

Workers Financial Participation

A LITTLE BIT OF HISTORY...

- 📖 The European Commission launches, in 1991, a report on the Promotion of Workers' Financial Participation in the Profits and Results of the Company, usually known as Pepper I report.
- 📖 In 1992 the European Commission adopts a Recommendation inviting all the member states to recognise the potential benefits of the use of the financial participation both for companies and for the workers, and also for the society in general.
- 📖 In 1997 appear a new Pepper II consecrating the general perspective about the way the member states promoted the financial participation, and whose results showed the non-existence of big changes to the approximation of the member states. Half of the member states have received very little or even none governmental support.
- 📖 Later, the European Parliament adopted a resolution calling to the attention of the member states, social partners and of the European Commission, in particular, to promote the exchange of information and good practices at transitional level and in order to study the impact of the financial participation in employment and in the flexibility of the wages.
- 📖 In 2000, the European Commission refers the intention to prepare a communication on promoting the financial participation and of the action plans.
- 📖 In 2002, the European Commission launches an appeal to the Governments to promote the conditions of the financial participation, by shares' schemes, shares' options and profit sharing. The Communication of the Commission establishes the general principles, it establishes a group of experts to analyse the obstacles to the application of the financial participation of the workers at European level, among other aspects. The Communication reinforces three aspects of the financial participation: it identifies the general principles and the general policies, besides pointing out or preventing the potential risks of financial participation schemes.
- 📖 In March 2003, an opinion of the European Parliament, congratulates the European Commission on it's Recommendation of 2002 in order to promote financial participation of the workers supporting the principles included in it, as well the need to make a clear distinction between the forms of financial participation, among others. It encourages also the European Commission to continue developing work in this sense.

CONCEPT

« The purpose of the Financial Participation is to associate the workers to the profits or results of the company ».

OBJECTIVES

For the Companies:

- ✚ Higher engagement of the workers;
- ✚ Bigger commitment;
- ✚ Increase of the productivity and competitiveness;
- ✚ Connection of the workers' financial interests to the shares' value;
- ✚ Larger flexibility in the remuneration;
- ✚ Reward the improvement of the performance;
- ✚ Way to recruit, and to pay, directors and executives;
- ✚ Help the small companies to collect capital aiming its promotion.

And also...

- ✚ To encourage the workers to acquire shares of the company;
- ✚ To gather capital for investment;
- ✚ To foreseen hostile take-overs.

It will be, also, a way to motivate and promote the social responsibility of the companies by counting with the workers shareholders to promote CSR.

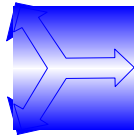
For the Employees:

- ✚ Form of saving;
- ✚ Way to get a retirement complement;
- ✚ To benefit of favourable conditions in the acquisition of shares and fiscal advantages;
- ✚ Estimated risks in the shares' purchase;
- ✚ Larger identification with the company.

.

IMPACT

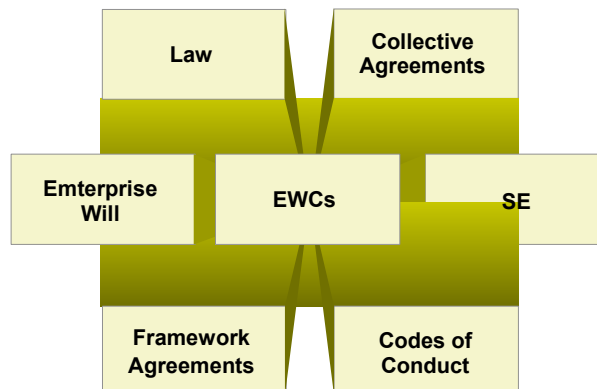
Higher motivation/ productivity



Higher companies' competitiveness

Better relations between the parts

INTRODUCTION FORMS



FORMS

- ❶ **Profit sharing** - company and workers share the profits, this means that the workers beyond their monthly wage will receive also a supplement, changeable according the profits generated by the company.

The profit sharing, in a restricted sense, means that the sharing of the profits among the ones that provide the capital and those that provide the work, giving to the workers, in addition to their fixed wage, a part, variable, of the profit directly related with the results of the company.

It happens, however, that the majority of these schemes doesn't consecrate any fiscal benefit or at level of social security. Once they do not attract any of these incentives they are, necessarily, of easier application and of practical application.

Example: the company General Cables, establishes through a collective bargaining instrument, a pre determinate formula that allows, according the annual data of the company, in the case of existing profits, that those are distributed throughout the workers according the pre defined formula.



