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Democratizing enterprises to increase employment and investment?

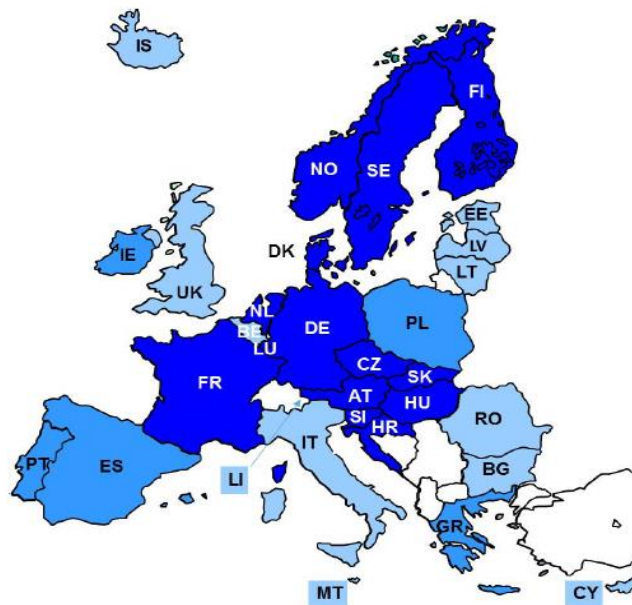
1st Trade Union related Economists (TUREC) Conference

Vienna, 23rd September 2016 | Simon Schumich, AK (AT)

In the Economic Report Series 2013, Aline Conchon¹ was examining the differences and similarities in provisions on worker representation in corporate governance in different European countries. What is lesser known is that workers have the right to be represented on company boards in 19 European countries.

Across Europe, there are **different existing legal provisions** (see map² below).

- **In 13 countries** (dark blue) there are widespread rights to employee representation at board level (in public and private Sectors);
- **In 6 countries** (blue) exist limited participation rights (mainly found in state-owned or privatized companies);
- **In 12 countries** (light blue) there are no participation rights at all.



Furthermore, the study examined **different voice distinctions** (of worker's participation) all over Europe:

1. Employee involvement in the composition of the top management team (e.g. Slovenia, Poland, Germany);
2. Employee representation at Annual General Meetings (e.g. Netherlands, Hungary, Bulgaria);
3. Employee representation in boardrooms with a consultative voice (e.g. France, Sweden);
4. Employee representation in boardrooms with decision-making power (across Europe).

Asking myself, what democracy at '**parity principle**' or '**co-determination**' actually is, I think it should be a partnership between workers and bosses; in which the bosses mainly have the majority; but in which the workers have a real voice. It's a different kind of capitalism. And it has proofed itself as successful.

¹ Conchon (2013): Workers' voice in corporate governance. A European perspective.

² www.worker-participation.eu/National-Industrial-Relations/Across-Europe

Asking myself, **how economic democracy at ‘parity principle’ should be structured**; I would like to mention that all workers among themselves should have the right to elect members into the board of directors in corporations. A (legal) corporate constitution has to set the need for workers to be represented at the level of decision-making in capitalist corporations. But is it therefore a non-capitalist system? No. The shareholders are still at the end of final authority.

Asking myself, **which results are affected by the legal possibility of ‘parity principle’, or co-determination**; I think that the communication between bosses and workers is much more regular and much more profound in Europe than anywhere else in the rest of the world. Furthermore, workers’ concerns can’t be dismissed so easily. The corporate governance system requires a level of cooperation between workers and bosses. Additionally, it gives workers knowledge, what’s going on at highest level of decision-making in the corporation. Finally, the history of more than 40 years (e.g. Germany, Austria) of ‘Mitbestimmung’ has shown that having workers on the board of directors hasn’t humbled or weakened companies. From my point of view, it is necessary to get more research about the efficiency of the ‘parity principle’.

My comment based on the **‘property principle’** starts also with another study: Marc Mathieu from the European Federation of Employee Share (EFES) ownership is annually publishing the ‘Economic Survey of Employee Share ownership in European countries’³. This annual report points out that after the financial crises, some European countries have chosen for stronger incentive policies, promoting employee share ownership and long term savings as an investment for the future. Austria as well as the UK chose to double the fiscal incentives for employee share ownership and Spain introduced a new law for employee-owned and participative companies.

