ECONOMIC DEMOCRACY IN THE EUROPEAN SEMESTER. EMPLOYEE PARTICIPATION AS A DRIVER OF GROWTH.

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INTRODUCTION

The economic crisis has profoundly changed the EU's institutional and industrial fabric. Employee involvement will retain its central role to meet new objectives, such as anticipating change and managing restructuring, or giving employees access to company results and developing private welfare, also as a response to new needs within our communities that are not provided for by the state.

This study aims to provide principles and practical tools that will aid participation to support the European economy in providing winning solutions to the challenges of this new era.

Many of these challenges have been identified in the Europe 2020 flagship initiatives and the EU programmes for competitiveness, for building the skills for the labour market of the future, and for fighting poverty and social marginalisation. The basket of EU policies offers us programmes for developing SMEs and the social economy, and for transparent, balanced corporate governance.

This report prefers to see European policies for growth and development as a workshop in which employee participation, a crucial component of the European social model, can develop into a driver for social innovation.

In the first chapter we will attempt to provide a conceptualised description of economic democracy, extending the scope of observation to the dynamics triggered by the internationalisation of economies and the effects of globalisation.

The second chapter of this report looks at specific country recommendations to identify challenges and proposals that could benefit from the tools of economic democracy.

In the third chapter we will examine participation in order to identify the elements of economic democracy within EU law.

In the fourth chapter we will present case-studies that interpret participation according to the principle of economic democracy.

In the fifth chapter we present the study report on social dialogue as a driver of integrated welfare systems through social investment.

Finally, we will draw some conclusions about the value of economic democracy within the European economic and social context.

ECONOMIC DEMOCRACY

The indissoluble link between democracy and the market - winners and losers in the game of globalisation

This chapter explores the many links between the democratic structure of the state and the market economy. What we are looking for is a set of values that justify further investment in economic democracy in the current political, social and economic context. However, one fact remains: the management of human affairs (politics) cannot be detached from the management of the economy (the market). Democracy is the most effective political format for the proper management of a market economy. The democratic institutions have the sole purpose of intervening to alter relations that would otherwise be spontaneously generated within the market[1]. The extent of their impact is based on the value-based approach put in place by those in charge of the democratic institutions.

However, while the market just exists, democracy does not. Democracy might need the market, but the market does not need democracy[2].

It goes without saying that the perfect market is a theoretical concept only and that human factors inject dysfunctional elements into the fragile assumptions of economic theories.

At this point democracy has to fulfil its mission to support the market and it intervenes in the market and acts through its institutions[3]. The dialogue between economic theories therefore hinges on the balance between the resources the market can manage by itself and resources that are transferred to the state, between what is privately managed and what is managed on behalf of the citizens, between public and private, between individual and collective, etc[4].

For the purpose of pursuing our argument we will take as a given the functional necessity that links the market economy to democracy and the following sequential chain of values: democracy is to the market what social justice is to the redistribution of

1 Jean Paul Fitoussi, *La Democrazia e il Mercato*, Feltrinelli, Milano 2004

2 We take this statement as read without going into a learned exploration of the wider debate on the subject by philosophers, political scientists and economists, which would take us off the subject.

3 Quotation from Giovanni Sartori in Democrazia: Cosa è, BUR, 2000, Milano, pag. 213 e segg.

4 Fitoussi, *La Democrazia…, cit.*. Of the many authors who, when the major crisis exploded, have written about democratic dysfunctions in a market economy, I have chosen to cite this pamphlet by Fitoussi which has the merit of having been written in 2004 when the irrational optimism of the political and financial world still held sway.

income.

Democracy: Market = Social justice : Redistribution of income

The two groups have a proportional relationship: the more democracy is at the service of redistribution, the more the market is compatible with social justice.

On the basis of these assumptions we will attempt to consider the current situation. The relationship between democracy and market has been the subject of much criticism from scholars, for whom the processes of uncontrolled globalisation contained the premonitory signs of a collapse of the market-democracy binomial[5].

What interests us is not so much to resolve the legal issue of global government, but to understand whether the body of rules that apply on a worldwide level have produced or can produce redistribution in order to create social justice within the market. Global government is a long way from meeting the fundamentals of social justice and redistribution. The EU is a unique supranational and democratic political experiment[6] and will be dealt with in the next chapter.

Here we will restrict ourselves to proposing a snapshot of the global economy through the information and data provided by the leading international bodies, before and after the major crisis that began more than five years ago.

Globalisation is inequality?

In data from 2010, the authors find a correlation between wealth distribution and the spread of poverty[7]. The most interesting link is the one that shows a positive ratio between two variables, such as inequality and the tendency to be poor. Growth in the former makes the second far more probable. This means that these decades of global market have taught us that fighting inequality during a period of economic growth

[5] See Francesco Galgano, *La globalizzazione nello specchio del diritto*, Il Mulino, 2005 who supports his theory with a quote from Dahl, in *La democrazia e i suoi critici* "the economic life of a country … [is] heavily dependent… on actions and people that are outside one's own country and are not directly subject to its political system" and also W.H Ferry, in *The corporation take-over*, in the passage in which he asserts that the problem lies not in fact of living a hard life but in living a life that has been decided by others.

[6] On the democratic strengthening of the European institutions in the process that led to the failure of the project for a European Constitution and the interaction between the EU method with the inter-governmental method in the Lisbon Treaty, see the studies of Astrid www.astrid-online.it/ and *Le Nuove istituzioni europee, Commento al Trattato di Lisbona*, edited by Franco Bassanini and Giulia Tiberi, Il Mulino 2010, Bologna.

[7] Figures which follow are an author's elaboration matching different source database as World Bank, OECD, ILO, UN, IMF. Statistics may have been obtained from other authors. In this case the bibliographic source is mentioned in a footnote.

reduces the risk of poverty more than growth in average income does. In fact the political powers often fight their electoral battles promising on the one hand the accumulation of an extra dollar, and on the other the redistribution of an extra dollar. It is a question of how you view the world[8].

The arguments presented by very popular authors, insisting on the redistribution issue, do not discuss the functional link between democracy and the market even though they warn of the risks of this link weakening in a globalised economy where economies with democratic and non-democratic governments are working together.

As the global market takes hold, the public economy does not disappear, but it no longer fulfils its purpose. The state has to contend with the market and submits to it. Or rather, it does not make the rules, but takes part in the game and gets caught up in it[9]. It is a player, present as a public economy, but does not act as a regulator or re-distributor. The consequence is that private property tends to equate to the right to the disproportionate accumulation of wealth. The accumulation of wealth can deliver positive macroeconomic effects, but the accumulation of wealth can push further and destroy both itself and the economy.

In fact this is what happened in the financial crisis that began in 2008[10].

A recent OECD report[11] shows data that demonstrate the rise in inequality within individual countries. Yet in OECD countries governments are democratic. Democracy is what contains the inextricable processes comprising the fragmentation of the labour market, fiscal competitiveness and reduction in public spending that, in the 1990s, inexorably led the GDP of countries to be redistributed as capital income rather than as pay for work. However, the OECD also tells us that inequality is not just the result of poor pay, but also of the difficulty for people to access capital. It therefore takes into account a more complex distribution of wealth, which has arrived at levels of concentration in which accumulation no longer serves the social purpose of production.

This confirms what we have seen about the need for the democracy and market economy binomial. Also that the expression of this democracy lies in the ability of the

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[8] Augustin Kwasi Fosu, *Inequality, Income and Poverty, Comparative Global Evidence*, UNU-Wider Working Paper No. 2010/93, August 2010.

[9] Conversely, a reading of *La Globalizzazione nello specchio del diritto* (Francesco Galgano, Il Mulino, Bologna, 2005) gave me a 'positive' interpretation in which the State, unable to perform its traditional role in a global economy, is stimulated by the market to find new ways to extend democratic coverage to market integration (overlapping domestic law, *lex mercatoria*, the exercise of sovereignty in supranational institutions, etc.).

[10] I have taken inspiration, among others, from Paolo Leon, *Il capitalismo*… cit., chapter 2.

[11] OECD, *Divided We Stand: Why Inequality Keeps Rising*, Report dated 2011.

democratic institutions to be one with the market institutions.

In Europe, social cohesion has been pursued through social transfers that redistribute income towards the less well-off classes. State intervention mainly uses the tax system. Social transfers remain important in Europe but cannot remove the risk of poverty, which in the last two decades has remained unchanged, if not worsened, within the EU. However, well-being, poverty and hope are relative concepts. European citizens tolerate inequality less than citizens in other regions of the world. In particular, each individual measures their own condition against that of others. This is crucial in order to understand the relationship between democracy and the market, and above all for the sustainability of the globalised economy in the face of a falling quantity of democracy. The European failures to combat poverty and inequality over the last two decades are perceived by European citizens as an erosion of the redistributive strength of its economic system and, to return to the logical association provided above, citizens perceive this phenomenon as a consequence of the separation of democracy from social justice.

What has forced the average person to rethink their certainties has been the incredible economic turnaround that has affected the developed world since 2007: something has gone wrong between the protagonists of the economy, the capitalists, and the protagonists of democracy, ordinary people.

While globalisation was producing the above effects on the fight against poverty and wealth distribution, the economic and financial imbalances were taking shape. Attali explains[12] that since the 1990s, in the whole economy of the Western world, the remuneration of work has decreased compared with the remuneration of capital. It is the victory of capital over work. This is because the source of the income - capital - is badly distributed[13]. As well as not being received directly by the families who receive the income, it is not even received via the state. This is where the distortions lie.

For the vast majority of citizens, getting into debt is the response to maintaining their living standards rather than a greedy shortcut to wealth. It can also be interpreted in this

[12] J. Attali, *La Crise et Après*, Artheme Fayard, Paris, 2009, p. 51. Attali's explanation has been borrowed due to the author's clear description. The denunciation of inequalities has become a recurring theme in denunciations of social imbalances. The Financial Times, for example, reports that if 63% of GDP were to be allocated to remuneration for work, as was the case in the 1950s, then American workers would have to be written a cheque for 740 billion dollars, around 5,000 dollars per worker.

[13] Inspiration was also taken from Ognian N. Hishow, *The Political Economy of Labor-Capital Income Imbalances European Solutions*, in a paper published when the speculation bubble had not yet become an economic crisis.

way: people have reacted in an extreme way to the attempt of a financial autocracy to expropriate them of the well-being that they have secured[14].

The good and the bad guys

The crisis has certainly posed an ethical question about man's attitude and role in the capitalist game. But does the loss of values concern everyone? Perhaps only some? The very poor or the very rich? The middle class that often determines the equilibriums in democracy?

Here we do not wish to claim that the individual (or everyone) has lost the ability to have a relationship with money. Empirical experience shows that individuals still perceive the limits of the resources available to them also in relation to the goods they purchase. Employees are fully aware of the precise value of their wage, the owner the value of their home or car, and the consumer of the shopping they do each week. Ordinary people are aware of the value of their debt but are not familiar with the tools of speculation. When they want to make their investment work for them, ordinary people use brokers, and the 'relationship of trust' we mentioned earlier comes into play. The collapse in the value of a family's property will not be seen as a result, one of several outcomes, of a risk game, but as the betrayal of the relationship of trust, and thus the malfunctioning of a system of ruling, because people have not consciously decided to expose themselves to the risk of speculation, but it has been imposed upon them. Ignorance, rather than greed[15]. The ethical problem is therefore not in mankind but is far more concentrated. The commonly used value descriptions 'reckless and greedy' apply to a small group of people, the élite, while modern man is in fact under threat due to the democratic deficit. The democratic deficit manifests itself mainly in two weaknesses

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[14] Here there is much literature on the subject. One example is Joseph Stiglitz in *Bancarotta*, Einaudi, 2010.

[15] The MoneyInMind (www.moneyinmind.com) project shows that more than half of people resident in the UK are obsessed by how to use their money. And they often spend time on this that should be spent working (10%). Three-quarters ask advice from their employers. A third of employees interviewed said they would work better if their employer offered them guidance about saving for a pension. On the other hand, the human resources managers interviewed said that insecurity about their financial future impacted on the performance of individual employees. Half of them said that it would be a good idea to provide support to employees to resolve their financial difficulties. However, only 16% have introduced measures to help their employees and only 19% plan to do so. Sources from the United States estimate that with proper financial education, companies with 10,000 employees could save around 3 million pounds a year (around 2 million euro, or 20 euro per person). In Italy the ISTAT data on the financial education of 'male breadwinners' are shocking. In 2014 the OECD commented on the financial ignorance of young people in its publication PISA 2012 *Results: Students and Money Financial Literacy Skills for the 21st Century*, Volume IV, Paris, 2014.

that contaminate the relationship between the market and democracy.

The absence of information makes most individuals (the majority) incapable of fully comprehending the implications of their actions because, despite technology, the information is available to the few. The second weakness is consumer education[16]. This last aspect is very well catered for in modern democracies when it comes to environmental issues and health, but neglected when it comes to the use of financial instruments.

It is therefore hard to blame the deviation of finance from its original purpose on an anthropological metamorphosis, rather than a breakdown in the relationship of trust between people and the delegated powers that threatens the proper operation of capitalism in its social expression.

The current economic downturn makes explicit that the democratic deficit has more impact than the deficit in values. Being *together* has been replaced by an individualism induced not so much by the relationship with money as by the relationship with the institutions[17].

The financial élite benefits from social immobility

Directors and investors are an élite. The problem arises when a small group becomes closed and self-referential. The problem is one of opening up the élite and making it accessible to new bodies and to make it responsible for its actions. Here too the relationship between democracy and the market is created.

Social mobility is therefore a defining component of economic democracy.

Social mobility offers us an idea of the fluidity of the society in which we live. It is the expression of an individual's hope to move from one social class to another during their lifetime[18].

Education has an impact of between 35% and 40% on determining the social fluidity

[16] A study by John J. Campbell, *Household Finance*, Harvard 2006, concludes that households invest efficiently. However, some make mistakes and the ones who make mistakes can be clearly classified: they are poor and have little education. Households make few mistakes because they steer clear of products that they do not understand.

[17]Some signs of this form of fragmentation in Western society can be cited. For example, the illusion of direct participation in government fed by the spread of a populist trend in the world's major democracies that has been identified by the leading contemporary thinkers. Innovation in technology may have fed people's illusion that they can take part in the finance game, but it has also deluded people and the delegated power that they can establish a direct relationship without the intermediation of the institutions that represent the people and of civil society. This is proven by the democracy of surveys, to propose an example common to state governments, but at a European level an example lies in the open and direct consultation of people encouraged by the European Commission in its role as proposer of legislation, with the effect that the places for discussion with civil society have been disconnected, and replaced, thanks to technology, by discussion with 'everyone'.

coefficient[19]. There is also a positive link between income and access to education, a link that was consolidated in the 1990s. Family income is increasingly a determining factor in access to graduate and post-graduate qualifications.