In practice, the profit sharing can assume several forms. At company level, it can provide to the workers **immediate benefits** or **differed benefits**, it can consubstantiate cash delivers, shares of the company or it can be destined to specific funds of investment in favour of the workers:

⊙ **Payment based on the immediate participation of the profits**

The reward of a profit sharing scheme is much more closer, in time, to the performance that is rewarded than to the differed sharing of profits. This is, generally, seen as an increase of the incentive of the payment, but it also means that the sum received is taxed exactly in that same year.

⊙ **Differed Participation of the profits**

This form of profit sharing is characterized by the fact that the profit to distribute is preserved, frequently, as an insurance/guaranty that is not immediately available to the worker. Usually the differed system attributes a certain percentage of the profits, this percentage will be invested on behalf of the workers.

The investment can be made by the company itself or it can be guided to an account, with a certain period of retention, before this amount becomes available.

Generally, in the majority of the countries with financial participation, a system of differed profit sharing must be approved by the responsible entities for the taxes, in the case to have tax benefits to attribute to the workers or employers.

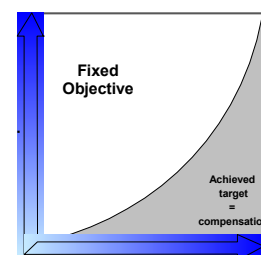
As a note we can add that this system is used in the United States in order to attribute pension benefits. However, as the majority of the countries in Europe have developed systems of pensions, this system is less used.

It still exists the possibility of a participation to be based on the attribution of a certain number of shares of the company to the workers, on relation with the profits or another measure. These shares are, usually, frozen into a fund, by a certain period of time, before the workers are allowed to sell them. When the shares are subject to a minimum period of retention it will be preferable to use the denomination: "shares differed based in the profit sharing".

- ⊙ **Gainsharing** - this financial participation scheme is not directly connected to the financial results of the company, but to criteria such as productivity increase, cost's reductions (see more details in the manual «Workers' Financial Participation - Which Future II - Widening and New Dimensions»

It also can be described a scheme of payment related to the performance.

Example: the company Citroen, establishes, in the beginning of each year, a target related with productions objectives. If those are achieved, it is distributed to each one of the workers a determinate amount in cash.



- ⊙ **Saving Plans for the Workers and accumulation of goods** - this type of participation allows the workers to save part of their wage, and perhaps receive contributions from the employer, into an account that is, many times, invested into shares, bonds and other investments for a period of time before they become available for the workers.

Despite being seen as a long term saving program, often it could allow withdraws or loans. These plans come, frequently, associated to denominations such as savings plans, incentive plans, investment plans, etc.

The calculations of the gains to share may be achieved in several ways. For instance, it can be calculated according a pre determinate formula, established prior and agreed with the workers, trade unions, employees' representatives. Plans where the share division is predetermined, many times do not have a legal prevision nor attract benefits from the social security.

It may also occur situations in which the share of the profits gained may happen in the final foreseen, but without any pre determinate formula, being determinate at the free will of the enterprise or any other agreed formula at collective bargaining level.

- ② **Participation of the workers in the capital** - indirect participation of the workers in the results of the company either through shares or through the valorisation of the capital that is already owned, or a combination of both. These schemes are related with the profitability of the company and allow the workers, indirectly, to obtain, from the companies, an added value:

- ⊙ **Share Options** - the workers will have the chance to acquire shares of the company to a certain price, during a determinate period, on favourable conditions.

In alternative it can be constituted a fund that will acquire shares of the company and that are allocated, periodically, to the account of each worker.

Example: the companies Delphi and Siemens placed at the workers' disposal shares that they could buy at inferior market price.

- ⊙ The participation in the capital can be based on saving plans with contributions (share options, part of the wages or savings in cash) of the worker himself or the employer.

The financial participation of the worker's aims, on the one hand, to contribute for a higher identification of the workers with the company where they work, with its objectives, with higher commitment in the life of the company. Despite the presented advantages of the participation we can state that the participation seeks a fundamental objective - the social cohesion, by allowing a direct participation in the creation and access to the wealth.