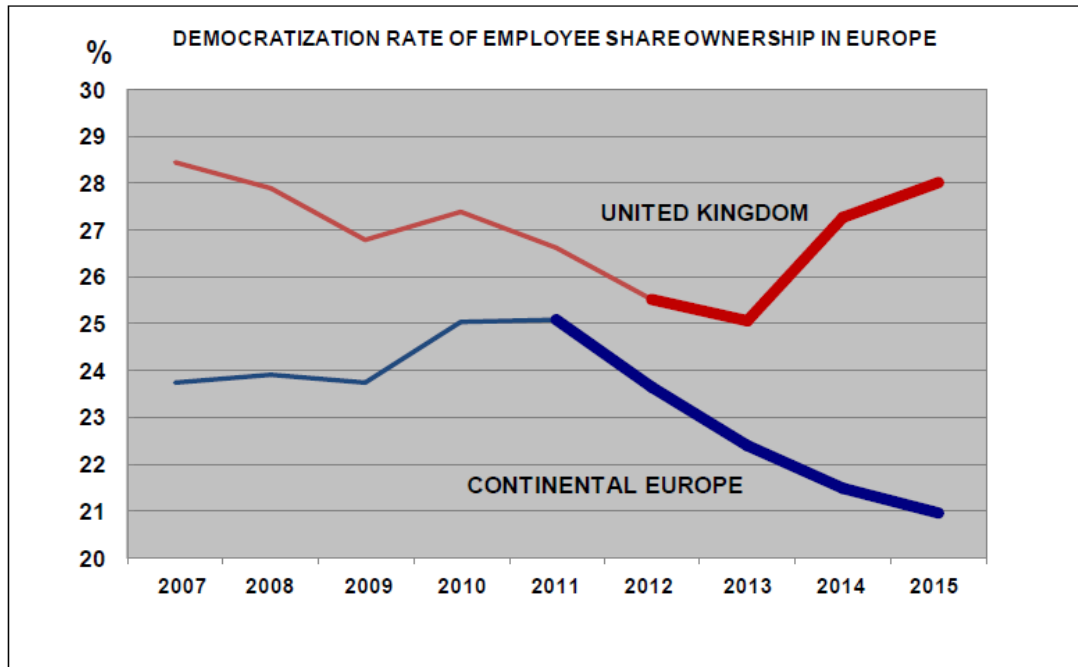
The table shows that this study examined 2,509 companies from the years 2011 up to 2014. The ‘democratization rate’ shows the percentage of the employees participating in Employee Share Ownership programs. The figures illustrate a slight reduction up to 25% for 2014. Furthermore the last line of the table shows that the average employees’ stake in ownership structure is about 3 per cent from their companies’ capitalization.

	2014	2013	2012	2011
Number of analyzed companies	2.509	2.509	2.509	2.509
Total number of employees (in million)	34,9	35,1	34,7	33,4
Employees’ stake in ownership structure (in million)	8,8	8,8	9,0	9,1
Democratization rate of employee share ownership (in %)	25,1%	25,1%	25,9%	27,3%
Capitalization held by employees (in billion Euro)	301	270	200	237
Employees’ stake in ownership structure (in %)	3,07%	3,05%	2,84%	2,95%

Source: <http://www.efesonline.org/Annual%20Economic%20Survey/2015/Survey%202015.pdf>

³ Mathieu (2016): Annual economic survey of employee share ownership in European countries 2015.

The line chart reveals the growing divorce between continental Europe and the UK. While 28% of employees held shares of their company last year in the UK, a sharp drop below 21% was observed in continental Europe. But is the title of this graph justified? Does the decline of ‘democratization rate’ really mean continental Europe isn’t democratized?



Source: <http://www.efesonline.org/Annual%20Economic%20Survey/2015/Survey%202015.pdf>

Financial participation in Austria

Estimates put the number of employees in Austria financially participating in the companies where they work at 100.000 in large companies and a further 60.000 in small and medium-sized companies (SMEs). This is about 6% of the total workforce and means that the participation rate in Austria corresponds to the European average.

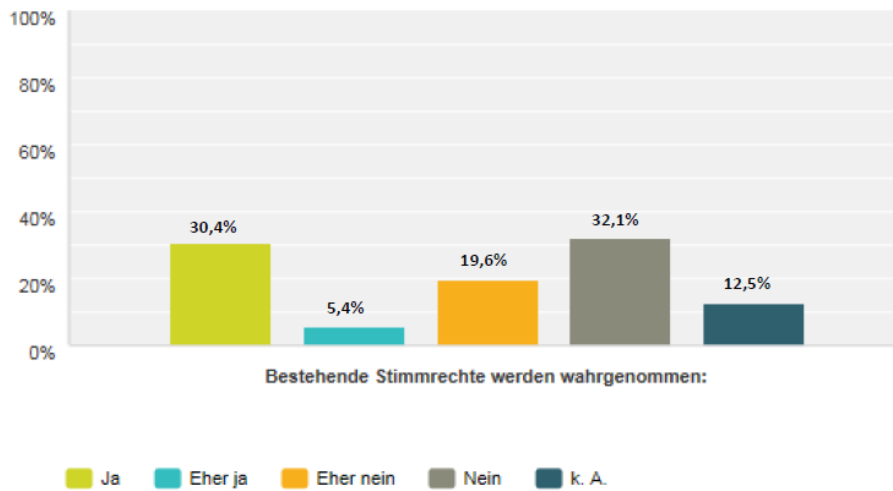
To get a deeper insight and more details about the financial participation in Austria, we have made a study⁴ based on a survey of Works Councils, who implemented an Employee Stock Option Program (ESOP) in their company. Thus I want to point out some results:

