

**APPENDIX**  
to the  
**OPINION**  
of the European Economic and Social Committee  
on  
**Employee financial participation in Europe**

**Appendix I**

**The Building Block Approach to an EU model**

The publication entitled “Financial participation for a new Social Europe” (available in EN, DE, FR, IT and PL at <http://www.intercentar.de/en/research/focus-financial-participation-of-employees/>) sets out the path to a European solution and could serve as background material for the EESC opinion. It is a response to the European Parliament's report on capital formation and the Commission communication referred to at the beginning of this opinion. The proposal that it puts forward for a Council Recommendation on a European platform for financial participation utilising the Building Block Approach could then be voluntarily implemented on the basis of reciprocal recognition. An example of this is the December 2009 recognition of the French FCPE model and its tax deferment by the German tax authorities (a decision was also taken on equal treatment of similar German models).

**Definition of the three basic elements of EFP**

Referring to the catalogue of minimum requirements (e.g., being transparent, broad-based, etc.) the Building Block Approach reflects the existing postulates of the European Commission and neither relies on nor excludes tax incentives. All elements are voluntary for both enterprises and employees. They can be put together in any combination with the different building-blocks tailored to the specific needs of the given enterprise. The building blocks should consist of the three basic EFP elements:

**1. Cash-based and deferred profit-sharing**

In cash-based profit sharing and deferred profit-sharing schemes, part of an employee's remuneration is directly linked to the profits of the enterprise. In contrast to individual incentives, this concept involves a collective scheme which generally applies to all employees. The formula may include profits, productivity and return on investment. Bonuses are normally paid in addition to a basic fixed wage and provide a variable source of income. They may be paid out in cash or on a deferred basis into a company saving scheme, and can be invested in the capital markets or the company's shares.

**2. Employee share-holding (stock options and employee shares)**

In share ownership plans, shares may be distributed for free or may be sold at the market price or under preferential conditions. The latter may include sale at a discount rate (Discounted Stock Purchase Plan), sale at a lower price through forms of delayed payment (usually within a capital

increase), or by giving priority in public offerings to all or a group of employees. To defer the valuation problem in unlisted SMEs, capital participation may initially take the form of an employee loan to the company, creating corporate debt (external capital) subsequently converted into company shares. Valuation of the shares designated for acquisition through the loan can be postponed until the moment of the actual conversion into shares (debt-to-equity) without impeding the implementation of the scheme.

Employee stock options, unlike executive stock options granted to reward individual performance, are broad-based. The company grants employees options which entitle them to acquire shares in the company at a later date, but at a per share price fixed at the time the option is granted. Potential gain from rising stock values is the primary reward conferred by options.

### 3. **Employee Stock Ownership Plans as collective schemes**

Employee Stock Ownership Plans (ESOPs) are funded by the company either contributing shares to the plan, contributing cash that the plan uses to buy shares, or by having the plan borrow money to buy new or existing shares. The schemes may be combined, resulting in the following essential structure:

- (i) The company establishes an employee share ownership fund in favour of its employees (in continental Europe in the form of a limited company, foundation or association; in the UK and North America usually a trust-ESOT).
- (ii) The fund is usually financed by a combination of company contributions and borrowings. Company contributions often are part of a profit-sharing agreement with the employees. The trust may borrow money directly from a bank or from the company, which in turn may take a loan from a bank or other lender. Shares are either acquired directly from the existing shareholders or by means of a new share issue.
- (iii) The shares are held collectively in the trust, and are only allocated to individual employees accounts, or distributed, after a particular holding period.
- (iv) The loan may be repaid by direct cash contributions from the company to the fund, monies received from sale of shares to the share-based profit-sharing scheme, or dividends on the shares held in the fund.

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## **Appendix II**

**Overview of national EFP models as of 2008, PEPPERIV report at:**

<http://www.eurofound.europa.eu/areas/participationatwork/pepperreports.htm>

Summaries in EN/DE/FR/IT/PL at:

<http://www.intercentar.de/en/research/focus-financial-participation-of-employees/the-pepper-iv-report/>

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## **Appendix III**

### **Examples of best practice**

#### **1. The French Auchan model for increasing employee loyalty and motivation**

In 1961, Gérard MULLIEZ opens the first store AUCHAN in the « Hauts Champs » area of Roubaix (Nord). Other openings follow, firstly in France, then in Spain, in Italy, in Luxemburg, in Portugal, in Hungary, in Poland, en Romania and also in China, in Taiwan, in Russia, in Ukraine and Dubai, i.e. 13 pays. 4 core businesses: hypermarkets, supermarkets, shopping centres, banking.

