

# EMPLOYEE SHARE OWNERSHIP THE EUROPEAN POLICY



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EUROPEAN FEDERATION OF EMPLOYEE SHARE OWNERSHIP

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# EMPLOYEE SHARE OWNERSHIP THE EUROPEAN POLICY

## ABSTRACT

The major goal of the European Union's policy in this area was for nearly thirty years defined as "employee share ownership for all". Indeed solid evidence shows that the benefits of such a policy are great not only for employees and for businesses, but for society in general. Despite significant progress in Europe, the goal is still far from being achieved, especially in SMEs. The "missing link" is a European Action Plan. It was requested by the European Council in 2000, it was announced by the Commission in 2002, it was prepared by a Pilot Project in 2014 and it has still to be implemented.

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## 1. FOREWORD

This Report was prepared with the support of the European Commission - Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG Fisma) in the framework of the Capital Markets Union Action Plan.

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Employee share ownership, what is it?

It is simply when employees hold shares in the company they work for. It is from one share held by a single employee to 100% of shares held by all of them.

It can be the result of a normal share purchase or when employees contribute to the setting up of a new company, either in case of a business transfer to employees or a rescue plan. It can also be the result of benefit plans such as employee share purchase schemes (when employees may buy shares at a discount), stock option plans or other plans in large companies or SMEs.

In many cases, employee share ownership is linked to incentives, a form of remuneration. In many other cases, it is not.

## 2. THE EUROPEAN POLICY

Promoting the development of employee share ownership has been a European Union policy for nearly thirty years.

It was initiated by the European Commission through the publication of its "Pepper Report" in 1991<sup>1</sup>, considering that "there is a general political consensus that PEPPER schemes ought to be supported through government policies in order to assist their further spreading".

This was endorsed by the European Council in its Recommendation of 27 July 1992<sup>2</sup>:

- Considering that encouragement of financial participation in enterprises by employed persons 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; furthermore, the promotion of enterprise schemes for the financial participation of employed persons in enterprises encourages in particular greater involvement of employed persons in the progress of their companies.
- The Council invites the Member States 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.

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<sup>1</sup> [The PEPPER Report - Promotion of Employee Participation in Profits and Enterprise Results](#), European Commission, 1991

<sup>2</sup> [Council recommendation of 27 July 1992 concerning the promotion of participation by employed persons in profits and enterprise results \(including equity participation\)](#)

- The Council recommends the Member States to ensure that legal structures are adequate to allow the introduction of the financial participation schemes.

Ten years later, the European Parliament ordered an independent report<sup>3</sup> to check on the impact on economic performance, leading to the conclusion that "there is remarkable agreement across studies from more than 20 countries covering several tens of thousands of enterprises that financial participation has a positive or neutral effect on productivity. The finding is very robust, even though economic theory would predict both positive and negative effects".

In addition, the Lisbon Summit asked the Commission to go farther with a Communication and an Action Plan. This led to a Communication from the European Commission in 2002<sup>4</sup> on the framework and conditions for the development of employee share ownership, in short:

- Many studies and many concrete examples clearly indicate that if it is introduced in the right way employee financial participation does not only enhance productivity and the competitiveness and profitability of enterprises, but that it can at the same time encourage workers' involvement, improve the quality of work and contribute to greater social cohesion.
- The experience of the US shows the important impact financial participation can have in terms of economic growth, fostering industrial change and making sure that all workers participate in this growing prosperity.
- Given the various benefits of financial participation for enterprises and employees and its potential contribution to realising the objectives set out at the Lisbon summit, there is a need for all actors at all relevant levels – Member States, social partners, enterprises – to step up efforts to promote a wider use of employee financial participation throughout Europe.
- Financial participation is also an important instrument for recruiting and retaining staff. In addition, it improves the motivation of employees, enhances their loyalty and long-term commitment, increases productivity, and improves competitiveness and profitability.
- Financial participation is an excellent example of a policy which can simultaneously address economic, employment and social objectives in a mutually reinforcing way. When introduced in the right way, financial participation can render enterprises more profitable and competitive, improve the motivation, commitment and job satisfaction of workers, enhance the quality of work and last but not least contribute to a more equitable distribution of income and wealth.
- Employee financial participation has a positive impact on employment levels and it can in particular improve the stability of employment over the business cycle.
- The promotion of financial participation is thus also part of the structural reforms needed to realise Europe's potential for growth, employment and social cohesion.
- By providing a possible source of financing for start-up firms and by fostering an entrepreneurial spirit among employees EFP makes an important contribution in relation to entrepreneurship.

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<sup>3</sup> [Employee Participation in Profit and Ownership: A Review of the Issues and Evidence](#), European Parliament, 2002

<sup>4</sup> [Communication on a framework for the promotion of employee financial participation COM \(2002\) 364](#), European Commission, 2002

More recently the European Parliament came back to the topic in 2013<sup>5</sup> and in 2018<sup>6</sup> considering that EFP schemes "can bring stability, development and growth while reducing risks of over-expansion leading to job losses" and that they "have proven benefits for both employees and the company including in terms of sustainable governance, transparency, social dialogue, mutual respect between employers and employees, and other aspects such as recruitment, retention, motivation, job satisfaction and skills development, as well as overall performance and profitability".

