



EUROPEAN FEDERATION OF EMPLOYEE SHAREOWNERSHIP

THE EUROPEAN FEDERATION OF EMPLOYEE SHARE OWNERSHIP:

Response to the Green Paper on Entrepreneurship in Europe

**Employee ownership and financial participation as a mainstay of
entrepreneurship**

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First of all, the European Federation of Employee Share Ownership (EFES) would like to congratulate the DG Enterprise for the comprehensive and high-quality work that has been carried-out in drafting the Green Paper on Entrepreneurship in Europe.

On behalf of members of EFES, we also wish to thank the DG Enterprise for the recognition that employee ownership and financial participation received rightfully as important contributor to job creation and development of an entrepreneurial mindset.

Beyond the traditional and exclusive praise and grooming of large national corporate champions, entrepreneurship in small and medium sized-companies is justly pinpointed as a major factor of employment growth.

The document fairly depicts all through its 25 pages, the multifaceted aspects of entrepreneurship, its implications and the many obstacles it encounters. In this account, employee financial participation appears on several occasions as regards employee motivation and involvement in entrepreneurial activities. The link between employee ownership and financial participation and entrepreneurship does not however limit itself to a few and circumscribed aspects of entrepreneurship. On the contrary, it is in many respects intimately associated with the very substance of an entrepreneurial mindset.

1. EUROPE'S ENTREPRENEURIAL CHALLENGE

The paper makes point that entrepreneurial activity can contribute to the achievement of the Lisbon Objectives and focuses on knowledge-based activities and services.

Employee ownership and participation is common in the knowledge sector and there are similarities with the service sector. In both, the human assets are essential components of business performance. In the knowledge industry human capital is the key and in service industries the employee is the customers contact point.

Employee ownership and participation serves several functions in this respect – it ties in key human assets; it links individual and company performance and reward and it thus engenders entrepreneurial attitudes. Further, with respect to the social aspects of the Lisbon Objectives, it helps spread wealth and brings more employees into business ownership.

The point has been well made that employee ownership helps achieve both economic and social goals.

We recommend that the contribution of employee ownership and participation to taking up entrepreneurial challenges be systematically placed on an equal footing with other forms of entrepreneurship.

2. THE DYNAMICS

The paper makes the point that the readiness to take risk is a key characteristic of entrepreneurial activity. Hence, if risk can be spread or reduced then relatively risk averse individuals may be encouraged into entrepreneurial activity.

Employee ownership and participation can help in this respect. As well as helping to develop more entrepreneurial attitudes through sharing in ownership it can help management teams reduce their burden of risk in a new venture, can unlock relatively significant amounts of internal investment whilst also increasing employee commitment and motivation in the new enterprise.

Bearing those specific features in mind, we invite the Commission to rethink the notion of risk by integrating its collective dimension and its inherent benefits in terms of efficiency gains. Through collective management and solidarity, an undertaking is less likely to fail.

3. WHY IS ENTREPRENEURSHIP IMPORTANT?

There is a strong corollary here between the arguments for entrepreneurship and employee ownership.

There is growing evidence that employee ownership supports growth in sales and employment, increases corporate performance, unleashes employee potential and brings a more inclusive approach to business and society. Similar arguments are made here for entrepreneurship.

Arguably, employee ownership has the added edge of spreading the benefits of entrepreneurial activity across a broader section of society and, when the argument for increased performance holds up, then the entrepreneur gains from a “bigger cake”.

4. THE CHALLENGE FOR EUROPE

The paper suggests that Europe exhibits less entrepreneurial dynamism than the USA.

The question has been posed as to whether good companies initiate employee ownership or whether employee ownership creates better companies. The answer would appear to be that it is in fact a two way process. It could be argued that a similar argument could be applied here. If employee participation was seen as a first step into entrepreneurial activity then the more employee participation we have, the larger the pool of potential entrepreneurs. The more risk could be spread, by increasing employee involvement, then the reduced risk would also create a larger pool of entrepreneurs. Hence, a two-way relationship could be in force, with employee participation feeding off and re-enforcing entrepreneurial activity.

In the EFES's view, the challenge often reside in merely making aware of the existence of alternative ways to individual entrepreneurship. Employee financial participation is foreign to most of the EU Member Sates, let alone the acceding countries. Ironically, dedicated funds have been made available to remedy the situation. However, an inexplicable lack of interest from DG Employment & Social Affairs have left those resources nearly untouched.

If we rapidly want to turn words into deeds, a proactive and coherent attitude from all the concerned Directorates General is required as well as a better access to funds primarily designed to support the Commission's policy.

Ideally, a better adequacy between policy goals and policy implementation should be achieved. In other words: DG Enterprise should be given a prominent say in financing policies in which it has a prevalent expertise. This eventually raises doubts about DG Employment & Social Affairs 's ability to carry-out the tasks entrusted to it, in particular when they bear a genuine attempt to tackle unemployment.

5. POLICY OPTIONS

The main issue of contention here would be the total lack of reference to any collective approaches to enterprise. This is mitigated to some extent by a passing reference to employee buy outs in the area of succession.