But, the success in constructing an individual's human capital is not only linked to household income, but also to the stimuli a young person receives within the family, where it is assumed that wealthier households invest more, not only in economic terms, in the social position of their children.

It is not a matter of income, it is trust what matters.

The decline in social mobility, from which Europe is not exempt, and the increase in inequalities, can be attributed to the decline in socialisation opportunities (isolation, mistrust, individualism). If the state does not break down the barrier, a society is created in which the future management class can only be generated by the ruling élite. The result is a closed, self-referential society within the governing glasses which, as we have seen, breaks the virtuous link between the economy and democracy.

Going back to our initial thesis we can build the following chain of arguments: while global liquidity was increasing, the financial market was exploding and wealth was becoming concentrated, social fluidity was solidified. A social mix that feeds the income of those who are in a position of command, and thanks to information and skills and confidence in their own position and the fact that they will pass it on to their heirs, are prepared to take risks, knowing that they are subject to few controls and judgements, and can pocket the profits while 'externalising' the risks and costs.

In the near future, action to break the vicious circle can be taken and that democratic economy clusters can come forward as drivers of an open society that recognises the value of its ruling class without exempting it from the duty of accepting turnover and recognising its responsibilities. Perhaps this would not solve the problem of social fluidity, but it would be a step in the right direction.

End then? Democratic economy clusters

Creating democratic economy clusters means converting corporate governance to democratic criteria. Here we should keep in mind that our ultimate end is to find a socio-economic model which mitigate pressures that the globalised economy exercises

[18]The paper by Jo Blanden, Paul Gregg, Stephen Machin in *Intergenerational Mobility in Europe and North America*, April 2005, Centre For Economic Performance, London School of Economics, p. 8. backs the arguments proposed by Attali, Stiglitz and other mentioned in this study.

[19]Blanden J., April, 2005, cit.... p.10

on the democratic structures, which activate again paths of solidarity and gives voice to citizens in both democratic and market institutions.

A first practical step might be to provide incentives for the entry of new players that we can call “new capitalists”[20] into the financial markets. The employees are the first to be able to put themselves forward as newcomers.

In order for this to happen, the newcomers, and employees in particular, must be able to count on access to capital, full access to shareholder rights and a new cultural attitude. These are the conditions that can lead to an opening up of the élite and ensure turnover.

Experience suggests that work can begin on four aspects: i) the financial participation of employees in enterprises; ii) employee pensions funds and savings plans; iii) the participation of organised labour in the market control and regulation authorities and iv) social capital that generates private welfare.

However, nobody is planning to replace traditional capital, if anything the aim is to set up a discussion-based relationship with it.

The question is whether the economic and social entities that make up the world of the financial markets, businesses, trade unions, civil society and institutions can and must do more to link the market economy to democracy.

As we have said, we are not starting from zero. Employee share ownership is already a reality for millions of employees in Europe: those same millions of employees who commit their savings to complementary pension funds. In North America, Europe, Canada and Japan and increasingly in the rest of the world, employees are (also) among the owners of multinational companies[21].

In many European companies the employees are already acting as new capitalists. The novelty lies in the way they interact with the institutional shareholders. It should not be forgotten that, in many European countries, as well as the US and Canada, the trade unions, albeit with different strategies, are committed to building employee involvement in the company capital or profits and are exploring the route of economic democracy.

[20] I have borrowed the term new capitalists from a book of 2006, *The New Capitalists. How Citizen Investors Are Reshaping the Corporate Agenda*, Harvard Business School Press, Boston 2006, in which the authors suggest there will be an expansion in civil ownership. The author looks at civic ownership in ownership by employees and identifies them as the new capitalists.

[21] Davis, The new capitalists, cit. 2006

ECONOMIC DEMOCRACY IN THE ECONOMIC GOVERNMENT OF A UNITED EUROPE AND IN THE EUROPEAN SEMESTER

Democracy building or market building?

The European Semester is the operational arm of the governance of the single European economy. The Economic Governance of the EU brings two of the major aims of the EU into a single framework of action: completion of the internal market and maintenance of the macroeconomic conditions of monetary union.

It is a multi-dimensional governance project to be implemented using the EU method or through stronger collaboration between governments, depending on the separation of duties established by the treaties. As far as the single currency is concerned, it is a case of establishing financially balanced systems (convergence or stability) suitable to the adoption of a single currency within the EU countries.

The convergence/stability process implies: predefined regulations for the State budgets, transfer of sovereignty to the supranational government for the definition of economic policies, completion of the single market and a common social policy. Together, these policies supposedly transfer the benefits of the Union to all its residents, if not 'equally' at least in a redistributed manner.

The concept of a 'social market economy' (mentioned in the TEU) refers to a German-style economic model in which the funds generated by the market are made accessible to all those participating in the market via the institutions of the social state.

At this point a question needs to be asked. Is the European Union a market building project or a democracy building project?

The answer is both. If we have said that market building is a founding purpose of the whole process of building a unified Europe, democracy building emerges from the European Union project, which began in Maastricht. The EU is a union of peoples, it involves strengthening its democratic institutions like the European Parliament and social dialogue[22]. A process that has had a chequered career with important successes, such as the EU Charter of Fundamental Rights, and unexpected glitches, such as the

[22] To tell the truth, the idea of a unified Europe, as a natural development of the democracies that live there, was on the minds of the founding fathers. The Maastricht Treaty marks a leap of quality in the integration process but at the same time posed the people of Europe with their toughest challenge: to build democratic structures together for a supranational power that increasingly resembles a state.

failure of the European Constitutional Convention[23].

Perhaps the problem is that the 'market construction' and 'democracy construction' processes have never communicated. They certainly do not live in perfect harmony.

This is true. But the European Union is still, undoubtedly and for everybody's peace of mind, a democracy building and market building project and it is a unique project, not because of its historical interpretation, but because of the vision of the founding fathers and the will of the governments that have brought the EU to where it is today[24].

Why has economic integration moved more quickly than governance integration? Perhaps because the market has been built according to a liberal plan, a plan based on *abolishing* obstacles. A single government, on the other hand, needed the *construction* of common locations and institutions. It is easier to knock down than to build.

However, there is a consequence to all of this. The hyper-liberal adrift has produced an internal market that accumulates, obviously in an unbalanced way, as is the nature of the market, but does not redistribute.

Democracy has become trapped between the never-ending battle between powers, European versus national, which has overshadowed the identification of the common good, or the only glue that can bring specific interests to share institutions and decisions. In blind pragmatism, the tools (e.g. the single market) for a purpose (e.g. the peace and well-being of the peoples of Europe) become an end in themselves.

We are not interested here in discussing the descriptions of the EU that the political world has presented to its citizens. What we are interested in understanding is how and with what tools and responsibilities the European Union is building democracy and the market economy, and how these two worlds interact. This will be the basis to assessing to what extent the European Union is a place in which there is economic democracy.

[23] For a reconstruction of the events surrounding the Convention see *Una Costituzione per l'Europa*, Bassanini, Tiberi (editor), Il Mulino, 2003; for the Treaty of Lisbon see *Le nuove istituzioni, Commento al Trattato di Lisbona*, edited by Franco Bassanini and Giulia Tiberi, Il Mulino 2010, Bologna.

[24]Basically it is possible to be a eurosceptic because someone no longer believes in the project, but cannot be a eurosceptic because he/she has been cheated. This is the case of the British Prime Minister according to whom his country voted for a single market and has found itself part of a union of peoples. This is a personal interpretation of the historical record, which we can take as read given the considerable objective evidence of a signature by the UK on more than one Treaty stating the ambition of making the European Union a common destiny for the people who live there.

The European Semester

We will start with the European Semester. It is applying the Europe 2020 Strategy, fiscal convergence between countries and the Pact for Growth and Competitiveness.

The European Semester brings issues that are purely within the remit of national governments into the sphere of supranational powers (I have deliberately called them supranational rather than EU). And this has put a spanner in the works.

The member-states have created parallel worlds by signing international treaties such as the Euro Plus Pact and the Fiscal Compact (signed by only some of the EU member-states), in which they have borrowed (perhaps improperly) some common institutions to implement their inter-governmental commitments. However, the institutions are undoubtedly operating in a *different* dimension from that of the sources that created them, i.e. the EU treaties[25].

This is the context in which the issue of social dialogue operates. The social partners have always supported a role of active participation in the decision-making processes and reinforced the democratic nature of EU decisions even when the institutions of the EU forced their hand by moving into areas not directly allocated to them by the treaties[26].

The plans for European Union economic governance could not neglect this historical condition. Or in fact to attempt to compensate for this deficiency (the European Semester was created without any form of involvement of the social partners) with a European Commission policy guideline document[27] followed by a statement from the social partners[28].

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[25] Here I have used Astrid's analysis from *Prove di Europa unita. Le istituzioni europee di fronte alla crisi*. Edited by Giuliano Amato and Roberto Gualtieri. In this passage and below I mainly refer to the sections by Riccardo Pesich, Dal 'metodo comunitario' al 'metodo dell'Unione' and Paolo Ponzano, Un nuovo metodo dell'Unione? (Astrid, Passigli editori, Florence, 2013)

[26] Here I have used Gianni Arrigo's acute analysis in *Il Diritto del lavoro dell'Unione europea*, Volume I, Giuffré, 1998. His analysis has the advantage of coming immediately after the Maastricht Protocol on Social Policy, and captures, almost 'live', the spirit that animated the European Commission and the social partners in their views on social representation in the democratisation of EU decision-making processes.

[27] *Communication From The Commission To The European Parliament And The Council Strengthening The Social Dimension Of The Economic And Monetary Union* - COM(2013) 690.

[28] *Social Partner Involvement In European Economic Governance*. Declaration By The European Social Partners. October 2013, available at http://www.etuc.org/sites/www.etuc.org/files/other/files/layout_declaration_governance_21_10_13_clean_3.pdf

ETUC monitoring of the involvement of the social partners in the European Semester highlights the delays in linking social dialogue with EU economic governance, with two crucial results. The first is that the democratic deficit of the European Semester is not resolved. The second is that the focus of political and economic planning has chosen not to benefit from the input of the social partners, and has instead shifted towards growth and development[29].

The ETUC observatory tells us that in many countries the social partners are not consulted at all (Slovenia, Bulgaria, Ireland and Cyprus), or the methodology for collecting the opinion of the social partners is totally inadequate (Spain). When they are involved, the social partners may have informal relations (Italy) or relations that are formal but inefficient because of time-wasting, or incomplete (Poland and Hungary). Few countries have constructed an organised social dialogue with regard to the European Semester (Germany, Denmark, Sweden, France and Belgium). However, organised dialogue is not necessarily effective. It also may not meet the criteria of timeliness and complete information that allow the parties to check to what extent their positions are being borne in mind. In the 2012 semester only Italy and Sweden publicised the requests of the social partners. In 2014 the social partners either contributed with unilateral positions (Belgium and Denmark) or joint documents (the Netherlands and Sweden). Again in 2014 the timeliness in Germany was inadequate. In Denmark the chapter regarding the general performance of the country's economy was excluded from the consultation with the social partners. In France consultation took place after the passage through parliament when the process was already complete.

As things stand, the establishment of a principle - in this case, the need to involve the social partners in EU economic governance - needs the rules, timing and methods of social dialogue to be put in place. Good practice will show the way. In order to identify and disseminate them, the European institutions will need to transfer the commitment to strengthen the social dimension of economic governance including by forcing member-states to set up places and means of involving the social partners in the part of the European Semester within their remit.

The European Semester is therefore not the only driver of EU decision-making processes, but an important one. Within it decisions and strategies are put together that

[29] In its annual report, the ETUC highlights that where the social partners have been allowed to play a constructive role, the National Reform Programmes pay more attention to the Europe 2020 Strategy and to social policies. Statement of the ETUC Collective Bargaining Committee on Country Specific Recommendations 2014 concerning wages and collective bargaining systems, Brussels, 4 June 2014. Available at http://collective.etuc.org/EU

are related to the aim of our study.

Economic Democracy and the Country Specific Recommendations

In the meantime let us see how the protagonists of the European Semester have acted in practical terms. We will them move on to examine the specific recommendations produced in recent years. These constitute the final output of the entire European Semester process.

The recommendations for the **euro area** are rather statements of principle. In 2012 they essentially invited the member-states to confirm their commitment to allowing themselves to be coordinated and to accept further regulations on monitoring and adjustments to policies considered to be 'divergent'. In 2013 they focused on the need of restoring the efficiency of the financial markets, above all through stability of the banking sector. They called for policies to reform the labour market that would reduce the cost of labour and combat segmentation of the labour market. Without decisive action being taken on the labour market, the European Commission, backed by the European Council, believes there would be a risk of 'hysterical' effects which would mean unemployment would become impervious to wage dynamics[30]. In 2014, faced with an explosive social unease, the recommendation did not pick up the unemployment-wage argument again, but focused on production in order to kick-start the engines of the economy.

Growth must be kick-started with more **investments,** and these investments must come from the private sector, with the public sector committed to creating an environment favourable to investment. Satisfied by the direction taken by the stabilisation of the banking system, the European Commission hopes that the venture capital market will become active again, in order to remove the favourable conditions for credit capital and mobilise fresh, stable capital for investment in production.

Private investment must involve less exposure of the banking sector without weighing on public budgets and must restart the building of tangible and intangible infrastructure.

Here there are elements useful to our discussion of economic democracy. The vision proposed by the European Semester for the euro area shifts the focus of democracy, moving a (further) share of decision-making powers towards those who possess capital.

[30] The relationship between employment and wages exists in the Commission's theory, even against the evidence (precisely), but not in the theories of leading economists. Paolo Leon, *Il capitalismo e lo*..., cit. mentions it by collecting a series of arguments from various authors that in the end leave the relationships between wages and employment without a functional link.

They in turn decide on its use, also acting in the general interest. In their specific choices, because they are called upon to build infrastructures that are in the collective interest, and in the choices of the system because the sum of the individual behaviours of those who possess capital determines the success of macroeconomic policy.
No account is taken of tools that could redistribute decision-making power among citizens, balancing the position of those who do and those who do not possess capital. And yet the common good is discussed.

