

Presentation on the Pilot Project on Promotion of Employee Ownership and Participation

THE EC PILOT PROJECT: RESULTS AND POTENTIAL FUTURE STEPS

**NEW EVIDENCE BASED ON THE EUROPEAN COMPANY SURVEY (ECS)
“VIRTUAL CENTRE FOR EFP” & “CETREPS EFFECTIVE TAX RATE CALCULATOR”
PROPOSAL FOR A “COMMON EUROPEAN REGIME ON EFP”**

European Parliament, Committee on Employment and Social Affairs
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For more information <http://www.intercentar.de/en/research/focus-financial-participation-of-employees/>

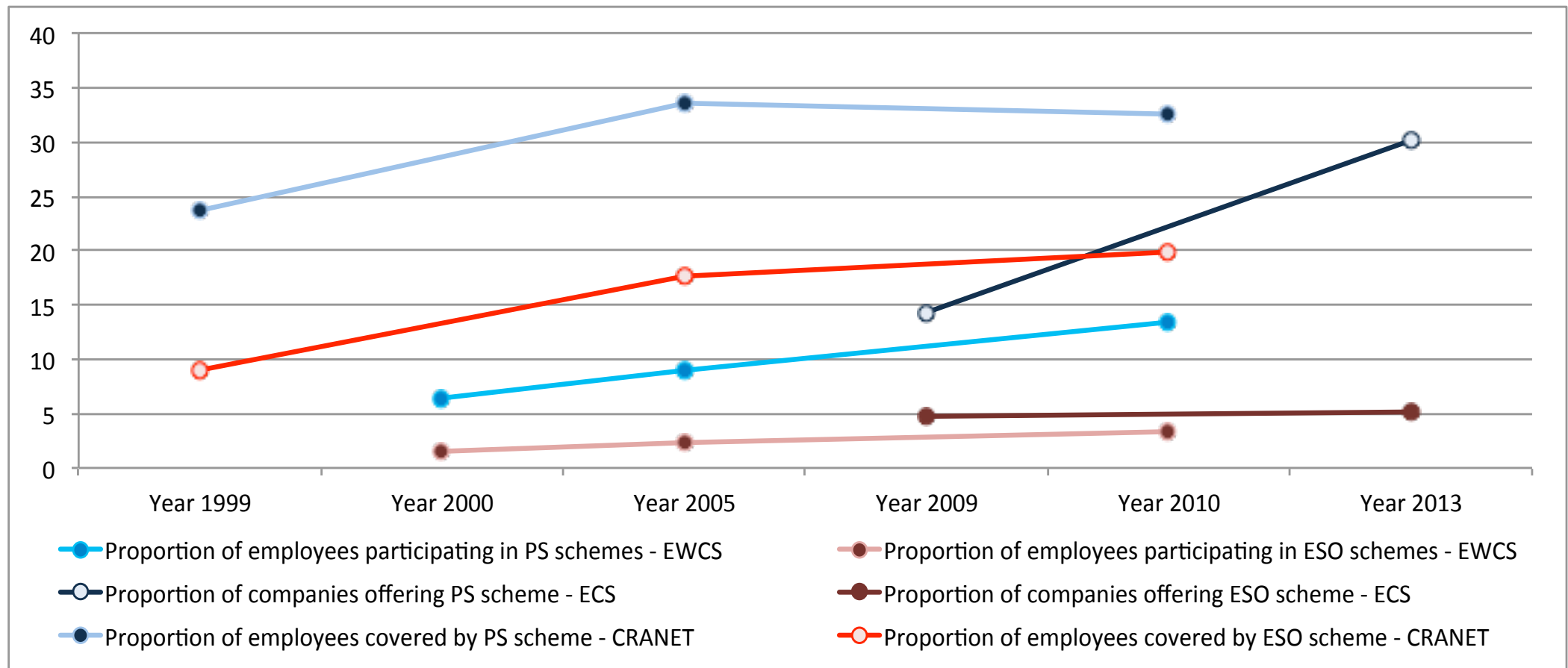
Overview of the issues

- **Dynamics 2000-2013 & Status quo**
 - The ECS data 2009 vs. 2013
 - Potential for the introduction of broad based ESO
 - Impact of an EFP scheme on companies' performance
- **Relevance to Integrating the Single Market**
 - Obstacles to EFP – focus cross-border plans
 - Problem: Small/micro-firms not embraced by support measures
 - EFP as an instrument for economic & labour market policies
- **New Policy Approach -> Pilot Project (DG MARKT)**
 - Proposed “Five-Point plan” to promote EFP
 - “Common European Regime on EFP” = optional EU framework
 - “Virtual Centre for EFP” & Effective Tax Rate Calculator (CETREPS)
- **Q & A**