Finally, the point was included in the European Commission Capital Markets Union Action Plan<sup>7</sup>, considering that research shows that companies partly or entirely owned by their employees are more profitable, create more jobs and pay more taxes than their competitors without employee ownership. At the macroeconomic level, employee financial participation leads to higher productivity and, therefore, higher competitiveness and growth as well as strategic stabilisation of ownership. At the company level, it can contribute to reducing problems such as absenteeism, labour turnover and the retention of key employees, as well as business succession and funding, especially in SMEs and micro-enterprises.

When detailing its policy choices in 2002, the Commission identified eight general principles of good practice in this sense (see Annex 1 for details):

- Voluntary participation
- Extending the benefits of financial participation to all employees
- Clarity and transparency
- Predefined formula
- Regularity
- Avoiding unreasonable risk for employees
- Distinction between wages/salaries and income from financial participation schemes
- Compatibility with worker mobility

It is remarkable that these principles essentially promote such practices for "all employees", while the seven other principles are rather about defining beacons in terms of information, education and risks.

In Europe in 2002, these principles summarized the generally observed practice in large companies and reflected a basic consensus.

Today, it is even truer. These principles can be seen in almost all large European companies. They are also relevant for employee share ownership in SMEs.

### **3. THE BENEFITS OF EMPLOYEE SHARE OWNERSHIP**

Sales and employment boosted by more than 2% a year in SMEs with employee share ownership compared to similar companies without ESOP plans in the USA... Only half the layoffs, bankruptcies or closings with employee share ownership... Lower job losses saved the Federal Government US\$ 17 billion in 2014 due to lower unemployment costs... Absenteeism reduced by 51% in large French companies... Hundreds of billions of Euro held by European employees in company shares... Representation of employee shareholders on the Boards of Directors of 30% of the largest companies in France...

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<sup>5</sup> [Resolution on financial participation of employees in companies' proceeds](#), European Parliament, 2013

<sup>6</sup> [Report on the role of employee financial participation in creating jobs and reactivating the unemployed](#), European Parliament, 2018

<sup>7</sup> [Communication from the Commission on the mid-term review of the Capital Markets Union Action Plan](#), European Commission, June 2017

Employee share ownership is much more developed today in Europe than it was when the European Union initiated its policy.

Facts and research have multiplied about the benefits of employee share ownership. It is generally recognized that when implemented appropriately, employee share ownership brings benefits to employees, to companies and to the society in general, at reasonable risks.

As declared by Scottish First Minister Nicola Sturgeon in her speech of 27 August 2018, "all the evidence tells us that employee ownership delivers benefits to business performance, the people who work in them and the places in which they are located".

A recent publication gathered all the facts about the benefits and risks of employee share ownership, as identified in academic studies and research works, as identified by the European institutions' positions and publications, as expressed by prominent political figures and by large European companies (see "[Employee Share Ownership - Benefits and Risks - Facts and Policies](#)", EFES, Brussels, July 2018).

Today the benefits of employee share ownership are better and better known, leading to the following complete list:

## **BENEFITS FOR EMPLOYEES**

- The company may grow faster and benefit from higher results.
- Employees may also receive better wages and benefits.
- They may accumulate more savings and are likely to build up a better retirement nest egg.
- They are less likely to be laid off in a downturn.
- They may be given opportunities to help their company succeed by actively participating in governance and decisions about their job.
- Employees may receive better financial information and education, including risk management.

## **BENEFITS FOR COMPANIES**

- Companies may grow faster, be more productive, and achieve better results.
- Companies may benefit from better governance, by including employee shareholders.
- They may be given the opportunity to rehabilitate share ownership as a positive value, as well as entrepreneurship.

## **BENEFITS FOR SMES AND COMPANY OWNERS**

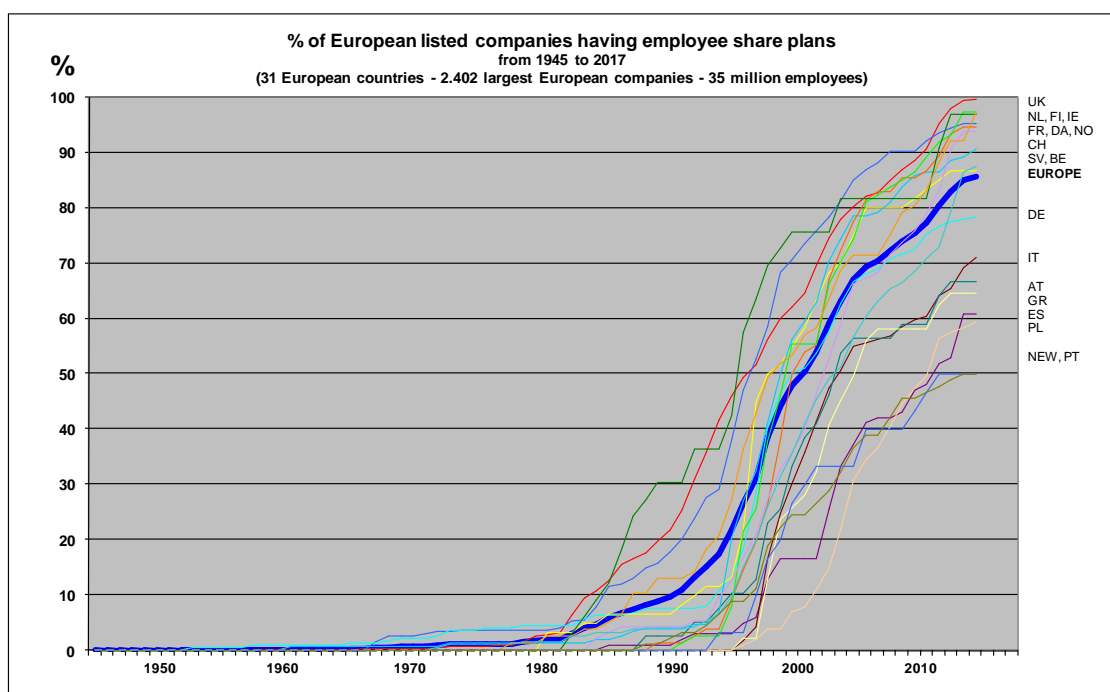
Selling the company to its employees through an Employee Stock Ownership Plan (the most typical employee share ownership scheme in the USA) allows US SMEs and company owners to:

