

TAKING ACTION: PROMOTION OF EMPLOYEE SHARE OWNERSHIP IN THE EUROPEAN UNION

- EVIDENCE & POTENTIAL**
- THE “29TH REGIME ON EFP”**
- THE EFFECTIVE TAX RATE CALCULATOR (CETREPS)**

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For more information <http://www.intercentar.de/en/research/focus-financial-participation-of-employees/>

Overview of the issues

- **Dynamics 2009-2013 & Status quo 2013**
 - Focus: ESO in the EU-28: Evidence & Potential
 - Impact of EFP on companies' performance
- **Integrating the Single Market -> Focus SMEs**
 - P: Small/micro-firms not embraced by support measures
 - EFP as an Instrument for economic & labour market policies
- **New Policy Approach**
 - Action Plan to modernise Corporate Governance <-> ESO
 - “29th Regime on EFP” = optional EU framework
 - The Effective Tax Rate Calculator (CETREPS)
- **Commission support for implementation**
 - Turning EFP from a “negative” into a “positive” priority
 - CETREPS: Front End & Sample Output

Introduction

- Change in EFP from 2009 to 2013
- Potential number of companies offering EFP schemes (PS or ESO) based on Propensity Score Matching
- Potential number of companies that have cross-border activities likely to offer EFP schemes
- Impact of EFP schemes on companies' performance

Profit Sharing and Employee Share Ownership (2009-2013)

Profit Sharing (PS) Scheme	Year 2009	Year 2013
Any PS	15.16%	29.81%
Broad PS	10.96%	
Employee Share Ownership (ESO) Scheme	Year 2009	Year 2012
Any ESO	5.21%	5.08%
Broad ESO	3.81%	

Source: Eurofound (2009; 2013)

Profit Sharing and Employee Share Ownership (2009-2013)

Profit Sharing (PS) Scheme	Year 2009	Year 2013
Any PS	15.76%	29.74%
Broad PS	10.96%	20.69%*
Employee Share Ownership (ESO) Scheme	Year 2009	Year 2012
Any ESO	5.21%	5.08%
Broad ESO	3.81%	2.93%*

Source: Eurofound (2009; 2013)

*Assuming same proportions of 'broad schemes to any schemes' as in 2009

EFP and Size Distribution of firms

	Percentage of companies offering PS 2009	Percentage of companies offering PS 2013
Small	14.03%	27.24%
Medium	23.64%	43.72%
Large	27.78%	52.80%

EFP and Size Distribution of firms

	Percentage of companies offering ESO 2009	Percentage of companies offering ESO 2013
Small	4.64%	4.39%
Medium	8.00%	8.34%
Large	13.94%	13.72%

Source: Eurofound (2009; 2013)

Potential number of companies offering EFP schemes (PS or ESO)

- Propensity Score Matching (PSM) Method
 - relies on observed characteristics to construct a comparison group, assuming non-unobserved differences
- Using PSM we matched companies that:
 - do offer (i) PS and (ii) ESO schemes against those which do not
 - based on a set of characteristics that are shown to influence the first group's decision to offer a scheme (see Hashi and Hashani, 2013)

Potential number of companies offering ESO

- The number of companies matched at 10 percent level of significance:
 - 7,882 (37.85 percent of the private companies surveyed, i.e. of 20,828)
 - Applying the 37.85 percent into the total population of private companies in the EU (2,464,698 companies)
 - 932,723 companies that are likely to offer ESO schemes based on the matched observed characteristics

Potential number of companies offering PS

- The number of companies matched at 10 percent level of significance:
 - 8,851 companies (42.5 percent of the private companies surveyed, i.e. of 20,828)
 - Applying the 42.5 percent into the total population of private companies in the EU (2,464,698 companies)
 - 1,047,390 companies that are likely to offer PS schemes based on the matched observed characteristics

Potential number of companies that have cross-border activities likely to offer EFP

- Using Community Innovation Survey (CIS) data
 - calculated the average percentage of companies in selected EU countries* that have cross-border activities in EU, EFTA and Candidate Countries
- *BG, CY, CZ, EE, EL, ES, HU, LT, LV, PT, RO, SI, SK
- Weighted average:
 - 7.44 percent
- Assuming that this percentage is similar across all EU countries
- Apply this figure to the results of PSM exercise

Potential number of companies that have cross-border activities likely to offer EFP

(1)	(2)	(3)	(4)
	Proportion of companies that have cross-border activities in EU, EFTA and CCs	Number of companies statistically likely to offer any EFP schemes (PSM)	Number of companies that have cross-border activities and are likely to offer EFP schemes
PS	7.44%	1,047,390	82,885
ESO	7.44%	932,723	69,407

Impact of EFP schemes on companies' performance

- Theoretically, EFP is expected to solve different agency problems
 - Induces greater commitment of employees
 - Improves efficiency
 - Enhances competitiveness
- Empirically it is found that, EFP in general improves performance of companies
- There is heterogeneity in performance improvement
 - control for other factors that impact performance (sector of operation, size, region)

