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Employee financial participation for corporate governance and social dialogue

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Preface

A new scenario

Claudio Stanzani (President of SindNova)

The last two years have been deeply affected by a serious economic recession that has imposed a need to reflect on the organizational model of production and its relationship with risk capital. Corporate governance has been accused of having failed to assess and balance the risks of company management and fuelled distortions in management incentive systems.

Every crisis brings about change. The current crisis has highlighted the social and institutional fractures in the global society. Few today would disagree that what has happened forces us to rethink company structures, political categories and institutional models.

In their practical application, governance theories have failed to protect production from financial speculation and have led to significant changes in the relationships between management and owners[1].

What has come off worse in this is the protection of stakeholders, especially those who in the current production model benefit from the long-term economic sustainability of production[2].

That workers are not to blame for the crisis is a common position adopted by all analysts and has been repeatedly stated by the European trade unions[3].

That workers and their organizations must also be called upon to play a role in overcoming the crisis is an equally shared option. In fact, the strength of the trade union initiative could promote an organizational model in which production and risk capital are finally linked by governance mechanisms based on transparency and sustainability and above all, the assumption of responsibility by all the actors that participate in production.

In any case, stakeholders that obtain a role in corporate governance will be called upon to assume greater responsibility in exercising their new power. Participation and responsibility necessarily need to co-exist in open corporate governance.

The German trade unions know this only too well[4].

In fact, the suspicions German trade unions have regarding models that provide for the

1 See point 23 of the report of the High Level Group on Financial Supervision in the EU, chaired by Jacques de Larosière, Brussels, 25 February 2009 and known as the Larosière Report. Similar conclusions have been reached by the experts of the European Corporate Governance Forum, Annual Report 2008, published in May 2009.

2 Larosière Report, point 111.

3 The European Trade Union Confederation has underlined and supported these positions on several occasions and in particular, in the declaration of Paris, 28 May 2009.

4 A recent study by V. Telljoahann of the Emilia Romagna branch of the IRES (Institute of Economic and Social Research) highlights the conduct of the German social partners in response to the crisis in the automobile industry.

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participation of employees in the capital of their own company (as can be noted in the interviews published as part of this project[5]) have now been replaced by a new vision.
The inevitability of widespread restructuring of an entire sector - a sector that already suffers from existing structural problems - has hastened the search for new solutions. From an anthropocentric point of view, it could be claimed that the financial crisis has merely helped production actors (capital, management and workers) to free their energy, including their intellectual energy, to explore and innovate, redistributing power and responsibility in governance and industrial relations.

IG Metal has begun a process in which financial participation is a complement to codetermination (like at Schaeffler), the object of exchange to consolidate the choices of an industrial partner (Opel-Magna) or could even become a feature of a new trade union strategy aimed at breaking a negative spiral that threatens the solidity of the bargaining system and the protection of labour[6]. Workers' sacrifice is turned into ownership. The participatory element of employee-shareholders is guided by the trade union because it is equally synergic to corporate governance and industrial relations tools. Share ownership involves the entire automobile sector and becomes the precursor to a new governance at the service of new capitalists (see Volkswagen and Daimler).

Employee share ownership thus becomes a condition of the worker, created to last and become part of our culture.

A recent case in point is the acquisition of Chrysler by FIAT. In the Italian trade union movement, CISL maintains that participation in risk capital, in order to participate in the management of company life, can only be beneficial to the company itself because it appeases social conflict and finances undercapitalized companies. CISL supports a strategic vision in which share ownership is fully implemented when it provides participatory mechanisms for employee-shareholders and a new capitalist culture in which equity participation must exist in companies regardless of their size[7].
In Italy, CISL feels that employee share ownership has certain virtues; it consolidates employee participation and rewards the assumption of responsibility by workers in company transformation processes, even in economic terms. The Alitalia affair, where the trade unions played a crucial role and where the assumption of responsibility determined the allocation of part of future profits to employees, is emblematic.

Chronologically, these two circumstances followed the elaboration of the study project coordinated by SindNova, but in some ways they prove its relevance. It is possible to detect a trend here. In fact, those mentioned are strategic choices whose efficacy can only really be studied in a few years time.

The SindNova report offers tools for reflection through the in-depth study of a number of cases in which employee share ownership and corporate governance have coexisted for some time and offer the researcher solid elements for analysis.

5 The country profiles, case studies, names and positions of the people interviewed can be found on the website www.governancesindnova.eu, which should be considered complementary to this summary report.
6 Telljohann (op. cit.).
7 Interview with Raffaele Bonanni, Secretary General of CISL.

PART I

METHODOLOGY AND CONCEPTUAL BACKGROUND

Financial participation, corporate governance and social dialogue

The following report investigates employee share ownership and its ability to consolidate social dialogue when it manages to influence the governance process within a company. To offer the reader a logical and conceptual basis, we immediately state that the report has been drafted within the framework of the PEPPER system.

We are referring to the economic and financial types of worker participation classified in the report entitled *Promotion of Employee Participation in Profits and Enterprise Results in the Member States of the European Community* dated 1991 and further defined in 1996[8] when the words *"including equity participation"* in the heading underlined the conceptual importance of employee share ownership in PEPPER models.
The second report therefore groups forms of employee involvement into two categories: profit sharing and employee share ownership without, for this reason, having presumed incommunicability between the two. On the contrary, the report highlights the possible correlations and bridges that unite the two segments.
Our report has limited studies to the second segment.

The title also refers to corporate governance. What link is there between participation and social dialogue and corporate governance?
In its communication[9] dated 2003, the European Commission premises that, "Well-managed companies, with consolidated good corporate governance practices and sensitive to social and environmental issues, outperform their competitors. Europe needs more of these companies in order to generate employment and support greater long-term growth". It is also stated that effective corporate governance "will help to strengthen shareholders' rights and the protection of third parties".
The definition of corporate governance adopted by the European Commission, in other words, "**the system by which companies are directed and controlled"**, is very broad.

It is known that there is no agreement in the scientific world on the definition of corporate governance. Those who have dared to undertake this arduous task have often chosen to juxtapose definitions that gradually limit the boundaries of this subject matter.

The High Level Group of Company Law Experts in support of the European Commission produced a report on a modern regulatory framework for company law in Europe[10] in which they consider of prime importance in the paradigms of corporate governance the elements of disclosure, the role of shareholders (above all, access to information and the functioning of the Shareholders' Meeting), the Board of Directors, the Auditors and Community regulations.
The proposal of the high level experts does not come from a desire to overcome the eclectic nature of the doctrine, nor does it aim to demean the various experiences of individual

8 In fact, the second PEPPER Report merely acts on the basis of the Recommendation of the Council dated 27 July 1992 (93/443/EEC), which places the emphasis on "equity participation" in its title.
9 Communication from the Commission to the Council and European Parliament, Modernising Company Law and Enhancing Corporate Governance in the European Union - A Plan to Move Forward. COM (2003) 284 final.
10 Report of the High Level Group of Company Law Experts on a Modern Regulatory Framework for Company Law in Europe, Brussels, 4 November 2002. Rapporteur: Dominique Thienpont.

European companies. It is simply functional to the aim of putting Community law in a position to improve company law (and modernise corporate governance) against the backdrop of greater integration of the European market.

The Communication from the European Commission indicates not only shareholders and company management among the subjects of governance, but also third parties. Among the latter, explicit reference is made to workers. Without doubt, workers are subjects that benefit from good governance, yet their right to be a part of it has not been either acknowledged or unacknowledged.
Of the action tools mentioned by the Commission, labour representation does not have a specific role even though the "spirit" of worker participation in company bodies exists in texts and above all, in the real world, which the community project to harmonize (or bring together) legislation and practices must necessarily take into consideration[11].

The question of social dialogue and corporate governance remains controversial.

To move on to the third conceptual element of our title, the concept of social dialogue includes relational dynamics that entail the relationships between company and labour. Its complexity encompasses collective bargaining (with its repercussions on the individual labour relationship) and the involvement and participation of workers, right up to sharing in the life of the company and its risks.
Limiting our analysis to the corporate dimension, social dialogue is legitimately part of the governance of an organized unit - which is what a company is - of which the labour factor is one of the keystones.

Handling relations with the stakeholder-employee is a function of corporate governance that is sometimes referred to as industrial relations, human resources or human capital and is a function that is always present in large companies (and even in smaller ones). Managing human capital is the strategic key to effective management of the change that in the organization of production is often identified as restructuring. These are traumatic events for all the elements of the company and the key to success lies in the ability to "find" through social dialogue the voice of those who (often against their will) interpret change and can therefore, understand it better and deal with it with greater responsibility[12].
Responsibility is a concept that will return often in our work and will become the underlying theme uniting the three conceptual elements of our title: employee share ownership, corporate governance and social dialogue.

11 When looking at the complexity of the current economic and financial crisis, experts are concerned with drawing attention to the shortage of corporate governance rules. Such analysis is well illustrated in the so-called Larosière Report on Financial Supervision in the EU, Brussels 5 February 2009. Therein, the group of experts underlines that a single financial market cannot function properly if national rules and regulations are significantly different and that Europe should do more to create a harmonized set of rules. Amongst the areas of action for European institutions, the report stresses the need to reinforce corporate governance as this is one of the greatest failures of the current crisis.
With reference to the financial world, the Larosière Report denounces the practices of corporate governance that "have not carried out their tasks with enough consideration for the long-term interests of stakeholders". The report focuses on incentives for top managers, whose perverse effect is that investors and capitalists expect to draw huge profits to the detriment of other stakeholders.

12 European Commission, Restructuring in Europe Report 2008. A Review of EU Action to anticipate change and manage employment change. Brussels, 2008.

The "origin" of worker involvement in corporate governance

Is there a relationship between the three elements? The over 50 interviews carried out as part of this report highlighted a difficulty for interlocutors to identify the relationship that exists between the three elements. On the other hand, commenting on empirical cases facilitated the reconstruction of positions that, in their absence, would have remained hidden.

In the framework of the political debate in Europe, it is the European Parliament that tries, initially, to explore connections between employee share ownership and corporate governance.