AUCHAN is the world's 11th largest food retailer and n° 7 in Europe. €39,7 billion in revenue before tax 2009; €2,348 billion in EBITDA; €661 million in profit for the year attributable to owners of the parent; 243 000 employees (average full-time equivalent).

A corporate vision: To improve purchasing power and quality of life of the greatest number of customers, with responsible, professional, committed and respected employees. **A single ambition:** To be a leading, innovative, multi-channel retailing group. **Unshakeable values:** Trust, sharing and progress.

An entrepreneurial project based on participative management:

- Share knowledge: training, information
- Share decisions: trust, enabling initiatives
- Share profit and stock: profit sharing and employee share ownership.

Financial participation, which complements individual earnings, is carried out by a compulsory profit sharing scheme ("participation" introduced in 1968) and a voluntary profit sharing scheme ("intéressement" introduced in 1972). In the framework of a savings plan these two schemes give employees the opportunity to acquire shares of the company.

Today AUCHAN GROUP stock is owned up to 87% by MULLIEZ Family and up to 13% by 110 000 employee shareholders in France, Spain, Portugal, Italy, Luxemburg, Poland and Hungary). The share value is fixed, yearly, by a college of 3 independent experts.

#### **2. Employee Stock Ownership Plans (ESOPs) as a UK business succession tool**

Employee share schemes are increasingly used in the UK as a business succession tool, though not nearly so often as in the USA. The main body of this report highlights the tragic situation all over Europe every year when privately owned businesses fold because their owners are no longer able to stay involved, but don't have anyone close to handover their business to, or who sell to asset strippers who close production centres and sack employees just to improve the operating margins of what survives. Owners who use ESOPs do not have to surrender control – they can sell ten, 20 or

30 percent of the equity to their employees if they choose. Some even decide to sell 100 percent of the business to their employees via one type of ESOP or another.

## 2.1 How is it done?

Set up an employee benefit trust. Basically, the company provides funds to the trustees, perhaps in the form of a loan. Alternatively, if the company is not privately held it can underwrite borrowing by the trust from a bank or other third party. The trustees use these funds to acquire shares from the retiring shareholder on impartial terms. The shares are used to set up an employee share scheme. This allows the owners to offer the chance of participation to all the full-time employees, under the same terms, though employees are not obliged to become shareholders. However, if a company's future is threatened - without radical re-organisation being imposed- then almost all the employees tend to participate. If established under a government tax-sponsored regime such as SAYE-Sharesave, Enterprise Management Incentive or the Share Incentive Plan (SIP), the employee share plan incentives will be taxed at low rates (or even escape tax altogether). A tax-efficient result is available for the selling shareholder, for the company and for its employees. These transactions can be attractive to proprietors who seek continuity in the business whilst receiving value for their shares.

## 2.2 An employee benefit trust is established

- The trust mechanism is financed by bank loans to purchase the company shares and to receive company profits to pay off the bank loans.
- The trust dispenses the shares to the employees through bona fide employee share schemes but also buys back the shares from the employees for subsequent recycling when they sell. Existing shareholders sell piecemeal to the employee share trust as a capital gains tax transaction to make shares available for employee share schemes and as a cash extraction mechanism. The shares are recycled through the trust for successive generations of employees who sell their shares on retirement.
- First, the company shares must be independently **valued** – not so easy if it's privately held. Obtaining value: the sale should take place on impartial terms, which will be subject to official scrutiny. HM Revenue & Customs generally attaches much lower values to private company shares than to quoted shares on the grounds that private company shares cannot be traded. If the sale has taken place at a price higher than HMRC consider fair they may seek to assess the difference to income tax. However if an employee trust has been established this can be used to create an **internal market** in the shares, which permits share sales by employees within the company. The existence of an internal market removes part of the justification for discounting the value of private company shares and can therefore result in a higher value.