PEPPER IV Report: EFP, though slow to take off, has picked up Surprising Momentum

EU-28 -> Conclusive evidence for a significant rise in the 1999-2013

- 2010 round of cross-country surveys confirms positive dynamic
- Expansion continues in spite of financial crisis (-> ECS 2009 vs. 2013)



ECS 2009 EU 28 -> Employee Share Ownership: 4.7 % / Profit Sharing: 14.3 %

ECS 2013 EU 28 -> Employee Share Ownership: 5.2 % / Profit Sharing: 30.2 %

Empirical Analysis of the ECS 2009/2013 data sets

Dynamics of the offer of EFP schemes

- **ESO:** increase of 10% / **PS:** doubled! -> explanation?
 - Incentivising employees in an environment of increased profit volatility risk
 - Increasing internal (wage) flexibility -> better react to unanticipated shocks
- Offer correlated to size and sector (*as expected*)

Econometric models

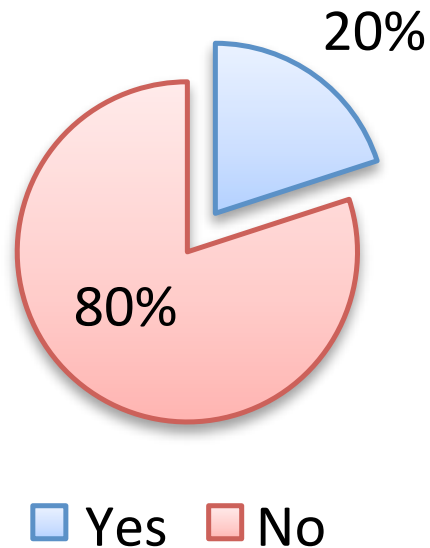
- Probability of a company offering an EPF scheme
 - > For both ESO & PS significant potential of EU firms to introduce schemes
 - Propensity Score Matching Technique (Determinants model)*
- The impact of an EFP scheme on companies' performance
 - > For both ESO & PS significant positive results
 - Seemingly Unrelated Probit Model (Performance model)*

EFP in the 2009 and 2013 ECS dataset

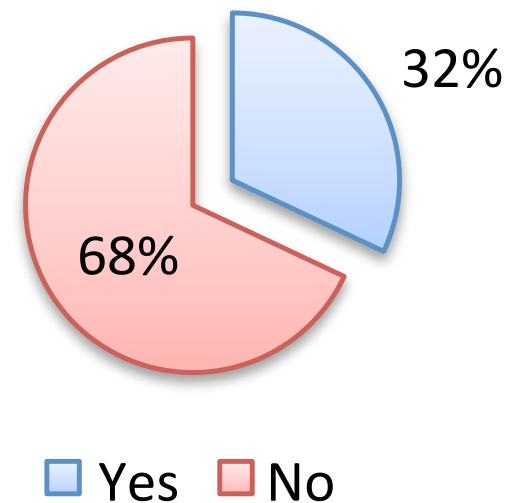
In the 2009 ECS dataset,
20% of private firms surveyed
practised a form of EFP

In the 2013 ECS dataset,
32% of private firms surveyed
practised a form of EFP

EFP 2009 (ESO or PS)



EFP 2013 (ESO or PS)

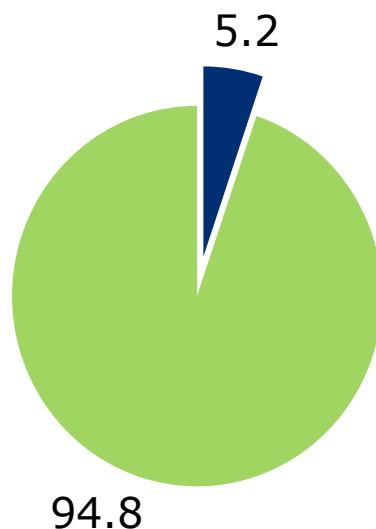


Potential for the introduction of broad based ESO across the EU 28 (ECS 2013)