In its Resolution[13] dated 2003, commenting the EC Communication dated 2002[14], the European Parliament encouraged a broader involvement of employees in company equity, turning the focus on the most favourable aspects of these tools.

The European Parliament refers to

- associations of employees and the representation of such associations in the company decision-making bodies, recalling the French model;
- private companies (not listed on stock exchange markets) exploring forms of codetermination in favour of employees-shareholders;
- setting up foundations with the aim of making them act as shareholder on behalf of employees-shareholders;
- fostering information and consultation rights, especially in their international dimension, to support employee financial participation plans.

Finally, the Parliament points out the need to link financial participation and other forms of employee involvement to encourage the concept of partnership.

The interaction between the workforce and companies can develop along various relationship patterns. With the intention of simplifying matters, we could say that workers, in their collective representation, can represent an internal or an external interlocutor for company management.

They are external when, organized in the form of trade unions, they develop a bargaining package aimed at collectively solving the problem of the use and remuneration of labour as a production factor: the behavioural model is antagonistic and the most common tool is the collective agreement.

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13 European Parliament resolution on the Commission Communication to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions on a framework for the promotion of employee financial participation (COM (2002) 364 - 2002/2243(INI)). See also the opinion of the European Economic and Social Committee on the Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions on a framework for the promotion of employee financial participation (COM (2002) 364 final).

14 Commission Communication to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions on a framework for the promotion of employee financial participation. COM (2002) 364 final.

The interlocutor is internal when the worker is considered an integral part of the company unit and management relates to the same as a "partner" in the corporate project. In this case, workers organized as company-level representatives (generally elected), interact with company management or the owners in order to solve labour problems and sometimes, to share strategic policies.

In the logic of social dialogue, that is gradually establishing itself in Europe, bargaining and involvement integrate until they form a relationship model in which "external" and "internal" processes move coherently. When they do not coincide, trade union and corporate representation structures coexist in the search (truthfully, not always without some tension) for an additional sharing of functions and competences.

Worker representation, whether internal or external, must be based on the presence of an interlocutor within the company: the decision-maker. The logic of the agency contract (or the formal relationship through which the manager assumes the task of promoting contracts in the interest of the proponent/owner, stably and against payment) that dominates the theories of corporate governance, establishes a balance in the exercising of power contended between the two poles of management/owners.[15] Having assessed this balance each time (if put in the position to do so), worker representation directs its desire for interlocution towards management or towards owners, as the case may be.
Obviously, the agency relationship that links management and owners is a dynamic and constantly evolving one. Labour representation updates its strategy (if put in the position to do so) based on the changing governance context. Clearly, transparency and comprehensive information are essential for a correct relationship between the company body and the labour factor.

The European Commission testifies to a trend that considers the European corporate model (with the exception of the Anglo-Saxon one) unbalanced in favour of management; it registers a certain dominance of management on ownership with undesired alterations and negative consequences on good governance and therefore, more generally, on the efficiency of the market[16]. For this reason, measures have been taken to strengthen ownership in the governance game (see the minority shareholders directive) or to make management responsibilities more pressing.

It may be useful here to mention the fact that ownership is increasingly considered a source of the *sociality* of corporate governance. Ethical funds and active share ownership seem to become aspects of the new capitalism that even the trade union world will have to take into

15 The writer wishes to specify that the bipolar model supported herein is in itself a simplification as it is known that both the doctrine and judicial systems of the market economies separate or proceduralize decision-making power until it overcomes bipolarization by recognizing third parties such as creditors, users, workers and third party subjects. These subjects acquire a role when the right to safeguard their interests is recognised by the law and can be legitimately protected as early as the decision-making phase. In this analysis exercise, it is useful for us to simplify and imagine a structure for exercising bipolar power whose equilibrium is the result of social pacts, the heteronomous norm, national cultures, the culture of enterprise and lots of other factors, not least of all the size of the company.

16 Among the initiatives announced by the European Commission in the framework of "Modernising Company Law and Enhancing Corporate Governance in the European Union - A Plan to Move Forward" many are in favour of Shareholders' Meetings and active participation of the shareholders in company life.

account[17].

If we want to arrange the interactions of internal/external processes in labour representation and management/ownership in the control of companies, as mentioned above, we obtain the following matrix:

Matrix of labour involvement in corporate governance

	1) Internal processes	2) External processes
A) Company Management	**Consensus building** - Information and consultation rights - Employee participation	**Managing conflict** - Collective bargaining - Flexible salaries and profit sharing - Social legislation and labour flexibility
B) Ownership	**Sharing risks of the business** - Individual share ownership - Collective share ownership	**Trade unions as new capitalists** - Pension funds and similar funds - Socially-responsible investors and CSR

Cluster 1A identifies a relational element, the search for consensus that generally leads to employee involvement processes. These are generally supported by heteronomous legislative or contractual interventions that determine the operational methods *ex ante*.

Whilst Europe has for decades been passionate about the endless debate between the supporters of *soft* or *hard* participation (presuming a widespread consensus in considering the participatory relationship model more favourable to the competitive development of European companies), we cannot but take note of the neutrality of Community law with regards to forms of participation that go beyond the right to information and consultation.

We cannot therefore, refer to an ideal participatory model. However, this is now a banal statement for all those who study European industrial relations. Less banal is stating that all participatory models are known and included in the national legislation of member states. Participation cannot be enclosed in pre-established categories, as if the history of participatory phenomena had already revealed and catalogued all possible experiences. On the contrary, the potential for experimentation has yet to be comprehensively addressed.
It is alive and well in the experiences of European companies. Innovative industrial relationship practices demand to be studied and understood. Of these, share ownership has had alternating fortunes, assuming an elitist and residual importance at certain times in history and becoming a fundamental strategic model at others. Suffice to consider the outcry the Chrysler-FIAT deal caused and the role played by the American employees' pension fund. In Europe, the event reintroduced the debate on share ownership after years of niche research.

17 Meaningful examples are illustrated in S. Davies, J. Lukomnik, D. Pitt-Watson, The new capitalists. How citizens are reshaping the corporate agenda, Harvard, Boston, 2006.

The second cluster 2A refers to the company management vs. external labour representation relationship; that is, the interaction between the company and labour unions.

For many companies in Europe, the collective agreement adopted in companies is a "given" element"[18]. In other words, it falls outside the control of management. Here, the ability of individual companies to influence the content of the agreement is null or in any case, very limited.

However, saying that the contractual relationship with the trade union ends upon signing the collective agreement is limiting. Even in the presence of extremely binding supra-company agreements, the perfecting of the contract keeps the relationship between company management and employees-shareholders alive; in fact it makes it strategic. Supra-company agreements must be applied in companies and at times integrated. Application and integration definitively resolve the issue of the individual labour relationship. Application and integration also determine the stability and longevity of the agreement. At best, collective agreements present elements that permit the constant updating of conditions, reducing to a minimum both the costs of renegotiation and inefficiencies linked to the failure of the agreement to correspond to the real needs of the parties. This, in brief, is the added value of good governance.

Interlocution with the owners can therefore, be a necessity or an addition; this should be assessed each time. The third cluster B1 focuses on the relationship of the workforce with ownership. We should first state that the relationship with the workforce can vary enormously, depending on the role of the owners in corporate governance. This can reach its peak in cases when company management and owners coincide or fade to nothing when, where ownership and control do not coincide, management proceeds to drain the functions of the Shareholders' Meeting.

Workers can choose to participate in ownership. They can become sole owners of the company, they may exercise control or be holders of a share of corporate capital, be it very small or more or less significant.

A more far-reaching strategic option is that of turning work into ownership. Share ownership or participation in corporate capital can come about for various reasons. If the first PEPPER report indicated share ownership as the ultimate form of participation in company results (in this case, the profits or dividends), other studies have considerably expanded the number of reasons that can push a company and workers to commit to share ownership plans[19].

18 Once again we exploit a conceptual simplification to make our reasoning clearer. We are fully aware that company-based agreements are the main tool for establishing working conditions in numerous European companies. Nonetheless, we assume that the reflections elaborated in the following paragraphs on collective bargaining as a tool for good governance can, even more so, be extended to companies in which supra-company agreements are not applicable.

19 Some important studies in this area are: 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. 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; R. Santagata, Il lavoratore azionista, Giuffré, Rome, 2008.

The motivational component is founded on the firm belief that the more the owners determine corporate governance, the more labour has to have some form of interlocution with owners in dealing with change. The more owners impose the terms of measuring the success of business, the more strategic it is to bring the values of labour and the sociality of production into the ownership factor.

Given current trends towards the modernisation of corporate governance and social dialogue, in Europe, cluster 2A is destined to increase its importance in the complex system of industrial relations.

This observation means we can sense the importance of the last cluster. The fourth cluster 2B highlights the relationship between trade unions and financial entities. This is the ability of the trade unions to commit the largest investors - in other words those who can become interlocutors - to support social clauses. Employees become new capitalists and as such, use an economic language that focuses on the sustainability and ethics of business. There can be varied tools even if, currently, the debate focuses primarily on corporate social responsibility, with regards to the sustainability of business, and the presence of labour in the financial market through pension funds, with regards to the ethics of business.

Our study starts from cluster 1B or share ownership. In other words, those forms of employee share ownership that are able to affect corporate governance and therefore, influence the other areas or aspire to shift the balance of corporate governance. It is therefore, possible to see in what measure the other areas are affected.

	1) Internal processes	2) External processes
A) Management	**Consensus building**	**Conflict management**
B) Owners	**Sharing corporate risks**	**Trade unions: the new capitalists**

PART II

A STUDY OF EMPLOYEE OWNERSHIP AND CORPORATE GOVERNANCE

The attitude of the social partners

Social partners have been called upon to give an initial assessment of the project and its methodology. All of them consider employee financial participation part of their agenda and showed a clear interest in the project[20].
It is important to stress the point that this report does not seek to represent the positions of the social partners, nor does it aim to give voice to the political expectations of the organizations involved. The sole purpose of the interviews and case studies was to help the researchers.

The ETUC underlines how employee financial participation can help capital and labour to establish new forms of partnership. These new forms of partnership are necessary in order to meet the challenge posed by new competition patterns. Employee share ownership should aim to improve employee involvement in governance, making the company more reactive and productive.