- Finance the sale not with employees' money but with pre-tax profits the company earns in the future.
- Preserve the legacy of the business they worked to build. They can protect the jobs of the people who helped them along the way, and leave them in a situation where they are likely to prosper.
- Decide when and how they retire, what role they want to play in the company, and for how long. They and the other stockholders will receive the full appraised value of their shares, payable in one lump sum or over time - their choice, tax-free.

## BENEFITS FOR THE SOCIETY IN GENERAL

- The local economy will be more vibrant and achieve higher productivity.
- The wealth created will be shared more widely, leading to more broadly based prosperity and higher social cohesion.
- The economy will benefit from stronger (long term) savings and capital market development.
- The employee-owned companies will be less likely to move away, and their employees will be less likely than others to be laid off during a recession.
- It is the opportunity to champion an economic programme that is good for all and enjoys broad support.

## 4. EMPLOYEE SHARE OWNERSHIP IN LARGE EUROPEAN COMPANIES



As can be seen in the graph above, a strong development of employee share plans was observed in European listed companies during the last thirty years, in most European countries. Only 10% of all European listed companies had employee share plans in 1990. This rose to 50% in 2000 and 86.6% in 2017<sup>8</sup>.

How did it happen? For a large company looking for alignment of employees' and shareholders' interests, it is understandable that it is both more crucial and easier to adopt a top-down process for the implementation of ESO schemes.

Companies usually start with employee share plans for Executive Directors (4 persons on average in large European companies). They then introduce employee share schemes for senior managers (up to 1% of employees). Later for middle-management and for selected employees (up to 5 to 10% of employees), and a bit later still for all employees.

<sup>8</sup> [Annual Economic Survey of Employee Share Ownership in European Countries in 2017](#), EFES, Brussels, 2018

This entire process can take some years or some months. Historically, it can be observed that it usually needed more time in the past than it does today. Looking at IPOs today, it can be observed that companies usually launch at the same time a synchronized set of plans, for selected groups of employees and for all.

Employee share plans for selected groups of employees are usually described as "narrow-based" plans, while plans for all employees are described as "broad-based" plans.

In general, companies with broad-based plans also have the full set of narrow-based plans.

In 2017, 86.6% of large European companies had employee share plans as detailed in the following table:

#### Typology of employee share plans

Plan type	Target	Usual number of employees	% of large European companies	% cumulated
1	Executive Directors	1 to 10	4.0%	4.0%
2	Senior Management	Up to 1%	21.0%	25.0%
3	Selected employees	Up to 5-10%	10.0%	35.0%
4	All employees	100%	51.7%	86.6%

Narrow-based plans intended for selected groups of employees are typically performance shares and stock options. It is a form of remuneration, being usually conditional on performance goals. In most cases, such schemes are not linked to any fiscal incentive. Therefore, they do not have to face particular mobility barriers except those due to the various tax regimes in the EU. Of the 7.5 million employee shareholders in European listed companies, 0.2 million are related to narrow-based plans.

Broad-based plans intended for all employees are typically employee share purchase plans (ESPP). Employees are encouraged to buy shares with a discount of usually 10 to 20% of the market share price. Only this discount can be seen as a form of remuneration, while the remaining 80%-90% are the employees' personal investment. Of the 7.5 million employee shareholders in European listed companies, 7.3 million are related to broad-based plans.

The success of broad-based schemes depends essentially on fiscal incentives, the usual fiscal incentive being that the discount is free of tax and of social contributions.

