Bilbao, November, 21 of 2002

FOURTH EUROPEAN MEETING OF EMPLOYEE SHARE OWNERSHIP

WORKER-OWNED "SOCIEDADES LABORALES" COMPANIES IN SPAIN REALITY AND SIGNIFICANCE

Lecture delivered by:
Miguel Millana, President of the *Confederación Empresarial de Sociedades Laborales de España* (CONFESAL) (Spanish Business Confederation of Employee Owned Companies)

I. ORIGIN OF THE SELF-MANAGEMENT BUSINESS MODEL AND SIGNIFICANCE OF SUCH COMPANIES.

The first institution called a "co-operative" was created in Rochdale, England in 1843 (eighteen forty three), when twenty eight artisan weavers grouped together and created the first consumers' co-operative to overcome their financial difficulties. It took them nearly a year to draft the by-laws that would govern their social and economic activities, during which time they saved up what would be the organisation's initial assets - one pound per member. The twenty eight pounds they brought in enabled them to open a warehouse and stock it with staples they needed for themselves and their families.

They were the pioneers of the co-operative movement as we know it today. There were no geniuses or particularly enlightened persons among them, just ordinary townsfolk with exceptional will and ideas and the wisdom to base their association on the fair and democratic principles that still prevail in today's co-operatives.

The kernels of the major principles on which modern Co-operatives the world over are based were present in the fundamentals of the Rochdale society. There are six such principles:

1.- Open door.
2.- Democratic control.
3.- Limited, if any, interest on capital.
4.- Profit-sharing on a proportional basis.
5.- Provisions for training.
6.- Co-operation among co-operatives.

This brief review of the origins of the modern co-operative movement is merely the account of the crystallisation of an historic process dating back much further in time, whereby people's solidarity enabled them to surmount the difficulties involved in accessing goods or services, by uniting individual endeavours to reach their aims at the lowest possible cost.

It is, then, a self-managed business unit whose players are persons, usually with limited economic resources, who group together for a common purpose, such as access to steady employment.

II. EMPLOYEE OWNED COMPANIES ("SOCIEDADES LABORALES" (SAL)).

Initial significance and evolution.

When, in the late seventies, with the economic crisis at its worst, the governments of the day decided to provide regulated aid to corporate businesses, they did so to attempt to save business assets as far as possible, involving the workers (under the threat of long-term unemployment) in the management of companies in crisis.

It is unlikely that, in the early eighties, any of the politicians in the *Unión de Centro Democrático* - the party in power in Spain during the country's transition to democracy (1977-1982) - could have predicted that the Employee owned Companies ensuing from those emergency political measures would give rise to the creation of over eight thousand firms, six thousand of which were incorporated in the period 1986-1991).

According to today's adjusted figure, based on the nation-wide census of Employee owned Companies, there are around sixteen thousand (16.000) such companies that account for one hundred and five thousand jobs (105.000)..

We are, then, considering a sector of the economy whose turnover, nation-wide, comes to around, Euros 6.000 million.

The fact is that **Employee owned Companies have become alternative, self-managed businesses, far removed from their origin as emergency solutions to crisis situations.**

The fundamentals underlying S.A.L.'s (Employee owned Companies) differ from the purposes of mercantile companies, *inter alia*, with respect to shareholders' occupational and psychological motivations, as well as their social origins and financial resources.

Foremost among such motivations are:

1.- Employee owned companies shareholders do not, in principle, seek "speculative" earnings, nor high interest rates as a return on their investment.

2.- Neither do they pursue "ownership" of a company or means of production as an end in itself.

3.- Their primary purpose is to secure steady and well-paying jobs.

Such motivation has generally been well accepted in periods of economic crisis, and therefore of high unemployment, but as the situation improves, it is reinforced by the aspiration to have a business of one's own that provides independence from wage-based work and long-term stability deriving from company expansion. The new shareholders, then, are medium or highly skilled workers or employees.