Eurocadres has alerted on possible conflicts of interests. These could be found at various different levels of corporate governance. The study should point out potential risks and possible solutions.

The EMF considers the financial crisis to also be a crisis of the models of corporate governance and it hopes that this will lead to the introduction of new governance models. This reasoning forcefully imposes a reflection on new participatory capitalism.

From the business point of view, BusinessEurope underlines the fact that the effects of employee share ownership can only be assessed case by case. These depend on how the schemes interact with other elements of corporate governance and more generally with the environment in which the company operates. Many factors, both internal and external, are prominent in establishing a company's managerial culture: human resources, the business strategy and the nature of the business, tax regimes, labour market regulations, environmental constraints, etc. All employee financial participation tools can be considered positive, but of course they must be coherent and synergic with all company functions. Therefore, BusinessEurope suggests not limiting the study to aspects concerning labour and capital.

CEEP would like to focus on services of general interest. They are interested in having more information on how ESOS are implemented or used. As a sector, services of general interest is undergoing far-reaching transformation. The study should highlight the added value that ESOS can have in managing change and restructurings.

In countries like Germany and Belgium, strong doubts remain on employee financial participation tools. The greater receptiveness of employers does not seem to be sufficient to fuel the project capacity of social dialogue in this matter.

20 A list of people interviewed (who did not ask to remain anonymous) is available on the website www.governanceSindNova.eu.

In Belgium[21], trade union organizations insist on the need to safeguard the polarization of industrial relations on two areas of interest - labour vs. capital - because, in their opinion, this is instrumental to the correct and effective execution of collective bargaining.

In Germany, trade unions experience the need to safeguard codetermination, which already offers workers important opportunities to influence company decisions. Further commitment in terms of risk-sharing does not interact with the existing participatory model and therefore, they do not see a need to discuss it in terms of corporate governance. However, the new IG Metal strategy in the context of restructuring of the automobile sector shows a new attitude of the German trade unions towards employee share ownership.

The French social partners register various positions that inevitably reflect the plurality of actors. On the trade union side primarily, the positions of national confederal organizations are mutually integrated and offer various levels of concurrence. The position of the trade union movement has to take into account the abundant legislation promoting company savings plans that only partially coincides with the promotion of employee participation in the capital of their company. In France, tax incentives, the opportunities to save in pension schemes, the repercussions on wage structures and the cost of labour and the tendency of companies to export schemes overseas mean that the trade union movement is committed to assessments of the system rather than the governance of individual companies.

In the Italian trade union movement, CISL maintains that participation in risk capital, in order to participate in the management of company life, can indeed be beneficial to the company itself because it appeases social conflict and finances undercapitalized companies. CISL supports a strategic vision in which share ownership is fully implemented when it provides participatory mechanisms for employee-shareholders and a new capitalist culture in which equity participation must exist in companies regardless of their size. In Italy, CISL feels that employee share ownership has certain virtues; it consolidates employee participation and rewards the assumption of responsibility by workers in company transformation processes, even in economic terms.
The Alitalia affair, where the trade unions played a crucial role and where the assumption of responsibility determined the allocation of part of future profits to employees, is emblematic.

If in Turkey the search for democratic structures in industrial relations means such debate is premature, in new member states the wounds caused by the privatization processes of the 90s have yet to be healed[22].

In the business world, the most recurrent observations reiterate those already expressed in the European Forum on Corporate Governance. In 2006, the group raised the following initial doubts - "members pointed out the possible risks of including employees or other stakeholders in the corporate governance debate. In some cases, their interests are used by management as an excuse for following its own line and acting contrary to the interests of the shareholders. This can even result in being detrimental for employees who are

[21] Details regarding country case studies are available on the website www.governanceSindNova.eu.

[22] The experience of employee share ownership programmes in privatization processes in new member states has been reported in "Lavoratori e capitale di impresa in Europa" ("Workers and Corporate Capital in Europe"), edited by SindNova, Quaderni SindNova no.18, Edizioni Lavoro, Rome, 2001.

shareholders, either directly or through their pension funds. One of the members also pointed out the OECD principles that deal with the role of employees only in very general terms and took the view that the Forum should stay within that framework"[23].

The aim of the study carried out by SindNova with its European partners was also to confute or confirm the initial doubts expressed by the social partners. The following paragraph will deal with two recurring initial doubts: the conflict of interests that should weaken the participating trade union in its role as a negotiator and the excessive risk that the employee-shareholder is exposed to. The aim will then be to see how to organize employee-shareholders and how corporate governance is modified when the trade union comes into play.

Antagonist trade unions and the question of the conflict of interests (clusters 1a and 1b)

Although they are not always clearly expressed, trade union reservations revolve around the fear that the presumed conflict of interests can lead to under-remuneration of the labour factor and favour extra profits for the capital factor.

This can happen for two reasons:

- workers themselves can waive some of their demands, tempted by the possibility of obtaining greater advantages on profits or on the value of the shares held.
- on other occasions, negotiators may be less serene in their assessment when building economically important participatory-type relationships with the counterparty.

In fact, empirical records show that in the cases in question, employee wages established within the framework of collective agreements applicable to the respective companies, rank in the upper bracket or in any case, are above the sector average. Often, employees in these companies benefit from services and programmes that support work in various ways and tangibly help workers (from mobility programmes to career progress and life-work balance).

This happens in all the companies studied, with the exception of Dexia and Total.

In short, the idea seems to emerge that work is more remunerative in companies in which workers are shareholders, even when wages are established by collective or individual agreements. The concept can also be expressed in these terms: "open" corporate governance does not exhaust the need for an agreement, but consolidates it thanks to continuous and fully-informed negotiation.
In fact, negotiation can also be expressed through reiterated conflict marked by continual stop-and-go bargaining strategies. Naturally, this presumes overcoming of the existence of two antagonistic poles of interest.

[23] Quote from the minutes of the meeting of the European Corporate Governance Forum, 1 June 2006. ec.europa.eu/internal_market/company/ecgforum/index_en.htm.

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However, collective bargaining can equally be seen as the expression of gradual modifications to the contractual clauses in a context characterised by the absence of trade union disputes. This determines the conditions for an agreement that is more stable because it is capable of leading to correct remuneration of the labour factor. Collective share ownership is in harmony with this latter method.

In fact, in the cases studied, this condition of the absence of trade union disputes seems to be an inalienable component of the governance structure. Obviously, an objection could be made that governance that is open to worker involvement does not solicit the need for employee share ownership. However, it cannot be denied that employee share ownership commitment is an incentive to the acquisition of the awareness of a new relationship dimension - that of corporate governance - that leads to the development of responsibility in the conduct of the subjects physically involved in the processes of corporate governance, including the use of labour and its remuneration.

In the cases studied, a conflict of interest is openly declared in the Irish cases. There, in fact, the experience of employee ownership is very recent and is the result of privatization and a liberalization process. It is clear to see what far-reaching changes Eircom and AerLingus underwent. Unions, shareholders and managers had to tackle dramatic situations caused by company restructurings and re-engineering but despite uncertainties for the future, the experience continues.

The question of excessive risk (cluster 2a)

A recurring observation in the trade union field is that share ownership burdens workers, already sufficiently exposed by the fact that their income and profession depend on the future of the company, with excessive risk.

The reservations of the trade unions are further fuelled by the financial scandals of the beginning of the century (that led to pressure by Community institutions for interventions to modernise corporate governance) that have made trade unions even more reluctant to accept certain PEPPER systems. The traumatic events registered in new EU member states[24] and experienced by workers in the 90s are still an open wound.

The invitation of the European trade union movement to reconsider its judgement on employee share ownership is therefore legitimate, but on this point our study focuses on assessing the real manifestation of risk.
The acquisition of shares by employees can occur via:

- shares given as part of salary (this does not occur in the cases studied).
- the allocation of voluntary or compulsory savings (BPM, Dexia, Total, ENEL).
- additional and supplementary payments, that is, not replacing current income flows or the current equity of the worker (Handelsbanken, IsBank).

[24] Quaderni SindNova no.18, quote.

The last hypothesis, which is also quite frequent, would make trade union objection unfounded as stock received would be an additional opportunity, labour being already fully remunerated. In the absence of a share ownership scheme, that wealth would simply not exist for workers. For example, when they retire, Handelsbanken employees can count on a considerable additional sum. Anyone who has taken part in Oktogonen since the start of the profit-sharing scheme will benefit from capital of approximately 1 million euro in addition to (and not as a replacement of certain items of) the pension income that all other employees in the sector enjoy.

On the other hand, with regards to the possible replacement of the cash performance with shares, two possibilities practiced today can be identified. The first is retribution through the allocation of shares or options on shares in order to link the interest of company management to the interests of shareholders. This form of remuneration is popular in top-level professions and therefore, does not concern us. Another method could be to assign (part of) the bonus from participation in company profits in the form of shares. Here, the risk the trade union world expresses is real. The complexity of the wage structure in Europe tends to integrate forms of variable retribution in order to guarantee higher salaries that can tap into the greater wealth produced by the company. In Europe, these reward mechanisms are increasingly becoming part of a complex policy of labour retribution that is structured in France, well-diffused in Italy and being explored in many other countries, like Belgium, Spain and the United Kingdom.

Assigning the bonus in shares can lead to a replacement effect. Collective bargaining therefore has the task of preventing this effect taking place or guaranteeing that this exchange is warranted by a "valid" reason.

If we look at the Irish cases - Eircom and AerLingus - we discover the full potential of employee share ownership in terms of good governance, even when the reorganization of a privatized sector is at stake. In particular, in the liberalization of the telecommunications sector in Ireland, the trust managing the employees' shares has acquired recognised authority, so much so that its representative was convened by the government in order to discuss the future organization of the telecommunications sector in Ireland.