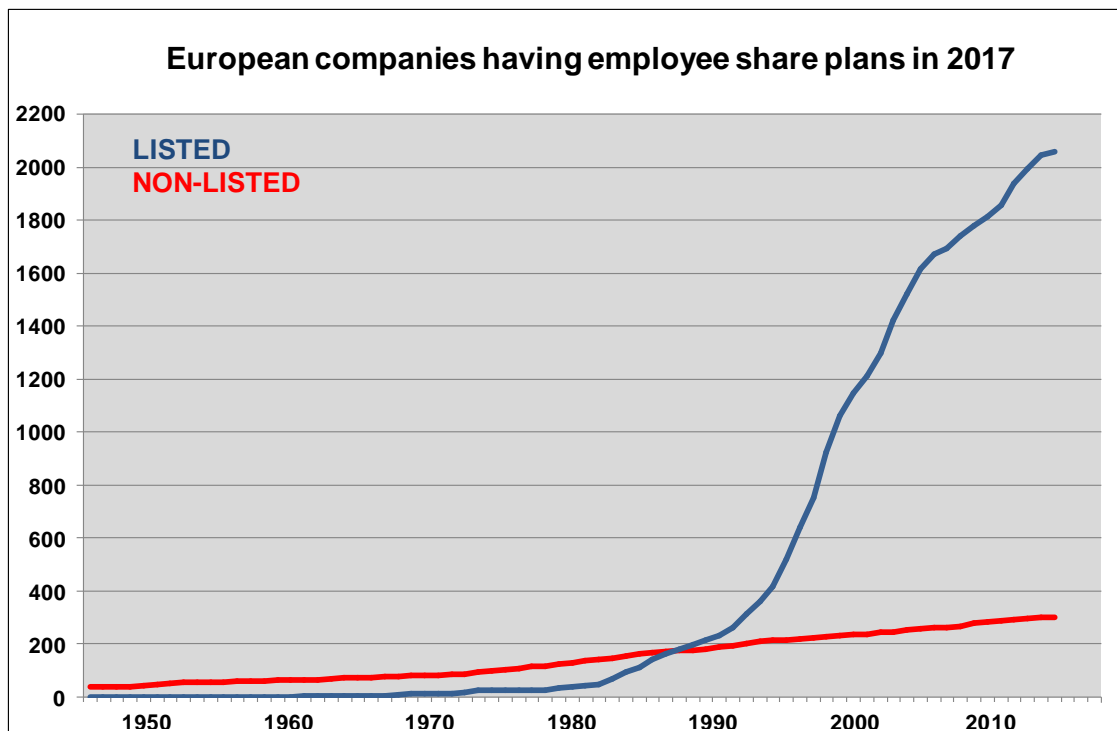
The discount can take various forms and it can be reinforced in different ways, as for instance free matching shares or companies' contributions (in France "*participation*", "*intéressement*" or "*abondement*"). As a usual counterpart to this benefit, a lock-up period of 3 to 5 years is imposed during which employees are not allowed to sell the shares. (In the UK, the usual way is a bit different: In the most popular "Sharesave Plan", employees don't purchase shares but receive options that may be exercised after 3 to 7 years).

The ownership of shares can be direct or indirect, through dedicated legal vehicles as for instance company investment funds in France ("*fonds commun de placement d'entreprise*"), share foundations in Nordic countries or in Austria, investment trusts in the UK. It is increasingly considered that such collective schemes are more effective than direct individual ownership.

Because the success of broad based employee share plans depends on fiscal incentives, the major barrier to employee share ownership for all is the nonexistence of any incentive legislation in a number of European countries.



## 5. EMPLOYEE SHARE OWNERSHIP IN EUROPEAN SMEs



As can be seen in the graph above, the contrast is striking between the development of employee share plans in European listed companies and in European SMEs.

The graph shows that Europe counted only 300 majority-employee-owned SMEs in 2017. This is to be compared with the some 10.000 ESOP companies in the USA.

Until now in Europe, employee share ownership schemes in SMEs are mainly workers' co-operatives (with significant numbers and economic impact mostly in Spain, Italy, France and the Czech Republic), and some particular trust schemes in the UK.

Recently, the attention of several European countries has turned to another ESO scheme for SMEs- stock-options for start-ups. New incentive legislation has been introduced for this in Ireland, France, Sweden and the Netherlands, and projects are also under discussion in Austria, Luxemburg and Switzerland.

In summary, incentive legislation to promote employee share ownership in SMEs is almost non-existent in Europe.

These poor achievements in Europe contrast with the successful development of employee share ownership in SMEs in the USA.

## 6. INTERNATIONAL COMPARISONS

Today employee share ownership is expanding around the world, in China and India and on all continents. However the most significant comparison for Europe is still with the USA.

Here is how Europe and the USA compare, for the number of employee shareholders and for the assets they hold in their companies<sup>9</sup>:

<b>Employee shareholders (in million persons)</b>		
	<b>EUROPE</b>	<b>USA</b>
<b>LISTED</b>	8	20
<b>SMEs</b>	1	14
<b>TOTAL</b>	9	34

<b>Assets held (in billion Euro and US\$)</b>		
	<b>EUROPE</b>	<b>USA</b>
<b>LISTED</b>	375	2500
<b>SMEs</b>	13	1300
<b>TOTAL</b>	388	3800

Europe appears to be very underdeveloped compared to the USA in employee share ownership.

Europe counts 9 million employee shareholders compared to over 30 million in the USA. With its population being twice the size, Europe should have six times more employee shareholders to be comparable with the USA.

On the other hand, European employee shareholders hold 388 billion € in shares of their companies (mainly large ones), while just the single ESOP scheme in SMEs counts for 1 300 billion \$ in the US.

In the USA as well as in Europe, employee share ownership is more developed in large and listed companies. Employee share plans are quite similar in both cases - employee share purchase plans for broad-based groups of employees here, employee stock purchase plans there, and stock options for smaller groups everywhere.

The major difference between Europe and the USA is to be observed in SMEs. Employee share ownership is widely developed in American SMEs while it is virtually non-existent in Europe.

This major difference lies in a single fact. The USA has for many years considered that the right point in an SME's life to consider employee share ownership is when passing a business to the next generation, in this case from older owners to younger employees. This is why an effective scheme was implemented in 1974 for employee share ownership in SMEs, with no equivalent in Europe. It is known as the "Employee Stock Ownership Plan" or ESOP.