## 2.3 Case history: Child Base

*Based in Newport Pagnell, Buckinghamshire, Childbase, which is 50% privately-owned and 50% employee-owned, recorded pre-tax profits of £2.7m on a turnover of £27.7m last year. It is currently 31<sup>st</sup> among the Sunday Times list of 'Best 100 companies to work for in Britain'*

What began as one nursery for 20 children in an English village is today a major business. As Child Base's chief executive officer Mike Thompson explains, his company operates 38 nurseries for children across south-east England, employing 1,100 staff. There has been a radical change in the long-term direction of the organisation, to carry Child Base forward as an employee-owned business. Child Base was a family business – Mike Thompson was in day-to-day charge and his father was the chairman. The Thompsons were the major shareholders, although the company also had a number of external investors. But over the past ten years this has changed. Staff at each of the nurseries have been encouraged to acquire shares in the venture, initially on a “buy one, get one free” basis, but most recently on a three-for-one basis. The remaining private shareholders are committed to transferring their shares to the Employee Benefit Trust, so that employees can either hold their own shares or own them collectively within the EBT. Meanwhile, the Thompson family holding is down to around 28 percent. The target for the next decade is to see the employee share holding increase to 100 percent.

Mike Thompson points out that shares have increased in value significantly over the past six years, with dividends increasing from 6p to 12.5p. Child Base organises share dealing days twice a year, in May and November, when shares can be bought or sold at the value set by the company's accountants. Child Base includes elected representatives on the Employee Benefit Trust, and Mr Thompson has to justify his position as chief executive by ability and not simply by the size of his share stake. Child Base's profits have provided a mechanism for the company (via the Employee Benefit Trust) to buy out some of the existing shareholders, including part of the Thompson family's own holding, an arrangement which Mike says offers investors a fair and equitable exit route.

#### 2.4 Case history: Parfett's

*Parfett's is a cash and carry business with operations at six locations across England.*

Alan Parfett started the company with his wife and eldest son Steve in 1980. Alan retired in 1989 and Steve Parfett took on the role of Managing Director. As Steve's own retirement approached, the issue of business succession was considered. With no immediate prospect of the business being handed over to a third generation, the Parfett family took the decision in 2008 to transfer into employee ownership.

*'We looked at all options, including a management buy-out, selling to overseas investors or selling to the competition,' says Steve Parfett. 'However, we did not want to see the company broken up and renamed. Having worked with John Lewis in my younger days, I spoke to them and began to appreciate there was a vibrant employee ownership sector, which sounded the ideal route to take.'* Steve says that the family felt it was more important to sustain the successful organisation built up over 28 years rather than to get 'top dollar' for the business: *'We're happy to do this to see the name of the business going forward and retaining independence.'* Parfett's two-stage process includes a phased handover to ensure continuity. The family has sold a majority shareholding to the employees,

demonstrating its commitment to employee ownership. The target is that Parfett's will be completely employee-owned within seven to ten years. (source: John Lewis Partnership).

### **3. The Voestalpine employee foundation as an example of strategic participation**

Voestalpine AG has had an employee share ownership scheme since November 2000. It was developed within the group and, with its focus on the "strategic ownership" of employees of their own company, it constitutes a special case in the discussion of employee share ownership. The long-term block vote of the participating employees makes the workforce, with more than 10% of the shares, a major shareholder in the group.

#### **3.1 The Voestalpine Group**

Voestalpine AG is an international group specialising in steel manufacture and processing. The group consists of five divisions and approximately 300 companies operating in around 60 countries. Group headquarters is in Linz, Austria. Total turnover of around EUR 8.55 bn and EBIT of EUR 352 m for the financial year ending March 2010, achieved despite the extremely difficult conditions of the worldwide economic crisis, make Voestalpine currently one of the most profitable European steel producers. Worldwide the group employs a workforce of 39 800, about half of them in Austria.

#### **3.2 Strategic basis and development of the model**

In the course of the discussions between group management and the works council on the full privatisation of the group in spring 2000 (at that time the government held a 38% stake - now the group is fully privatised), the idea was mooted - which was unprecedented in Austria at that time - of a massive workforce stake in an economically successful company. The workforce as a major shareholder would stabilise the ownership structure and support the long-term development of the group. In addition to this basic objective, workers were also to be offered the opportunity of participating in the company's success. A private foundation was jointly set up to manage the workforce's equity stake.