The Irish experience reminds us of the FLAEI strategy (Italian Energy Sector Trade Union). With a strong representation among ENEL workers, FLAEI would be ready to use any tool in order to give workers a say in the governance of a company that is so strategically important to the wellbeing of the country, workers and citizens. The general secretary of FLAEI is aware that traditional industrial relations bodies are unable to grasp the complexity of the work of ENEL as a company and therefore, hopes for greater commitment and assumption of responsibility by workers through participation in corporate governance. To achieve this objective, the organization aims to also take advantage of company-level bargaining to favour the collective share ownership of ENEL employees. It will have been worth it if, at the end of the process, the trade union has acquired a voice at the source of corporate governance, in other words the Shareholders' Meeting.

The financial tools for managing risk become a technical problem. FLAEI poses the problem of the impact of large utilities in the life of citizens and sees new governance as a strategy for preserving the market serving the community.

In France, the question of the structure of wages is strongly felt. Providing incentives for compulsory saving of labour income has forced companies to define the concept of global

retribution. Using this approach, companies set the ceiling of labour costs they are willing to sustain and negotiate the various items that make up the total amount.
In this way, the various forms of employee savings promoted through the use of incentives compete with remuneration; the risk here is that of surrogating the monetary performance with elements of an uncertain value, such as shares and other financial securities. The result is that, in France, the risk management of savings within the framework of labour income dominates compared to assessing the repercussions of share ownership on corporate governance. This perhaps offers a clue as to why, in the country with the longest-standing tradition of financial participation, the link between share ownership and corporate governance is still largely unexplored.

With regards to the allocation of savings, companies can ask their employees to invest their savings (even pension savings) to company shares. Here, the effective exposure to risk must be carefully assessed. Share ownership schemes provide for high initial benefits that make investment in shares in their own company extremely advantageous at the start, reducing the risk of loss of capital invested and withdrawn from the equity of the worker (for example, for each share purchased by the worker, two shares are given by the company).
In France, trade unions have created an Inter-Union Committee on Employee Savings (CIES - Comité Intersyndical de l'Epargne Salariale, which CFDT, CGC-CFE, CFTC and CGT adhere to), that works in the field of compulsory collective bargaining on trade union savings. The aim of the committee is to propose tools for employee salary saving, favouring regulations that benefit workers and directing corporate governance towards social responsibility. Although the concerns of the French trade unions lie in the financial aspect of the issue, they cannot neglect the fact that share ownership triggers corporate governance and this puts the trade union in a position to offer benchmark values for corporate governance that are outside the traditional channels of industrial relations.

The case differs in crisis situations where the purchase of shares by workers can be used as an extraordinary tool to protect jobs. In this case, by its very nature the risk is high, but cannot be compared to other situations because jobs and labour income are already compromised. Here, the risk propensity for the worker rises until it becomes an authentic entrepreneurial propensity in the case of worker buy-outs (this is particularly true in small and medium-sized enterprises). *"It was a crisis-crisis situation, connected to workers' sacrifice that created an opportunity"* was a statement to describe the Eircom and AerLingus cases.

In small and medium-sized enterprises with employee ownership, investment risk coincides totally with company risk. This risk can however be treated using two tools, as the Spanish experience shows. The Spanish legal system does not make it possible to totally overcome the problem of divestment. However, legal devices that address capital can contain risk. It is important to recall the obligation for a special reserve fund to safeguard the capital invested by workers and the introduction of types of shares or capital shares that favour the transfer of ownership between workers.

A solution has been found at Tullis Russell is that all employees, after they have worked for the company for a year, receive free shares that give an annual profit. After 5 years, employees can freely sell their shares providing there is enough money available for the fund to buy them. Ownership is real; it can be converted into liquid capital when an employee needs money. There are restrictions on how many shares people can sell and in fact, employees have the lowest priority - over the years the shares of people who have retired or left the company have been bought, but often none came from active employees. This is accepted because an elected body makes the rules, in consultation with the Board. Delisting from the stock exchange has not been a problem for Eircom or its ESOT.

By adopting a pragmatic approach it is therefore, possible to establish that the issue of excessive exposure to risk for workers is real, but can be managed and reduced to a totally acceptable share of risk (as occurs in the cases studied). It is however, clearly necessary to bear in mind which elements of a share ownership scheme reduce this risk and open the way to opportunity instead.

Holder vs. Owner

Sometimes employees must be prepared to become owners. It can be part of trade union strategy or, on the other hand, trade unions can intervene later.

It may happen that enlightened and charismatic men decide to change company culture and become themselves the driving force towards innovation. When Jan Wallander decided to reverse the unsatisfactory trend of his business, he planned a profit-sharing scheme that would make employees co-owners of their own bank. He was perfectly aware that not enough had been done to achieve his goal. Employee share ownership was part of a plan that would make Hadelsbanken one of the most competitive banks in Sweden.

When the family owning Tullis Russell decided to dismiss their ownership stakes, they felt the need to protect their employees. The ideological commitment behind this decision (more than other factors that lead to employee financial participation, such as privatization, problems or new company start-ups) led to the involvement of a series of subjects, such as, for example, owners, owners/managers, owners/managers/employees, employees/managers and employees.

In the Kardemir case, there was a general desire to save the factory that the well-being of the entire region was relying on. Various actors, from Chambers of Commerce to various groups of stakeholders, had stepped forward. The determination of the employees prevailed and they gained control of the factory.

Although in the distant past, the decision to make IsBank employees owners of the bank belongs to a single man, Mustafa Kemal.
Based on our cases, there is a cultural factor linking employee share ownership and corporate governance.

Should we therefore ask ourselves what is missing for a shareholder to become an owner?

The *holder* possesses an equity share. He makes an investment whose result is, logically, determined by market performance. If the employee-shareholder acts individually, his position is like that of a small shareholder. For the latter, the investment strategy comes down to two options: either holding on to the share or selling it. The choice between the two is dictated by equity-type financial considerations, in other words, the possibility of being more or less rich by holding onto or relinquishing ownership.

The *owner* is a less fatalist holder. He is fully aware that the success of his investment does not depend on market plots and intrigues. He is conscious of the fact that the strength of his investment derives from the economic power of the company he is co-owner of. He knows that the first step of any complex decision-making process begins with the owners. More than the Stock Exchange list, the owner is concerned with company information statements. The owner thus assumes responsibility; a maturity that pushes him towards promoting his investment thanks to his own personal contribution and commitment.

The equity element pertaining to ownership of the share is not therefore, sufficient for the shareholder to define himself as a (co)owner. For a holder to become part of the category of owners it is necessary for the equity implication to be accompanied by two other characteristics. The first is heterodefined and concerns the availability of rights connected to the equity share. Basically, this is the right to vote in the Shareholders' Meeting and all its repercussions. The European legislator assumes that the price paid for the share is proportionate to the right the shareholder can effectively exercise in possessing that share. The wording of the phrase implicitly admits that too often in Europe the shareholder finds it difficult to exercise these related rights[25].

The distance between holder and owner also concerns the definition of different classes of shares and access to the types of shares that make the exercising of rights associated to ownership more or less easy (capital without a vote, capital with a proportional vote, capital with many votes, etc.). It concerns access to documents and correct and prompt information, the right to ask management questions and receive motivated replies and the ability to confer or receive proxies.

The functioning of the Shareholder's Meeting is a problem for the aspiring owner. Through diffused share ownership, workers acquire the right to participate in company life and we can presume that technology will make exercising the right to vote easier[26].

Having checked the willingness to exercise the role of owner by voting (exercising of a right) in an informed and participatory manner (responsible exercising of a right), the holder-owner metamorphosis is still not complete. In fact, the second characteristic of the owner is the willingness of the subject to exercise such rights and this is entirely subjective.

Compared to the holder therefore, the owner encloses the equity element, legal status and on top of that, a behavioural attitude.

However, having created the conditions for an informed vote is still insufficient to make workers either co-owners or subjects participating in the life of the company. In the

25 Directive 2007/36/EC, whereas 3.

26 European institutions adopted concrete measures in directive 2007/36 dated 11 July 2007, regarding the exercising of certain shareholder rights in listed companies.

condition of single small shareholder, an employee denotes the irrelevance of his shareholding and this discourages active participation or the assumption of responsibility.

Small shareholders forming associations is a way of making their voice stronger. This is also due to the fact that a small shareholder could have serious expectations regarding their influence on company life if he can make his voice heard with lots of other small shareholders. Why is the idea discarded *a priori*? More than bureaucratic difficulties - which would nevertheless occur - what weighs on this is the difficulty in pinpointing and organizing a group of shareholders motivated to form an association, in other words, with common interests and fully-shared objectives. The fact that small shareholders form an association is a way for making themselves heard.

For employee-shareholders, forming an association has a specific meaning. For them, belonging to an association traditionally means being member of a trade union. This means that in share ownership models that develop to the point of becoming an integral part of corporate governance, the trade union has a strong role that leads to the triangular governance management model.

With the exception of the United Kingdom (Tullis Russell and John Lewis Partnership), trade unions are deeply-rooted and become leading actors in the functioning of a company. They are both the promoters of a culture of participation and strong actors capable of dealing with the choices of shareholders in order to grasp opportunities. They are the cradle of participatory experiences; firstly because they kept them going when they were in the early stages (despite adopting approaches that are diametrically opposed, as is the case with ENEL and Dexia) or because they supported them.

There is a recurring aspect; the share ownership of employees that influences governance coincides with a high rate of trade union membership of personnel. It is difficult to establish a causal relationship between the two. However, it seems clear that the coincidence of the two phenomena means that the trade union participatory base is the same as the body that associates employee-shareholders. This means that trade union life has a direct influence on the conduct of the organ that represents workers (associations, foundations, pension funds, ESOPs and so on).

Ownership and Voluntariness

Forming an association, expressed fully by being an owner, has another implication which affects the concept of voluntariness. Maturing a responsibility means fully assuming the decision to become shareholder. Employees can be tempted, helped or forced to make this decision but, without doubt, it has to be voluntary.

The participatory element becomes a fundamental step in the metamorphosis of the holder. Having become an owner, he is part of a collective. We should therefore, not underestimate the individual predisposition of the employee-owners towards share ownership and gaining awareness of being part of an organized community with a corporate objective; the concept that achieving a corporate objective also depends on the continuity of his participation in collective life.