The most typical employee ownership scheme in the US is the ESOP scheme, essentially shaped for SMEs, with practically no equivalent in Europe. In its leveraged version, the ESOP scheme encourages SMEs transmission to employees. It is designed as a pension plan, usually as a very long term operation (30 years). Financially it usually works as a leveraged buyout (LBO): As a legal person, the ESOP purchases the company shares thanks to a bank loan, for the benefit of employees. Employees don't invest any of their own money in the operation, they get shares for free, their risk is minimal. Year after year they accumulate rights to get shares of the company that they will exercise when they retire.

The ESOP scheme is a significant way for the US economy to provide bank financing for SME equity. The some 10.000 ESOP companies in the USA count some 14 million employee owners holding total assets of more than 1.300 billion \$. By comparison, Europe counts only 300 similar majority-employee-owned companies, with some 300.000 employee owners holding 13 billion € in 2017.

<sup>9</sup> [Annual Economic Survey of Employee Ownership in European Countries in 2017](#), EFES, Brussels, 2017. [A Statistical Profile of Employee Ownership](#), National Center for Employee Ownership, USA, 2017.

The effectiveness of the ESOP scheme is essentially due to strong tax incentives. On the one hand, capital gain tax exemptions do encourage family owners to sell to employees; on the other hand, tax exemptions on profits facilitate the whole scheme.

Ignorance of the ESOP scheme is a dramatic handicap for Europe.

Consequently, employee ownership contributes much more to entrepreneurial and employment dynamics and to the solidity and stability of capital markets in the USA than it does in Europe.

It is known that employee shareholders are mostly stable investors, acting for the long term as industrialists rather than just financial investors. They represent the closest link between finance and the real economy and the best embodiment of capital ownership democratization.

The underdevelopment of employee share ownership also hampers Europe in terms of productivity, growth, job creation, as well as in the fields of pensions or business transmission, especially for SMEs.

## 7. EMPLOYEE SHARE OWNERSHIP FOR ALL

As seen above, the main goal of the European Union policy was defined as "employee share ownership for all".

Until now, the EU failed to expand this goal to SMEs, as successfully done in the USA.

What about large companies? Here, it is significant to observe the development of broad-based employee share plans in large European companies.

The following table is based on the Annual Census of employee share ownership in large European companies organized by the EFES from 2006:

% of large European Companies	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Having employee share plans	86,6%	85,2%	82,7%	79,9%	77,8%	76,5%	74,3%	72,7%	72,0%	69,7%	66,6%	63,0%
Having broad-based employee share plans	51,7%	50,4%	48,8%	46,8%	45,5%	44,8%	43,6%	42,8%	42,2%	40,9%	39,2%	36,8%

Not only the percentage of large European companies having employee share plans increased strongly from 63% in 2006 to 86.6% in 2017 but the growth was even higher, from 36.8% to 51.7% for all-employee plans. This is the sign of significant success for the EU policy, and even more so, given the financial crisis from 2008.

However, the picture has to be studied more carefully.

As already mentioned, the key success factors of employee share plans for all are fiscal incentives.

It is a fact that many European Member States of the EU implemented incentive legislation to encourage employee share ownership "for all". However, being dependent on national tax policies, this "for all" concept means really "for all nationals".

Accordingly, when large European companies declare broad-based employee share plans "for all", they are in fact often limiting themselves to "all nationals".

It is frequently pointed out by large European companies that broad-based employee share plans face major barriers, the first one being that many EU countries simply don't have any incentive legislation.

How crucial is the problem? How many large European companies are really offering broad-based plans to all employees across Europe and how many of them are limiting themselves only to their nationals?

Here are the numbers:

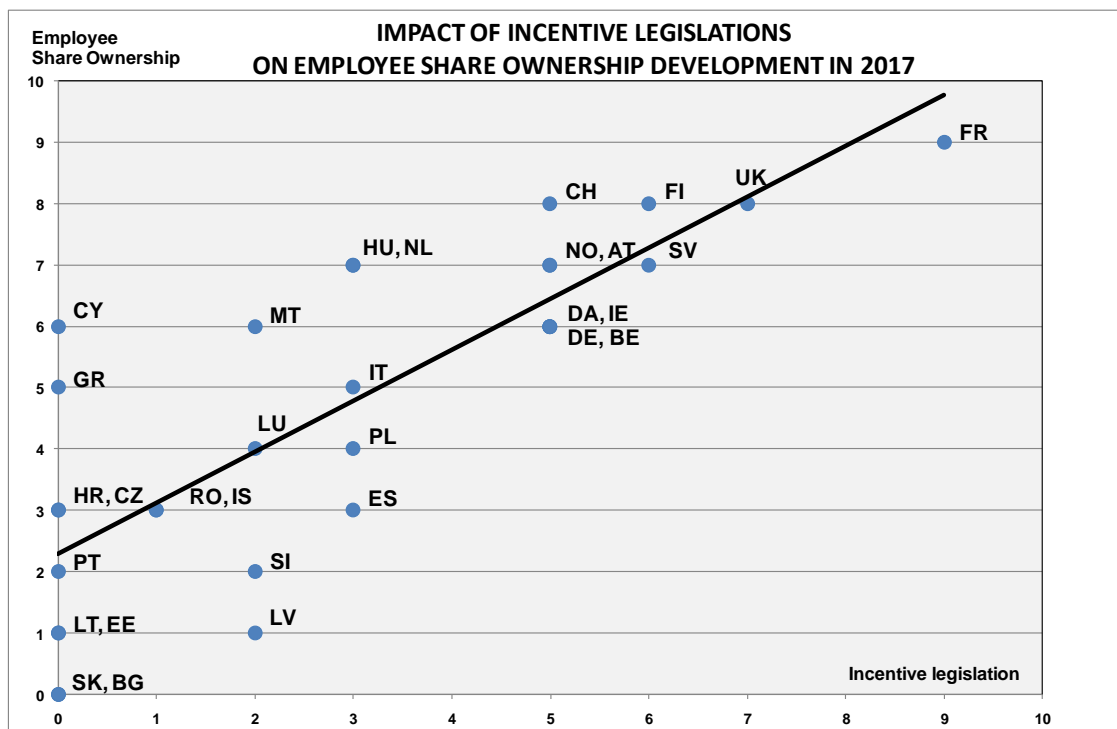
Compared to 51.7% of large European companies having broad-based plans for all employees in 2017, only 10.0% do have broad-based plans not only for their nationals but also for at least one country abroad.