#### **3.3 The Austrian model**

The Austrian system of collective agreements provides for "opening clauses", under which parts of overall wage increases may be used for a specific purpose. This instrument was used on a number of occasions in Austria to finance share allocations in accordance with company agreements. Shares were also issued to workers regularly in connection with annual bonuses (profit-sharing). The tax relief available in Austria on share issues of this kind increases their value. All employees in Austria are included in the model on this basis. As the beneficial owners of shares, employees are entitled to dividends and they combine their voting rights throughout their period of employment at the group through the Voestalpine private foundation for employee participation. This joint management of shares by trustees makes it possible for the workforce to act collectively as a major shareholder at group general meetings.

### 3.4 **The international model**

Because of different legal bases, it has not been possible to "export" the Austrian model in its existing form. A compact model had to be developed which, despite major differences in tax law and also labour law in Europe, could be used in the most diverse countries. Beginning in the Netherlands (from 2004) and later in the United Kingdom and Germany (from 2009), a model of this kind was implemented following extensive development work. Employees were offered the opportunity of acquiring shares in their own company at discounted prices. The shares entitle their owners to dividends and cannot be sold for a period of five years. Voting rights are combined on an international basis through the Voestalpine private foundation for employee participation. The joint policy line to be taken in discussions at the AGM is hammered out through the group's European works council. The average participation rate for these three countries is around 15%. International employee participation is being steadily developed, with the planned successive integration of other countries.

### 3.5 **Experience at the group**

At present around 21 400 employees in 49 Austrian companies and 32 companies in the Netherlands, the United Kingdom and Germany own shares in their own company through the two variants of the model. In total employees currently hold 13.3% of voting rights in Voestalpine AG (more than 22 million shares) and thus at present constitute one of the group's three largest shareholders.

After ten years of experience of employee participation, the stakeholders in the model, management and the works council, but also the workforce as a whole, can conclude that the experiment has been successful overall. Share ownership has undoubtedly fostered greater identification with the company and encouraged employees to take a greater interest in the group's economic progress. The participation model makes it possible to participate personally in the company's success through dividend payments and possible increases in the value of shares by the time they are sold. In particular employee participation in the form of strategic ownership extends the workforce's opportunities for contributing to the group's long-term development, which can be seen as a useful complement to the participation rights of employee representatives laid down in labour law. The workforce's massive participation in Voestalpine AG's share capital also constitutes a "poison pill" to guard against hostile takeover bids, it brings stability to the ownership structure and offers partnership in major corporate decisions through group general meetings, in the interests of all employees.

With the development of this employee participation model, the in-house partners in Voestalpine AG have reacted creatively to new challenges. The model's success to date and its high level of acceptance by the workforce form the basis for ongoing development and the rolling out of employee share ownership to employees throughout the group.

## 4. **Cooperatives – Transferring ownership of an enterprise to its employees as a workers' cooperative**



Many companies disappear and will continue to disappear in France for want of anyone to take them over. One possible solution to this problem is insufficiently well known: the transfer of ownership of the company to its employees in the form of a workers' cooperative (French: SCOP). This means transferring to the workforce the means of production which they themselves have helped to prosper. It also involves the owner in a managed handover of control to company employees. The transfer is progressive as shareholders withdraw. In this way the industrial capital is preserved, along with the company's relationship with its customers, suppliers and partners. Sellers and buyers receive support throughout the process from the Scop Entreprises network.

The first step is to work with the seller and his entourage: accountant, lawyer, investment adviser and even the family. A complete case-by-case analysis is conducted of the appropriateness of a transfer of ownership to the employees. All obstacles are identified, both objective and real ones, and subjective ones - arising mainly from a change of perspective, in order to ensure that the employees will be able to keep the company on course. Management potential in particular is examined. More often than one might think there will be one or more individuals among the employees capable of becoming managers. And if not, external recruitment can be envisaged. Apart from the human aspect, there is also the financial one: Will the employees be able to finance the buyout?