The collective organism will acquire an autonomous and independent purpose that promotes the decision to belong, but makes that purpose independent of the desires of the individual. The collective organism needs individual membership in order to maintain its strength - and along with this its prerogatives and role - and not see it disappear. This is a virtuous circle of values because, whilst becoming part of an association is an individual and responsible choice (it is voluntary), a participatory status imposes a responsibility towards the collective that translates into obligations of permanence (in other words, it conditions voluntariness).

At Handelsbanken, participation in Oktogonen is not compulsory, but an intrinsic part of the status of bank employee. When questioned, all those interviewed replied: why should an employee choose not to participate?
At JLP, partnership is basically an intrinsic condition in the employment relationship.
At BPM, employees do not have to be persuaded to purchase shares and become members of the association "Amici della BPM". On the contrary, simply providing information on the role of employees in governing the bank was sufficient to convince over 90% of BPM employees to take part in collective share ownership programmes.

The prospects for the success of collective share ownership are a discriminating element for implementing the participatory process and keeping it alive. Whether implementation is determined by an enlightened man (Wallander, Ataturk, Mr. Erdal) or a traumatic event (a corporate crisis such as at AerLingus, Eircom and Kardemir, transition to market economies like in the Hungarian cases, necessary domestic entrepreneurial training such as in the patently clear examples of the companies SLL and SAL, members of CONFESAL), its continuity depends on the promotional actions supported by collective subjects, such as the trade unions (this is common to the cases studied in Italy, Sweden, Turkey and Ireland), or entrepreneurial associations (CONFESAL) that promote the original spirit. Only in France does public power legally press for the dissemination of employee share ownership schemes.

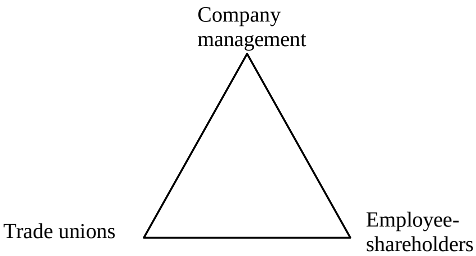
In many of the cases studied, new employees did not have a choice regarding their involvement in ownership, with all that this means in terms of involvement in governance. This is now part of the culture of the organizational unit they belong to.

Collective ownership and good governance. The question of responsibility (clusters 2bis and 2ter)

In some cases, workers exercise control or a relevant influence with minority capital shares: 10% in Handelsbanken, about 2% in BPM, 42% in IsBank, 15% in AerLingus and 35% in Eircom. In other cases, they hold 100% of the capital or the right to vote, such as in Tullis Russell and the John Lewis Partnership. At other times, minority shares can lead to a form of employee participation in company management bodies (the threshold in Dexia is 5%). In others, the share represented by employee-shareholder organizations is not sufficient to obtain any role in governance (e.g. ENEL).

Empirical evidence suggests that share ownership could not impose itself as a strategic decision by employees in competition with institutional investors. It demands rules that favour employee ownership above other pretenders. These are not imposed rules, but are generally the result of statutory choices. These are forms of alteration of the proportionality of corporate control that however, derive from clear and transparent independent corporate choices. Employee-shareholders can be favoured in two ways: as the beneficiaries of new share issues and through the creation of profit-sharing schemes to increase employee share ownership or limits to the accumulation of capital valid for subjects external to governance. When this advantage is not offered, as happens at ENEL, there is little hope of success.

In the cases analysed, the descriptive breakdown of corporate governance in a company with employee-shareholders can be illustrated by a triangular relationship that centres on company management, employee-shareholders and the trade unions.



This breakdown applies to all the cases studied, with the exception of the United Kingdom (Tullis Russell and the John Lewis Partnership). It is at the potential stage in the cases of DEXIA, ENEL and in particular, in the French experience. It does not seem to be a model applicable to small and medium-sized enterprises.

In France, exceeding the ceiling of 3% of the holding of company shares by employees would impose the appointment of at least one director by the employee-shareholders. In fact, the tendency is to reproduce a triangular model of governance. Exercising this right would imply a participatory mechanism that would put employees in a position to agree on a name or a series of names to be included in the company management team. Wherever this were not possible, the right could be exercised by an employee savings fund called *Fond Commun de Placement d'Entreprise* that holds shares in that company. Usually with a contractual origin, these funds enjoy democratic management in which participating workers are represented in the administrative organ by their trade unions.

It is interesting to see how in our cases, somewhere in the governance process, players (main shareholder groups) feel the need to introduce forms of democratisation that aim to put shareholders on egalitarian positions regardless of the quantity of shares they control.

For this purpose, in some cases a diaphragm between the shareholders and the Board of Directors is set up.

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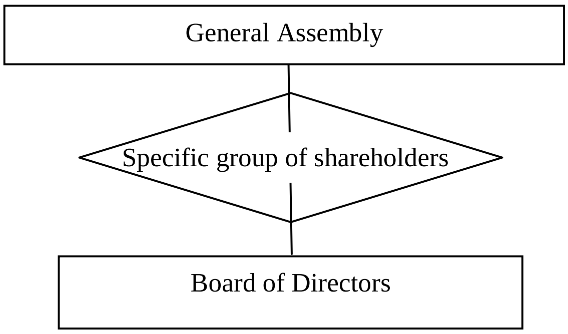

The Nomination Committee in Handelsbanken, the Share Council in Tullis Russell and the Central Representation Council in AerLingus are an example of this. They play very different roles and have very different competences, but we have noted that such bodies decide on the basis of consensus. What they do have in common is the idea whereby the weight of the stocks held by each shareholder is not important. Only at BPM, does the "one man-one vote" principle become the dominant form of governance (cooperative regime). It is therefore, very difficult to draw common conclusions on how shareholders are represented in the committees and groups stemming from the Board of Directors.

The existence of a trust or an entity (shareholder associations, pension funds and suchlike) collectively holding employee shares can restrict the range of events concerning restructurings and mobility[27].

Often, employee-shareholders do not like such events. Normally, corporate governance is the result of a fragile balance of elements, including national legislation and codes and practices that would be difficult to reproduce in different environments. Furthermore, the EU area is not uniform, especially as far as industrial relations and corporate governance are concerned. In general terms, we can assume that the dominant group of owners will be unlikely to accept a shift in the control of the company if this should imply a dilution of power.

This is evident in all cases in which employee share ownership followed a privatization process and employees put an end to a series of speculative or hostile takeover bid attempts (Eircom is a case in point).

In the specific case of employee share ownership, we have seen that companies develop specific corporate cultures that are (even with regards to large groups) well-rooted in the territory in which they operate. These different cultures also lead to socially advanced behaviour in the way business is conducted.

Mobility would thus mean a change in the nature of the business: when mobility implies a denaturalisation of corporate governance and change can become too uncertain a challenge for everyone and too costly a risk (a clear example of this are Tullis Russell, Handelsbanken and BPM). If we refer to our cases, we can state that employee share ownership becomes a

27 Here we refer to the range of events underlined in chapter VI of the Report of the High Level Group of Company Law Experts, cit. In a nutshell, the group of experts describes various types of corporate transactions like a change in company head offices, mergers, acquisition of subsidiary companies, events concerning the corporate capital.

factor of resistance to mobility, not necessarily because employees are reluctant to change, but simply because company sustainability is at stake. Of course, this is only true when change can alter the ownership structure and modify corporate culture. BPM is an emblematic case.

Sometimes, restructuring and change are an option to be considered when companies face difficult situations, even if owned by workers. Here, the sense of responsibility plays a fundamental role; employees and their representatives must accept change and reorganization even when it has costs for the workforce.

What we have learned from our cases is that employees are not "obstinate" owners. When the company (let's say, the business) shows evident shortages and employees are not in the position to introduce changes, they can decide to step back and end their ownership. This should also justify the fact that surviving cases are normally successful ones. Previous studies showed that employee share ownership plans were triggered by companies to deal with difficult situations, but they did not last long once the crisis had passed[28]. This is supported by the widespread opinion that the "exit strategy" is the natural attitude of employees (see the Kardemir case, but even at AerLingus the experience seems to be constantly under discussion).

As mentioned, changing from being a holder to an owner is a long cultural process that fades quickly. We can assume that the reiterated concept of responsibility recalls the idea that employees are pretty aware of the business they are employed in and secondly, they will be likely to opt for an exit strategy rather than consciously condemning their company and their jobs.

To summarize:
- dominant groups of shareholders would be unlikely to alter the combination of factors that have determined their dominant position.
- encouraging a direct involvement of stakeholders in company ownership has the direct effect of enlarging the composition and the secondary effect of inducing a lower risk profile in corporate governance (this is well represented in the three banks).
- one can assume that when employee-owners gain a space in corporate governance, the business will be well-rooted in the territory and less inclined to use "mobility" for speculative reasons or to seek cheap labour.
- responsibility becomes a two-way concept that the company and its management also have to stick to.

Responsibility and control. New corporate culture for managers and trade unions

The relationship dynamics of this triangle are outside the traditional and formal framework of social dialogue. In the companies studied, we saw that the parties concerned chose to base

28 These aspects have already been analysed by SindNova in its publication "Lavoratori e capitale di impresa in Europa" ("Workers and Corporate Capital in Europe"), Quaderni SindNova no.18, Edizioni Lavoro, Rome, 2001.

their relationships on the balance of independent rules and practices that history has rendered strong. That's because history has made them part of the organizational culture. Each case is an extremely unique experience. As well as the triangular relationship structure, what they have in common is constant reference to the concept of "responsibility".

Management whose benchmark shareholder is organized labour must have precise cultural connotations. In this type of company, management has to dialogue with owners that are different to those traditionally operating on the financial markets. These are owners who share in the destiny of the company, are constantly present in the workplace and are particularly invasive. Furthermore, employee-owners assess management on the basis of parameters that are not orthodox compared to the traditional financial culture. Attention to the return on capital and the creation of profits exists, but the performance of the company is assessed along with other variables such as the sustainability and sociality of labour, the consolidation of a corporate culture and the optimization of the relationship with employees, clients/users and the territory.
Therefore, along with other fundamentals of good governance, management training is a crucial aspect for its sustainability. Management's orthodox cultural background, acquired through educational qualifications, management training and experience in various companies, rarely addresses the needs of these companies. This is why management is often formed within the company unit or selected from the territory on which the company operates (some examples: Handelsbanken selects top management within its own staff, BPM finds administrators among the most qualified professionals in Milan, Kardemir has co-founded a university).