In the Country Specific Recommendations, alleviating the tax burden on labour is a recurring theme. Actions on the **tax wedge** have been recommended in several countries, but have only resulted in action in Austria, Belgium, Italy, France, Latvia, Hungary and the Netherlands. And the programmes are very different. In Italy they involve a tax advantage on low-income employee pay slips, while in Belgium and especially in France, measures benefit business, with a cut in employee contributions, which has raised concerns among trade unions for the potentially harmful effects that a cut in contributions could have on public welfare in general.
Another common theme is the recommendation that urges states to encourage investment by shifting the preference away from credit capital to **venture capital**. Countries like Spain and Germany have taken action that encourages the development of venture capital. Italy is exploring mini-bonds for SMEs, although it is not the only country.
The idea is to try and free up resources in order to make something happen. While waiting for an expansive monetary policy to inject liquidity back into the system, and for the financial market operators to make this liquidity available for production, given that the 'credit driver' has not been particularly effective in recent years, the European Commission is proposing sparks in the hope that these will ignite fires. These are small, widespread benefits, which may turn into savings (or accrual by households and businesses) that may in turn become new investments that are innovative, environmentally friendly, with a low energy impact, etc. It is certainly very ambitious, perhaps too ambitious[31].
Here there is a link with our argument. Financial participation has the right tools to convert the small-scale savings of businesses and employees into forms of accrual that

[31]This analysis does not mention the European Central Bank programmes and actions, although these are important for the success of the single governance project. Further details would not fit in with the concise nature of this report.

can be added to and help to boost the flows from tax savings (if well calibrated). These tools do not meet all the capital requirements of European production, but could help to meet them, with the advantage of making corporate governance more virtuous through the redistribution of powers due to shared capital ownership, which is now shared between capitalists, entrepreneurs, directors, employees and other stakeholders (the number of those involved depends on the tools used). The financial participation tools make transfers between private individuals, and are therefore compatible with the stability of public spending and convert savings into cash flows for the business that underlie income (in the form of accrual) for employees. This saving can be sourced from tax. When tax concessions are given, the state 'pays' through the lack of revenues from the tax incentives. This would not be against the Country Specific Recommendations that insist on redesigning tax concessions to encourage work and production. Financial participation can, under certain conditions, thus change tax savings into collective savings that are put back into circulation in business, without tax intervention by the state, at the same time giving a say to entities that are concerned with achieving sustainable production. This creates a virtuous circle.

Such requests have been met in Italy by an extension of the bond market to encompass SMEs or incentives to set up innovative businesses. The latter (see below) achieve the link between innovation, development and financial participation that our project both hopes for and aims to find.

However, more decisive action to strengthen participation experiences could be expected. In Spain a law to reinforce businesses with the co-participation of employees has been expected for some time. While waiting for the government to take action, CONFESAL and the two main trade union confederal centres have signed an agreement to focus on participatory businesses suffering from a serious economic and employment crisis (see below). In Germany we must mention the difficult launch of the SME fund co-financed by businesses (see below).

Another recurrent theme in the Country Specific Recommendations is the request to invest more in **tangible and intangible infrastructure**. This is a controversial point, because on reading the proposed measures, the European Semester translates these priorities into the liberalisation of protected markets, which often involves listing public enterprises on the stock market. The **liberalisation of services** (defined in various occasions as domestic, public or local services, but always referring to the area of economic activity that serves the general interest) is an absolute neo-liberal obsession of the current European government. Even in virtuous Denmark, in 2014 the European Commission proposed action to reduce entry or bureaucratic barriers to increase competitiveness in this market segment. The inefficiency of the public sector in Finland has attracted the attention of the European Semester. A large number of countries have received this recommendation between 2012 and 2014, proving that in the common European plan there is a need to rewrite the response that state and market should offer the old and new collective needs of our communities.

This is an area of the economy that offers services in the general interest (post, railways, telecommunications, etc.). In these sectors liberalisation does not just mean introducing new operators to improve market contestability. Often it involves placing (small amounts of) the capital of public enterprises on the market. In France placing state capital on the market involved employees in order to ensure stable corporate governance in the company involved. Thanks to a structured regulatory framework governing employees' savings and corporate governance, the (total or partial) privatisation of state enterprises has translated into employee shareholder plans characterised by collective share management and the right to sit on the corporate decision-making bodies (boards of directors or, if relevant, supervisory committees) when the employees' share capital exceeds 3 percent. The legal environment will develop further once the new law delivers its effects.

The UK has not received recommendations of this kind, but the government has been focusing on transforming services provided by central or local government into services provided by private enterprise with the co-participation of employees. The government has created favourable conditions for spin-offs from public administration instigated by employees themselves, thus proposing a new form of interaction between the public and private sectors. Some examples are provided below. These practices can be an example to countries who are taking action to 'open up' their services market, either in an attempt to cut debt, or because they wish to improve the quality of services to people at no additional cost to the state.

The paths towards financial participation find an obstacle in the recommendation to replace direct awards with **competitive public tenders**. This is not a small detail. If employees implement a spin-off using financial participation tools, they create an element of economic democracy. The company that they create is private, but is created to make a profit that is both economic (the profit that will repay a patient investor) and social (measuring success through the pursuit of the common interest). If this enterprise has to compete for its main client, the public body that is the contractor, against larger more speculative enterprises prepared to squash their competitors, perhaps through a bidding war, then the death of the participated company also results in the loss of the social value of the business initiative. A more in-depth exploration of this subject is provided in Pillar 2 of this project (see below).

However, beyond the liberalisation of public or general interest services with a local dimension, there is the placement on the market of the share capital of major state-owned industrial enterprises imposed by the need to liquidate investments in order to reduce public debt. Italy has been called upon to float its leading state-owned companies on the market in order to find resources to repay its public debt and breathe new life into the economy[32]. Poste Italiane is a public asset not only because it provides a service in the general interest (although it has become a multi-utility of which only a small percentage of revenues comes from the provision of general interest services), but because it ensures the state can fund itself with the dividends and make revenues from being (in this case) a good capitalist available to citizens. Last but not least, Poste Italiane employs around 130,000 people across Italy.

Placement on the market of a minority share in the capital of Poste Italiane has not yet taken place at the time of writing this report. However, employee shareholding is part of the project to place the capital on the market. This has happened in the past in other ‘privatisations’ of state-owned enterprises in the communications, banking and other industries.

The considerable improvement that could be obtained in Poste Italiane would be to build employee shareholding in order to strengthen corporate governance according to European principles of good governance (strengthening corporate governance appears in the 2013 CSR for the banking sector) and involve employee-shareholders not in a speculative enterprise but in building a patient block of capital that will confirm the long-term vision with which the shareholder-government has successfully managed Poste Italiane strategies and resources in recent years. Last but not least, the state needs to maximise the return on the sale of shares in a highly profitable enterprise able to guarantee returns far above the market average, but which has found its strength in its

[32]In the final project conference we will look at the case of Royal Mail. The case is interesting because it is comparable with the placement of Poste Italiane on the market. Poste Italiane is a group that generates annual profits of one billion euro and, thanks to its ability to create cash flows, is a virtuous example of a major state-owned enterprise.

ability to hold onto profits and liquidity in order to innovate and stabilise its business in the long-term.

Here again economic democracy can offer a set of values matched by tools able to provide responses to complicated situations - with solutions compatible with the Country Specific Recommendations.

The recommendations deal to a large extent with **labour market and wage formation**. Although the link between wage trends and employment is difficult to establish - the Commission itself safeguards itself by stating that high unemployment levels can, if they become entrenched, become impervious to wage changes - pay is central to almost all the Country Specific Recommendations. Not without some confusion. It is said that segmentation of the labour market (unequal protection for participants in the labour market), polarised pay (large numbers of people in the higher and lower paid segments and the gap between the two segments) and the weakened impact of the redistribution of tax are cutting household incomes and pushing a growing part of Europe's population into poverty. On this we agree with the European Commission and the member-states that voted for this statement.

It is a shame that these situations have been caused by the first recommendations of 2012, when almost all the EU countries were asked to reduce employment protection because it made the labour market inefficient during a time of crisis. The central collective bargaining systems have been dismantled or reformed, as requested, to allow wage formation to take place in the workplace and peg increases to increased productivity. The public sector salaries have been frozen or reduced. The austerity measures, or the measures for reallocating tax revenues to reduce the public debt, have drastically reduced the power of member-state fiscal policy to redistribute revenues.

In 2014 there have been signs of a change of direction. One that stands out is Poland. The country recommendations include a recommendation to promote open-ended contracts in order to eliminate the shift towards employment contracts other than job contracts.

The most frequent recommendations with regard to wages mainly aim to reduce the tax wedge and remove inflation indexation from wages. However, CSR 2014 contain an admission that it is difficult to reduce the tax wedge in countries that need to reduce excessive public debt (almost all EU countries, including Germany) and wage indexation (especially in Belgium and Luxembourg. In France the trend of the legal minimum wage is under indictment, and in Slovenia both) is not just a question of competitiveness, but also of public sector wages, and therefore increasing current government spending.

Financial participation will never be able to replace collective bargaining in order to determine correct remuneration for work. In fact, economic democracy works only when bargaining is able to stabilise the relationship between capital and work through formal, stable and long-term negotiation. There is little room for intervention, but financial participation plays a role that is often disregarded. It acts on the trade-off between the fight against poverty and the return to competitiveness. The company wage saving schemes common in the UK and France show interesting potential for an intelligent use of taxation favourable to household savings. They do not have a direct effect on wage dynamics, as wage levels are not linked to setting up savings plans. However, these tools offer employees opportunities to make the most of their capacity to save, leaving resources and liquidity in the business, and hence in production. This can alleviate the financial position of households.

With regard to taxation and employee pay, it is worth highlighting the case of Italy, where the tax wedge has been reduced thanks to tax concessions on productivity bonuses. More than seven thousand company contracts ensure that employees in those companies can benefit from additional pay to that established by their national contract at a 10 percent tax rate. In 2013 tax cuts on productivity bonuses were worth 305 million euro.

However, OCSEL (second-level bargaining observatory of the CISL) has reported a further contradiction with regard to corporate negotiations. In 2013 corporate collective bargaining was forced to manage corporate crises due to the economic downturn (this affected more than two-thirds of the agreements signed with businesses), while only 12 percent found the conditions to negotiate wages and link them to productivity indices. Once again, the tools of participation have highlighted the contradictions between austerity policies and growth ambitions.

While in Spain the 2014 recommendations lean towards the need to bring real wage trends back into positive territory, they have to deal with a reform of industrial relations that has severely weakened the collective bargaining institutions. The rise in real wages is by definition linked to stable and efficient collection bargaining tools. Furthermore, an efficient and organised bargaining system can allow the identification of new bargaining areas that can enhance the performance of companies (or industrial districts).

Financial participation tools could have opened up space for negotiation in relational systems that have now been dismantled. It is much easier to destroy than to (re)build. Spain remains one of the clearest examples of the separation of market and democracy in the entire theoretical framework that determines the policies of the European Semester.

This lesson needs to be borne in mind in France. In 2014, there were more recommendations regarding the excessive cost of labour, which is undermining the competitiveness of French companies. In redesigning an environment favourable to growth, some trade unions and employers have tried to shift the emphasis towards social protection that responds to new rights (such as recognition of new needs that have emerged in the underlying community) and to consolidate employee participation tools in order to accompany economic and productive changes and promote social sustainability (see below).

Here we would like to make the point that financial participation tools open up new ways to support the financial position of households or supplement pay, re-establishing a logical link between the social and economic dimensions of the EU policies of rigour and development. Financial participation involves a certain level of complexity that can only be made valuable by freeing up the proactive ability of the people involved (the social partners first and foremost) to handle the participation bodies in regulatory and negotiated action frameworks. The European Semester should abandon centralised macroeconomics, and 'trust' stable, participatory collective bargaining systems, for companies open to dialogue and investment, and use public powers for fiscal policies containing incentives, regulatory frameworks promoting action and financial credit and investment institutions that are efficient.

In 2013 the recommendation for Germany was to use growth tools from the professional experience of some categories to stimulate growth in individual wages or household income. In other words, Germany should create the conditions to convert forms of insecure income such as mini-jobs into stable, better-paid work. For example, the leverage of a better quality job supply in order to increase the wages of less qualified employees or second earners (this recommendation was also made for Austria). Here advocates of economic democracy would talk about bringing people (back) to investing in themselves.

Another recurring topic in the Country Specific Recommendations in recent years is precisely this - the **valorisation of human capital**. Countries like Italy, Bulgaria, Slovakia and Romania have been reprimanded by the European Commission for reducing spending on education. Many other countries have been encouraged to invest more in professional training and conversion of the labour force in industries where there is an excess. There have been many calls to apply the Youth Guarantee. Denmark and Austria have been asked to improve access to the labour market for some categories on the margins of the job market, such as immigrants. Another recommendation was to focus on the transition from education to work by investing more in apprenticeships.

In the opinion of the writer, these recommendations must fit in with the measures called upon for services for families, precisely in order to create the conditions to allow both spouses to be involved in the labour market (for example, nursery schools, full-time school and other tools for reconciling work and family life).

Similar recommendations are even more urgent in countries where childcare services need to be increased and made affordable to families. Whereas in Finland, the focus is on demographic trends and the ageing population.

These recommendations contain what this project highlights very clearly, i.e. how the needs of European citizens are changing and how the crisis has changed the structure of welfare systems (see the paper by Avanzi). In this sense, the project shows that recommendations like those made to Denmark and Germany can find a response in the valorisation of the concept of economic democracy, this time not so much in traditional tools like financial participation, but in the use of 'participatory' private capital. Capital that is formed by and draws on local relational dynamics (the territory) and launches business initiatives with social purposes. A new, participatory, patient economy that is able to identify new needs and provide responses to them - by pursuing the profit which private capital cannot do without - but takes into account the common good. In this case, the European Semester finds completion in the EU's Social Business Initiative.

Pillar 2 of this project (see below) proposes case-studies and idea for developing a participatory economy that successfully meets the values of economic democracy.

Some countries, such as France, Luxembourg and Slovenia, have received recommendations about the **minimum wage** (too high or too widespread). Yet the recommendations described above show the need to make wage formation schemes more complex rather than more standardised - to reward those who improve their skills through training, to retain the best human resources, those who bring about innovation, etc. While accepting that wage dynamics are determined by the market, and therefore the independence and equilibrium between the bargaining powers of businesses and employees should be defended, we wonder why the focus on wage dynamics must always only be ‘downwards’ and not on the creation of reward mechanisms that could be more in line with the structured, complex objectives proposed by the European Semester?

Re-harnessing people’s energy means being able to offer them opportunities in a scenario in which there is less social fluidity. The hope of improving one’s social position is the spark that fires individuals’ desire to invest in skills for themselves and their children. As we have seen, the investment in skills that a person makes does not only depend on the training opportunities made available by the state, or the value of participation in policy making. Much depends on income and accumulated wealth, and on the influence that people feel they have on the choices the community makes in relation to that income and that wealth. This is the true essence of economic democracy.

In terms of purchasing power, financial participation must not involve reducing the income from work, which has already been heavily impacted by the fall in real wages that has been felt throughout most of Europe. Wage dynamics must also match the logic underlying trade, work and pay, which have a broader value than the objectives of economic democracy.