Generally, we can say that more than a third of all participants welcomed (i.e. ranked positively) the possibility of ‘Employee Stock Option Programs’ and 43% were open-minded about it. About 20% were more sceptic about a collective capital formation within the own company.

⁴ Schumich/Leitsmüller (2016): Mitarbeiterkapitalbeteiligung in Österreich.

The bar chart displays the question, if the employees (who are holding shares of their own employer-company) are making use of their voting rights (e.g. in the general assembly). The Works Councils estimated that about a third of the employees are actually making use of their vote.

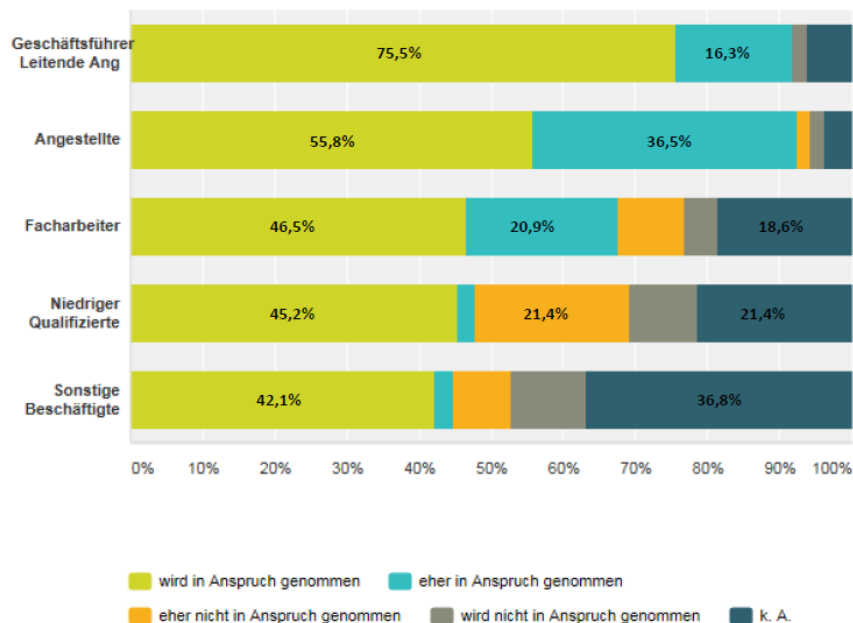
Frage 10: Werden bestehende Stimmrechte wahrgenommen? [n=56]



Source: Schumich/Leitsmüller (2016): Mitarbeiterkapitalbeteiligung in Österreich.

While we were asking more in detail, we found out that just organized foundations (who were administrated from the Works Council or Trade Union) got the power to collect a common voice in the name of all employees. As far as I know, there are **three employee-company foundations in Austria that own 10% or more** of their company's shares. With at least 10% of the market value, shareholders have the legal power to fight against a 'squeeze out'. To nominate a person in the board of directors would need even a higher percentage of shares. The next graph differentiates the groups of employees who have participated in an Employee Stock Option Program (ESOP) in their company: The higher the qualification or hierarchy level was, the more ESOPs were accepted from employees.

Frage 15: Welche Beschäftigten nehmen das Modell in Anspruch? [n=52]



Source: Schumich/Leitsmüller (2016): Mitarbeiterkapitalbeteiligung in Österreich.

Another question dealt with main motives for Works Councils to implement Employee Stock Ownership Programs:

- The first important category can be entitled with 'getting a better financial situation' for the colleagues: To improve the individual financial situation of the worker, to use fiscal incentives for their workers, to invest money for the savings.
- The second category, why Works Councils are interested in Employee Stock Foundations, is a strategic one: Especially for state-owned companies, who could initiate to privatize company shares. In that way, such Employee Stock Option Programs might be an alternative concept (under the table) to compensate the risk to be overtaken by private or institutional investors.

If I were asked, **what makes a company or organization great**, I would perhaps answer: **It's not the organization. It's the people in the organization.**

People make organizations great, productive, effective, vibrant, and innovative, etc. And in case of problems, they need a voice. Therefore, I would like to underline that the so called 'co-determination' has to be a basic column in the **democratization of enterprises**.