreneur.

The European institutions have encouraged this movement since 1990, when the European Commission's first PEPPER (Promotion of Employee Participation in Profits and Enterprise Results) report was published. But little progress has been made since the Council of the European Union issued the PEPPER recommendation in 1992 – despite growing evidence that companies with employee participation are more efficient, develop more sustainably and provide more secure employment.

What instruments should the European institutions implement as of now to promote the development of employee share ownership and participation and apply the PEPPER recommendations? What practical action can be taken at Community level? Between the European Commission, the European Parliament, the Council of the European Union and the Member States, where do the responsibilities for promoting employee share ownership and participation lie? What action is planned, and within what time frame? That is the subject of this memorandum, and of the first European workshop on employee share ownership and participation, to be held at the European Parliament in Brussels on 30 April 1999.

The First European Workshop on Employee Share Ownership and Participation is organised with the support of the European Commission, Directorate-General for Employment, Industrial Relations and Social Affairs.
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1. THE DEVELOPMENT OF EMPLOYEE SHARE OWNERSHIP AND PARTICIPATION

Employee share ownership and financial participation has become a key to business success. This is a sociological phenomenon observed worldwide. On the New York stock exchange, 9% of the equity of American businesses is held by their staff, and that figure is set to rise to 25% over the next 10 years. Companies are more dynamic and more efficient when employee shareholders take a hand in running them. That much is clear from employee ownership indexes. And the phenomenon is growing in Europe too, in small, medium-sized and very large businesses alike. Neither just a shareholder nor just an employee, a new actor has entered the social stage. As both members of staff and owners of a significant share of the capital, employee shareholders are concerned that key decisions should not be dictated solely by the interests of outside shareholders, but should form part of a genuine corporate strategy geared to sustainable development.

Employee share ownership requires constructive, proactive participation. It involves dialogue with the various corporate decision-making and management bodies. Employees make the most stable of shareholders, with a special interest in the long-term viability and growth of the company.

2. WHAT IS EFES?

All around the world, employee participation is growing, generally in a succession of stages:
- the first stage is often profit participation (participation and profit sharing);
- the second stage is equity participation (share allocation and capital stock increases reserved for employees); to begin with employed shareholders, despite having corporate responsibilities and commitments, often remain passive shareholders with no decision-making power;
- and that raises the question of the third stage: participation in decision-making and management.

As a worldwide sociological phenomenon, the spread of employee share ownership transcends ideology, goes beyond theorising, philosophising or wishful thinking. It is a reality which is currently imposing its own needs and seeking its own means of expression. And those needs and means are those of association and federation. Employee shareholders are joining forces in collective bodies to exercise their rights as shareholders. These may take the form of associations, management cooperatives or investment trusts: it varies from one country to another. Whatever the legal framework, the common experience is that a formal framework such as a legal person or association is needed to represent the collective interests of employee shareholders. In every country concerned, these collectives and associations have then come together within coordinating and representative bodies, forming federations of employed shareholders to promote participation at national level.

That led on to the idea of a European federation and international cooperation. And it was at the FIRST EUROPEAN MEETING OF EMPLOYED SHAREHOLDERS, in Brussels on 8 May 1998, that 248 participants from 28 countries agreed to create the EUROPEAN FEDERATION OF EMPLOYED SHAREHOLDERS FOR EMPLOYEE OWNERSHIP AND PARTICIPATION (EFES).

One of EFES's foremost aims is to make employee shareholders' voices heard in the social and political dialogue at European level. Employed shareholders, as neither just employees nor just shareholders but co-entrepreneurs, are taking on a new voice and seeking to make it heard at its rightful level: they are the new social partners. They have a new and important contribution to make to debate and policy on the objectives of growth, competitiveness and employment in Europe.

At the first European Meeting of Employed Shareholders, representatives of employee shareholders called for a permanent structure to act as:
- a centre for information and exchange on employee share ownership and related legislation and on the various systems piloted and implemented in businesses
- a spearhead for defending the interests of employee shareholders belonging to the member associations at European level, by means of joint recommendations
- a think-tank on the development of employee share ownership and on financial packages beneficial for shareholding employees and former employees
- a representative body lobbying international institutions, at European level in particular
- a stimulus for all concerned in Europe: social partners, companies, institutions, Member States, etc.
- a friendly forum for people working towards the same goals

The secretariat of that first meeting became the secretariat of the European Federation of Employed Shareholders (EFES), based in Brussels. It stages meetings to organise the European
federation and the European workshops on employee share ownership and participation at the European Parliament, and will be orchestrating the SECOND EUROPEAN MEETING OF EMPLOYED SHAREHOLDERS in Warsaw in October 1999.