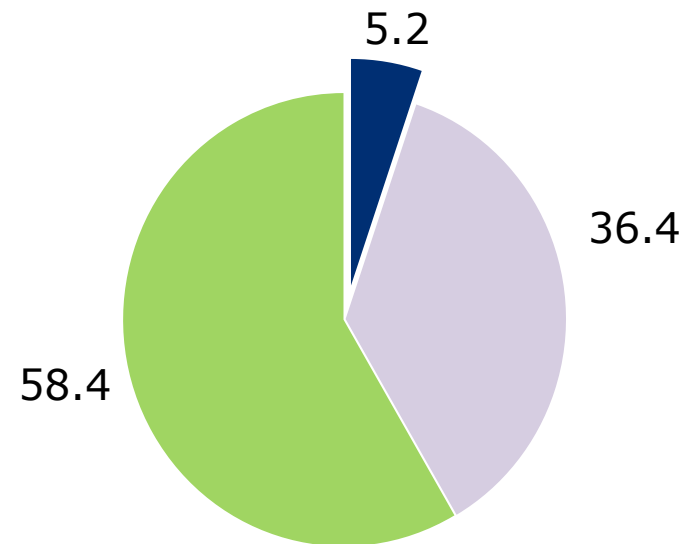
Propensity score matching based on *observable characteristics* of firms with ESO -> Estimates of how many can be expected to introduce ESO:

- **around 36.4% of all enterprises (ca. 600,111 firms)**
-> around 24.4% of all small enterprises (ca. 336,856 firms)

If we apply an error margin of 50% (not all characteristics are observable) we still arrive at **300,056 firms** and 168,482 small firms



■ Companies that offer an ESO scheme
■ Companies that do not offer an ESO scheme



■ Companies that offer an ESO scheme
■ Companies that can potentially offer an ESO scheme
■ Companies that do not offer an ESO scheme

Obstacles to EFP – focus cross-border plans

(1) Disparities between the national rules of MS obstructing the fundamental freedoms and creating distortions of competition
(e.g.: rules pertaining to the involvement of employees in the introduction of such schemes, the coverage of EFP plans, the eligibility criteria, the retention period, or the rules on investment and administration of funds)

(2) Different regulatory density

- some countries (e.g., France, Belgium, the United Kingdom, Ireland and Slovenia) provide detailed rules on and considerable support for EFP schemes,
- a large number of MS (incl., e.g., Germany, the Netherlands and Poland) stipulate only a few rules for the implementation of EFP schemes
- some countries (such as Luxemburg, Portugal and Sweden), have been passive with no specific regulations on EFP

(3) Taxation & social security contributions -> Lack of transparency

- uncertainty and/or complexity of fiscal treatment (e.g., incidence & timing)
- differences in fiscal treatment for employers and/or employees;

Problem: Small/Micro-Enterprises are not embraced by support measures

As the largest employer, SMEs are crucial to Economic Policy

- EFP can provide a solution to the business succession problem
 - ComCom 2006: 30% of entrepreneurs will withdraw within next 10 years
 - 2011 estimates: up to 450,000 SMEs & 2 million jobs in EU affected *every year* / ca. 150,000 firms don't find a successor resulting in a loss of about 600,000 jobs
- Employee buyouts can ensure the transition in ownership and management of family firms (Best practice: ESOPs -> UK/IE/US)

Labour Market Policies -> Reactivating unemployed through ESO

- Spain “Sociedades Laborales” (2011: 13,465 SL employing 74,438)
- Special form of corporation: >50% of shares owned by employees:
 - The unemployment benefit paid out as a lump sum can be invested in a start-up or in an existing SL (no subsidy! -> only what they would receive anyway)
 - One key-factor of success: These start-ups are assisted in their development

EC Action Plan to modernise Corporate Governance

EP-Initiative Report & Resolution

2012 EC Action Plan

ESO = **long-term investment** -> stabilising effect on capital markets
-> is seen as counter weight to speculative short-term investment

EP Resolution on EFP of 14 Jan. 2014 calls on Commission

- > to assess different forms of information centres for EFP
- > to assess a “Common European Regime on EFP”
 - options for harmonisation with 28 MS: (1) Minimum EU requirements
 - or (2) an EU option parallel to national law
- > to provide for transparency for ESO schemes
 - esp. in calculating the effective tax burden across the EU-28
 - in order to prevent double taxation and discrimination
- > develop guidelines on taxation

