Employee shareholders' money: how to reconcile capital with labour?

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Introduction

Marc MATHIEU, Secretary General - European Federation of Employee Share Ownership (Belgium)

The introduction to the discussion was made by Marc Mathieu, General Secretary of European Federation of Share Ownership. The organization he leads promotes employee shareholders plans as a tool associating sustainability and corporate governance.

As appeared during the introduction, employee share schemes have known substantial developments over the last decades. The democratization of employee share plans is on the rise. In the European Union, a little more than 80% of the large corporations do now propose some kind of employee share plans. About half of the European groups even have a broad based share plans. In some corporations, the actual figures of employee share ownership equal up to 60% of the shares outstanding.

The financial and economic crisis arrived as a big challenge to the idea of employee shares. On the one hand, employees are directly exposed to their company's losses via their shares. On the other hand, they are inevitably more reluctant to further engage in a share plan that does so heavily rely on unpredictable future estimates.

Nevertheless, Mr. Mathieu had the view that in the long term employee shareholder ownership will continue increasing. Not only do they provide a useful incentive in terms of employee performance. Employee share plans also allow the employees to have additional bargaining power within the company.

Mr. Mathieu defined some interesting thresholds to determine the employees' representativeness in the companies.

Employee share Ownership	***Definition***
0% - 1%	Insignificant
1 - 6%	Significant
6% - 20%	Strategic
20% - 50%	Determining
50% +	Controlling

He also noted that the countries with the higher percentages were France, Cyprus and the Czec Republic; where the number of groups with significant employee ownership is more than 70%.

Case study

Kenneth IVERSEN - CEO - Unimerco (Denmark)

The introduction was followed by a presentation of Unimerico's CEO, Kenneth Iversen. Unimerco is a Danish industrial company based in Goteborg**.** The main driver of activity is the production of tools and specialized machinery. It has a global presence in Europe, USA and China through its subsidiaries which cover more than 9 countries[1]. On the 30th of September 2009, it was 86,8% owned by its employees. The success of the company, which has managed to grow for over 30 years, is -according to the CEO- due to the fact that the employees internalize the share value. According to Mr. Iversen, the model employed by the firm is very innovative in the sense that it sees capitalism in a different way. The "traditional approach" defines capital and labor as two different and opposing factors. By contrast, Unimerco deems that *"in the right model, capital and labor walk well hand in hand"*. Capital can be owned by labor to lead to better results.

If part of the success of Unimerco is certainly attributable to the employee's attitude towards "their" company, this scheme might also increase the vulnerability of the company in times of crisis. In accordance with the company's policy, whenever an employee is laid off it is supposed to buy back the shares of the employee. Since Unimerco had to dispose of numerous employees to survive the crisis, it should normally have gathered substantial financial resources to be able to pay all their shares back. Gathering these resources can be though during a crisis (existing employees will also be reluctant). That is why they had to postpone buying back all these shares at once during the crisis.

In the practice such a system might affect the employees twice. On the one hand they lose their jobs. On the other hand, they lose some wealth due to the stock dive. The mechanism to determine the shares' price at this time is not going to reflect the market value but a fair value to be attributed to the worker. Although the scheme exposes the employees to the latter risks, according to the view of Mr. Iversen, the company protects its former employees by buying back the shares at the normal share price prior to the crisis. For instance, the last year the company had to let go some personnel and the remaining employees (shareholders) bought the shares at 2007 prices.

It is also very important to notice that the company's structure is highly horizontal; meaning that the employees handle significant responsibilities and are able to make decisions that will impact the company's results. Employee information is paramount in that respect. This explains why Unimerco employees were ready to

[1] Denmark, Sweden, Norway, Czech Republic, Poland, United Kingdom, China and the US.

make important concessions during the crisis. They are willing to do so because at the end of the day, they are committed to the results of their company.

The trade union's view on share ownership

Marco CLIENTO - Advisor- European Trade Union Confederation (Italy)

The entrepreneurs' presentation was followed by the intervention of European Trade Union Confederation Chairman, Marco Cliento. The view of the trade union differs from that of the two previous speakers. For the spokesman, the shareholder ownership isn't the most effective way to improve company's results. He developed the concept that the current crisis is linked to a corporate governance disaster and that by implementing employee shareholder ownership, the main issues will not be solved.

According to Mr. Cilento, the employee share plans will only put the employees wealth at stake by increasing the risk related to a concentration of assets in a specific sector. There are other means to take the employees voice into account to make strategic decisions for the company. Implementing employee share ownership allows the corporation to somehow muzzle the voice of the employees. It is specifically the case when their shares represent a minority not yet tangible.

Mr. Cilento's main argument is that other tools are more powerful to promote performance and representativeness without exposing employees to the risks of ownership. Take for instance rewarding schemes linked to performance, such as bonuses. When it comes to taking the employees' voice into account, schemes of open corporate governance to all stake holders would work better than employee share ownership. The latter could be combined by better communication and representation systems that assure a solid linkage between the management team and the employees.