Methodology

- The econometric analysis
 - Probit model (probability that a company exhibits improvement in performance indicators)
 - EFP and company performance are potentially endogenous
 - Seemingly unrelated probit model (class of simultaneous equation models)
- Data
 - European Company Survey 2009 (ECS)

Model

- Independent variables:
 - Probability that a company exhibits improvement in performance indicators
 - improvements in labour productivity over the past 3 yrs
 - increase in the number of employees over the past 3 yrs
- Dependent variables with expected signs in brackets:
 - EFP schemes (**positive effect**)
 - Sector of operation (**more in some sectors than others**)
 - Region (**more in some regions than others**)
 - Size (**positive effect**)
 - Others (**skill composition, gender composition, teamwork**)
- Results in terms of predicted probabilities

Impact of ESO - controlling for sector

Examples of characteristics (with ESO as an independent variable)	(A) Labour Productivity model	(B) Employment Model
1. A large manufacturing company operating in Western Europe with the share of female employees of 37% (mean for the sample) and the share of high-skill employees* of 21% (mean for the sample) offering ESO (Austria, Belgium, France, Germany, Luxembourg, Netherlands, Ireland, UK)	2.51%	1.72%
2. Same as 1 but not offering ESO	0.75%	0.47%
3. Same as 1 but in the financial and insurance sector	6.16%	6.39%
4. Same as 3 but not offering ESO	2.30%	2.65%

Impact of ESO - controlling for region

Examples of characteristics (with ESO as an independent variable) -cont'd	Labour productivity model	Employment model
5. Same as 1 but in Nordic countries (Finland, Sweden, Denmark)	6.15%	4.04%
6. Same as 5 but not offering ESO	2.62%	1.33%
7. Same as 1 but in Central and Eastern Europe (Czech Republic, Hungary, Poland, Slovakia, Slovenia, Romania, Bulgaria)	2.92%	1.46%
8. same as 7 but not offering ESO	0.99%	0.36%
9. Same as 1 but in the Iberian Peninsula (Portugal and Spain)	1.44%	0.86%
10. Same as 9 but not offering ESO	0.31%	0.18%
11. Same as 1 but in Southern Europe (Cyprus, Greece, Italy, Malta)	1.82%	0.96%
12. Same as 11 but not offering ESO	0.58%	0.24%

Impact of ESO - controlling for size

Examples of characteristics (with ESO as an independent variable) -cont'd	Labour productivity model	Employment model
13. Same as 1 but in a medium-sized company	1.16%	0.82%
14. Same as 13 but not offering ESO	0.28%	0.20%
15. Same as 1 but in a small company	0.60%	0.33%
16. Same as 15 but not offering ESO	0.12%	0.06%

Conclusions

- 1,047,390 companies are likely to offer PS
- 932,723 companies are likely to offer ESO
- 82,885 companies that have cross-border activities are likely to offer PS
- 69,407 companies that have cross-border activities are likely to offer ESO
- Performance models:
 - The relationships described earlier are confirmed for both performance indicators

Europe 2020 strategy: EFP needs Sustainable Political Support to unfold its Potential

Firms with EFP are more profitable, create more jobs and are better taxpayers than firms without; -> 30 years of economic research:

- Employees have greater commitment to and identification with firm
- thus leading to higher productivity and, therefore, competitiveness

Tax incentives are not a prerequisite to EFP, but do promote EFP

- Harmonisation of taxation is not a condition for development
- Transparency is needed to avoid double taxation & discrimination

A stable legal framework ensures sustainable employee ownership

- Stability of support is more important than volume of incentives
- Ameliorates Corporate Governance in the aftermath of the Crisis

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

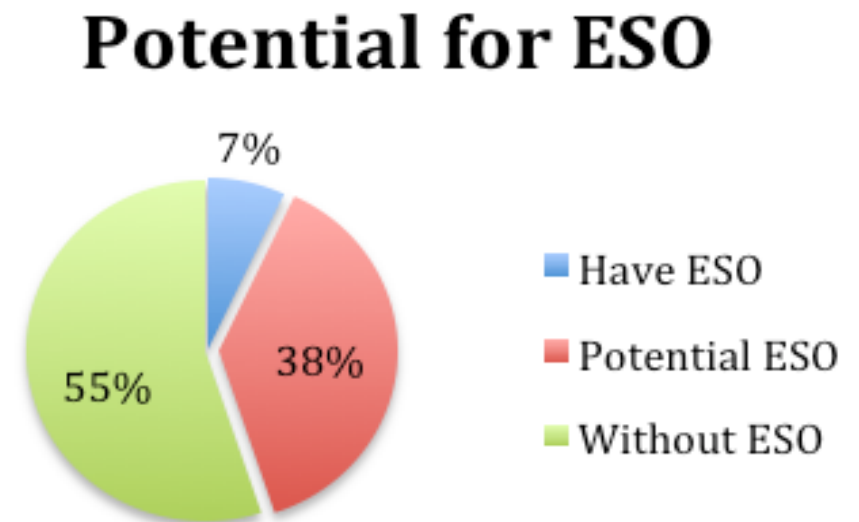
Potential for the introduction of ESO

Estimation using propensity score matching technique based on *observable characteristics*, of firms having ESO