Scop Entreprises explains in detail the advantages of a cooperative approach: indivisible reserves constituting a collective asset which ensures the company's financial soundness, fair participation in major decisions on the basis of the one person, one vote principle, close connection with the local area, motivation and dynamism harnessed to the project. Not only the seller but also the employees have to be convinced of their ability to take over their own company, with or without the assistance of one or more external buyers.

**Pierre LIRET** - [pliret@scop.coop](mailto:pliret@scop.coop); [les-scop@scop.coop](mailto:les-scop@scop.coop); [www.les-scop.coop](http://www.les-scop.coop)

#### 4.1 **Preserving the structure in competition with the major distribution groups**

*Récapé Scop SA, meat retailer, Haute-Garonne, 120 employees. Buyout from retiring owners in 2004.* The history of Récapé goes back to 1974, with its establishment as a limited company by Max Récapé. In 1998, eight years after the company went public, the founder retired and chose to sell out to company employees. In 2004 the shareholders' agreement expired and several of the managers retired. In order to prevent the generational transfer problem recurring, the youngest associates decided to convert the company into a workers' co-operatives.

"We became a cooperative in November 2004", recalls Michel Rayssac, CEO of the cooperative. "But according to the experts who advised us we had already been behaving like a cooperative for years!" Philippe Benzoni, accountant with the firm Sygnature, adds: "The Récapé shareholder pact described the operation of a cooperative without realising it! Rather than looking for an external investor, the associates decided to become a cooperative, a course of action which responded to the company's needs: to ensure stability, involve workers democratically and attract finance while reducing previously very heavy business taxes."

Opening up the company's capital to employees also boosted the company's equity. Since late 2005 all employees have been able to take a capital stake in the cooperative, following an information campaign by managers. "The objective of becoming a cooperative was twofold: to maintain the company's structure in competition with the major distribution groups and to bring about a transfer of ownership which treated everyone fairly", Michel Rayssac recalls. With just over 100 employees and 12 branches in the Haut-Garonne department, the Récapé cooperative is a major local actor in the meat trade (shops, processing of meat products, distribution). Its turnover for the last financial year was EUR 14 million.

Pierre Liret. Site : [www.recape.fr](http://www.recape.fr)

#### 4.2 **Ceralep, a world leader in its sector**

*Ceralep, electrical insulators, Drôme, 50 employees. Employee buyout following the company's liquidation by a pension fund in 2003.*

The Ceralep factory, at Saint-Vallier in the Drôme region, a manufacturer of electrical insulators for pylons and electrical cables, which seemed set to close in early 2004, was saved by its workforce who set up a cooperative. When the commercial court at Romans decided to liquidate Ceralep on 28 January 2004, only a few employees and trade union activists believed that the company still had a future. Among them were Bruno Piazza and his deputy, Robert Nicaise. The company was productive and the workforce skilled, but PPCI, the US pension fund which put the company into liquidation, had run down the company's business in order to poach its customers. The representatives of the CGT trade union on the works council lost no time and obtained promises of firm orders. They also had the idea of setting up a workers' cooperative. However, the savings of the employees interested in the scheme were not sufficient to raise the EUR 100 000 needed as a financial guarantee for the cooperative. The works council then made a public appeal in the markets of the region and distributed leaflets. The Drôme General Council and a number of municipalities contributed, and in less than four weeks contributions from employees and some 800 individuals made it possible to make an application to the Romans commercial court, which on 15 April 2004 ratified the establishment of the cooperative, which was able to keep on 53 employees out of an original total of 92. Robert Nicaise took on the management of the cooperative. Since the buyout, Ceralep has exceeded its targets each year (annual production 1 200 tonnes) and has moved back into profit. Today it is a world leader in the manufacture of very large, one-piece insulators, and the European leader in high and very high voltage insulators. The company has held onto its customers (Areva, Nexans, ABB, Siemens etc.) for its traditional insulators and it is working on new projects with the French atomic energy agency (CEA) for the storage of nuclear waste. Investment is the cooperative's priority: "The workforce knows that, if we are to meet orders, we need good production facilities, and that if we want wage increases, we have to make profits", Ceralep's CEO commented.

Website: [www.ceralep.com](http://www.ceralep.com)

Extract from an article by Gérard Méjean which appeared in Le Monde on 13 February 2007

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