Proposed “Five-Point plan” to promote EFP – coordinated and promoted by the Commission

Short term: launch a “*Virtual Centre for EFP*” (as presented in Study)

- making **necessary & relevant information** provided by this Study available to those needing such information (especially SMEs)
- include an **effective tax rate calculator**, a decision-making tool comparing social security contributions & taxation of EFP in the EU-28

Medium term:

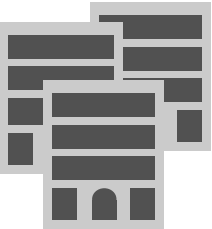
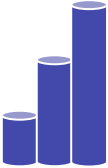

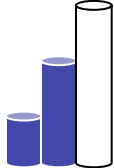

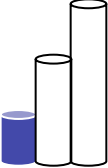
- Set up a **Commission Expert Group**
- Implement an **Action Programme to raise awareness for EFP** with a set of measures (e.g., a European EFP Day), accompanied by a PR strategy
- Promote best practice for EFP: Launch a **Code of Conduct for EFP** -> standard templates for EFP schemes & guide on EFP for employees

Long term:

Legislative proposal: An optional ***Common European Regime on EFP (CEREFP)***

Comparing the different Options

for EFP Centres

		COSTS	READINESS	CHANGE	MANAGEABILITY	PROMOTION
	28 PHYSICAL CENTRES FOR EFP		MID-TERM	SLOW	DECENTRAL	FROM START
	ONE EUROPEAN CENTRE FOR EFP		MID-TERM	FAST	CENTRAL	FROM START
	VIRTUAL CENTRE FOR EFP		SHORT-TERM	FAST	CENTRAL	CO-MARKETING WITH AGENT

European Added Value of a “Virtual Centre for EFP”

-> Facilitating implementation of EFP plans

Plan Design: Choosing best plan for max. employee benefit

Acceptance by Market? -> Lowering implementation threshold

- “Virtual centre for EFP” = information source
- “CETREPS” calculator is an instrument to plan EFP schemes

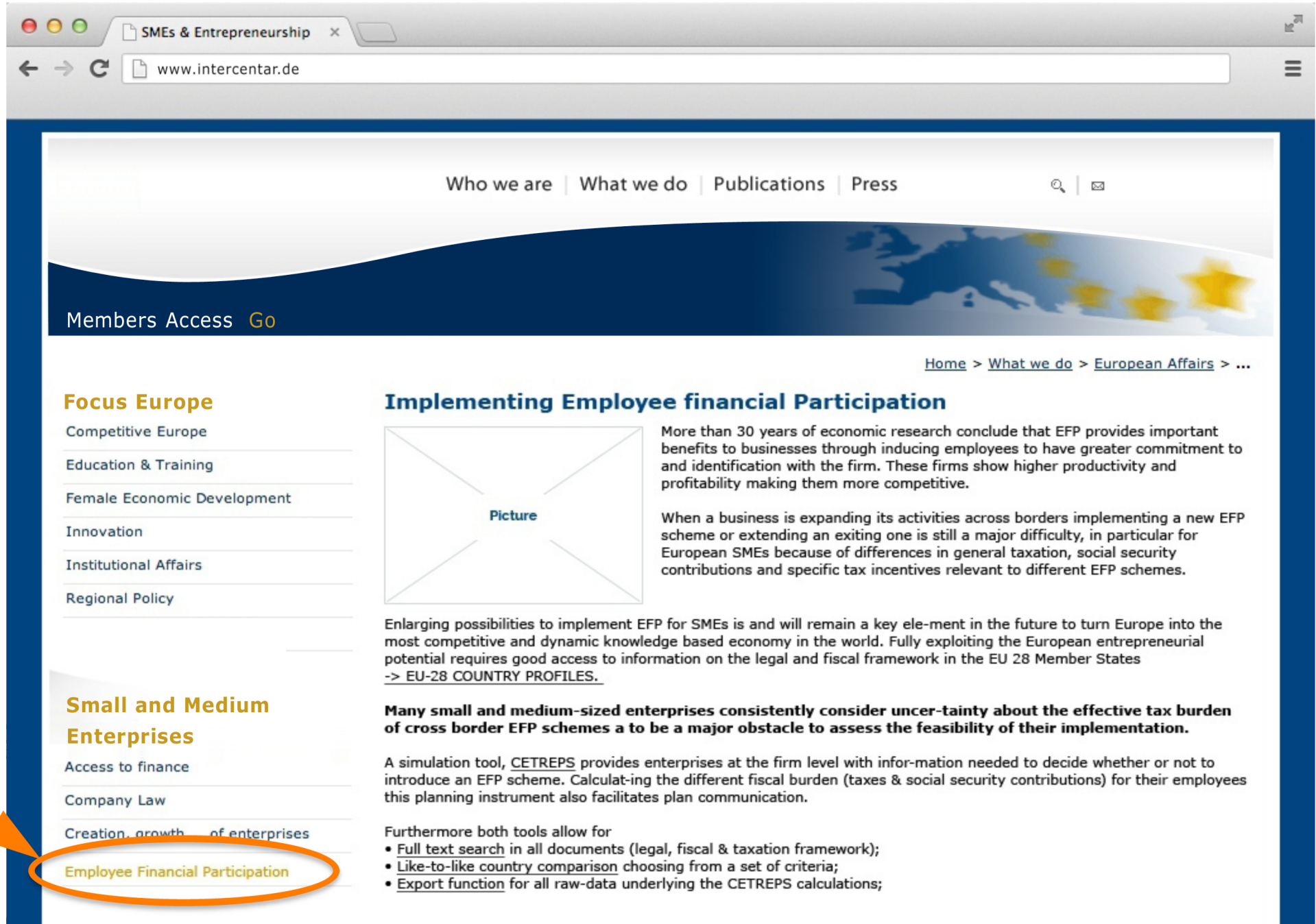
Barriers to implementing EFP: Costs for SMEs (estimate for 3 countries -> Euro 10,000.- for expertise on tax/fiscal issues)