- around 38% of all firms can be expected to potentially introduce ESO

In **absolute numbers this 38% would be ca. 933,000 firms**

If we apply an error margin of 50% (not all characteristics are observable) we still arrive at **466,500 firms**



ESO in Small Firms & potential for the introduction of ESO: Absolute numbers

Across the whole population of the 1,4 million small firms 4.6% corresponds to ca. **64,000 firms having ESO in the EU**

- Estimation using propensity score matching technique based on *observable characteristics*, of firms having ESO
-> ca. 16% of all firms can be expected to potentially introduce ESO (ca. 1,888 of 11,706 firms are suitable)

This 16% would be ca. 225,000 firms in absolute numbers within the whole population of small firms across the EU.

If we apply an error margin of 50% (not all characteristics are observable) we still arrive **at 112,500 firms.**

The options for harmonisation with 28 MS:

Minimum EU requirements or an EU option parallel to national law

EU minimum rules for state laws: The laws governing EFP are state law, but they have to fulfil EU minimum requirements (minimum harmonisation), e.g., a Framework-Directive on EFP.

EU law and state law parallel: Legislation governing EFP schemes is offered both by the EU and the Member States.

- ***Extent of choice:*** Can private parties choose only between EU law and their own national law or can they also choose another EU-members?
- ***Opt in/Opt out:*** If national rules are default rules, private parties have the right to opt into EU law <-> Otherwise EU rules are default rules, and private parties have to opt out if they want to choose their national law.
- ***Cross-border/domestic:*** A distinction can be made between domestic and cross-border transactions with regards to different application options for different EFP schemes.

EU Regulation – the “29th Regime on EFP” -> defining a EU legal framework for EFP schemes

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

- A choice only between entire instruments -> no “cherry-picking”
- Does **not require compromise on lowest common denominator**, thus prevents the lowering of standards -> no “race to the bottom”

The “29th Regime” imposes no tax incentives; national rules apply

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

-> It leaves the decision on its application to the market -> would only be chosen where considered an advantage by interested parties

Eliminating Barriers to the Single Market & Facilitating Cross Border Operations

The 29th Regime on EFP is established by means of EU Regulation in order to avoid any national discrepancies due to transposition work

-> However, it **applies only to contractual arrangements between private parties**, i.e., EFP schemes (similar to EU Insurance Contract)

- It allows employers to **operate an EFP scheme throughout the EU on the basis of a single legal regulation**
- In firms implementing these schemes, employees would be assured **full portability across the EU**
- Implemented by EU regulations, firms could **utilise it even in purely domestic situations** -> important in SMEs: plans could later easily be extended across borders as the firm grows and expands

Contents of optional rules implemented through “29th regime on EFP”

- **Range of application:** Company type: Ltd., JSC, etc./ Eligibility: 1-yr waiting period; non-discriminatory, i.e., also part-time employees.
- **Mechanism:** PS – pre-defined formula; broad-based; deferred; ESO – blocking period; financial assistance; voting rights; ESOP – holding company; blocking period; voting rights.
- **Employer contribution:** Discretionary; but possible ceiling, e.g., 25 per cent of payroll; matching contribution possible, etc.
- **Vesting:** conditions of forfeiture; vesting period, etc.
- **Distribution (form/timing):** For each scheme PS / ESO / ESOPs – retirement, death, termination; payments in 5 annual instalments; repurchase obligation;
- **Investments:** Catalogue of (authorised) instruments; diversified vs. non-diversified.

Policy aim: Turning EFP from a “Negative into a Positive Priority” (Barnier)

Barriers to implementing EFP through 29th Regime: Costs for SMEs

- Preliminary comparative calculation of tax burden -> Feasibility
- Assessment of potential discrimination between employees

Acceptance by Market? -> Lowering implementation threshold

- while the 29th Regime on EFP provides employers with the **incentive to introduce EFP schemes** using the EU-Framework
- Tools like the Effective Tax Rate Calculator (CETREPS) gives them **the instrument to plan them**

“29th Regime on EFP” perceived as Added Value for Plan Design:

- Choosing best plan in target countries for max. employee benefit
- Scheme can easily be extended across borders as firm grows

Providing transparency for taxation & facilitating implementation of the 29th Regime

CALCULATING EFFECTIVE TAX RATES FOR EMPLOYEE PARTICIPATION SCHEMES (CETREPS)

It is crucial to **avoid double taxation and discrimination** -> An online calculator accompanies the “29th Regime on EFP” as a soft tool

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

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

CETREPS provides **governments** with information to simulate fiscal:

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

Feasibility of policy recommendations?

Planned Preliminary Regulatory Impact Analysis

Impact of the 29th Regime on EFP

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

Costs/benefits of Information and Awareness Campaign

- Expense of launching of an observatory (virtual / physical centre (s) for ESO) yet to be assessed
- Estimates of benefiting SMEs (ca. 100,000 small firms) using information centres in the pilot phase
- European Value Added? -> Saved expenses yet to be assessed

First step: Virtual Centre for EFP -> „image film“