The new business institution that such circumstances generate is characterised by at least three distinguishing features:

- The worker-businessmen involved tend to plan their investment strategies on a long-term basis.

- They have no special penchant for doing "fast" business that entails immediate returns and therefore "opening and closing" businesses. Consequently, they tend to create and expand the common business assets, as opposed to the alternative of distributing large dividends or profits.

- They are, then, "investment-minded" businessmen, strongly inclined to capitalise profits, since SELF-FINANCING is a primary concern. Their income stems essentially from their status as shareholder-workers.

Since, therefore, the returns on capital in the form of year-end dividends paid on their shares involve relatively minor sums, they will be extremely reluctant to forfeit their main source of income, which induces them to accept sacrifices vis-à-vis returns received and assume greater-than-normal risks.

- Shareholder-workers in **Employee owned Companies** (SAL's) naturally have very limited personal assets which, nonetheless, most of the them will risk to ensure company cost-effectiveness and continuity.

Employee owned Companies, legally instituted as such during the economic crisis, have managed to survive the effects of that crisis and consolidated their position during economic recovery. Their future, with a few exceptions, depends on their ability to overcome the difficulties with which small and medium-sized businesses are faced in general; this, in a nutshell, entails being sufficiently competitive.

The future development of Employee owned Companies is gaining strength as governments prioritise ways to combat unemployment; indeed, in view of the successful contribution they have made to the Spanish productive fabric in terms of creating wealth and employment, they can play a role in the development of business initiatives among social groups who had never before considered the possibility of a business of their own as a way of ensuring themselves steady employment.

III. GOVERNMENT AND EMPLOYEE OWNED COMPANIES

Employment constitutes a fundamental part of what citizens associate with the welfare state. It is becoming increasingly difficult to find people whose degree of social mainstreaming is not directly related to having a job.

Under present circumstances in Europe, employment has come to be the primary concern for all citizens.

How can the objective of socially acceptable employment levels be made compatible with security, wealth and social stability?

The agents at work and the economic forces behind them must be analysed, and the likelihood of their contributing to the total or at least partial solution to the unemployment problem evaluated. And yet, sight should not be lost of the fact that the fundamental issue turns more on the generation of wealth than on providing “false” employment to ultimately prevent social upheavals.

We are in the midst of a de-regulating movement, which in countries such as Spain constitutes the ideological grounds for present governmental action. This foreseeable change in the approach to the role of government in our country’s economic and social life calls for a debate on the State and the Market in relation to the severe unemployment problem.

The issue is posed, as in other aspects, in terms of market efficiency in reducing the imbalance between labour supply and demand.

The market is generally accepted to have a steadying influence on commercial relations, “balancing” supply and demand with pricing as a tool. Nonetheless, it is abundantly clear that the market cannot effectively allocate certain resources, such as medical or health services.

The evolution of the State’s role in the most developed countries from the end of the Second World War is proof of the fact that the market does not suffice to meet certain of citizens’ demands.

The question is: should the State assume an active role in promoting business activity?

In general, current expert opinion would seem to oppose such intervention. But when that reply is related to present levels of unemployment and the pursuit of solutions to mitigate the situation from an affirmative standpoint, i.e., creation of wealth, such opposition seems to be less categorical.

Indeed, it may be helpful in this regard to take a few minutes to analyse business reality based on collective self-employment models (Employee owned Companies or associated worker co-operatives) focusing on the production of goods and services. We are, then, going to look at only one of the various sectors comprising the Spanish social economy.

This business sector, then, with around sixteen thousand firms, employs over four hundred thousand people and generates sales of over 6.000 million Euro).