- Preliminary comparative calculation of tax burden -> Feasibility

The “Virtual Centre for EFP” as a **web-based plug-in**, could be easily integrated into an unlimited number of existing websites.

Well-established information channels used by the target groups would have a **multiplier-effect** -> coverage is potentially wide and cost low

Embedding the widget/plug-in on host websites: Creating the subtopic “Employee financial Participation”



The screenshot shows a web browser window with the address bar displaying www.intercentar.de. The website has a blue header with navigation links: [Who we are](#), [What we do](#), [Publications](#), and [Press](#). Below the header is a banner image of the European Union flag. A sidebar on the left contains two main sections: **Focus Europe** and **Small and Medium Enterprises**. The **Small and Medium Enterprises** section has a list of links, with **Employee Financial Participation** highlighted by an orange circle and an orange arrow pointing to it. The main content area features a section titled **Implementing Employee financial Participation**, which includes a placeholder for a picture and several paragraphs of text. The text discusses the benefits of EFP, the challenges of implementing it for European SMEs, and the availability of a simulation tool called CETREPS.

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Focus Europe

- [Competitive Europe](#)
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- [Regional Policy](#)

Small and Medium Enterprises

- [Access to finance](#)
- [Company Law](#)
- [Creation, growth of enterprises](#)
- Employee Financial Participation**

Implementing Employee financial Participation

More than 30 years of economic research conclude that EFP provides important benefits to businesses through inducing employees to have greater commitment to and identification with the firm. These firms show higher productivity and profitability making them more competitive.

When a business is expanding its activities across borders implementing a new EFP scheme or extending an exiting one is still a major difficulty, in particular for European SMEs because of differences in general taxation, social security contributions and specific tax incentives relevant to different EFP schemes.

Enlarging possibilities to implement EFP for SMEs is and will remain a key element in the future to turn Europe into the most competitive and dynamic knowledge based economy in the world. Fully exploiting the European entrepreneurial potential requires good access to information on the legal and fiscal framework in the EU 28 Member States
-> [EU-28 COUNTRY PROFILES](#).

Many small and medium-sized enterprises consistently consider uncertainty about the effective tax burden of cross border EFP schemes to be a major obstacle to assess the feasibility of their implementation.

A simulation tool, [CETREPS](#) provides enterprises at the firm level with information needed to decide whether or not to introduce an EFP scheme. Calculating the different fiscal burden (taxes & social security contributions) for their employees this planning instrument also facilitates plan communication.