However, financial participation may influence the disposable income of households, by making it easier to save or by generating resources that can be reallocated to creating financial assets for the household, which can increase its wealth merely by possessing financial securities, but it also creates a source of income that is separate from pay. Financial participation therefore needs the stability of collective bargaining agreements or proper pay for work in order to add more efficient management of the additional opportunities that money management can bring to employees and their families.

The Country Specific Recommendations for the countries that have joined the EU recently take into account their economic history, i.e. their dependence on incoming foreign investment. In 2014, after two years of suggestions that it should reform its pension, job market and education systems, the Czech Republic has been given a recommendation that the Czech government should **activate the untapped potential of domestic capital**. While recognising that, before the untapped potential can be activated, it has to be created (more education, more professional training, more innovation and stronger institutions). However, these are peripheral, albeit essential issues, and they sound more like a mantra than a policy programme. It is interesting to note that this analysis has not been applied to neighbouring countries with a similar history.

The point is either just mentioned or left out in the Poland and Slovakia CSR[33].

The ProEFP network has dealt with the economic democracy of these countries on several occasions and has reported a change that marked the history of these countries in the stage following the transition from a planned economy to a market economy. In the 1990s, the transition required people to behave like investors, like capitalists. The takeover of public sector companies by employees has been urged by various buy-out schemes and by the distribution of vouchers convertible into shares in the privatised companies. An operation that has been lost through a lack of political perspective, abuse and fraud, but above all overturned by the arrival of huge amounts of foreign resources - the markets of the 'new' European countries have immediately been eyed up by western companies thanks to their low labour costs and the opportunity of entering markets that are close by and in need of everything.

The Commission's recommendation confirms, without drawing any value-based conclusions, that the growing productivity cycle, powered solely by foreign investment, risks stalling.

Can employee share ownership re-propose itself as a tool for creating domestic capital? Such practices would certainly be applicable to a totally new socio-economic context, with solid democratic institutions and legislative systems closer to Western standards. The creation of domestic capital conceals the problem of inequality. These countries have wealth distribution indices with the highest inequality levels in Europe.

An employee buy-out is a tool that belongs to the financial participation toolbox and is a vehicle for economic democracy. The case of the Spanish *empresas laborales* is in fact an example of employee participation in a company that originated in Spain during the transition towards democracy. It is still a strong example that aims to re-propose itself as an anti-crisis entrepreneurial model in these years of extreme difficulty for the Spanish

[33]Two decades have definitely seen changes in the national scenarios that may make the priorities for reform differ from one country to another. The CSR are also policy documents and as such are affected (from one year to the next) by changes in the political situation in which they are created. It is certainly true that, especially when looking at the CSR for different countries in different years, there is a difference in tone, probably due to the complexity, sometimes dispersive, of the bureaucratic machinery that is in charge of drafting the CSR. A complexity that leads to a lack of alignment between the content to the detriment of consistency in the policy direction that dictates the priorities.

economy (see below). Although employee buy-outs are still an interesting tool, these countries are attracted to financial participation for another reason[34].

In Poland, the issue was identified in 2012, but in the form of the need to carry out reforms in order to stimulate more investment. The recommendations pushed for three years for reforms that have clearly struggled to find their way to rationalise the labour market, energy procurement, the fight against poverty and reform of the pension system. However, in Poland there has been a favourable trade-union response to forms of financial participation. The issue lies in the need to strengthen the participation component of fragmented industrial relations that are still tied to an antagonistic mindset. Furthermore, employee shareholding could enable the corporate governance model of Polish companies to reach maturity, and thus create more stable capital and better wealth distribution. And this is perhaps the interpretation: a broader dissemination of financial participation tools could make it possible to face the challenges in the countries of Central-Eastern Europe.

Concluding remarks

At the beginning of this section we referred to the concept of a social market economy, but we then moved onto the concept of economic democracy. This is because in our examination of the CSR of recent years we considered economic democracy as our value system and financial participation and social economy as the tools by which economic democracy is achieved.

We are in a field of analysis carried out by those who believe that people need to find a new central role in economic organisational models and the democratic institutions, and that people's ability to decide the destiny of their communities is not expressed solely by voting and political representation, but also a having a say in public affairs that are managed by the market. Working people should have a central role in management, decision-making, capital and company results.

[34] Below I take inspiration from contributions from colleagues, in particular from the worlds of trade unions and government, during study events organised by the ProEFP network in the last four years and some of the network's publications, referenced elsewhere.

Those who follow the path of economic democracy believe that every participatory enterprise, every economically relevant undertaking that links different interest groups to share ownership (and decision taking) generates economic democracy clusters that together bind the virtuous link between democracy and the market.

In defining economic democracy, we have tried to express the values that we believe it embodies. We were not interested in a negative definition of economic democracy, i.e. pointing out its distance from the concept of a social market economy. If anything, we wanted to give a positive view of the objectives that inspire the supporters of economic democracy. We hope to have succeeded in this.

We also wanted to identify the elements of economic democracy that exist in EU tools. It should also be mentioned that the European Semester does not embody the entire potential of EU policies. It adds to the policies that are produced and applied using the EU method.

While we are aware that this report is another contribution to a debate that has been ongoing for years, we do not wish our work to end here. Quite the opposite - the purpose of this report is to lay the foundations for strengthening the objectives and content of the network's work in the coming years. This is what we shall be doing in the following chapters.

ECONOMIC DEMOCRACY IN THE MATRIX OF EMPLOYEE PARTICIPATION

Social dialogue, participation and corporate governance.

Is there a link between these three factors?[35]

Interaction between the workforce and enterprise can respond to different types of relational logic. Put simply, we can say that employees, represented collectively, can be an *internal* or an *external* interlocutor with the administrators of a company.

They are an external interlocutor when they are organised into trade unions and implement tools that aim to collectively resolve the problem of organisation and remuneration of the production factor of work. The behavioural model is antagonistic, and the most common tool is a collective agreement.

They are an internal interlocutor when the figure of the employee is considered an integral part of the enterprise as a whole and the directors interact with them as a ‘partner’ in the corporate programme. In this case, employees organised into purely corporate (generally elected) bodies interact with the enterprise management or owners to resolve work-related problems and sometimes to discuss corporate strategy.

In social dialogue, a concept that is gradually taking hold in Europe, negotiation and involvement normally mix together to create a relational model in which the ‘external’ and the ‘internal’ work alongside cohesively together. The trade union and corporate representative bodies, when not the same, work together to find a subsidiary subdivision of functions and competences, a process which is not always a smooth one.

Employee representative bodies, whether internal or external, seek for confrontation in the company: with someone who has decision-making power. In other words, the employees become part of the power ‘contended’ between the directors and the shareholders. Having assessed this balance (if in a position to be able to do so), the employee representative body directs its desire for discussion either towards the directors or towards the owners, depending on the individual case.

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35 We go over the conclusions of a study by the author as part of the European project *Employee Financial Participation, Corporate Governance and Social Dialogue*, the final report from which has been published with the same title (in Italian: *Partecipazione finanziaria dei lavoratori, governo di impresa e dialogo sociale*) by Edizioni Lavoro, 2010, Rome. The report is based on 50 interviews and numerous case-studies from Italy, Ireland, Spain, Turkey, Sweden and France.

Employee involvement in corporate governance

	1. Internal processes	2. External processes
A) Directors	**1A Creation of consensus** - Rights to information and consultation - Employee participation in director organisations	**2A Conflict management** - Collective bargaining - Flexible wages and participation in corporate results - Social legislation and flexible work
B) Shareholders	**1B Sharing corporate risk** - Participation in shareholder representative bodies. - Individual share ownership - Collective share ownership	**2B Trade union, the new capitalists** - Pensions funds and equivalent - Investment funds set up jointly by employees and companies - Social or social economy enterprises - Social-aware investors and CSR

Cluster 1A identifies a relational moment, the search for consensus, which normally leads to various forms of employee involvement. These are generally supported by independent legislative or contractual measures that specify how they operate.

There is no ideal participatory model. However, this is a banal statement for those studying European industrial relations. It is less banal to state that all the participatory models are known and an established part of national law in the member-states. Participation cannot be packaged into predefined categories as if the history of participation had already revealed and catalogued every possible type of experience.

On the contrary, the potential for experimentation has not been exhausted.

Experimentation is alive and well in European enterprises. Innovative practice in industrial relations needs to be studied and understood. Participation in decision-making is one practice that has had a chequered career, playing an elitist, niche role at some specific moments and acting as a fundamental strategic model at others.

The second cluster 2A refers to the relationship between the *directors* and external employee *representatives*. This is the interaction between the company and the employee trade unions.

For many enterprises in Europe collective agreements are a ‘supra-corporate' factor, outside the powers of the directors. Here the individual enterprise's ability to influence the content of the agreement is non-existent or in any case minimal.

However, it is too simplistic to conclude that the bargaining relationship with the trade union ends once the collective agreement has been applied.

Even when multi-employer agreements are mandatory, fulfilment of the agreement keeps the relationship between the company management and the stakeholders/employees alive. In fact it makes it strategic. The multi-employer agreement must be applied in the company and sometimes supplemented. Implementation and supplementation of the agreement provide a definitive solution to the question of the employment relationship. They determine the stability and longevity of the agreement. In the best case scenario the agreement contains elements of vitality that allow the terms and conditions to be constantly updated, reducing renegotiation costs and inefficiencies within the terms and conditions due to the gap between the agreement and the parties' real needs to be reduced to a minimum. It is the case when participative practices and well greased bargaining processes paves the way to the bargaining agents. This is essentially the added value of good governance[36]. As we saw in the previous chapter, the mechanisms of collective bargaining have been challenged in recent years. As a result of the policies of the European Semester, employment reforms in many countries (Portugal, Spain, Ireland and Greece) have taken steps to reduce the stability of collective agreements in the belief that this would reduce labour costs. The same aim has been pursued by those who have seen in shifting wage formation closer to the place of production (Germany, Italy, France, etc.) in the logic of unilateral (reinforcing the employer's right of intervention) or negotiated derogations. Instability in negotiation has repercussions on the whole participatory structure.

The third cluster B1 highlights the relationships between the workforce and the shareholders. The shareholders' role in corporate governance can be major in the event that the shareholders and the directors are one and the same, and practically non-existent when the two are separate and the directors have stripped the shareholders' meeting of any powers.

[36]Once again we have to use a simplified concept to make our arguments clear. We are well aware that company agreements are the main tool for laying out employment terms and conditions in many European enterprises. However, we have assumed that the concepts developed in the following paragraphs on collective bargaining as a tool for good governance can, all the more so, be extended to companies in which supra-corporate agreements are not applicable.

Employees may choose to become shareholders. They can become sole shareholders of the enterprise, controlling shareholders or holders of a more or less significant share of the capital[37].

The motivational component is based on the conviction that the greater the influence of the shareholders in corporate governance, the more the employees must be in contact with the shareholders to manage change. The more the shareholders set the goals for measuring the success of the business, the more strategic it is to bring the values of work and social aspect of production *to* the shareholders.

Given the current trend to modernize corporate governance and social dialogue, the importance of cluster 2A will increase in the complex system of industrial relations in Europe.

This remark gives an idea of the importance of the fourth cluster. Cluster 2B describes the relationship between trade unions and financial centres. It deals with the ability of trade unions to make investors, who wish to communicate, embrace social provisions. Employees become the new capitalists. And as such they use a typically economic language that talks about business *sustainability* and business *ethics*. There can be various tools to achieve this, although the debate is currently mainly focusing on corporate social responsibility, as far as business sustainability is concerned, and the presence of employees in the financial market by means of pension funds, as far as business ethics is concerned. However, this is not all.

Pillar 2 of this project (see later on in this report) in fact investigates social capitalism. Our investigation starts from cluster 1B, i.e. share ownership.

In other words the forms of employee share ownership that are capable of having an effect on corporate governance and thus extend their influence to the other clusters; or that aim to shift the balance of corporate governance. The extent to which the other clusters are involved is then measured.

[37]The PROEFP network has dealt with this issue in the past. We have referred to the results of the S-DEED project managed by CONFESAL. The study on Employee participation in Europe the case of the car industry. The publication *Rafforzare il coinvolgimento dei lavoratori nelle PMI. L'esempio del settore costruzioni*. CISl, Edizioni Lavoro 2013.

Significant studies on the subject include: European Foundation for the Improvement of Living and Working Conditions, *Recent Trends in Employee Financial Participation in the European Union*, by Erick Poutsma, Dublin 2001; J. Lowitzsch et al., *Financial Participation for a New Europe. A Building Block Approach*, Rome-Berlin, March 2008; *Changing Patterns of Employee Financial Participation in Europe, Final Report by Erik Poutsma*, January 2006; Santagata R., *Il lavoratore azionista*, Giuffré, Rome 2008.

Some thoughts on the condition of employee-share holder

At times employees must be prepared for (shared) ownership. The results of our studies show that there is a cultural element that links employee share ownership and corporate governance.

The share *holder* is the holder of the title to an asset. The asset that derives from ownership of the security is not enough to define the asset holder a (co-)owner.

For a *holder* to become an *owner*, asset ownership has to be accompanied by two additional characteristics. The first is hetero-defined and concerns the rights connected to ownership of the asset. This is essentially the right to vote at the shareholders' general meeting with all its related information access rights.[38].

The gap between being a *holder* and an *owner* relates to the definition of different classes of shares and access to the types of share that make it more or less easy to exercise the rights associated with ownership (capital without a vote, capital with a proportional vote, capital with multiple votes, etc.); it relates to access to documents and to the prompt and proper disclosure of information; to the right to ask the directors questions and receive full answers and to the right to appoint or accept proxies.

Once the freedom to exercise the role of owner has been confirmed, voting (exercising a right) in an informed, participatory manner (exercising a right in a responsible manner) does not complete the metamorphosis from *holder* to *owner*.

The second characteristic of an *owner* is in fact the willingness to exercise these rights, a condition that is purely subjective.

Therefore, compared with the *holder*, the *owner* embodies the concept of holding an asset, the legal status and a behavioural predisposition. As an individual small shareholder, the employee realises the irrelevance of their participation, and this discourages active participation, or the taking on of responsibility.

Having associations for small shareholders is one way of making minority shareholders stronger. This is because small shareholders could seriously expect to have an influence

[38]European law expects the price paid for the share to be commensurate with the right that the shareholder can effectively exercise through holding the security. The use of the word expects is an implicit admission that all too often in Europe shareholders struggle to exercise the rights related to share ownership (According to point 3 of the "whereases" of Directive 2007/36/EC).

on the life of the company (not to be irrelevant) if they exercise their voice with a large number of other small shareholders. Why is the option discarded *a priori*? Leaving aside the bureaucratic difficulties, which nonetheless exist, it is difficult to identify and organise a group of shareholders that might have a reason to form an association or common interests and objectives about which they totally agree.