This means that the EU essentially failed until now to promote its policy of employee share ownership for all, not only in SMEs but also in large companies.

## 8. KEY FACTOR OF EMPLOYEE SHARE OWNERSHIP POLICY

The key success factor for the development of employee share ownership is the availability of dedicated incentive legislations in European countries, as already underlined by the European Council in 1992.

Today, with many European countries having multiple laws and employee share ownership having expanded considerably, the following picture can be seen:



This picture confirms the strong correlation between the development of employee share ownership (from bottom to top) and the strength of incentive legislation (from left to right).

In this case, European countries have been ranked from 0 to 10 for the development of employee share ownership (using three indicators - percentage of employee shareholders amongst all employees, percentage of listed companies having employee share plans, stake

held by employees) and for their incentive legislation (being measured through three indicators - level of fiscal incentives, intended for broader or narrow groups of employees, through recent or older legislation) - See detailed table in Annex 1.

Twenty Member States are providing some incentive legislation in 2018 as compared to 18 in 2017 and 15 in 2015.

However, legislation is still absent in the following nine Member States of the EU: Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Lithuania, Portugal, Slovakia.

In addition, the following fourteen Member States don't provide any legislation promoting employee broad-based plans: Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia.

As a consequence, employee share ownership is geographically unbalanced within the European Union, with a lag of forty years between lead (North/Western) and lagging (South/Eastern) European countries.

This gap is detrimental to all. It demonstrates the need for fresh efforts to achieve European progress in this field.

In large European companies, employees in countries without legislation suffer negative discrimination. For the same reason, the mobility objectives in the Union are thwarted.

Practically all European listed companies are multi-nationals. 86.6% of them have employee share plans. They are all facing the same cross-border issue.

The first obstacle is that some 10 EU countries do not provide any incentive. It would be easier for all if each country would provide at least one simple, basic incentive scheme.

The second obstacle is the fact that most legal systems and incentives differ from one country to another.

## 9. EXAMPLES OF BEST PRACTICE

Amongst listed European companies having employee share plans for all employees across Europe, many are examples of best practice, with regard to the eight general principles of the European Commission.

Here are the best examples:

- From Austria Voestalpine
- From France Saint-Gobain, Arkema, Bouygues, Eiffage, Engie, Essilor Luxottica, Orange, Safran, Schneider Electric, Sopra Steria, Spie, Stef, Suez, Thales, Total, Vinci, Vivendi
- From Sweden Svenska Handelsbanken, Skanska
- From Germany Siemens
- From Spain Construcciones y Auxiliar de Ferrocarriles
- From Norway Veidekke
- From Italy Prysmian
- From The Netherlands Arcadis
- From Belgium Colruyt
- From Finland Fortum, Kesko
- From the UK Henderson, Johnson Matthey

Information about Voestalpine, Saint-Gobain and Veidekke can be found in Annex 3.

## 10. EUROPEAN ACTION PLAN

The need for a European Action Plan was underlined by the European Council in its Lisbon Summit in 2000.

It was announced by the Commission in its Communication of 2002.

The Public Hearing organized in the European Parliament on 22 March 2012 with the participation of Commissioner Michel Barnier<sup>10</sup> led to the conclusion that existing tools had reached their limits, that "information and education are clearly the key points", that it was time for a European Action Plan to raise awareness about the benefits of employee share ownership all over Europe. The Public Hearing pointed out the division of Europe between "countries that have moved ahead such as the UK, France and Northern countries,... while Southern countries like Portugal, Greece and many Eastern countries lag behind".

As a follow-up, the "Pilot Project for the Promotion of Employee Ownership and Participation" was organized by the European Commission in 2013-2014, with the conclusion that a European Action Plan focused in the medium term on an awareness-raising campaign should be launched.

Still now in 2018, the lack of information and awareness is the major fact in a number of EU countries as Bulgaria, Croatia, Cyprus, Czech Republic, Greece, Estonia, Lithuania, Malta, Portugal, Slovakia.

Incentive policies in this matter depend mainly on Member States' decisions. Such incentive policies depend on national debates between political leaders and economic and social actors. These debates can only be carried out in the language of each country.