Furthermore both tools allow for

- Full text search in all documents (legal, fiscal & taxation framework);
- [Like-to-like country comparison](#) choosing from a set of criteria;
- [Export function](#) for all raw-data underlying the CETREPS calculations;

Providing transparency for taxation & facilitating implementation of the Common EU Regime

CALCULATING EFFECTIVE TAX RATES FOR EMPLOYEE PARTICIPATION SCHEMES (CETREPS)

An **online tax rate calculator** would facilitate EFP plan implementation;

CETREPS would provide **enterprises at the firm level** with information indispensable to take a decision on introducing EFP schemes, esp.:

- the differences in the fiscal burden (taxes *and* social security contributions) for their employees -> ***Planning & Communication***

CETREPS would provide **governments** with information to simulate fiscal:

- impact of tax incentives for EFP -> ***Regulatory impact analysis***
- effect of recognition of an EFP scheme -> ***Mutual recognition***

The **modular architecture** allows the tool to be extended to other policy areas, e.g., pension plans, social enterprises, etc.

Optional “Common European Regime on EFP”

-> defining a EU legal framework for EFP schemes

Entirely new solution would provide employers and employees with a **choice between 2 EFP models** – one, national, the other European

- Would **not require compromise on lowest common denominator**, and thus avoid the lowering of standards -> no “race to the bottom”
- Would not impose tax incentives; **national tax & labour law applies**

A “Common European Regime on EFP” would allow employers to **operate an EFP plan across the EU on basis of a single legal regulation**

- It would be **conceived as a “2nd regime” in each Member State**
- The **individual legal culture of Member States would be left intact**

-> Decision on its application is left to the market: It would only be chosen where considered an advantage by interested parties

Feasibility of policy recommendations?

Planned Preliminary Regulatory Impact Analysis

Costs/benefits of launching the “Virtual Centre for EFP”

- Expenses for 12 month “road test” estimated at 50,000.- Euro
- Expense of operating the observatory to regularly update the “Virtual centre for EFP” estimated 300,000.- Euro / year
- Estimates of benefiting SMEs (ca. 30,000 small firms) using the “Virtual centre for EFP” & CETREPS in a 3 year pilot phase

Impact of a “Common EU Regime on EFP”

- No need to establish new institutions.
- No national laws need to be changed in MS.
- Groups positively affected: SMEs planning to / already operating on Single Market and their employees.

Annex: Background information relevant to the implementation of 2014 Pilot Project

Commission endorsed “**Building Block Approach**” to EFP

-> book in DE/FR/EN/IT/PL/RU (& ES forthcoming)

28 PEPPER IV Country Profiles (legal/econ. & social part. attitudes)

-> now updated for 2014

EU-wide Tax data base (incl. social security contributions)

-> 2014 Update & Comparative Analysis currently compiled

The online calculator builds on an **accessible database**

- single country files contain all raw data involved in the calculation.
- updated country profiles from the Commissions PEPPER IV Report
- legal and economic background to interested firms in a systematic way.

Demo Trailer:

http://www.youtube.com/channel/UCAjGsS9IY-iN8_B_d47I_Q

“Virtual Centre for EFP” builds on an accessible database

P/CETREPS/frontend/

European Affairs

Competitive Europe

Education & Training

Female Economic Development

Innovation

Institutional Affairs

Regional Policy

SMEs & Entrepreneurship

SMEs & Entrepreneurship

Access to finance

Company Law

Creation, growth ... of enterprises

Employee Financial Partizipation

[CETREPS Start](#) [Compare Countries](#) [About CETREPS](#) [CETREPS](#)

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Compare Countries

This tool allows you to compare countries.

Countries

You can choose up to five countries at once.