For employee-shareholders, forming associations is particularly significant. For them belonging to an association has historically meant belonging to a trade union.

In many shareholding experiences, trade unions promote a culture of participation. They are the cradles of participatory experiences, first of all because they carried them right from the beginning, when they were still small, or because they supported them.

In some cases employees exercise control or significant influence with minority shares in the capital. Sometimes minority stakes can lead to forms of employee participation in the corporate administration bodies. In other cases the stake held by employee-shareholder organisations is not sufficient to obtain a role in governance of the company.

Empirical evidence suggests that share ownership could not be used as a strategic choice for employees in competition with institutional investors. Rules are necessary to protect the property of employees over other claimants.

These are not rules that are imposed, but usually the result of choices in the company's articles of association. They are alterations to the proportionality of corporate control that are based on an independent, clear and transparent choice by the company. Employee-shareholders may be favoured in various ways: by new issues, creation of profit-sharing plans to increase employee share ownership and by imposing limits on capital accumulation for external entities not involved in governance.

When no special treatment is offered there is little hope of success, in the sense of stable and informed share ownership and more transparent corporate governance aiming for long-term success.

It is not always possible to implement these choices. Corporate governance is the result of a delicate balance between constraint and freedom. Generally speaking it can be presumed that the group with majority ownership will be unlikely to accept a shift in control of the company if this means a dilution of its power.

This also applies in the opposite case, when employee-shareholders are protecting/defending a dominant position.

In the specific case of employee share ownership, we have found that companies develop specific corporate cultures that are (also in large groups) well established in the area in which they operate. They also propose socially advanced behaviour in how they run their business.

However, mobility involves a change in the type of business. When mobility distorts corporate governance the change can become a challenge with too many uncertain implications and too high a risk.

Employee share ownership becomes a factor that combats mobility, not necessarily because the employees are reluctant to change, but simply because the sustainability of the company is on the line. Of course, this is only the case when the change is capable of changing the ownership structure and altering the corporate culture.

Such thoughts reflect, at least in part, a path of conceptual abstraction that the PROEFP partners have developed analysing concrete cases. This report comes along with more case studies, Case studies remain a sources of information for an in-depth studying of the dynamics ruling employee share ownership. The objective is always to point out operational instrument used to make economic democracy a viable socio-economic model.

Social dialogue to enhance economic democracy in the frame of the 2020 strategy and new skills for new jobs agenda (by ESOP CENTRE)

The ESOP Centre's[39] report focuses on employee-owned businesses which provide public services. The three case studies show that when employees who understand a social service's role and function within a local community are able to take control of that service, results improve, costs decrease due to efficiencies being identified and the skills of the staff increase as they take on the managerial function for the organisation.

Our case studies encompass a historically employee-owned childcare service; the first social enterprise to spin out of the National Health Service (NHS); and the first major mutual in the most recent round of government led mutualisations.

These staff-owned social enterprises spin outs can deliver innovation, and quality and productivity gains that more bureaucratic public services could not. In addition, profits are reinvested in the company, rather than paid out in dividends as with private companies, and the assets "locked" into public ownership for perpetuity. Public service mutuals offer a "social value," that conventional providers, both private and public, do not. As the case studies demonstrate, these mutual structures give the employees a chance to create a more locally-focussed strategy for their organisations, which, through social dialogue, leads to improvements in customer experience.

The United Kingdom Coalition (Conservative + Liberal-Democrats) Government has shown commitment to public services being provided through mutuals since its election in 2010. The work forms a key policy stream of the Cabinet Office under the banner of the Big Society, a group of policies aimed at increasing the contribution which civil society can make to the economy. Since then, the number of public sector mutuals has increased six-fold.

[39] The ESOP Centre or Employee Share Ownership Centre is a members' organisation founded in 1988 by chairman Malcolm Hurlston to lobby, research and inform in the interest of developing all forms of broad-based employee share ownership.

In order to facilitate this policy agenda, the government appointed a Mutuals Taskforce, led by Professor Julian Le Grand. Steps have been taken to ensure a high degree of information and best practice sharing. The Mutuals Information Service[40] website provides a hub for public sector staff who are considering taking steps towards becoming a mutual spin-out. In addition, healthcare services benefit from two statutory tools: the Right to Provide and the Right to Request.[41]

A recent report by the Mutuals Taskforce[42] showed that this business model faces certain barriers which need to be resolved before the model can be more widely adopted. The report recommends that new mutuals should be exempt from EU procurement regulations, the Right to Provide should be more widely applicable, training and guidance should be provided to public service commissioners, and that there should be an analysis of investment opportunities in mutuals by Big Society Capital.

[40] http://mutuals.cabinetoffice.gov.uk/

[41] *Right to Provide: on 30th March 2011, the Department of Health launched the Right to Provide. It enables NHS and social care staff to apply to their host organisation to set up a staff-led social enterprise, giving them real influence in the way the service develops.*
The Right to Provide has now closed for applications from NHS trusts (including those in the Foundation Trust Pipeline) but staff in NHS Foundation Trusts and social care organisations are still able to submit an expression of interest for the scheme to their host organisation.
Right to Request: The Right to Provide follows the success of the Right to Request. The Right to Request was open to all primary care trust (PCT) frontline staff, and invited proposals to help transform local health and social care services. As a result, 40 services, involving approximately 20,000 NHS staff, spun out to form social enterprises delivering high quality services.

[42] http://mutuals.cabinetoffice.gov.uk/documents/mutuals-taskforce-report-public-service-mutuals-next-steps

Overview of The Current State Of Broad Based Employee Equity Participation in the UK (William Franklin of Pett Franklin: MILAN TALK

(1) Three main approaches:

(a) Co-operative Ownership

(b) DIRECT Equity Participation in Companies- Conventional Employee Share Schemes

(c) Predominantly INDIRECT Equity Participation in Companies (eg John Lewis)

Cooperative Ownership

(2) The Co-operative sector in the UK is dominated by some large retail Coops. These are customer, not employee, owned co-ops. Currently they are in crisis due to mis-management at the top level and poorly planned and executed acquisitions. A major change in the governance of these co-ops is required if they are to survive and some such as the Co-op Bank have already had to be sold to US private equity interests in order to survive.

(3) There are a fair number of small co-ops but the UK employee owned coop sector is nothing like as strong as in Spain or Italy. It is hard to think of any UK employee owned coop with 75+ employees. Their structure is generally:

- One Member, one vote
- Small scale local rather than national businesses
- Cost of participation is very small for employees who join
- Employees are not expected to make capital gains and there are usually fairly egalitarian remuneration structures
- Not particularly tax favoured

Although there is some cross party political support for co-ops the co-operative movement has traditionally been more closely aligned with the Labour Party and in reality there is limited political understanding of how to grow the sector and there is a notable absence of cooperative entrepreneurs compared with say Spain or Italy .

Direct Equity Participation

(4) Shares or options in normal limited companies

(5) All employee or broadly applied selective arrangements are quite common for larger quoted companies, fairly common for smaller quoted companies but still relatively unusual in unquoted companies (but growing slowly):

These plans enjoy the most generous tax regime ever, if there are gains, because of various UK government schemes (which have co-existed under both right and left wing UK governments):

Share Incentive Plan (SIP) - free or bought shares- all employee

SAYE- options with savings contract to fund exercise price- all employee

EMI and CSOP - discretionary option schemes but can be offered to all employees

SFR- Shares for Rights- new scheme from UK Exchequer Chancellor George Osborne (2013)

(6) Tax regime in general

- no tax for employee on award - sometimes even extra tax relief (e.g. SIPs)
- subsequent growth taxed as capital but nil rate band means modest gains tax free and generally tax rates for capital gains are much lower than for Income
- often Corporation Tax relief for company (possibly overall negative tax rates)
- sometimes even tax relief for vendors of shares into share scheme (SIPs)
- BUT there are still pitfalls as well

(7) Benefited from cross party political support – exception is the new SFR- Share for Rights- because the employee has to give up certain statutory employment rights to join the plan.

(8) Cost of participation nil or negligible for employee - So why, given the benefits and tax breaks, is usage low amongst unquoted (privately owned) companies?

(a) Many of our larger unquoted companies are backed by private equity and so fail the independence requirement and so do not qualify for government approved tax-favoured schemes.

(b) Reluctance of many owners to "share" their equity with their employees

(c) UK does not have a large Mittlestand of privately/family owned companies (as has Germany) that might find the tax incentives for wider employee share ownership attractive.

(d) Many are very small companies and costs of set up and running may be disproportionate

(e) Lack of knowledge

(f) Unless the entire company is sold it is difficult for employee shareholders in unquoted companies to realise their investments. Until recently it was not possible under UK corporate law for unquoted companies to create an internal market by buying back shares from employees into Treasury [also there is a tax trap if employee sells shares back to company within 5 years of acquiring them then proceeds are taxed as Income (dividends.) at a much higher rate }

(9) The solution that was developed to create an internal market was to use Employee Benefit Trusts (EBTs) ,but this involves or requires

(a) Extra operational costs

(b) Complicated tax issues eg loans to participators, IHT issues, transactions in securities issues etc --- solution proposed a safe harbour trust

(c) Capable and independent Trustees

[Upfront tax reliefs can be a two edged sword because there can be troublesome rules for claw-backs of tax reliefs when employees leave early contributing to relatively high administration costs.]

EBTs

(10) Companies often used offshore EBT because of expertise cluster that has developed in the Channel Isles. For share schemes going offshore was NOT for tax avoidance but unfortunately in recent years the offshore EBT brand has become severely damaged because EBTs in tax havens have been used for aggressive tax avoidance purposes completely unrelated to share schemes.

(11) Trusts are a long established legal concept in the UK which have been used to protect assets eg to protect family assets from being unwisely used by an inexperienced younger generation. They actually predate the joint stock company. In the last century they started to be adapted for use with employee share schemes because they proved to be a convenient vehicle to warehouse shares for employee share schemes; and for quoted companies they allowed institutional dilution limits to be side-stepped for executive share awards. They are usually called EBTs (Employee Benefit Trusts) but are also known as ESOPs and ESOTs (Employee Share Ownership Trusts). Structurally they have some similarity with some European concepts such as Foundations.

(12) An EBT is usually set by the Company that has a share scheme and operates under trust law and the terms of a legal document called a Trust Deed. It has Trustees who are responsible for managing the trust . These may be individuals or a company (trustee company) set up for the purpose of being the trustee. Quite often Directors or employees of the Company that has the share scheme are amongst the trustees or directors of the trustee company but under trust law they are required to act independently in accordance with the terms and objectives of the Trust Deed. This can potentially create conflicts of interest. Most quoted companies prefer to use off-shore trustees where the trustees are specialist companies independent of the Company operating the share scheme where such conflicts should not arise.

(13) An EBT is sometimes described as a" one way valve" because under the terms of the Trust Deed assets held in an EBT are primarily for the benefit of the beneficiaries who are usually defined as employees of the Company. The result is that once assets (eg shares) are within an EBT they have to be eventually allocated to employees although the trustees can have considerable discretion on when that transfer occurs and the number of shares received by particular employees. This description however does need to be qualified because to the extent the EBT is funded by a loan from the Company the subsequent repayment of this loan does allow assets to be withdrawn from the EBT.

(14) There is an alternative trust structure which is starting to be used for share schemes in the UK known as a Purpose Trust. The most common form of this is the Guernsey Purpose Trust (GPT) which was pioneered in Guernsey. However the UK government approved share scheme known as the SIP (Share Incentive Plan) also involves a form of purpose trust. Under a purpose trust the trust does not exist for the benefit of beneficiaries but for a specific purpose which can be the operation of a share scheme. When that purpose ends surplus assets which might otherwise be trapped (in the sense they can only be used to benefit employees) in an EBT can be returned to the Company. However the GPT is a relatively new development and most employee share trusts are structured as EBTs.

(15) The vast majority of EBTs used for equity participation are established to facilitate direct employee share ownership. Typically after the trust has been established the Company funds the EBT either by a direct cash gift or a loan from the Company which is then used by the trustees to acquire shares in the Company either by purchasing shares from other shareholders or subscribing for new shares issued by the Company. The shares are then held by the trust until they are transferred to the employees when the share award matures. Sometimes for convenience or for tax reasons the legal title to the shares continues to be held by the EBT after the transfer of

beneficial ownership to employees. In this role the EBT is essentially acting as a warehouse of shares until the employee is entitled to receive them directly. In unquoted companies the EBT can also facilitate an internal market by acting as a market maker in the shares of the Company when employees leave or want to sell their shares.

Indirect Equity Participation

(16) A radically different use of EBTs which permits INDIRECT employee equity participation also emerged in the UK in the last century. Under this approach the EBT, instead of acting as a relatively short term holder of shares to facilitate ultimately employee DIRECT ownership of the shares, owns shares permanently or at least for the foreseeable future for the benefit of employees as a whole. In the UK the leading example of this form of Indirect equity participation is the John Lewis/Waitrose Group which is one of the UKs largest and most respected and successful retailers. Management attributes much of the success of the business to its ownership structure which has engendered a consistently high level of customer service and engagement by its staff at all levels.

(17) There are several dozen other successful UK companies which have also an INDIRECT ownership structure employing for example more than 75 people and so in terms of the number of larger companies the Employee Owned Company sector as it is often called is much more significant than employee owned co-ops but it is still only a small part of the economy as a whole. However it has attracted considerable political attention in the last few years under the coalition government and enjoys cross party support.

(18) The term employee owned company can be misleading because in its purest sense employees have no direct interest or rights in the company as shareholders but are just beneficiaries under a trust. A key issue then is who controls the trust and how are the trustees appointed. In practice many employee owned companies are actually hybrids with some shares being held long term by a trust and other shares held or available for direct ownership by other shareholders or employees.

(19) Many of the existing employee-owned companies have existed for decades and were founded by an entrepreneur who for altruistic reasons preferred not to float or sell his business and instead through the vehicle of an EBT allowed his employees to continue to run and benefit from the business. The EBT also acted as something of a barrier to takeovers .Inevitably the number of founders with that sort of vision has been small and so the number of such companies is relatively few, but they have often proved to be very high quality and well run businesses and have sometimes been described as the nearest equivalent the UK has to a *Mittlestand.*

(20) Following the banking crisis and recession a political consensus has emerged that the UK economy would benefit from promoting a wider range of business ownership structures, particularly ones which might encourage longer term decisions and greater employee engagement and there has been considerable attention given to the Indirect employee ownership model which ministers have often called the '*John Lewis economy'*.