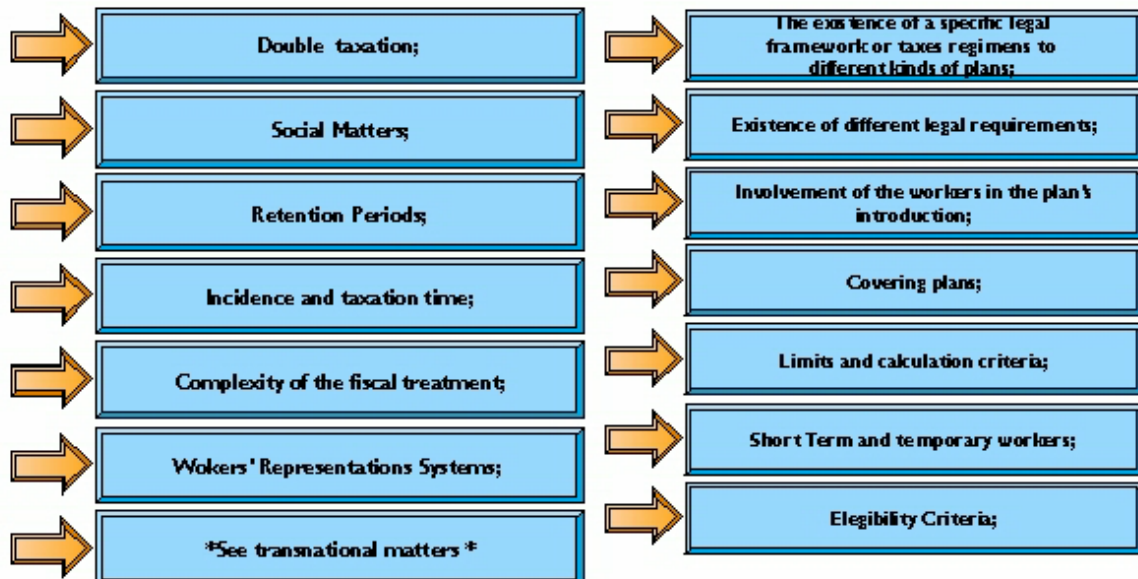
On the other hand, it makes possible, still, the motivation of the workers, increasing their loyalty to the company where they work, sharing common interests, which crates an increase of the productivity, competitiveness and profitability.

- ⊙ **Free Shares** - in alternative to the bonus in cash, in this example, the shares are distributed to the workers that become shareholders of the company. These shares are

given to the workers, without additional cost. Sometimes the share's distributions to the workers aim the recognition of a service done or an exceptional performance. In other cases, it also aims to transfer the ownership of the enterprise to the workers. In this way the distribution is, frequently, associated to the participation in the profit sharing which is distributed by shares, replacing cash.

Other motivations can be in the basis of the shares' distribution (for example, the introduction of a new program) or be associated to larger programs such as privatisation programs, as it happened in many countries in eastern and central Europe.

OBSTACLES TO THE DIFFERENT SCHEMES



GENERAL PRINCIPLES TO THE APPLICATION OF THE WORKERS' FINANCIAL PARTICIPATION:

(We suggest a consult of the Manual «Workers' Financial Participation - Which Future - II - Widening and New Dimensions» for more details)

Voluntary participation - In order to correspond to the interests of the involved parts the participation should be voluntary. With this we mean that the adhesion, of the companies or the workers, must be laid down on a voluntary basis.

Extensible Benefits to all the workers - To all the workers it must be given the possibility to be able to adhere to the financial participation scheme. The discrimination of the workers will not allow reaching the inherent objectives of the financial participation.

Clarity and transparency - To prevent excessive risks for the workers. The workers should be aware of the risks and benefits that the system of financial participation will cause. For such they will have to be informed previously, in a clear and precise way. Such must be done in order to prevent extreme or unnecessary risks for the workers who are the ones who have more at stake: their income and perhaps their work.

Formula previously defined - the dispositions on financial participation should be previously defined and associated to the results of the company.

Training and Information of the Workers - directly linked with the previous principles training and information are essential to an enlightenment, near the workers, on: the company's intention, motives and aims, scheme to be applied, risks, how it will develop, etc., this both in an initial phase, previous to the introduction of the schemes, as in a follow-up phase.

Regularity - The participation systems should be applied on a regular basis and not only as sporadic cases, whenever the company intends to be opportune.

Distinction between wage and income of the financial participation - It should be done the correct distinction between wage of the worker and the income that the worker receives from the system of participation applied. This income is a complement of the wage, but it does not have to be included in the wage of the worker. The social partners at collective bargaining level will therefore freely negotiate the wages.

Adaptation to the company's individual characteristics - the scheme should be adapted to the particularities of the company, mainly in what concerns the guaranties to give to the workers, probation period, employability, social conditions, among others.

Different realities demand different and adapted treatments!