[Deselect all](#)

<input type="checkbox"/> Austria	<input type="checkbox"/> Belgium	<input type="checkbox"/> Bulgaria	<input type="checkbox"/> Cyprus*	<input type="checkbox"/> Czech Republic
<input type="checkbox"/> Denmark	<input type="checkbox"/> Estonia	<input type="checkbox"/> Finland	<input checked="" type="checkbox"/> France	<input checked="" type="checkbox"/> Germany
<input type="checkbox"/> Greece	<input type="checkbox"/> Hungary	<input type="checkbox"/> Ireland	<input type="checkbox"/> Latvia	<input type="checkbox"/> Lithuania
<input type="checkbox"/> Luxembourg	<input type="checkbox"/> Malta	<input type="checkbox"/> Netherlands	<input type="checkbox"/> Norway	<input checked="" type="checkbox"/> Poland
<input type="checkbox"/> Portugal	<input type="checkbox"/> Romania	<input type="checkbox"/> Slovak Republic	<input type="checkbox"/> Slovenia	<input type="checkbox"/> Spain
<input type="checkbox"/> Sweden	<input type="checkbox"/> Switzerland	<input type="checkbox"/> United Kingdom		

Topics

General

- ☒ Overview
- ☒ Social partners attitudes
- ☒ Government attitudes

Legal/Fiscal Framework

- ☒ Overview
- ☐ Share ownership
- ☐ Profit-sharing
- ☐ Participation in Decision-Making

[Select all](#) [Deselect all](#)

... offering among others a like-with-like comparison tool

P/CETREPS/frontend/

Results

France	Germany	Poland
Summary France has a long tradition of employee financial participation, especially different forms of profit-sharing and collective savings plans. The first profit-sharing plans (so-called intéressement) were introduced in 1959, but they did not become.. Read More	Summary Despite a long standing tradition and the general acknowledgment of the positive effects on both productivity and job creation, employee financial participation is not widespread. Traditionally German schemes focus on defined contribution savings.. Read More	Summary The most significant form of employee financial participation in Poland today is employee ownership. Poland's privatisation programme was characterised by significant incentives for employee participation, especially in firms privatised by leasing.. Read More
Social Partners Attitudes The employers' associations support voluntary plans as these allow more flexibility in the planning of labour costs; they strongly oppose compulsory schemes, although they are compelled to implement them. Employers also support the development of.. Read More	Social Partners Attitudes Trade unions continue to exercise strong political power through workers' codetermination, despite declining union membership. With some exceptions, the majority of the Unions fears decentralization and de-solidarisation of the wage policy along with.. Read More	Social Partners Attitudes No interest in further development of PEPPER schemes can be observed either in political or trade union circles. With regard to PEPPER schemes and other forms of workers' participation, the positions of trade unions like Solidarność were and still are.. Read More
Government Attitude Successive governments have been developing employee financial participation schemes for the last 40 years. Legislation had to become more complex in order to prevent discrimination of lower-ranking employees in relation to management.. Read More	Government Attitude Regardless periodical discussions of the topic during the last 50 years, until recently, the attitude of the government and social partners towards employee financial participation has been - with some exceptions - generally indifferent or negative.. Read More	Government Attitude Clearly, since the mid-1990s, the main, openly declared objective of privatisation policy has been to maximise revenues; therefore, all but the smallest state enterprises are to be privatised by commercial methods, despite the fact that employee-owned firms.. Read More

Effective Tax Rate Calculator: Front end

P/CETREPS/frontend/

Education & Training

Female Economic Development

Innovation

Institutional Affairs

Regional Policy

SMEs & Entrepreneurship

SMEs & Entrepreneurship

Access to finance

Company Law

Creation, growth ... of enterprises

Employee Financial Partizipation

General assumptions

Annual salary: Euro.

Value of EFP: in % of annual salary.

Expected average interest on bank deposits: %

Expected average increase of value for shares: %

Offered EFP type

☒ Cash profit-share ☒ Share ownership ☐ Intermediate entity

☒ Stock option ☒ Salary increase (for comparison)

Operating Countries

[Deselect all](#)

You can choose up to five countries at once.

- | | | | | |
|-------------------------------------|--------------------------------------|--|-----------------------------------|---|
| <input type="checkbox"/> Austria | <input type="checkbox"/> Belgium | <input type="checkbox"/> Bulgaria | <input type="checkbox"/> Cyprus* | <input type="checkbox"/> Czech Republic |
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| <input type="checkbox"/> Portugal | <input type="checkbox"/> Romania | <input type="checkbox"/> Slovak Republic | <input type="checkbox"/> Slovenia | <input type="checkbox"/> Spain |
| <input type="checkbox"/> Sweden | <input type="checkbox"/> Switzerland | <input type="checkbox"/> United Kingdom | | |

[Calculate EFP comparison](#)

Output: Effective tax burden for EFP schemes