To achieve the necessary progress, the European Institutions can play a limited but significant role by providing the basic information in each EU language, opening doors to the national debate and to adequate legislation.

This should be the role of a "Preparatory Action for the Implementation of a European Action Plan to promote Employee Ownership and Participation" in the next European Budget, as already proposed by MEPs Marian Harkin, Renate Weber and Elena Gentile in 2016 and 2017.

This Preparatory Action should be articulated under four headings:

- The launch of a virtual information centre in all EU languages.
- An action programme to raise awareness about employee ownership and participation.
- The setting up of a reliable information and statistical tool.
- The promotion of adequate national legislation providing optional simple, uniform incentive models.

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<sup>10</sup> [Report of the public hearing in the European Parliament on March 22, 2012](#)

## **ANNEX 1: EIGHT GENERAL PRINCIPLES OF GOOD PRACTICE**

- Voluntary participation

Employee share ownership should be voluntary for both enterprises and employees. The introduction of ESO schemes should meet the actual needs and interests of all the parties involved and should therefore not be imposed. Obviously, this does not exclude that some elements are made mandatory, or that it is introduced on the basis of legislation or collective agreements.

- Extending the benefits of financial participation to all employees

Access to ESO schemes should in principle be open to all employees. While a certain differentiation may be justified in order to meet the different needs and interests of employees, ESO schemes should aim at being as comprehensive as possible and treating employees on similar terms. Among the main benefits of employee share ownership are the increased employee solidarity, creating a feeling of belonging and improving motivation. Any discrimination between employees would run counter to these objectives and should therefore be avoided.

- Clarity and transparency

ESO schemes should be set up and managed in a clear and transparent way. This is important for the acceptance of such schemes and allows employees to assess fully the possible risks and benefits involved. Priority should be given to clear, comprehensible plans, with an emphasis on transparency for employees. In this regard it is particularly important that employees or their representatives are informed and consulted about the details of ESO schemes which are to be introduced. ESO schemes almost inevitably involve a certain complexity. It is therefore important to allow for adequate training for employees, to enable them to assess the nature and details of the scheme. Schemes should also be managed in a transparent way. Employees should receive regular information and should be informed about any developments which may have a major impact on their investment.

- Predefined formulas

This is a major element in ensuring the transparency of schemes. Also with view to the motivation, commitment and identification of staff it will obviously be preferable to adopt clear and predefined formulas.

- Regularity

ESO schemes should be implemented on a regular basis and should not be a one off exercise. This is all the more important, given that such schemes are aimed at enhancing and rewarding the long-term commitment of staff. Such regularity is also a factor for better financial performance and lower risk.

- Avoiding unreasonable risk for employees

Compared to other 'investors' employees tend to be more exposed to adverse economic developments affecting their enterprise. For them, it is not only their investment that is at stake, but potentially also their income and their job itself. However possible risks for employees depend to a large extent on the details of each plan, including for example the length of any retention period, provisions allowing an earlier sale of shares, or ceilings on the amounts that can be invested. Given the potential risks for the employees involved, due consideration should in any case be given in the introduction and running of ESO schemes to the avoidance of any unreasonable risks. At the very least, employees have to be warned of the risks of employee share ownership resulting from fluctuations in income or from limited diversification of investments.

- Distinction between wages/salaries and income from ESO schemes

A clear distinction has to be made between income from ESO schemes on the one hand and wages and salaries on the other. In some specific cases (for example for top executives or in the case of start-up firms) income from employee share ownership, and in particular stock options, may constitute an important part of the overall remuneration. In general, however, employee share ownership cannot be a substitute for pay and fulfils a different, complementary role. Any income from ESO schemes should therefore be paid in addition and above a fixed wage, which is determined according to national rules and practices.

- Compatibility with worker mobility

ESO schemes should be developed in a way that is compatible with worker mobility both internationally and between enterprises (whether company-driven or employee-driven). Policies towards employee share ownership in particular should avoid creating barriers to the international mobility of workers. One of the main objectives of ESO obviously is to enhance the long-term commitment and loyalty of employees to their enterprise. However, at the same time more and more employees are faced with increased demands for mobility and flexibility in working life. Adequate provisions that take into account both the company's interest in long-term commitment by their employees and the employees' right to mobility should therefore be included in the design of ESO schemes.



## **ANNEX 2: EMPLOYEE SHARE OWNERSHIP AND INCENTIVE LEGISLATION IN EUROPEAN COUNTRIES**

In this table, European countries are ranked from 0 to 10 for the development of employee share ownership and for their incentive legislation.

### **Development of employee share ownership:**

European countries are ranked from 0 to 10, the development of employee share ownership being measured using three indicators - percentage of employee shareholders amongst all employees, percentage of listed companies having employee share plans, stake held by employees.

### **Incentive legislation:**

European countries are ranked from 0 to 10, the effectiveness of incentive legislations being measured using three indicators - level of fiscal incentives, being intended for broader or narrow groups of employees, through recent or older legislation.