TRANSNATIONAL OBSTACLES

The dissemination of the systems of financial participation, in Europe, doesn't happen in a uniform way. As we have referred the use of the systems and other forms of financial participation are not the same, changing from member state to member state. There is, therefore, a huge diversity among the systems and applicable forms in Europe. Such is justified due to the adequacy of the systems to the objectives and national particularities of each member state.

This diversity will be able to cause or to represent impediments to the use of the financial participation at transnational level. This, because the systems of social security differ, as well as the fiscal systems, the legislations have their own and particular characteristics and even the cultural differences are some of the reasons that will be in the basis of this diversity.

A multinational company that intends to implement the systems of financial participation in several locations, such will imply that the same system has to be adapted in accordance with the characteristics of each country, which will, undoubtedly, create differences from country

to country, with the workers receiving different treatment. Besides that such implementation gathers high administrative duties to the companies.

Besides creating problems to the companies, they will be able to hinder to the free circulation of the workers, of the capital and they will have a motive to face double taxation problems.

- **Fiscal system**

a. **Double taxation:** currently none of the agreements on double taxation foresee disposals regarding the share options. As such it originates difficulties for the workers of a company that are displaced to another country and that could be taxed twice or even not to be taxed at all.

To prevent such obstacles it will be essential that the financial participation systems be covered by the agreements on double taxation, either through an extensive interpretation of the existing agreements in order to enclose such systems, or by the renegotiation of the existing agreements.

b. **Administrative costs for the companies:** they will have to have in mind the different rules regarding cost's deduction, retention, discounts of the workers, etc.

- **Contributions for the social security**

It is not only the level of the contributions for the social security that varies according the country, in some cases the income of the financial participation can be completely exempt of contributions of this nature. The extreme weight of the social duties can carry incalculable risks to the companies.

It will be necessary a strengthened coordination of the practices in this field, namely the agreement on certain general principles that would constitute important steps towards this direction.

- **Different workers' representation systems**

There are, within the European Union, different systems of workers' representation that may represent an obstacle to the application of schemes of workers' financial participation. With the Directive 2002/14/CE the European Union seeks to guaranty a minimum level of information and consultation of the workers.

- **Differences at legislation level**

Problems may appear related with the labour legislation, namely in what concerns to the criteria of eligibility or termination of contracts, compensations for ceasing of functions, among others. Another problem emerges with the differences of the applicable legislation in what concerns the data protection, that will difficult the management of the systems of financial participation.

- **Cultural differences**

According to the national habits and policies, the workers and the social partners reveal different attitudes in what concerns some of the models of financial participation.

In order to overcome this problem an improvement is needed regarding the information and the intensification of the exchange of experiences that will be very welcomed.

- **Mutual lack of recognition of the financial participation systems**

The lack of recognition of the system applied in a country for another one means an impediment to the introduction of systems of financial participation at international level.

- **Lack of information**

The unawareness of the systems of financial participation, the lack of information, makes difficult the introduction of systems at the international scale. The costs to overcome this situation are, often, prohibitive for the small companies.

To strengthen the participation of the workers in the profits and the results of the company, in Europe, it will be important that the member states continue to intensify their own efforts to guarantee a legal and fiscal favourable framework.

Taking into consideration the different levels of development of the financial participation in some countries, there are huge potentialities for an interchange of information and experiences. It still exists a lack of generalized information on the potentialities and the possibilities of the financial participation of the workers.

ROLE OF THE SOCIAL PARTNERS

The social partners have a crucial role to play in the development of the financial participation. However, it continues to exist reserves and apprehensions, mainly on the part of the trade unions.

The apprehensions that subsist happen generally from the possible risks that these systems hold for the workers, from the implications of the wage flexibility and the process of collective bargaining.

In many countries the trade unions are taking now a pragmatic position. These developments are verified in countries such as Germany, Ireland and Holland.

Recent studies, invoked by the European Commission's recommendation, conclude that the financial participation does not weaken the role of the trade unions and of the worker's councils and that, till the moment, there is no relation between the financial participation and the low wages or a negative impact in the collective bargaining.

In general, the employers' organizations do not have an active policy on the financial participation; therefore such is seen as a reserved matter to the employers, individually considered. However, there are some aspects that can lead to a change of this situation:

- The Increase of the use of financial participation schemes can lead the employer to go near its representative organization searching for support and such will be able to lead to a pressure for the establishment of guidelines;
- The multinationals companies tend to face higher obstacles to the implementation of its plans cross borders;
- In certain sectors and in certain countries and for a certain number of professionals, the discussions between the social partners on the elements of financial participation are part of the negotiations at collective agreement's level.