Employee share ownership is not a matter for employee shareholders alone. It is also a way of achieving better results for everybody: employed and other shareholders, employees and self-employed staff, managers, and businesses generally. That is why EFES wants to be an open federation. Open not only to employee shareholders, but to all those individuals, organisations, institutions and businesses which are looking to promote employee share ownership and participation, in order to form as representative a federation as possible in all the countries of Europe.

EFES aims to be an open, democratic and participatory European organisation, founded on shared values of receptiveness to other points of view, dialogue and mutual respect.
3. WHY PROMOTE EMPLOYEE SHARE OWNERSHIP?

**Staff motivation – improved business performance**
Employee participation, by taking the human factor into account, improves business performance in terms of both productivity/competitiveness and quality. Participation programmes help to develop more dynamic and efficient companies.

**A fairer distribution of corporate wealth**
In its 1992 recommendation, the EU Council of ministers stated that:

"encouragement of financial participation in enterprises by employed persons, without discrimination on grounds of sex or nationality, may be seen as a means of achieving a wider distribution of the wealth generated by enterprises which the employed persons have helped to produce."

**Job preservation and creation**
In a context of privatisation or restructuring, employee share ownership is a factor in preserving and promoting employment: employee shareholders are more favourable to employment than outside shareholders.

**Fostering of entrepreneurship**
It has been demonstrated that participation programmes in the United States enable employee shareholders to build up the initial capital to start their own companies, while developing a stronger entrepreneurial spirit and resolving the succession problems involved in director share ownership.

**Sustainable development**
Employee shareholders take a longer view of the company's development. Because they work there, they are also aware of the environmental consequences of the strategies adopted. In eastern Europe in particular, employee share ownership has sometimes saved the local environment from the destructive consequences of an excessive focus on short-term commercial gain on the part of outside shareholders.

**Additional resources for staff**
Employee share ownership schemes can provide workers with an additional income, particularly welcome not only on retirement but for contingencies.

**A more stable society**
A broader distribution of corporate wealth among employees yields greater stability on financial markets.
Employee share ownership is an important motivational factor in a company, provided employed shareholders see the connection between their individual endeavours, the company's performance and the rewards obtained. Optimum results are achieved once the business has developed a corporate culture of participation. These schemes also benefit other shareholders, who gain from the performance improvements participation secures.
4. WHY DEVELOP EMPLOYEE SHARE OWNERSHIP AT EUROPEAN LEVEL?

Where is the value in promoting employee share ownership at European level rather than operating at national level within the Member States? Employee share ownership has developed in a variety of ways in the European Union. Trans-European information exchange, particularly on good practice and legislation, between employee shareholders, promoters of employee share ownership, businesses, social partners and the Member States will give all concerned a better basis on which to develop the best possible practice and prepare legislation in the light of the experience of the most advanced countries in this field. European firms are increasingly expanding their business beyond the borders of their base country to operate at international level. European law on share ownership and participation has not kept pace with this change. Many employee shareholders in Europe have seen their businesses taken over by companies from over the border and have lost access to the benefits of the participation system in force in their own country; some have lost their voting rights as shareholders from one day to the next. Others belonging to European multinationals have found that the participation scheme in the country of the parent company does not apply elsewhere. Legal disparities between countries are reversing progress and causing inconsistencies in the management of businesses, staff, participation schemes, remuneration, etc.
5. ACTION TAKEN AT COMMUNITY LEVEL

Little progress has been made since the Council of the European Union issued its recommendation on the promotion of employee participation in profits and enterprise results (PEPPER) in 1992.

The 1992 recommendation
In its 1992 recommendation, the Council of the European Union called on the Member States to encourage participation schemes, in particular by establishing appropriate legal structures and financial incentives and facilitating the supply of information to all parties. The Council also stressed the role of management and labour. It was a worthwhile first step, but recommendations are not binding on Member States, and this particular recommendation fell short of the European Commission's initial proposals.

The PEPPER I report
The Council's 1992 recommendation followed on from a Commission report known as PEPPER I. The introduction to that report stated:

"Little is known about the concrete application of PEPPER schemes in practice – the principal types, their diffusion over time, existing legislation, and the effects PEPPER schemes have on enterprise performance."

The report thus assessed the degree of employee participation in company profits (and not necessarily in the decision-making process). It examined the existing regulations in each country, but covered only "conventional" public- and private-sector companies (and not cooperatives). Nor did it take an intra-Community perspective: what happens when a company established in several Community countries sets up a PEPPER scheme in one of them? Do the company's employees in other European countries receive the same benefits?