	<b>Employee Share Ownership</b>	<b>Incentive legislation</b>
<b>Austria</b>	<b>7</b>	<b>5</b>
<b>Belgium</b>	<b>6</b>	<b>5</b>
<b>Bulgaria</b>	<b>0</b>	<b>0</b>
<b>Croatia</b>	<b>3</b>	<b>0</b>
<b>Cyprus</b>	<b>6</b>	<b>0</b>
<b>Czech Republic</b>	<b>3</b>	<b>0</b>
<b>Denmark</b>	<b>6</b>	<b>5</b>
<b>Estonia</b>	<b>1</b>	<b>0</b>
<b>Finland</b>	<b>8</b>	<b>6</b>
<b>France</b>	<b>9</b>	<b>9</b>
<b>Germany</b>	<b>6</b>	<b>5</b>
<b>Greece</b>	<b>5</b>	<b>0</b>
<b>Hungary</b>	<b>7</b>	<b>3</b>
<b>Iceland</b>	<b>3</b>	<b>1</b>
<b>Ireland</b>	<b>6</b>	<b>5</b>
<b>Italy</b>	<b>5</b>	<b>3</b>
<b>Latvia</b>	<b>1</b>	<b>2</b>
<b>Lithuania</b>	<b>1</b>	<b>0</b>
<b>Luxemburg</b>	<b>4</b>	<b>2</b>
<b>Malta</b>	<b>6</b>	<b>2</b>
<b>Netherlands</b>	<b>7</b>	<b>3</b>
<b>Norway</b>	<b>7</b>	<b>5</b>
<b>Poland</b>	<b>4</b>	<b>3</b>
<b>Portugal</b>	<b>2</b>	<b>0</b>
<b>Romania</b>	<b>3</b>	<b>1</b>
<b>Slovakia</b>	<b>0</b>	<b>0</b>
<b>Slovenia</b>	<b>2</b>	<b>2</b>
<b>Spain</b>	<b>3</b>	<b>3</b>
<b>Sweden</b>	<b>7</b>	<b>6</b>
<b>Switzerland</b>	<b>8</b>	<b>5</b>
<b>United Kingdom</b>	<b>8</b>	<b>7</b>

## **ANNEX 3: EXAMPLES OF BEST PRACTICE**

### **VOESTALPINE**

Voestalpine, headquartered in Linz, Austria, is one of the biggest European companies in the steel industry, with 52.000 employees in 2017 and 8.25 billion Euro as stock market capitalization. It is present in some 50 countries with over 500 subsidiaries. In conjunction with discussions about the full privatisation of the corporate group undertaken in 2000, the group's Management Board, in co-operation with employee representatives in the Works Council, designed and implemented an employee share ownership and participation scheme through annual programmes which was unprecedented in Austria. The result is that in 2017, 25.100 employee shareholders hold a 14% ownership stake, being the second largest shareholder in the company. Each employee shareholder held on average 46.000 € in Voestalpine shares in 2017. Employees shares are administered by a special purpose foundation, the Voestalpine Mitarbeiterbeteiligung Privatstiftung, whose President represents them in the General Meetings of Shareholders. Key attention is paid to employees' votes, not only in Austria but in other countries, through internal votes organised annually before the General Meeting. In addition, the Foundation has had the power since 2004 to nominate a representative to the Supervisory Board. Employees' shares remain within the Foundation for the entire period of employment. The Voestalpine employee share ownership scheme is generally considered as a key factor of success for the group, by contrast with the difficulties of many other steel enterprises in Europe.

### **SAINT-GOBAIN**

Saint-Gobain, headquartered in Paris, France, is one of the largest European groups with 180.000 employees in 2017 and 24.8 billion Euro as stock market capitalization. Founded in 1665 during the reign of King Louis XIV as the Royal Manufactory of mirror glass, it is present today in 67 countries, providing a range of solutions for buildings as well as high-performance materials for automotive, aeronautical, health or energy industries. Employee share ownership is mainly organized and managed through the Group Savings Plan (PEG) which enables employees to acquire Saint-Gobain shares with a discount and, in some countries, from an additional company contribution (*abondement*). In return, a lock-up period of five years applies to employee shares in the savings plan, before they may be sold. During this lock-up period, employee shares are administered and managed through dedicated investment funds (FCPEs). FCPEs are managed by a Supervisory Board whose President represents employees' votes in General Meetings of Shareholders. Employee shareholders are also grouped in an employee shareholders association. In addition, employee shareholders are represented on the Board of Directors of the Group. Annual capital offers have been organised for over thirty years. In 2017, these offers were launched in 27 European countries. Through the Group Savings Plan (PEG) employees held a 7.4% stake with 12.8% of the votes in General Meetings of Shareholders in 2017, being the largest shareholder, ahead of BlackRock. Each of the 41.000 participants held on average 45.000 € in Saint-Gobain shares in 2017.

### **VEIDEKKE**

Veidekke, headquartered in Oslo, is the fourth building company in Norway, with 8.000 employees in 2017 and 1.3 billion Euro as stock market capitalization. Employee share ownership has been a key element for nearly 50 years in Veidekke, with a 15.1% stake held by employees, which makes them the second largest shareholder in the group. Since 1986, discount sales of shares to employees are carried out annually to all employees in Norway and in Sweden, with a lock-in period of two to three years. These sales are also encouraged through interest-free loans from the group. Employee shares are held directly, without any intermediary. Each of the 3.900 employee shareholders held 49.000 € on average in shares of the company in 2017. Employee shareholders are also present on the Board of Directors.



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The EFES' objective is to act as the umbrella organization of employee owners, companies and all persons, trade unions, experts, researchers, institutions looking to promote employee share ownership and participation in Europe.

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