(21) Most of the activity so far has been publicity to make the model better known. There have been minor technical legal changes to make such structures easier to operate and the Department of Business has promoted the publication of standard trust documentation prepared by the employee share scheme specialists Pett Franklin & Co LLP. but the most substantial change so far has been the introduction of a new tax relief . Entrepreneuers who sell at least 51 percent of their company to an Indirect EBT will be exempt from capital gains on the sale of these shares. This is a very generous relief and it is likely to at least encourage more intending vendors of companies to at least consider the selling out in this way. However as most such vendors would already qualify for Entrepreneurs Relief and so only have to pay tax at the rate of 10 percent on their gain it remains to be seen whether the new tax incentive is sufficiently attractive to encourage many more vendors to set up an employee owned company as their exit route.

(22) However, the indirect EBT structure could be an attractive vehicle for companies spinning out of the public sector providing services back to the public sector. Having shares held in a trust for the benefit of all employees is likely to be politically more acceptable than direct employee share ownership and the trust structure may act as a barrier to unwanted takeovers. But is it sufficiently flexible to allow for necessary re-organisations

(23) From October 2014 there has been new very generous relief for employee owned companies with 51 percent + indirect EBT employee ownership. Annual cash tax free cash bonuses of up to £3600 per annum per employee. This to some extent addresses the problem that compared with direct ownership of shares employees to not enjoy the same tax advantages as employees who receive shares through conventional share schemes. But it is a very rough form of justice and will give employee owned companies that qualify a considerable competitive advantage over normal businesses.

Central Surrey Health: case study by ESOP CENTRE

Introduction

Central Surrey Health (CSH), the first social enterprise to spin out of the NHS, is an employee-owned organisation that provides therapy and community nursing services to a population of 280,000 in central Surrey in the south of England. Operating as a social enterprise means that any profit can be reinvested into the delivery of care services.

In 2005 the former East Elmbridge and Mid Surrey Primary Care Trust was looking to separate out its commissioning and provider functions[43]. Two members of clinical staff, Jo Pritchard and Tricia McGregor, were offered the opportunity to explore healthcare delivering options. They created an entrepreneurial employee-led structure that put patients' and therefore the community's needs first.

CSH is now owned and run by the nurses and therapists it employs. This means that the staff are involved in everything from budgets, strategies and plans to making improvements on how their services are run. CSH benefits from higher levels of engagement and motivation, which leads to higher quality care.

The managing directors and the senior staff are all nurses or therapists, which means those people who are closest to the patients' needs are in charge of providing and developing services. By giving power to change how their services are run to its staff CSH saw innovation, which in turn led to efficiency savings

Improving Social Dialogue

The new structure has helped to speed up decision making, reduce bureaucracy, increase innovation in problem solving and hold the employee-owners to account for what they do. This has required employees to take on managerial responsibilities and change their approach to their work.

Elected representatives sit on a co-ownership council called *The Voice*. They challenge the board on behalf of all the employees on strategy and performance, and raise questions and views directly with the board.

Studies and reports show that the approach is working. Overall engagement among employees is 88 percent, much higher than the average for similar organisations (source: 2010 NHS staff survey).

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[43] In the UK, it the NHS was divided into commissioning and provider organisations in 1990 in order to provide an internal marker to the health system. Under the system funding is allocated by the government to NHS agents or managers who then selectively purchase care from hospitals. More recently the NHS Commissioning Board was established to oversee the commissioning process: www.commissioningboard.nhs.uk/

In addition 73 percent say that communication at Central Surrey Health is open and honest; 85 percent say communication is good in their area of work; and 74 percent feel fully informed about what’s going on. This contrasts with the national average reporting good communication between senior managers and staff in primary care trusts at just 34 percent, with the second best score nationally of only 47 percent. At CSH 98 percent of staff say they are willing to go beyond what is normally required. The industry average is 84 percent (Source: Survey Initiative 2011 data).

How does this improved engagement translate into productivity gains for the business? Because the staff are encouraged to share ideas of how their day-to-day procedures could be improved, efficiencies have been found in business units across the organisation.

In 2009, with the full support of its staff, CSH embarked on a radical transformation programme that was designed to remove bureaucratic and wasteful processes and systems. The aim was to enable its valuable nurses and therapists to spend their time treating patients rather than on unnecessary paperwork or processes. As a result, Surrey’s patients and taxpayers are getting a much better deal.

In the first year of the programme Central Surrey Health identified and removed £1m of unnecessary processes – without the need for a redundancy programme. It was able to protect services and, in many cases, improve quality. For example, in response to a reduced budget and increasing waiting times, the musculo-skeletal physiotherapy service was reviewed and redesigned by the staff. Under the new system, the average waiting time was reduced from 13.4 weeks to 6.7 weeks.

In 2011, Central Surrey Health made further improvements in productivity of between 10-45 percent. For example, they achieved 41 percent productivity gains on the Stroke Ward at Epsom General Hospital, meaning patients get 76 more treatment slots per week.

In the words on one employee: “*The best thing about Central Surrey Health is autonomy – being able to put ideas into place or open for discussion and development. Encouragement of change and a culture that is not afraid to make changes, and avoids complacency. Lots of great and enthused staff, willing to make a difference and deliver high quality and important services.”*

Central Surrey Health has now won multiple awards including the Philip Baxendale awards for employee engagement in 2012, the employee innovation category for 2011 and in 2010 was declared the runaway winner of the 'Employee Ownership Initiative' category. In 2010 CSH was named the first winner of the UK Prime Minister’s *Big Society Award*.

In 2010 a report by the Department of Health showed that CSH's services for children with complex needs create £5.67 in 'social value' for every £1 spent by our commissioners. The reason for this was given as the structure of an employee-owned social enterprise.[44]

The social return on investment process gave CSH the opportunity to engage with its stakeholders. This led to more detailed discovery of outcomes for children and parents. But while conducting the review, CSH realised the need to redesign its engagement procedures. They realised they would benefit from more effective gathering of data relating to the future progress of clients, for example, tracking of independence and their achievement of future goals. SROI highlighted where data was needed to measure and prove impact.

Obstacles faces/lessons learned:
Central Surrey's first attempt at winning a competitively-tendered NHS contract resulted in failure. The "preferred bidder" chosen for a five year, £500m contract for community services in south west and north west Surrey is a private company majority-owned by Virgin Healthcare, Assure Medical. In light of the high-level political support (Francis Maude, David Cameron) for public sector mutualisation, this was a big disappointment.

Unconfirmed reports say that the bidders for the NHS contract were expected to raise a £10m bond as surety. That kind of access to capital is easy enough, one assumes, for private firms like Assura Medical which have access to money markets and wealthy owners; it may even have been straightforward for Surrey and Borders Partnership NHS Foundation Trust, which also bid. CSH, say those unconfirmed reports, were able to raise only £3m. It is not clear whether this financial fragility counted against CHS in the contract process.

Results such as these led to the Department for Health recently launching its ***Fair Playing Field*** review which looked at problems faced by NHS spin-outs and sought to find solutions.

The chief executive of Social Enterprises UK, Peter Holbrook summarises the challenge facing ministers: "It is not enough for government to open up markets; it needs to create fair markets that benefit society. Some of the financial criteria used in contracts create an unequal playing field in which social enterprises are unable to compete because they may not have the same financial backing as private sector providers.

[44]http://www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/@dh/@en/@ps/documents/digitalasset/dh_122354.pdf

« Unless swift action is taken to address this we will see social enterprises and mutuals lose out to the private sector. Public sector workers will be understandably anxious about spinning out from the NHS and setting up a social enterprise on the back of this news. The government needs to take action to reassure them that they will not be operating in markets weighted against them."

It was announced in October 2012 that CSH had won in its bid to continue to run community health services in mid-Surrey. [45] The contract value is about £113m for a five year period and it was activated on February 1, 2013.

[45] http://www.thisislocallondon.co.uk/news/10013428.Central_Surrey_Health_preferred_bidder_for_east_Elmbridge_health_services/

City Health Care Partnership CIC. Case study by ESOP CENTRE

City Health Care Partnership CIC (CHCP CIC), delivers National Health Service (NHS) services in Hull, the East Riding of Yorkshire and Knowsley on Merseyside to more than half a million local people. It has around **1,500 employees**. CHCP recently won the UK Cabinet Office endorsed Public Service Mutual Award at the Philip Baxendale Awards for Employee Ownership. Its journey to become an employee-owned mutual started in 2006 as part of the nationwide Government initiative to separate the commissioning and provider functions of the local NHS.

City Health Care Partnership CIC (now called CHCP CIC), previously NHS Hull provider services, was officially formed on 1 June 2010 as an independent health services provider separate to the commissioning organisation, NHS Hull. CHCP is part of the NHS family in a similar way to GPs, Dentists and Pharmacies. NHS Hull's front-line health services, including health visiting and sexual, reproductive and prison health care, were transferred to this new social enterprise under the *Right to Request*.* It operated at arms' length from NHS Hull from 2008, before formally separating in June 2010.

With a turnover of around **£50m (€uros 62.5m)** annually, this mutual helps to minimise the need for acute care in hospital through early interventions, community based treatment and promotion of healthy lifestyles. *Its staff undertake almost one million visits per year to patients.* Among its specialities are:

- Caring for people whose rights are restricted under the Mental Health Act,
- Dementia, Diagnostic and screening procedures,
- Healthcare for prisoners,
- Eating disorders, Learning disabilities,
- Physical disabilities, Sensory impairments,
- Substance misuse problems,
- Surgical procedures, Treatment of disease, disorder or injury,
- Caring for adults over and under 65 yrs old.
- In addition, CHCP offers local pharmacy and dental services.

As an **employee-owned** organisation, CHCP permanent employees are given the opportunity to purchase a £1 share and new starters automatically become shareholders. This gives the staff the right to have a say in the running of the organisation. Shareholder representatives, who can attend a Shareholder Forum three times a year, are also being appointed to strengthen the link between the organisation's development and wider staff groups.

The employee ownership business model aims to give staff a sense of belonging, accountability and the right to have a say about the running of the organisation along with future plans and opportunities. The principles of employee ownership are closely aligned to those of a social enterprise and therefore this is the perfect business model for City Health Care Partnership CIC.

In addition, an Interface Advisory Board, made up of representatives from staff, community and voluntary organisations, has been created. Part of the corporate governance structure, it supports the mutual in monitoring its Corporate Social Responsibility and Social Business developments.

At City Health Care Partnership CIC, its mission statement is:

- *To grow a socially responsible commercial business that contributes to the wider well-being of the communities in which we provide services*
- *Delivery mechanisms in which the high quality and safe services delivered are personally responsive, caring and inclusive of all - and where people love to work.*
- *Partners: fostering a network of partners and key business links that will enhance the experience of patients, services users, carers and the community.*
- *Productivity: an ability to demonstrate services that are effective, efficient in delivery and cost and appreciated for their added value.*

At its core, CHCP CIC is a social business, investing all profits from all its growing ventures into services, staff and the communities in which it works. Its recent *Social Return on Investment* audit showed a return of ***£33 for every £1 spent*** and its user survey showed that 96 percent of all respondents would recommend its services, based on their overall experience.

By involving patients, staff and service users in designing local services CHCP helps to deliver improved patient care and increased efficiency:

- It has consistently performed against key performance indicators in their contracts, and has over-achieved on certain targets - for example, its target to see and start treatment of 98 percent of Minor Injuries Unit patients within 4 hours, instead delivering 100 percent.
- Staff sickness has decreased significantly, and CHCP has delivered four percent efficiency savings, worth £600,000 a year.

CHCP CIC has secured a number of new services, such as the Eating Disorders Service and recently acquired a Community Pharmacy business. It was awarded, through a competitive tender process, a five-year, £6m contract to run Bridlington Integrated GP and Minor Injuries Centre.

It has also invested significantly in its local community - through a small grants programme, it awarded over £43,000 to 64 community and voluntary organisations in Hull and the East Riding between April 2011 and March 2012.

Cabinet Office minister **Francis Maude** said: *The number of mutuals has increased tenfold to nearly 100 during the past four years. Between them they employ over 35,000 people, delivering around £1.5 billion worth of services. They're in sectors ranging from libraries and elderly social care to mental health services and school support. They range in size from a handful of employees to upwards of 2000 employees. It's a national success story. The map of mutually-owned companies shows them spread across Britain. Some mutuals are conventional companies; some are companies limited by guarantee; some are community interest companies; some choose to be charities.* ***Some have 100 percent employee ownership; but to qualify there must be no less than 25 percent employee ownership so that staff can exercise at least negative control over the entity.***

"The results are spectacular. Waste and costs down. Staff satisfaction up. Absenteeism - a key test or morale and productivity – is falling and falling sharply. Business growing. Staff engagement surveys bear out the simple truth that service improves and productivity rises when the staff have a stake; when they feel they belong; and that their individual voice and actions count. Our latest data shows that after an organisation spins out as a mutual absenteeism falls by 20 percent; staff turnover falls by 16 percent.

"Take City Healthcare Partnership based in Hull as an example: 91 percent of staff said they now feel trusted to do their jobs – and this level of empowerment has had a knock-on effect in the quality of care they give. Since they left the NHS in 2010, there has been a 14 percent increase in patients who've rated their care and support as excellent, and 92 percent say they would recommend the service to family and friends.

*No wonder City Healthcare came 46th in the Times (*newspaper*) 2014* ***Top 100 Not for Profit Companies to work for****,"* Mr Maude said.

Companies which are employee owned, or which have large and significant employee ownership stakes, now account for over £25 billion in total annual turnover in the UK. They're helping to lead the economic recovery, by growing at a rate 50 percent higher than the rest of the economy.

The* ***Right to Request* *was introduced by the UK Coalition government. The invitation was open to all primary care trust (PCT) frontline employees, and invited proposals to help transform local health and social care services. The idea was to give key local staff within the state health service the opportunity to form their own organisations to deliver services more effectively and efficiently. As a result, 40 services, involving approximately 20,000 NHS staff, spun out to form social enterprises delivering high quality services. These social enterprises are independent bodies delivering services, previously provided in-house, under contract to Primary Care Trusts.*

See official list of new social enterprises spun off from the NHS-Department of Health by mid 2012. Website ref:

http://mutuals.cabinetoffice.gov.uk/sites/default/files/documents/Right%20To%20Request.pdf

Social Enterprise: Extract from Wikipedia

A **social *enterprise*** *is an organization that applies commercial strategies to maximize improvements in human and environmental well-being, rather than maximizing profits for external shareholders. Social enterprises can be structured as a for-profit or non-profit, and may take the form of a co-operative, mutual organization, a disregarded entity, a social business, or a charity organization.*

Many commercial enterprises would consider themselves to have social objectives, but commitment to these objectives is motivated by the perception that such commitment will ultimately make the enterprise more financially valuable. Social enterprises differ in that, inversely, they do not aim to offer any benefit to their investors, except where they believe that doing so will ultimately further their capacity to realize their social and environmental goals.