The employee-shareholder seems to be more reassured by the expertise of company managers, their compliance to the corporate cultural model and their ability to ensure corporate performances maintain a high level. Although important, the salaries paid to management, which are generally entrusted to a special committee of the Board of Directors, are never disputed by employee-shareholders.

Responsibility is a challenge for the trade unions too.

A typical objection expressed by those representing corporate management is that the trade unions, by their very nature and especially in Europe, are supra-company and generally sector unions and are entrusted with representing the interests of workers beyond the company dimension.
The conflict of interest is expressed properly here. The trade union-shareholder continues to assess the consolidation of a production sector or territory. The company is only a fraction of its field of interest. Furthermore, trade union management builds professional relations with direct competitors and has access to potentially sensitive information.
For this reason, some corporate actors instinctively consider trade unions in conflict with the position of dominant shareholder in a single company (an opinion disproved by the previous paragraph).
The less the rules of the game are formalized, the more good governance will depend on the level of responsibility a trade union manages to express. When governance rules are informal, there are higher risks of deviating from correct practices.
Company effectiveness is at stake and not, as many have presumed, the efficiency of the

negotiating function of the trade union. The most likely outcome of that would be the end of the experience of participation rather than lower labour salaries.

A fair solution could be the following. The company trade union dominates the employee-shareholder body. The decisions of employee-shareholders are taken in the exclusive interest of the company. Through trade union participatory mechanisms, employees-partners-shareholders go beyond their particular interests in the national trade union. Statutory democratic procedures operate and mediate interests within the organization. All fine, so far.

The problem arises when, due to the importance of a particular company context, the national level tends to become interested in facts concerning that specific company. Often the empirical importance of companies, such as BPM, HB, IsBank and the Irish cases, highlights a strong influence on the national level, sometimes even the federal level, in the fortunes of companies with employee-shareholders.
The trade union officials that operate in employee-shareholder associations must be independent of the trade union leaders that represent sector or supra-company interests.
Some small formal stratagems may solve the problem. For example, management of the organism representing employee-shareholders (that express the opinion of the shareholders in the Shareholders' Meeting) must be independent of national management.

According to the protagonists of the cases analysed, trust can only be built through the daily conduct and real independence of local trade unions from national trade unions, in particular in choices that concern the setting-up and strategic life of the organism representing employee-shareholders. In this case, the most effective form of control is the participatory base that is heavily involved and well-informed. Employees, especially if they are shareholders, naturally concentrate on the success of their company and do not tolerate deviations or distractions by decision-makers, whether they be managers or owners and whether they be independent or the expression of the employees themselves.

Employee control in SMEs

The number of small and medium-sized enterprises in Europe is the highest in the world and in many European countries they represent more than half of the whole economy. In France, 46% of workers are employed in enterprises with less than 50 employees. We quote France, as the French strategy on employee share ownership openly aims to disseminate employee financial participation in SMEs.
In SMEs, employee share ownership meets the concept of entrepreneurship. However, the French trade union organizations are mostly focused on investment diversification and cannot see how employees could be protected against the risk of losing their capital and savings. They consider the cooperative model the most suitable for helping employees to become owners of the company.

In some way, in France social partners cannot see employee ownership in SMEs as a strategic option for limited-liability companies. In other cases in Europe, the situation is different.

All the ESOPs in Hungary are established in small and medium-sized enterprises (with less than 250 employees, except for the railways which have more: 400).
The successful case of Herend, a porcelain manufacturer, was the first. Other successful cases are: UVATERV, a company in the construction sector; MAV Bombardier, railways, SOLVENT, a trading company in the meat industry.
Herend was a workshop for employee share ownership schemes. It was the place where the idea was generated and it still remains an outstanding example. One of the reasons behind the choice to involve employees in corporate capital was that the potential of the company was based on the skills and know-how of the people and not on the technical equipment. The other reason was that the company had recorded positive performances for a decade. There were many potential buyers and that is why, when trade unions, both local and national, showed the intention to join forces and proceed with the buy-out, political support suddenly emerged. At that time, all 1,600 employees were pleased to participate in the buy-out. In 1992, when the ESOP started, in Hungary there were around 300 ESOPs and the HEA association had 104 members. Today, there are 32 members and 52 ESOPs. There are several reasons behind this: capital concentration in the hands of managers or external investors; the reduction of the number of ESOPs because of their non-collective structure, which allow individual employees to sell their shares; the end of the business. Many consider this experience at the end of its cycle.

The Hungarian case shows that employee share ownership can help promote change in SMEs, especially in labour-intensive operations needing a qualified workforce.
However, we have also learned that company restructuring is too limited a motivation to make employee share ownership last. Without a wider political consensus, such experiences will slowly fade away. Employee financial participation in SMEs needs legal and economic support.

What is relevant to the Spanish experience is that all the employees of SAL and SLL (workforce-owned companies) strongly participate in company governance thanks to the spirit of the business and the legislation ruling the business.
Legislation intervenes in several areas of company life, such as the right to preferential acquisition, preferential rights in capital increases, reserve funds that cannot be shared out and that allow shareholders to join and leave, restrictions on the number of non-shareholder employees, restrictions on how many company shares can be held by non-employees and by individual shareholders, etc.
All this gives company governance a specific identity. The law imposes the following constraints on company governance (elements that strongly influence the structure and behaviour of owners and management):
- the majority of corporate capital should be owned by employee-shareholders as a whole who personally and directly work for the company against payment and who are on long-term contracts for indefinite periods;
- establishing a limit to the maximum amount that any one shareholder can own, normally 33%;
- the existence of two types of shares or shareholdings dependant on whether or not the owners thereof are company employees;
- preferential right of acquisition and transfer of shares or shareholdings owned by workers;
- setting up a special reserve fund for the purpose of making good any losses incurred.

These all are key points which, along with tax benefits, contribute to promoting and developing this type of company. Companies must comply with the above-listed conditions in order to maintain their status as owner-employees. Losing this classification may force the company to pay back all tax benefits received.

For this reason, managers are always keen to preserve and maintain all conditions giving them the possibility to benefit from such specific legal status.

Latvia and Croatia are small countries with a weak economy. Therefore, employee financial participation is still an unexplored tool. However, the social partners perceive the importance of such schemes, even in a production system where domestic capital is mainly concentrated in SMEs.
The notion of financial participation is new for Latvia and its dissemination began after the PEPPER report was published. In 2007, the social partners in the tripartite committee introduced the idea of Employee Financial Participation (EFP). A working group was established and because of this initiative a number of amendments were introduced in the tax system to encourage employee financial participation. However, the measures envisaged are insufficient. Beside taxation, which is the main obstacle, a further problem is a lack of understanding of the system and the poor long-term strategies of the enterprises.
In Latvia the conditions which may promote EFP in the current situation are: the profit tax rate that is lower than the personal income tax rate; capital gains are not taxed; a need to reduce government spending (possible field of application of EFP); under circumstances of low salaries and growing inflation; need to give workers financial support through salary measures.
Conditions which, on the other hand hamper the implementation of EFP in Latvia are as follows:
1) Existing legislation, which is insufficient to promote EFP. In fact there is no legislation that is specifically dedicated to EFP. The laws enabling forms of EFP refer exclusively to employee share ownership.
2) The country's budgetary constraints, which force the government to make economic decisions focused on the short-term to increase revenue.
However, there are also aspects that refer to the enterprises and employees that hamper the implementation of employee financial participation, despite the positive attitude shown by employers and trade union organizations. In Latvia, the Tehnika case was studied as a paradigm of an employee share ownership scheme; initially the scheme helped the company to become successful on the market, but once the business was stable, the scheme appeared to lose its very *raison-d'etre*.
Lessons to be learned:
Employee share ownership in SMEs is possible. Financial technicalities are not an obstacle for sustainable ownership schemes.
On the one hand, they can help companies to overcome difficult moments, but they need a favourable legal and tax regime if they are to last.
The promotion of employee share ownership in SMEs can be more successful if matched with social objectives (promoting local entrepreneurship, helping the income and employment of disadvantaged categories, supporting small businesses based on highly-qualified human resources, etc.)

SMEs need a comprehensive institutional support to make employee share ownership stable and sustainable. Such institutional support should be a combination of legal measures, tax regimes and positive policies.

Tax regimes raise two types of problem:

- Tax allowances to employees often lead to aid to companies. Tax regimes can prove incompatible with EU legislation on state aid.
- Countries with fewer resources cannot afford to promote PEPPER instruments based on tax benefits.

In terms of governance:

- Workforce-owned companies should be led by managers and not by employee-shareholders.
- The triangular model of governance is not applicable and trade unions will refrain from playing a role in governance.
- Renewing the ownership structure (replacing former employees with new entries) is a factor of success for the company.
- Trade union rights will be guaranteed and collective bargaining will be present (unlike what normally happens in companies of similar size).

PART III

CONCLUSION

Some final thoughts

The study carried out by SindNova and its partners starts from empirical evidence and then offers grounds for drawing up a more general assessment of experiences of the governance of companies dominated or strongly influenced by employee-shareholders.

We focused our attention on the ownership side and have thus shown how employee involvement in company equity spreads its effects to company governance and culture.

Compared to traditional forms of employee involvement normally promoted in the European social model, we have highlighted a prevalence of autonomy and responsibility. Governance mechanisms in which employees have a role are not constrained in hetero-defined rules, but focus on rules freely chosen by the players that are protagonists of company events.

Keen to respect company law, good governance rules and constraints imposed by the culture and environment in which they operate, company partners (shareholders) shape their partnership to run the business as successfully as possible.

Employee share ownership does not necessarily mean to take over the business, but the desire of employees to have a voice (assume responsibility) on ownership and start dialoguing with capitalists. At Handelsbanken, Dexia, IsBank, BPM, Eircom, AerLingus, Kardemir and Total, employee-shareholders (and often the unions themselves) share ownership with other groups of shareholders. The aim is not to replace capital, but to have a role where decision-making starts and where the supreme interests of the company and its employees are at the stake.