The Commission proposed setting up a Community instrument designed in particular to facilitate information exchange between Member States. The PEPPER I report found substantial disparities between Member States regarding support for PEPPER schemes, and a lack of the information exchange on legislative aspects and good practice which could help increase the number of schemes in the Community.

It distinguished between three groups of European countries:
1. France and the United Kingdom, which have a long-standing tradition of incentives for financial participation
2. Belgium, Denmark, Germany, Greece, Spain, Italy, Luxembourg, Portugal, Austria and Sweden, where government support remains limited or non-existent
3. Ireland, the Netherlands and Finland, where governments appear increasingly to be supporting PEPPER schemes

The PEPPER II report
Five years on, the situation was largely unchanged: progress continued steadily in France and the United Kingdom, while in the other countries it was slow at best. Few governments had moved to promote employee share ownership and participation, and the disparities between Member States remained.

In its PEPPER II report (1996), the Commission reviewed progress on the issues addressed by the previous document and found that there had been no exchange of information between Member States on either legislative aspects or good practice.

The European Parliament resolution
The European Parliament concurred with the Commission's analysis, and issued a resolution in January 1998 proposing action at European level to secure progress.

The communication on risk capital
Furthermore, a communication on "Risk Capital – A Key to Job Creation in the European Union" published by the European Commission (DG II) in April 1998 emphasises the need to consider the benefits of employee participation and share ownership schemes at European level:

"In essence, what is at stake is the creation of a new entrepreneurial culture in Europe. The real political challenge is to provide the tools, enabling technologies and financial instruments for a new generation of European entrepreneurs to start up and succeed. To provide the conditions for European diversity to flourish. So European skills and knowledge can be translated into winning global companies. To create sustainable jobs and additional growth. In the European Union. (...) In the US, equity pay and employee ownership schemes have played an important role in helping to stimulate the growth of new, dynamic companies. In particular, they have enabled individual employees to
build up capital to start their own entrepreneurial activities, involved employees in the development and well-being of the company (helping to promote stakeholding and an entrepreneurial spirit) and eased the problems of company succession. The European Union should draw on the lessons of this experience."

**The social action programme 1998-2000**

"The Social Action Programme 1998-2000" sets out the Commission's guidelines on social policy in response to the problems of unemployment (jobs, skills and mobility), changes in the world of work (globalisation, the information society) and poverty and social exclusion. In the chapter on changes in the world of work, the Commission announces plans to:

"launch an initiative to encourage greater employee financial participation in companies by highlighting good practice and identifying obstacles, building on the 1992 Council Recommendation."
6. WHAT ACTION IS NEEDED AT EUROPEAN LEVEL?

Since 1991, the European institutions and Member States have issued a succession of opinions, proposals, recommendations and resolutions on PEPPER initiatives. The texts are given below (see section 7).

We have selected a number of proposals as the basis for debate at the European workshop on employee share ownership and participation on the priorities, content and form of measures to implement them.

Formation of a standing working party

In its January 1998 resolution, the European Parliament called on the Commission to set up a working party "consisting of representatives of both sides of industry, Members of the European Parliament and Commission experts".

This group will have the task of promoting the introduction of PEPPER schemes in equivalent conditions throughout the Community.

What are the preconditions for setting up a group of this kind? When and how could it be done? What should be its priorities and time frame?

MEPs, EFES and other partner organisations such as CECOP and ETUC have a key part to play in setting up a European Parliament intergroup, for example.

An adequately financed programme and pilot projects

Setting up a programme

The European Parliament also called on the Commission "to implement an adequately financed programme to promote the exchange of information and best practice, together with training for both sides of industry in financial participation schemes" and to develop pilot projects for the participation of undertakings e.g. in connection with the privatisation of State enterprises, including projects in the countries of central and eastern Europe.

Accordingly, European budget heading B3-4000 (industrial relations and social dialogue) for 1999 states that "pilot projects to promote financial participation by workers shall also be financed". The amount reserved for such pilot projects is not indicated. The social partners in central and eastern Europe are also eligible.

What is needed to take this further? Does the European Commission plan to put forward a full-scale, adequately financed programme?

Programme scope and content

The Community institutions have all recommended information exchange between the Member States, and agree that such exchange has been very limited to date. However, neither the development or expansion to European level of an information network on employee share ownership and participation nor the production and distribution of newsletters is currently eligible for Community support.

How should exchange and information systems be developed?

The social partners and employee shareholders also lack training with regard to PEPPER and the European dimension.