Social enterprises are often regarded - erroneously - as non-profit organisations. Social enterprise is characterized by open membership and goals widely considered to be in the community or public interest. By comparison, non-profit status may include organizations with private membership.

A useful perspective, created by social enterprise consultants across four continents after a review by Social Enterprise Europe, highlights three factors which frame the business philosophy of a social enterprise:

- *The extent to which it engages in ethical review of the goods and services it produces, and its production processes;*
- *The extent to which it defines its social purpose(s), and evidences its social impact;*
- *The extent to which it democratises ownership, management and governance by passing control of its human, social and financial capital to its primary stakeholders (producers, employees, customers, service users).*

Their international definition states: "Not for Profit is a misleading criterion. It is good practice for social enterprises to provide incentives to workers, and social and community investors through dividends. Distribution of profits or payments to individuals should not compromise the enterprises' value statement or social objectives".

Prepared by the Esop Centre for Milan workshop June 2014

Royal Mail: new co-ownership structure.
Case study by ESOP CENTRE

The UK's largest employee share scheme has been created as a result of the disposal by the UK Coalition Government of **60 percent** of the equity of the **Royal Mail**.

The UK's main postal services are divided into two separate organisations – Royal Mail, which carries out letter and parcel deliveries – and the Post Office.

More than 149,000 postal employees of Royal Mail are now employee shareholders as the UK government delivered on its promise to offer at least ten percent of the total equity to postal employees – in the form of **Free Shares.**

Despite vigorous pre-sale opposition from the **Communications Workers Union (CWU)** only a handful of staff - 372 - rejected the individual offers of free shares. UCW represents 150,000 Royal Mail (RM) employees.
In addition, **15,000 RM employees** – one in ten – applied for the <u>priority offer</u> to **purchase** at least £500 worth of additional shares – i.e. at least 151 extra shares each at the offer price – putting at least 3m more shares in employee hands. Their requests to buy a minimum of £500 worth of RM shares, up to a maximum of £10,000 were met ***in full***. The SIP could be used to facilitate this by offering them **Partnership Shares.**

The government tried to keep out speculators, so *any individual applying for more than £10,000 worth of RM shares was allocated <u>nothing at all.</u>*

The Royal Mail post IPO share price rise was so substantial that postal service employees could not receive their full free share allocation until April this year. Using Whitehall calculations based on a maximum share price offer of 330p per share, the 144,000 eligible Royal Mail (RM) full-time employees received **729 free shares each** and part-timers a smaller number of shares on a pro-rata basis. However, such was the surge in the share price once normal market trading began- that ministerial assumptions on the timing of the promised ten percent employee equity share out had to be redrawn.

This was because employee participants in the tax approved **Share Incentive Plan (SIP)–**

which is the umbrella share scheme being used by the postal workers as a home for their free shares – were allowed at that time a maximum investment of only £3000 worth of free employee shares per year (Was raised to £3,600 a year from April 2014). The huge leap in the RM share price put the value of postal workers' free shares almost £1,000 above the annual limit. "As a result, a full time employee received **613** shares in the 2013-4 tax year and the remainder in the 2014 tax year to maintain the tax-advantaged benefit," explained RM. So 149,000 postal workers had to wait until April 7 this year before they could receive into their individual SIP accounts the delayed balance of their free share allocation - the 'missing' 116 shares each.

Dividends

Eligible employees received a dividend on both their SIP 2013 and SIP 2014 Free Shares in July 2014. All eligible employees received their dividend payment directly into the bank account where their salary is paid on July 31, 2014. Eligible full-time employees, who have received the full allocation of 729 Free Shares, received a dividend of **£96**.

Eligible part-time employees received a dividend based on their pro-rata allocation of Free Shares. The full dividend amount was paid regardless of whether postal employees were basic rate taxpayers, or higher rate taxpayers.

RM share plan administration

Centre member **Equiniti** was appointed to act as Registrar and share plan administrator for Royal Mail following a comprehensive tender process. "After looking at a number of different structures the government chose a simple, tax efficient Share Incentive Plan (SIP) free share award as the best vehicle to give employees ten percent of Royal Mail shares," said Equiniti. It is normal practice that employees have to positively elect to receive free shares. However, following consultation, Royal Mail were able to get HMRC approval for their employees to default in to the plan or actively elect to opt out, resulting in a 99.7 percent take up rate."

The employee shares trust

The postal workers' shares are held in the plan by the **SIP Trustee** for the beneficial interest of individual employees, with full voting rights through the independent Trustee. The shares should be kept in the plan trust for a **minimum of five years,** whilst employed by Royal Mail, in order to gain the **full** tax relief benefit. RM staff cannot sell their shares in any event for at least three years. After three years they will be allowed to sell 613 shares and the rest in 2017.

Equiniti realised from the outset that it had a huge job on its hands, particularly when dealing with the many postal workers who had had no previous experience of shareholding**.**

Equiniti said that in order to support the employee communication programme, it had worked closely with the Royal Mail team to produce a comprehensive suite of information material, delivered in different formats across multiple channels. Equiniti staged more than 100 roadshow ‘clinics’ across the UK from Exeter to Inverness and Belfast to Norwich, where 55 members of staff teamed up with Royal Mail HR reps and met more than 4,500 RM staff, answering more than 8000 questions relating to the Free share and Employee Priority Offer.
Phil Ainsley, managing director of Equiniti Employee Services, said “With an employee base of almost 150,000, communication was vital and many channels were used to ensure employees received plenty of information about the free share award and the IPO in general. All eligible employees were mailed a comprehensive brochure, and this was backed up by a live chat service for employees to ask questions.
“Items appeared on RM’s internal TV network discussing employee shares and the IPO and there was a steady stream of both paper and electronic communications sent out in the run up to the IPO.”

Finally ‘drop in clinics’ were run in the 109 largest sites with these being staffed by both Royal Mail and Equiniti staff. They were tailored to fit in with working patterns which meant early starts (05:00) and late finishes (21:00) for all concerned. Post IPO, employees received their allocation notices together with log on details so that they can keep track of their investments on the Royal Mail branded portal that is hosted by Equiniti.

The postal workers’ trade union
The Communications Workers Union (CWU) represents 150,000 postal workers in the UK, the vast majority work for the Royal Mail Group.
Throughout 2013 the CWU was involved in negotiations with Royal Mail on a landmark agreement which was called the “Agenda for Growth, Stability and Long-term Success Agreement”. In addition to this agreement, separate negotiations were taking place on a legally binding Pension Agreement.
These legally binding agreements provided CWU members with two ground breaking settlements, they also recognised that privatisation was a setback – but regardless of ownership, the Union strategy was always designed to cover all eventualities and protect our members from the impact of privatisation and the continuing threat of unfair competition.

The Agreements secured the following:

<u>Pay</u> – A 3 year pay agreement totalling 9.06 percent

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Legal Protection – Extensive legally binding protections for CWU members providing job security, shaping the values and principles of Royal Mail as a private organisation as well as the following:

Royal Mail will not outsource, sell or transfer any other part of its business.

Royal Mail will remain an end to end service provider and will not franchise out any part of its business or make any employee self employed.

- Royal Mail will not engage any new employees on inferior terms and conditions (no two tier workforce).

- The collectively agreed terms and conditions of employees will not be worsened in any respect, or changed unless amended by agreement.
- The overriding objective will be for Royal Mail to deliver all future change without recourse to compulsory redundancy.
- The employment model will remain predominately full time and the agreed resourcing mix will be monitored on a quarterly basis.
- Current enhanced VR and excess travel terms are extended with the next review in January 2015.
- Full time employees will remain full time unless they volunteer to reduce their hours. Part time employees can retain their current contractual hours if they wish. Part time employees also have the opportunity to increase their contractual hours to reflect the actual hours they have worked on average over the previous 6 month period.
- The use of fixed term contract staff and agency staff are limited to the terms contained in the Job Security Agreement and will be monitored on a regular basis.
- The CWU will continue to be the recognised Trade Union and all our representational structures and release arrangements will remain in place.

Achieving Industrial Stability: Recognition at national level that to deliver the Agenda for Growth – Industrial Relations needed to be improved.

- **New Governance Arrangements –** Royal Mail has agreed to modify its business structures to enable the CWU to participate in key decision making bodies and have greater access and influence over the day to day running of the business.

- **Re-launch of the IR Framework –** Royal Mail has accepted that our existing industrial relation structures and procedures will continue to apply.

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- **New ways of resolving disputes –** We will introduce new processes to resolve disputes, including the use of new internal and external mediation procedures. These are non binding.
- **Joint training for all CWU Reps and Managers –** there will be a major training programme to ensure roles, responsibilities and procedures are understood and that National Agreements are abided by at all times.
- **Legally Binding Commitment to uphold our New Procedures –** the new procedures are incorporated into the legal contract with the commitment that neither party will resort to unilateral action until the procedures are exhausted. This is not a no strike deal. It simply reaffirms the principle that was agreed as part of our existing procedures.

Delivering Cultural Change: Both parties are committed to creating a better working environment for employees this is seen as the foundation upon which the long term success of the company will be built on. New measures and a programme of work to drive cultural change are key to this objective. As are a new Company Charter, review of employee engagement initiatives, improved training for managers/TU reps and finally introductions of a new engagement structure at national level.

Employee Shares

The Union was and still is opposed to privatisation. Our Policy and forward strategy was based on securing agreement on legal protections, pay, pensions, workplace issues and a strategy for growth, these matters were more important than free shares.

From the outset the CWU position on the issue of employee shares was consistent. We were very clear with our members in that it would have been wrong for the Union to advise our members to opt out of receiving free shares. This is a matter for the individual to determine.

The CWU has continued to develop our policy on exploring the possibility of setting up a trust to ensure we maximise the collective voting rights of CWU members who are now share holders in a privately owned Royal Mail Group.

It is important to understand that in the UK, unlike in some EU member states, **employees** in such organisations – the Royal Mail was formerly state-owned – have no right to have any rep-

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resentative on the company policy board, no matter how many employees there are. Thus often their trade union is the main, if not the sole, channel of communication between them and the company's directors. So the RM employees' need for a collective voice – perhaps to be expressed through an employee shareholding trust, as well as through their trade union - is doubly important.

Moya Greene, Royal Mail's chief executive, said: "I am pleased that our people have voted in favour of the terms of the agreement. This is the first critical step to provide long-term stability and certainty for Royal Mail, our employees and our customers." At the time of the share sale, the threatened first national postal strike was still on, though it was later called off after **RM senior management agreed to a nine percent pay rise over three years offer** and to work towards a separate postal workers pensions deal.

Who owns Royal Mail now?

It later emerged, via the 'disclosable stock' provision, that the largest *single* shareholder institution – the Children's Investment Fund – owned 5.8 percent of the company (though this holding was later reduced to 4.8 percent), while GIC Private, the Singaporean sovereign wealth fund, owned a further 4.1 percent.

The UK state (taxpayers) still retains a **more than 30 percent stake in the company** – though the government may well order a final sell-off of its remaining stake in 2015.

However, the RM employees, now with well over ten percent (including the extra shares *bought* by postal employees), **form the largest single shareholder block**.

The RM retail offer was almost seven times over-subscribed, forcing huge scale backs in share allocations. Private investors who applied for between £750 and £10,000 worth of shares received 227 shares, initially worth £749.10 at the 330p float price. Those who applied for more than £10,000 worth of shares received none.

Nevertheless, almost 700,000 members of the public were able to buy at least some RM shares. Total gross Treasury proceeds raised in the offer were £2bn.

The SIP rules are complex, but in summary:

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- Up to £3,600 of Free Shares can be allocated to each participant in the SIP. Normally if an employer gives shares to an employee, the 'gift' is treated as income, for tax and NI purposes. If they are given through a SIP however, there is no tax or NI to pay provided the shares are left in the SIP for at least five years.
- If the company allows employees to buy additional shares *through the plan*, they can invest up to ten percent of their salary in Partnership Shares, with a maximum of £1,500 a year. The purchase price is paid out of income before tax and NI contributions, and so participants who buy Partnership Shares make a tax and NI saving.
- There are no longer limits on how much can be reinvested as dividend shares, free of tax and NI
- If the any type of share held in the plan increases in value whist they are in the Plan, the increase is not treated as a capital gain for Capital Gains Tax (CGT) purposes. Once they are withdrawn however, any further growth is treated as a capital gain. The shares can be transferred into an ISA (a government savings scheme for individuals) however, which also shelters capital gains from CGT.
- Free Shares must usually be held in the trust for at least three years but do not get the full tax benefits unless they are held in the trust for at least five years. They can be withdrawn within the three year minimum period if the participant leaves employment, provided the rules of the SIP permit it. The rules may stipulate that employees who leave within the first three years forfeit their shares altogether.
- Dividend Shares must be held in the trust for three years to get the full tax benefits.

Prepared by Fred Hackworth of the **Esop Centre** for the ProEFP Firenze Workshop Sept 2014

UNICREDIT AND THE “LET’S SHARE” PLAN (edited by Marco Cilento)

UniCredit is a commercial bank with over 8,700 branches and 149,000 employees. The Group, which has clear European branding, is active in 17 European countries. On 31st December 2013 there were 465,000 shareholders, of whom 61% were residing abroad. 82% of the ordinary share capital was held by legal persons and the remaining 18% by natural persons.

In 2008 the Group introduced a share ownership plan which was made available to all its employees. The plan was initially called ESOP but has now been renamed “Let’s Share”. So far, more than 10,000 employees have participated in “Let’s Share” in 13 different countries, namely Austria, Bulgaria, Germany, Hong Kong, Italy, Luxembourg, the Czech Republic, Poland, Romania, Serbia, the Republic of Slovakia, the UK and Hungary.

In some countries where the Group is active, the plan has not been implemented due to legislative, financial or other restrictions or obstacles.

Compensation in the form of incentives and financial instruments is part of the company remuneration policy for all employees.

The plan offered to management-level employees is intended to help retain professionals in strategically important positions and ensure that management behaviour aligns with shareholders’ interests. This plan is available to the top 1,000 management positions in the Group. The plans available to the rest of the staff are intended to offer opportunities for employees to boost their income and strengthen their sense of belonging to the Group.

The share ownership policy is one of a number of policies of a unilateral (decided upon and managed by the company) or negotiated nature (regulated by collective agreements) which determine variations in wages by setting performance objectives or offering subscriptions to pension/health insurance schemes.

Although the share ownership plans are considered staff remuneration policies, they are decided upon and managed by the company.