These business figures are possible thanks to the combination of a series of factors:

- Political will on the part of the party or parties supporting the government to provide alternative solutions to the unemployment problem
- Government understanding of the positive impact of collective self-employment (creation of wealth, worker assumption of responsibility and business risks, steady employment and distribution or reinvestment of profits)
- Establishment of policies to encourage business initiatives at levels of budgetary spending acceptable to public authorities
- Support, via subsidies, for the incorporation of new shareholders to worker co-operative corporations
- Adequate legal regulation
- Tax (smaller tax burden) and social insurance benefits (appropriate coverage under the most advantageous social security regulatory framework).

IV. 1997 ACT ON EMPLOYEE OWNED COMPANIES (SAL’S).

The pursuit of an appropriate legal instrument for business activity in which company workers are at the same time shareholders or owners continues. It began, as we indicated earlier, with Employee owned Corporations and the 1986 Act governing them. The reality is presently very good, since new legislation, Act 4/97, of twenty four March on Employee owned Companies has just been enacted which, with its provisions for regulating limited Employee owned corporations, has opened the door to the development of business initiatives by workers in our country. Although this would merit a speech of its own, I will limit my remarks to the most prominent features of the new act:

- two kinds of companies are regulated: Public Limited Labour Companies and Limited Labour Companies
- workers hold a majority interest in the capital stock, i.e., over fifty per cent

- a minimum capital stock of and 500.000PTA or 3.005 Euro is stipulated for limited Employee owned companies, which amount must be totally paid up when the company is incorporated.
- a minimum capital stock of 10.000.000PTA (60.101Euro) is stipulated for public limited Employee owned companies, twenty five per cent of which must necessarily be paid up when the companies incorporated and the rest within the term established in the corporate by-laws.
- any given shareholder may hold shares or a stake accounting for no more than one-third of the total. Governments and state-run companies in which they hold interests, non-profit associations and entities are excepted, in so far as they may have up to a fifty per cent interest in such co-operative corporations.
- shares are registered to ensure compliance with the terms of the act.
- social security coverage is mandatory for all worker-shareholders, be they administrators or otherwise, either under the general or special regulatory framework, depending on their occupation.

Other legal considerations:

- treasury stock is limited to ten per cent subject, further, to general legislation and to a maximum holding period of three years, although not in all cases.
- preferred purchase right priorities in the event of voluntary transfers are as follows:
    1. non-shareholder workers
    2. shareholder workers
    3. non-worker shareholders
    4. workers with no indefinite term employment contract
    5. the company
- Share transfer procedures are expedited in the event of mandatory sale due to expiration of the employment relationship
- Proportionality must be maintained among the various classes of shares in capital increases. Shareholders are granted preferred rights to subscribe shares within their own class of shares.
- Twenty five per cent of profit is earmarked for reserve funds.
- Corporate by-laws need not be adapted.

V. THE ROLE OF CLASS TRADE UNIONS

Trade unions have shown constant concern for the unemployment issue in Spain.

The exacting circumstances under which the country made its political transition from the Franco regime to democracy led unions to take an interest in affairs broader in nature than the mere vindication of worker rights.

The various national agreements signed by the social partners, together, on occasion, with the government, to consolidate the economy in situations in which democratic stability was at stake are clear examples of this. Issues relating to the improvement of the quality of employment terms and reduction in the proportion of temporary employment contracts have given rise to a campaign in favour of steady employment; this campaign is being conducted since 1997 under the leadership of the *Unión General de Trabajadores* (UGT) and the *Confederación Sindical de Comisiones Obreras* (CCOO), two of the major trade unions, to make the business world and the government aware of the need to change the policies that have made wage-based employment in Spain unbearably precarious.

In this context, UGT signed a co-operation agreement with the *Confederación Empresarial de Sociedades Laborales de España* (Spanish Business Confederation of Employee owned Companies) to establish a stable understanding with respect to issues such as employment, worker training, prevention of occupational hazards, trade union membership and international co-operation. Similar arrangements has been signed with Comisiones Obreras in October, 8 of 1997, thus formalising a line of work between Employee owned Companies and trade unions intended to establish a new kind of relationship since 1997, that has been a successful experience in the difficult world of trade union-employer relations.