Where this happens, a new partnership between labour and capital will emerge and thanks to enhanced internal cohesion, the company will be more competitive and fairer with its employees. This theoretical principle has been conveyed into concrete terms by Jan Wallander, former CEO of Handelsbanken. Employee share ownership was one of the ingredients of the bank's far-reaching reorganization in the 70s.

The ETUC mentioned renewed partnership as a factor of competitiveness for modern companies on the global market. Empirical evidence shows that such a partnership, when based on employee share ownership, is the result of the cultural maturity of all the actors involved. In this case, it is likely that company governance reproduces a triangle pattern occupied by management, employee-shareholder and trade unions.

There is something valuable in the decision of employees to organize in order to have a voice. It leads us to think that lawmakers should support and encourage employee financial participation; for instance, by offering legal measures and tax regimes that offer employees a concrete opportunity to be proactive shareholders. However, the lawmaker will leave actors free to decide to start a new partnership and, if they wish, the lawmaker shall refrain from imposing predefined models, but will leave partners free to tailor partnership rules to their actual needs.

Individual or collective ownership?

Normally, in public limited companies (or limited-liability companies) controlled by employees, employee shares (or fractions of capital) are held by an entity that could be a pension fund, an Anglo-Saxon style trust, a foundation or an association of employee-shareholders (see table 2 in the annexes). Employee capital can also be divided and held by different entities. In this case, each company is a law unto itself. The independence of

company offices leads to various options. Obviously, the broader the range of options, the more efficient the final solution.
Profit-sharing is a recurring theme. Sometimes it fuels employee share ownership, at other times it simply fuels the sense of belonging of employees. It is neither bargained nor negotiable and is undoubtedly an additional element that does not influence the setting of salaries.

One of the possible solutions is individual share ownership alongside collective ownership, even if this is more probable in small and medium-sized enterprises or in companies not listed on the Stock Exchange whose shares cannot be transferred or can only be transferred under the control of the company itself.
Tax regimes also influence the form of governance. In the full description of the cases analyzed it is possible to see operations on company equity and loans aimed at maximizing profits. This makes life more complicated and sometimes influences the allocation of shares to employees and their maintenance.

Given such complexity, it is evident that governance is also the result of historical and environmental conditions; all companies studied are deeply-rooted in the territory and represent a piece of the culture of the area in which they have been established.

During the first stage of our study some, above all from the trade union side, had pointed the finger at the potential conflict of interest of employees (namely their representatives) in the dual role of owners and bargainers. They also raised the issue that employees-owners would be overexposed as their income and professional life already depended on the success of the business.
Both objections can be disproved by the cases studied. Our empirical evidence shows that labour is remunerated above the average for the sector and main competitors. Overexposure is real, but can be managed and reduced to levels of risk that employees find totally acceptable (and accept). However, it is necessary in share ownership to have a clear idea of the risks involved and the fact that these may also open the way to new opportunities.

However, we have also learned that new opportunities pose a difficult challenge. Employees and trade unions are not themselves immune from capitalism diseases. As capitalists, the weakest point we have revealed is that trade unions tend not to formalize the choices (independent) that govern relationships between themselves and the body representing employees-shareholders. The less the rules of the game are formalized, the more good governance will depend on the sense of responsibility a trade union manages to express. Here overall company efficiency is at stake and the most likely outcome of any deviation from good governance will be the end of the employee share ownership experience.

The matrix of employee involvement in company governance was the backbone of our project. We can assume that employee financial participation schemes based on equity ownership and profit-sharing do not alter the dynamics of the system of industrial relations, but on the contrary exalt its characteristics.
In concrete terms, this means that traditional forms of participation (cluster, consensus-building) are reinforced. On the contrary, it cannot be stated that the adoption of employee financial participation results in the establishment of traditional forms of employee

participation.
Collective bargaining becomes more efficient. In the most advanced experiences, more stable collective bargaining leaves room for human resources to concentrate on qualifying human capital.
In terms of sharing risk, employees have developed different strategies in dealing with owners. What is certain is that if ownership gains power in governance it must become a strategic interlocutor for employees too. Equity participation is a well-known experience in Europe. Even though statistics do not permit quantification in EU27, it is evident it is a growing phenomenon[29].
The experience of this project shows that real involvement in company governance is something more than the simple fact of holding equity shares by employees. A holistic approach is necessary that can take into consideration these three main elements:

- to favour the access of employees to company equity (tax regimes, savings plans, share granting schemes, etc.).
- to modernise company law in the direction of improving the ability of minority shareholders to have a voice (stakeholder rights, improving protection and opportunities for minorities in the General Assembly, transparency of governance and full access to prompt and complete information, etc.).
- to promote an employee ownership culture, exploiting the potential of social dialogue.

Some prejudices expressed by the social partners on employee share ownership originate in an attempt to consider the large-scale consequences it can have. Indeed, our cases do not allow us to affirm that workforce-controlled companies always perform better than their competitors. However, in the light of the experiences studied, we can state it is possible to build a fully successful social-oriented business thanks to open governance in which employees exert (even) a dominant influence. This is already something; it is a starting point.

How do unions experience their condition as new capitalists?
Once involved in corporate capital, unions can develop a strong sense of responsibility. As key stakeholders, trade unions are able to orientate governance in a positive way just as the concept of open governance intends. Once equipped with defences against capitalism diseases, trade unions add a level of dialogue with the financial market and condition the ways in which management responds to the financial market. Thus leading management to opt for long-term strategies and keeping companies away from speculative operations.
Trade unions can represent a new way to be investors. They will provide managers that they have appointed with parameters or priorities that may differ from orthodox financial culture. This means that company management (accountable to shareholders) will also adopt new tools and methods to meet the investment strategies expressed by their benchmark shareholders.
With regards to privatization, it seems clear that pushing employee share ownership until it gives employees a dominant influence in the governance of privatized companies has the

[29] The EFES observatory estimates 9.1 million employee-shareholders in the Annual Economic Survey of Employee Share Ownership, 2008. It is a growing phenomenon even if the current crisis has reduced the value of shares held by employees: "because of the crisis, the value of shares held by employees has dropped from 258.3 billion to 240.2 billion euro, marking a decrease of 15.2%. However, this is still much more than the 2062 billion of the previous year. In relative terms, the share capital of employees forms 2.63% of the risk capital structure".

effect of reducing the number of events that can concern the company itself.
If the need for liberalization is added to this, it can have a dual effect; it makes liberalization slower, but at the same time a qualified ownership is constructed that can orientate the reorganization of the sector in the interest of all those involved.

A final remark on small and medium-sized enterprises. It is undoubtedly true that small and medium-sized enterprises do not need governance mechanisms because the owner decides. This means that when employees hold part of the equity they are automatically part of the decision-making process, without the need for mediation.
The methods and motivations for an employee buy-out have already been studied. Our study shows that despite the simplest governance systems, employee equity ownership in SMEs deserves complex legislation. Company law should respond to the specific needs of companies owned by employees in terms of share (or equity) trading between employees and govern the setting up of funds to compensate the risk or facilitate exiting the crisis imposed by the market.
This may be worthwhile if we consider that small and medium-sized enterprises drive employment and social inclusion, especially for disadvantaged categories.

In conclusion, those who carried out this study interviewed social partners throughout Europe, not in order to voice their position, but to give a solid anchorage to the empirical analysis they carried out.
The recent economic crisis that occurred during the study, re-launched employee share ownership as a governance tool in company restructurings. Every crisis brings about change. Economic difficulties have highlighted the social and institutional fractures in the "global village". Large corporations were dominating global economies and governance theories had failed to protect production from speculation. In the near future, workers and their trade union organizations must also be called upon to play a role and promote capitalism models in which production and investment capital are finally linked by governance mechanisms based on transparency, sustainability and above all, the assumption of responsibility by all actors that participate in production. Employee share ownership can make these corporations virtuous, consolidating employee participation and compensating for the assumption of responsibility.

In more general terms, the belief emerges in our cases that employee share ownership can make the concept of social market economy tangible. There is also awareness in the trade union world that innovation must concern corporate governance on the whole, in order to anchor production to its social imperatives. Corporate governance is the evolutionary space in which industrial relations can mature behavioural attitudes aimed at improving (not so much company decisions, but) the attitude of the company in making better decisions. In this case, "better" means the renewed ability of the company to satisfy the obligation of social utility that determines the protection of private initiative in modern democracies.
Therefore, corporate governance is a complex issue and its effects extend far beyond the traditional scope of industrial relations. For workers to be able to influence corporate governance they have to use new tools and assume new responsibilities: what is needed is innovation in industrial relations.

For industrial relations, employee share ownership is an innovation that focuses on human

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behaviour and proposes various different relationship categories. It is a tool that focuses on man because this is where the worker and owner coexist. It interrogates man on what has to be done and exalts the assumption of responsibility. A company whose employees share in its profits, is a company that has decided to trust people and that in exchange receives internal cohesion from the human factor that determines its success.