We shall now describe the two remuneration plans which use UniCredit's ordinary shares.
The Group Incentive System.
Let's Share (formerly ESOP)

The Group Incentive System.
Around 1000 employees of UniCredit and companies directly or indirectly controlled by UniCredit have access to the 2014 Group Incentive System. These employees are executives or in other important positions which could directly influence market risks, credit and liquidity. On the basis of criteria approved at a Shareholders' Meeting, the Board of Directors identified which employees may benefit in accordance with the standards issued by the European Banking Authority (EBA).

The 2014 Group Incentive System is intended to retain, motivate and provide incentives for the beneficiaries and to optimise the UniCredit incentive system. The system should be in the interests of all concerned as it will concur with the Group's long-term strategies and objectives, be linked to company results, be adapted as necessary to take any risks into account, be coherent with the amounts of capital and liquidity required to carry out the activities undertaken, and avoid at all costs any disproportionate incentives which could lead to excessive risks being taken on by the bank and the system as a whole.

Sustainable performance criteria are assessed by the Remuneration Committee. The Board of Directors is responsible for defining such criteria.

The power of attorney to increase the company's share capital (through the use of a special reserve entitled "Provisions linked to the Medium-Term Incentive System for Group Employees") was conferred upon the Board of Directors in a decision authorised by an Extraordinary Shareholders' Meeting. This was considered the best way of introducing the 2014 Group Incentive System.

In 2013, a maximum amount of €98,294,742.05 was allocated to the fund, including an amount from the available Statutory Reserves part of which comes from retained earnings.

According to the aforementioned assessment, the total predicted cost to UniCredit when granting the target number of free shares could amount to €316 million over a 6-year period.

At most, the 2014 System could represent up to 0.66% of UniCredit's share capital in the event that all of the free shares are granted to employees.

The taxation and social security regulations applied to the assigned free shares will be coherent with the standards in force in the country where the beneficiary pays tax.
There are currently no plans to use the Special Fund for encouraging worker participation in the companies to support the 2014 Group Incentive System, as provided for under art. 4, par. 112, of Law December 24, 2003, n.350.

Let's Share

The UniCredit Group Employee Share Ownership Plan 2014 (hereafter "Let's Share Plan for 2015") is aimed at around 150,000 UniCredit Group employees. However, less than 4% of employees have signed up thus far.

Through the Let's Share Plan for 2015, UniCredit intends to strengthen employees' sense of belonging to the Group and motivate employees to accomplish corporate goals.

More specifically, the Let's Share Plan for 2015 offers Group employees the option of investing in UniCredit shares on favourable terms, i.e. with a 25% discount on the purchase price in the form of additional shares.

Key variables and/or performance indicators have not been taken into consideration in the Let's Share Plan for 2015 because they are not considered relevant for the purposes

of the Plan.
Under the Let’s Share Plan for 2015, the tax regulations applicable to a worker’s income in the country where the worker pays taxes will be applied.

There are different phases in the Let’s Share Plan for 2015:
Enrolment: there are two possible enrolment periods:
1st enrolment period: 27th November 2014 – 15th January 2015
2nd enrolment period: 27th May 2015 – 15th July 2015.

During these periods, employees who sign up to the plan (“participants”) will indicate the total amount they wish to invest, up to a maximum contribution of €6,000 per annum. The minimum contribution per annum, on the other hand, will be defined individually taking into account the specific nature of each participating country.

Subscription period: From January 2015 - December 2015, participants will be able to purchase shares through monthly debits on their current account (“monthly” option) or via one or two lump-sum payments in January and/or July (“one-off” option). If the participant withdraws from the Let’s Share Plan for 2015 during the holding period, they will lose the free shares allocated to them.

“Free Shares”: at the beginning of the subscription period (January 2015 or July 2015), the participant will receive an immediate 25% discount on the purchase price in the form of free shares. There will be a 1-year resale ban on these free shares and the participant will lose ownership if they cease to be employed by UniCredit, unless their employment is terminated for a reason specifically mentioned in the Rules of the Let’s Share Plan for 2015. In some countries, it will not be possible to allocate free shares at the start of the subscription period for tax reasons. An alternative structure is available which recognises the right of participants residing in such countries to receive the free shares at the end of the holding period (“Alternative” structure).

Holding period: during the one-year holding period (from January/July 2015 to January/July 2016) participants can sell the shares they have purchased at any time, but will lose the number of free shares pertaining to the shares sold.
Once the holding period is over, employees can sell their shares without losing their

discount. Italian participants can even benefit from a tax advantage conceded by the Italian legislation as long as they hold on to their shares for two more years.

The governance structure for the plan is as follows: on 21st January 2014, the Board of Directors gave its approval for the Let's Share Plan for 2015 proposal to be submitted to the Ordinary Shareholders' Assembly on 13th May 2014. The "Compensation" organisational unit of the holding company was assigned responsibility for the administration of incentive plans including the Let's Share Plan for 2015, and for defining the Group's compensation policies.

Under the Let's Share Plan for 2015, shares available in the market will be used in order to ensure the holding company's share capital is not diluted. As such, employees who sign up to the Let's Share Plan for 2015 will give their consent for an intermediary either within or external to the Group to purchase the shares and deposit them on an account in the participant's name. In case of significant changes to the prevailing context, or should the effective membership rate be higher than the forecasts included in the definition of the Let's Share Plan for 2015, it may be necessary to modify these operational methods after requesting any necessary authorisations to do so.

The free shares can be termed "Equity Settled Share-based Payments" inasmuch as participants, according to the Rules of the plan, will receive equity instruments issued by UniCredit in compensation for the economic value of the services they have rendered to the company by which they are employed. The unit value of the free shares (or the right to receive them) will be calculated at the beginning of the subscription period based on the price paid by participants to purchase the first tranche of investment shares on the market.

Currently, the Let's Share Plan for 2015 does not provide for the issue of loans or other tax breaks for the purchase of shares under the plan.

A discussion is currently underway as to whether Italian employees could allocate a percentage of their company bonus (known under the acronym VAP) to the Let's Share Plan for 2015, subject to trade union approval. If this option is approved, the method and timeframe for making such a contribution will be explained in the Rules concerning the implementation of the Let's Share Plan for 2015 which will be submitted to the Board of Directors for information when the plan is launched.

If, as expected, 5% of Group employees participate in the scheme with a maximum annual contribution of €6,000, the estimated cost on the accounts for providing the free shares to participants will be around €12 million. This cost, which is to be disbursed starting in the year in which the Let's Share Plan for 2015 will be rolled out (from January/July 2015 to January/July 2016), would increase if the participation rate proves higher.

The Let's Share Plan for 2015 does not set any limits on exercising voting or proprietary rights relating to investment shares. However, proprietary rights relating to free shares will be suspended. Moreover, participants will only receive the dividends of these shares at the end of the one-year holding period and only if during that time they have not ceased to be employed by a company owned by the Group, unless their employment is terminated for a reason allowed for in the Rules of the Let's Share Plan for 2015.

At the moment, the Let's Share Plan for 2015 does not include any alternative methods for allocation which differentiate between beneficiaries of the plan.

The previous plan, Let's Share for 2014, was launched on 27th November 2013 in 11 countries where the Group is active (Austria, Bulgaria, Germany, Italy, Poland, the Czech Republic, Serbia, the Republic of Slovakia, Hungary, the UK and Luxembourg) and was taken up by around 3.4% of eligible participants.

INTESA SANPAOLO AND THE DIVERSIFIED SHAREHOLDING STRUCTURE (edited by Marco Cilento)

Intesa Sanpaolo is one of the foremost banking Groups in the Eurozone, with €39.3 billion in market capitalisation. Intesa Sanpaolo is a leader in Italy in all sectors of banking activity (retail, corporate and wealth management) with 11.1 million clients, 4,500 branches and 98,000 employees, ¾ of whom are based in Italy.

When evaluating financial participation in Intesa Sanpaolo, we should remember that the practice of issuing result-based bonuses is extremely widespread in Italy and enshrined in employment contracts. Variable wage components are linked to performance in the workplace or company results and defined by a collective company/group agreement. They benefit from an advantageous tax rate (10% flat rate) in comparison with the fixed wage component. Company bargaining is carried out according to the rules and principles set out in the national sectoral contract. In this case the national banking sector contract is applicable.

At a time when the banking sector is not very profitable, the Intesa Sanpaolo Group and the trade unions have been exploring innovative means of using available resources for a company bonus maximising the benefit to employees. There are methods for constituting the wage according to the principles of economic democracy (because they highlight the value of worker involvement) which at the same time retain the concept of "reward", which helps reinforce competitiveness and the efficiency of the company as a whole.

It is useful to recall that in the previous year, no bonuses were paid out due to the poor performance of the consolidated Group in terms of profits.

The Industrial Relations Protocol of 24th February 2014, signed by the Intesa Sanpaolo Group and all of the major national trade unions, deals with the 2014-17 Business Plan and seeks to define reward systems which are as advantageous as possible to employees based on the Group's success over the 4-year period.

The variable component is thus flexible and made up of different parts which the worker has the option of activating. Rewards are available for those who earn under €65,000 per year in the form of:

- Cash payments in the form of a minimum sum of €630
- Company bonuses, in which case the amount rises to €820 which can be used towards one of a range of health or other kinds of insurance schemes made available by the Group for the use of its employees
- Employees' shares: employees who sign up receive the equivalent of €920 of free shares. The recipient can decide to:
    - deposit the purchased bonds in a bond account immediately available to employees, or
    - pay into an investment plan which locks up the shares until 2017. In this case, the worker receives another package of shares equivalent to 80% of the initial package.

With the company bonus system, employees have been able to receive remuneration in the form of reimbursed tuition fees for their children's schooling, supplementary health insurance and/or extra benefits for their dependents. This option has therefore made it possible for the company to cover its costs sustainably in a difficult market context, whilst emphasising the importance of employee welfare. The distribution level of previous years has been maintained, without prejudice to the employees' option to receive the remuneration in the traditional cash format.

The diversified shareholding structure is thus part of the remuneration policy, although it is fleshed out with financial bonds. The protocol has introduced a mechanism making the investment plan a convenient option, as it has the same duration as the Company Business Plan and thus aims to maximise the return for employees based on the success of the Groups' 4-year development programme.

Its convenience stems from the tax regulations in force: the mechanism allows for free shares to be granted in compensation for services provided by the worker. If the worker decides to sell his/her shares before three years, he will be taxed at the income tax rate (usually 38%), plus taxation on the capital gain (around 22%). In this case, however, employees enjoy full access to proprietary rights including dividends and voting rights.

For employees who lock up their shares for 4 years in the investment plan, the risk is managed as follows: in addition to the package worth €920 which is available immediately, an additional package of shares equivalent to 80% of the €920 is added. Moreover, the shares are protected against capital loss whereas capital gain is added. However, the employees' shares do not provide access to dividends nor to voting rights.

The Intesa Sanpaolo Group has earmarked €55 million for this scheme, although the true cost will only be established once the scheme begins as it will be calculated based on the number of enrolments and whether or not employees choose to opt into the investment plan.

The shares granted to employees come from a capital increase. The share value is calculated based on the nominal value, i.e. the average market price during the 30 days prior to the allocation.

The share ownership plan launched in 2014 is not included on the documents and financial statements for 2013 and thus information on how the company intends to govern the share ownership plan is not available.

The Intesa Sanpaolo Shareholders' Assembly of 8th May 2014 approved the investment plan based on financial instruments aimed at employees and so-called "risk takers" in the Intesa Sanpaolo Group. It is a diversified form of participation in share ownership, running in parallel with the 2014-2017 Company Plan. The fact that it is available to all employees is the key factor for achieving the results of the Company Plan. The employee, after being granted free ordinary Intesa Sanpaolo shares purchased on the market, will be offered the opportunity to make a multi-annual investment whose duration is aligned with the Company Plan; or alternatively, the employee may make use of the shares granted to them as they see fit. Under the investment plan, the employee receives newly issued ordinary Intesa Sanpaolo shares against a free capital increase, and underwrites the newly issued ordinary Intesa Sanpaolo shares against an increase in capital for employees at a discounted issue price compared to the market value.

To this end, the Shareholders' Meeting thus authorised the purchase of own shares on the market so that up to a maximum of 54,097,875 ordinary shares can be freely assigned to Intesa Sanpaolo Group employees. This amount represents 0.3% of ordinary share capital and total share capital (ordinary and reserves) owned by Intesa Sanpaolo.

The Shareholders also delegated power of attorney to the Management Committee to increase company capital by a up to maximum of €53,101,088.56, with a maximum of 102,117,478 ordinary Intesa Sanpaolo shares to be issued, and to increase company capital – divisible into one or several tranches, by 28th February 2018 - up to a maximum of €213,073,650.40, excluding option rights for employees of the Intesa Sanpaolo Group. A maximum of 409,757,020 ordinary Intesa Sanpaolo shares may be issued at a discounted issue price compared to the market value of ordinary Intesa Sanpaolo shares, calculated based on the average price during the 30 days prior to the allocation.

If all employees take part in the investment plan, the total number of ordinary shares to be granted against a free or paid capital increase can be estimated at a maximum of around 3.3% of Intesa Sanpaolo's ordinary share capital and 3.1% of total company capital.

COMPARING THE TWO PLANS

The two plans will be governed in different ways. In UniCredit, the company works internally using company governance departments to implement and monitor the plan. In Sanpaolo, industrial relations and the relationship with the trade union is part of the activities of the company departments who will approve and manage the share ownership plan.

UniCredit's diversified shareholding plan aimed at all employees does not entail a capital increase, whereas the Intesa Sanpaolo plan does.

UniCredit's diversified shareholding plan is available to the entire staff without distinction and is not a form of remuneration. Indeed, workers pay for the shares they buy and may benefit from a potential 25% bonus, again delivered in the form of shares.

In Intesa Sanpaolo, the shares are provided as a form of remuneration and are free, but the amount varies depending on the worker's professional grade.

UniCredit does not freeze voting rights, but equally does not introduce any means for collectivising the investment. In Intesa Sanpaolo, employees can deposit the shares in an investment plan. The shares are collected by a single management body and do not entitle the holder to voting rights.

In both cases, the share ownership plans do not increase (or at least are not intended to increase) the participatory powers of employees, but intend to allow employees to take part in the financial side of company operations and allow them to benefit from the success of the Group which employs them.

In both cases, the management expects employees to be motivated to achieve corporate goals. Intesa Sanpaolo's investment plan will translate the long-term success of the company into something tangible for its employees.

Thus, if share ownership increases employees' awareness of their company's success factors, this lays the foundations for greater participation, although the forms of this participation are yet to be defined.

Both plans have a clear international scope. Whilst the implementation of the plan across borders in UniCredit has legal and tax implications, Intesa Sanpaolo's collective company agreement seems to be adopting an extra-territorial role, whereby employees around the world can benefit from the terms of the Italian agreement.

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