What would be the scope of an adequately financed programme? What, broadly, would be the content of such a programme: exchanges of information and experience, European networking, consultation of the representatives of employee shareholders and other parties in the social field, training, involvement of non-EU countries, etc.? Does the Commission intend to consult those concerned (employee shareholders, promoters of employee share ownership and participation, social partners, Member States)?

Our experience of the FIRST EUROPEAN MEETING OF EMPLOYED SHAREHOLDERS and the follow-up to it showed the great potential benefits of developing exchanges of experience, know-how and good practice with certain non-EU countries, in particular the United States and the countries of central and eastern Europe.

What should be the Community framework for such exchanges?

National bodies and legislation

Parliament recommended that the Member States "instruct national bodies to draw up schemes for promoting and encouraging financial participation schemes."

It called on the Commission "to study the need for a Community initiative concerning aspects of
policy on capital, for example a recommendation on the coordination or harmonisation of support for enterprises with a European dimension or to ensure the promotion of capital-forming payments to or by migrant workers."
The EP also called on the Member States to develop framework legislation. In 1992, the Council recommended that Member States ensure that legal structures are adequate and consider the possibility of according fiscal incentives and advantages. The Commission agreed, and further proposed developing a framework law in all the Member States and setting up PEPPER schemes in the course of privatising public bodies.

What are the prospects for the implementation of the European Parliament's proposals, in the light of the minimal progress made since the 1992 Council recommendation? What view do the Member States' representatives take on the matter?

How can the special cases found in multinational companies be accommodated? What obstacles remain to a European directive?
7. THE EUROPEAN INSTITUTIONS’ POSITIONS AND RECOMMENDATIONS SINCE 1991

The Council of the European Union, the Commission and the European Parliament have called for a series of initiatives.

**The 1992 Council recommendations**

The Council took the view that:

"it is appropriate to promote a wider spread of financial participation schemes within the Community (…);

"the interest and active involvement of management and labour in this Community initiative are a pre-condition for its ultimate success; (…)

"the present action appears necessary to attain, in the course of the operation of the common market, one of the objectives of the Community."

It invited the Member States:

1. "to acknowledge the potential benefits of a wider use, individually or collectively, of a broad variety of schemes to increase the participation of employed persons in profits and enterprise results by means of profit-sharing, employee share-ownership or a combination of both;

2. "to take account of the role and the responsibility of management and labour in this context, in accordance with national law and/or practice;"

and recommended that they should:

1. "ensure that legal structures are adequate to allow the introduction of the financial participation schemes referred to in this recommendation;

2. "consider the possibility of according incentives such as fiscal or other financial advantages to encourage the introduction of certain schemes;

3. "encourage the use of such schemes by facilitating the supply of adequate information to all relevant parties;

4. "take account of experience gained in other Member States when deciding on which participation schemes to promote;

5. "ensure that in the context of the laws, regulations and practice possibly existing in the Member States the parties concerned have a wide range of options or arrangements available, the implementation of which would, when suitable, be the subject of consultations between employers and employed persons or their representatives;

6. "ensure that this choice can be made at a level which, taking account of national collective bargaining legislation and/or practices, is as close as possible to the employed person and the enterprise."

The Council set out a number of conditions for promoting employee share ownership:

1. Regularity: the application of participation schemes on a regular basis and the granting of 'bonuses' at least once a year.

2. Pre-determined formula: the definition, in a clear way and before the beginning of each reference period, of the formula for calculating the amounts allocated to employed persons.

3. Maintaining wage negotiations: the existence of financial participation schemes should not stand in the way of normal negotiations dealing with wages and conditions of employment or of setting wages and working conditions through such negotiations. (…)

4. Voluntary participation: the opportunity for both enterprises and employed persons to express a choice, within the framework of any laws, regulations or agreements which may exist in the Member States, on the adoption of a participation scheme or on the
financial participation scheme or arrangements in which they wish to participate.

5. Calculation of amounts allocated to employed persons: the amount of bonuses should not generally be fixed in advance, but determined on the basis of a pre-determined formula reflecting the enterprise's performance during a certain period (expressed in terms of profits or any other indicator), the performance measure(s) chosen to measure the performances being clearly specified.

6. Amounts: the formula for calculating bonuses should be such that it will produce the expected incentive, although it should not exceed a specific ceiling (in relative or absolute terms) in order to avoid wide fluctuations in income.

7. Risks: employees should be made aware of the risks inherent in financial participation schemes; apart from the risks of income fluctuation inherent in participation schemes, employed persons may be exposed to additional risk if their participation takes the form of investments that are relatively undiversified; in this context, the possibility of providing for mechanisms to protect against the risk of depreciation in the value of assets merits consideration.