It would be accepted that there will be an emphasis on the individual motivation to become an entrepreneur but the previous comments on attitudes to risk are relevant here. Individuals who might not consider taking on the responsibility of running their own enterprise might be convinced to do so collectively with a sharing of risk and responsibility. Similarly, the collective approach to enterprise is more likely to provide broader societal benefits in terms of jobs, inclusion, wealth distribution, corporate governance and corporate social responsibility.

These points are of even more relevance in terms of promoting succession in existing enterprises, spin offs from existing firms but especially so in promoting entrepreneurship in education and training.

We therefore call on the Commission to include employee ownership and co-operative options in the options offered for all the above reasons.

In many regards, entrepreneurship can elicit from employee ownership adequate solutions to ensure the success of business transfers, buy-outs, or business creations.

The EU could promote entrepreneurship by

- **making it attractive to the retiring owner to educate their employees in business literacy and entrepreneurship and transfer ownership to them and by**
- **widening opportunities for employees to take over their employer company (by means of financial leverage and tax incentives to both). In case of retirement and succession, employee ownership (employee-management buy-out) could be an important avenue – as it is in the US.**

5.1. FOSTERING CAPACITY AND SKILLS

According to the world-wide experience, thoughtfully designed employee ownership and financial participation schemes go hand-in-hand with employee business literacy training, besides general employee involvement and participative management techniques. Such employee business literacy training programs help employees not only understand the business and think/act as co-owners, but prepares them to launch offspring business ventures as subsidiaries of the company or start their own entrepreneurial activity (“intrapreneurship”). Dissemination of already widely used US training methodologies (Open-Book Management, The Great Game of Business, etc.) or promotion of the development of new – European – ones could be an important accelerator of entrepreneurial thinking in the EU. Business literacy is an important ingredient of the ownership culture, which makes entrepreneurship a more viable and attractive choice for employees.

Entrepreneurship in Europe is very often forced upon employees

- either by being having lost job or
- by not being supported by the employer organisation in developing an idea into a product.

The European Union could support entrepreneurship by offering assistance to companies, who are active already or intend to be active in helping their employees to become business literate and especially to companies, who as co-investors help their employees to become entrepreneurs.

Legal, financial and taxation measures are important in transforming employee ownership and financial participation schemes into vehicles to achieve the EU goals for entrepreneurship.

5.2. TAXATION

With the exception of France, Great Britain and Ireland, taxation is a major issue for employee entrepreneurs who see their income charged twice or thrice as more because of their peculiar status.

We would like the Commission to urge the Member States on adopting tax regimes that not only relieve the burden of traditional entrepreneurs but also that of employee owners.

5.3. ACCESS TO FINANCE

It should be noted that employee financial participation opens up another source of friendly equity. In the UK context employee share schemes offer a highly tax efficient way of turning profit into equity investments held by a committed and highly knowledgeable group of stakeholders (the employees) who will typically take the long term perspective to company performance.

We consequently induce the Commission to taking into account alternative ways of accessing finance. Especially financing channels that lie beyond the traditional banking sector or loans by family and friends and where stakeholders are most likely to engage into a more stable and perennial venture.

6. INTRAPRENEURSHIP AND CORPORATE VENTURING

The only issue here would be that if the basic idea/research was largely funded from the public purse then there is an argument that any spin off should benefit a broad rather than a narrow group of employees and possibly even the local community.

If the broader employee grouping is taken into ownership then the previous arguments hold.

7. ENTREPRENEURSHIP'S ROLE IN ACHIEVING SOCIAL OBJECTIVES

This section seems to be paying lip service to the notion of the social economy.

In the UK we would be keen to emphasise social enterprises as businesses which have other social objectives, as well as the basic objective of generating profit. Any enterprise requires to be viable and profitable to survive, in social enterprises the more profitable it is the more it can pursue its social objectives. It is not just an alternative and cheaper way of delivering public services. It is a better way of working as witnessed by the success of the European co-operative and mutual sector and a necessary part of any competitive economy.

The EFES asks that more heed should be paid to the non-quantifiable benefits of certain business models. We insist on the adoption of an overall societal cost-benefit approach with regard to the forms of entrepreneurship existing in the third sector.

In Spain, the example of the employee-owned companies (Sociedades Laborales) has demonstrated in conjunction with professional and dedicated business services support, the ability of employee entrepreneurship to create jobs.

Since the late 1980's, 17.000 businesses owned by 35.000 employee owners have created more than 100.000 jobs.

The Spanish development of employee-owned companies in crisis-stricken areas have had an unrivalled success in Europe. Such models could inspire other European countries.

THE WAY FORWARD

If the Lisbon Objectives are to be achieved then employee ownership, financial participation and collective approaches to enterprise must be built into any policy agenda to produce businesses which are not only competitive and innovative but are inclusive, socially responsible, well governed and better places to work for the vast majority of EU citizens.

We encourage DG Enterprise to pursue its efforts and initiatives in favour of entrepreneurship and keep on taking into account the key contribution of employee ownership and participation. We must however deplore the lack of coherence in the Commission policy and in particular, the fact that other DGs, first and foremost those that are in charge of financing the promotion of employee financial participation, do not share the same clear-sightedness as DG Enterprise.

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