8. Beneficiaries: beneficiaries are primarily employed persons, i.e. wage-earners covered by employment contracts; as far as possible, access to participation schemes should be open to all persons employed by the enterprise. More generally, workers in similar objective situations should have equal rights with regard to access to participation schemes.

9. Enterprise type: participation schemes may be instituted by both privately-owned firms and public enterprises, as long as suitable indicators of enterprise results or profits are, or can be, made available.

10. Size of enterprises:
   (a) small and medium-sized enterprises should have adequate opportunities to be able to implement financial participation schemes; in particular, it is important to ensure that administrative constraints are few in number and that, if needed at all, minimum financial requirements are not too high;
   (b) in larger enterprises, especially multinational companies, it may be useful to link all or part of employee benefits to the performance of a separate profit unit rather than to overall enterprise results;
   (c) the size of enterprises may also affect the choice of the most appropriate scheme.

11. Complexity: complex participation schemes should be avoided.

12. Information and training: to ensure the success of any type of participation scheme, substantial efforts will be required to provide relevant information and, if need be, training for all employed persons concerned.

The Commission's proposals
DG V (Employment, Industrial Relations and Social Affairs), which coordinates Commission action on promoting employee share ownership, proposes in its PEPPER I and II reports to:

- provide for a stimulating climate
- stimulate information exchange between Member States
- make an appeal to the social partners
- avoid irresponsible risks for employees
- tackle the problems for intra-EU schemes involving subsidiaries in different national circumstances
- promote the development of clear and understandable models and plans for introduction
- develop a framework law in all Member States to integrate the regulations for all possible PEPPER schemes
- offer fiscal and other financial advantages
- clarify the distinction between wages subject to social charges and the advantages derived from PEPPER schemes
- enhance eligibility for PEPPER schemes
- promote a national wage saving system as a vehicle for share ownership and profit-sharing
- establish national institutions to develop systems for promoting PEPPER in the national context
- set up PEPPER schemes in the course of privatisation of public bodies
In its communication on "Risk Capital: A Key to Job Creation in the European Union", the European Commission (DG II – Economic and Financial Affairs) proposes measures and a 1998-99 timetable to:

"- Examine the advantages of equity pay and employee ownership schemes.
"- Explain the benefits of venture capital/equity participation and promote the role of entrepreneurship in society.
"- Review European practice as regards corporate governance."

**The European Parliament resolution of January 1998**

The European Parliament called on the Commission:

"- to conduct a study into the impact of financial participation schemes in Member States on employment, productivity and wage flexibility, and to assess the conditions for introducing such schemes in enterprises, in particular small and medium-sized enterprises;

"- to implement an adequately financed programme to promote the exchange of information and best practice, together with training for both sides of industry in financial participation schemes;

"- to set up a working party consisting of representatives of both sides of industry, Members of the European Parliament and Commission experts to promote the introduction of PEPPER schemes in equivalent conditions throughout the Community, in particular in transnational enterprises (...);

"- to study the need for a Community initiative concerning aspects of policy on capital, for example a recommendation on the coordination or harmonisation of support for enterprises with a European dimension or to ensure the promotion of capital-forming payments to or by migrant workers (...);

"- to develop pilot projects, along the lines it has itself suggested, for the participation of undertakings e.g. in connection with the privatisation of state enterprises, including projects in the countries of central and eastern Europe."

The EP recommended that Member States:

"- develop framework legislation in the Member States (promotion through fiscal law and/or bonuses);

"- instruct national bodies to draw up schemes for promoting and encouraging financial participation schemes;

"- include SMEs in any promotion through favourable treatment not only of the acquisition of bonded securities but also of forms of participation typical of these enterprises;

"- extend eligibility for financial participation schemes to all categories of employees, in particular part-time employees or those on fixed contracts;

"- set up financial participation schemes in conjunction with the privatisation of public-sector organisations;

"- ensure, in accordance with national practices, that financial participation systems are planned, introduced and supervised in cooperation between enterprises and employee groups;

"- provide appropriate information so as to forestall unreasonable risks associated with the issue of shares to employees (...);

"- promote the idea of supplementary old-age protection by means of the accumulation of capital by employees;

"- develop alternative forms of investment where it is impossible for employees to participate in equity, e.g. in the public service, or where such participation is rejected.

Such alternatives should provide SMEs with sufficient accumulated capital with which
to create jobs."

The EP called on both sides of industry at national and European level:

"- to organise information campaigns that will benefit the parties concerned and raise public awareness of the options;

"- to encourage PEPPER options as a feature of collective bargaining and to draw attention to the favourable impact these options can be expected to have on productivity, income enhancement, resources, employment and worker participation."
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