ANNEXES

Table one Profiles of the companies studied

Company	Country	Sector	Size	Profile
JOHN LEWIS PARTNERSHIP	UK	Retail	Large	JLP runs a business which includes 27 John Lewis department stores, 201Waitrose supermarkets, an online and catalogue business, a services company called Greenbee, a production unit and a farm. All 69,000 permanent staff are partners who share the benefits and profits of the entire business. The JLP is one of the UK's most profitable retailers - sales grew by 6.3% and pre-tax profit by 18.7% during the year to 27 January 2008, with a turnover of nearly £6.9 billion in 2008.
ISBANK	Turkey	Bank	Large	Isbank was set up as the first private bank in Turkey after the independence of the country in 1924. Today it is a publicly traded firm (shares are listed on the Istanbul (ISE) and London Stock Exchanges) and the bank's market capitalization is the fourth amongst private corporations in Turkey (end of March 2009). Isbank Complementary Pension Fund has invested in company shares, collectively administrated for the benefit of all 21,000 Isbank employees and (in addition) pensioners through a specific trust.
BPM	Italy	Bank	Large	Based in Milan, Cooperativa Banca Popolare di Milano (BPM) is a bank with offices throughout the country. Established in 1865, BPM ranks among the 5 major banks in Italy with 97,796 shareholders of which 47,000 members of the cooperative. Its core business is retail banking where private individuals account for about 90% of the 1.2 million customers. SMEs are the bank's main target market. As a modern financial group, BPM offers several financial services, from retail banking and insurance to business-to-business services. They have 756 outlets (726 agencies). In 2008, BPM had 8,588 employees, of which only 210 were temporary.
ENEL	Italy	Energy production and distribution	Large	ENEL is Italy's largest power company and Europe's second listed utility in terms of installed capacity. It produces and sells electricity and gas across Europe, North America and Latin America. Further to the acquisition of the Spanish utility Endesa, with its partner Acciona, ENEL is now present in 22 countries with approximately 83,000 MW of generating capacity (as of 30 September 2008) and serves more than 52 million electricity and gas customers. In 2007, ENEL employed 70,500 workers, about 15,000 more than the previous year. The increase in the number of workers was due to the international expansion of the group. In 2006, trade union density was 70%.
HANDELSBANKEN	Sweden	Bank	Large	The bank is a public liability banking company. It can be classified in the category of banks that operate on a global level. It offers a full range of financial services in Sweden, Denmark, Finland, Norway and Great Britain. Handelsbanken's concept is to offer private and corporate customers a full range of financial services and a high level of services based on the customer's requirements and personal relationship. Business operations are highly decentralized. This means that all business decisions concerning individual customer relationships with the bank are made by the local branch. Over the years, the number of local branches has steadily increased with the aim of keeping the bank well-rooted in the territory. In December 2008, Handelsbanken had approximately 11,000 employees in 22 countries.
CONFESAL SAPO AND SLPO	Spain	All	SME	SAPO and SLPO have specific governance rules and benefit from special tax regimes. They represent a rate of GDP ranging from 3% to 4%, employing 25,000 people. They account for about 4% of the total number of registered companies in Spain with more than one employee. Spanish workforce-owned companies are associated in CONFESAL.
TOTAL	France	OIL	Large	The fifth listed integrated international oil company in the world and main actor in the chemical sector, Total is present in all five continents. It operates in over 130 countries and has almost 97,000 collaborators. Total exercises its activities in all sectors of the oil chemical field.
AERLINGUS	Ireland	Air transport	Large	AerLingus is a leading low-cost, low-fare Irish airline primarily providing passenger transport services. AerLingus is listed on the Irish and London Stock Exchanges, under ticker EIR1 on the Irish Stock Exchange and ticker AERL on the London Stock Exchange.
KARDEMIR	Turkey	Metal	Large	The Karabuk Integrated Steel Mill is a public company listed on the stock exchange. The factory is the oldest steelmaker in Turkey. Over 3,500 employees currently work at the factory, the major employer in a region with a population of nearly 250,000. Since the buyout in 1995, Kardemir has undertaken major new investments in infrastructures and machinery. The change in production technology has brought a reduction in the cost of steel production. Sales increased some 55% in the first 4 years and much more in the following years.
TULLIS RUSSELL	UK	Paper	Medium	Tullis Russell, founded in 1809, is a manufacturer of high quality printing grades of paper and cardboard, dealing also with the manufacture and distribution of other paper products for specialist uses. The company employs nearly 800 people at three sites in the UK and one in South Korea. It has annual sales of around £136 million. Tullis Russell is doing significantly better than its competitors, who are all suffering, with most losing money.
EIRCOM	Ireland	Telecom	Large	Eircom is the principal provider of fixed-line telecommunication services in Ireland with approximately 2.6 million fixed-line telephone access channels in service. Its mobile division, Meteor, which was acquired on 23 November, 2005, is the third largest mobile operator in Ireland. As of 30 June, 2008, Meteor had approximately 983,000 mobile subscribers. The company faces a host of challenges in the newly-deregulated Irish communications market; once a protected state-owned phone monopoly, Eircom now has to deal with private competitors for the first time. It has 7,200 employees.
DEXIA	Belgium	Bank	Large	The Dexia Group is a European credit institute that as of 31 December 2008 had 36,760 collaborators in 37 countries, although its presence mainly centres on Europe. Most of the group's collaborators (around 94%) operate on the basis of open-ended contracts; an indication of great occupational stability. Also as of 31 December 2008, the bank's own funds amounted to 17.5 billion. The activity of the group focuses on the public sector with complete banking and financing solutions offered to local operators in the public sector. Dexia is also present in the retail banking and commercial banking sectors in Europe, mainly in Belgium, Luxembourg and Turkey.

Table two Key indicators of company governance and employee financial participation

Company	Economic performance	Employee ownership	Who owns the shares	Position in the GA	Composition of the Board of Directors	Employee reps/TU officials on the Board	Chairman appointed by employees	Attention to the independence of managers and other good governance standards
John Lewis Partnership (UK)	Positive	100%	Trust	Yes	5 appointed by employees 5 appointed by the Chairman 2 independent	No	Yes	Explicit
ISBANK (TK)	Positive	42%	Pension Fund	Dominant influence	7 appointed by the pension fund 4 by the Peoples Party	No	Yes	Implicit. Greater attention to the quality of the managers.
BPM (IT)	Positive	2%	Employees	Dominant influence	Currently employees appoint the Chairman and 12 Board members. 8 are shared by the 2 lists of minority shareholders.	Yes, through the association "Amici della BPM".	Yes	Bank-specific governance rules. Attention to the competence of the managers rather than the formal measure of independence/enforceability
ENEL (IT)	Positive	About 0.2%	Employees	Minority group	No influence	No	No	Scarce influence on the CG
HANDELSBANKEN (SE)	Positive and better than competitors	10.2%	Foundation	Dominant influence	Takes part in the nomination committee with the 4 main shareholders	Yes. 2 reps through the Oktogonen Foundation	Not directly	Greater attention to the quality of the managers.
CONFESAL SAPO and SLPO	Generally positive	50%+1	Employees	Dominant influence	Appoint managers.	No	Yes	No specific rules apply to small and medium enterprises.
TOTAL	Positive	3.85% shares = 7.40% voting rights	Individual employees or employee investment funds	Minority group with special rights granted by the law.	1 appointed by the employee investment fund (FCPE TOTAL ACTIONNARIAT France) + 2 observers from the Works Council.	Yes, as observers.	No	According to French codes of governance AFEP-MEDEF.
AERLINGUS	Not declared	12.59% + 4% pilots and cabin crew	ESOT	Relevant influence	2 out of 15 appointed by the ESOT.	ESOT reps (considered employee reps).	No	Neutral on the salaries and status of managers.
Kardemir	Positive	51% initially now probably 10%	Employees directly	Relevant influence	Originally four members out of 7. Today none of the managers is appointed by employees.	No. Trade union influence remains as heritage of the past experience.	No	Neutral
TULLIS RUSSELL	Significantly better than competitors	100%	30% individuals, 42% Employee Benefit Trust, 28% Russell Trust	Dominant influence	All members of the board.	Employee representatives in the Share Council exercise a supervisory role and veto power on some strategic decisions of the board.	Yes	Influence on several governance issues including composition of the board, wages policies, etc.
EIRCOM	Not positive	35%	ESOT	Relevant influence	2 members out of 7. The vice-chairman (a former unionist or with a close relationship with unions) is a businessman.	ESOT appointed people are not considered employee reps.	CEOs have to be approved by the ESOT, but not through the power to veto. ESOT appoints the vice-chairman. Currently the CEO is an ESOT man.	On such a small Board of Directors, after delisting, it is not actually meaningful to distinguish between dependent and independent.
DEXIA	Positive until 2008. Bailed out during the crisis.	2.06	Investment fund	No influence	Currently none. 1 rep if employees hold at least 5% of shares.	-	No	-

Table three Key elements of employee share ownership schemes in the companies selected

Company	Employee-shareholders as a % of the workforce	Employee share-ownership schemes fuelled by…	Owned directly by employees or through a collective body	Name and nature of employee- shareowners body	Voluntarism (or cases in which voluntarism is meaningless)	Trade union density	Influence of the unions on governance
John Lewis Partnership	100%	-	Trust	John Lewis Partnership Trust Limited	No	0%	None
ISBANK	100%	Pension scheme	Pension fund	IsBank Pension Fund	No	Almost 100%	High
BPM	Almost 100%	Share allocation to employees (currently suspended)	Directly by employees but via membership of an employee-shareholder association.	Association called "Amici della Banca Popolare di Milano".	Yes, a small investment is needed to exercise a vote. Almost all employees decide to buy shares.	Almost 100%	Very high
ENEL	0.2%	Allocation of shares to employees.	Directly.	A.Di.G.E. promoted by CISL	Yes	About 50% in Italy.	Very low
Handelsbanken	100%	Profit-sharing.	Foundation.	Oktogonen Foundation.	No	75%	Very high
SAPO SLPO	At least 50%+1	Special regime for employee-owned shares.	Individuals.	-	Yes	Higher than the average for SMEs in Spain	None in each individual company. Support the business model represented by CONFESAL.
TOTAL	Almost 100%	Profit-sharing and investment schemes.	As part of different investment plans and through the FCPE (*Fond commun de placement d'entreprise*)	FCPE FRANCE and FCPE International	Yes	-	Low
AerLingus	Almost 100%	Profit-sharing	ESOP	ESOP Trust Limited (ESOT)	Yes (even if the profit-sharing scheme limits voluntarism)	High	The ESOT can stop company decisions.
Kardemir	Likely 10% controlled by the employee-shareholder association.	None	Directly + Kardemir Association of employees-shareholders.	Association of Kardemir employees-shareholders.	Yes	High	High even if, after listing on the stock exchange, it is impossible to work out how many shares belong to employees.
TULLIS RUSSELL	100%	Profit-sharing + ESOP	Directly or through two different trusts	Employee Benefit Trust, a charitable trust called Russell Trust	Yes (even if the profit-sharing scheme limits voluntarism)	80% but no role in governance	EBT and the share council must approve all strategic company decisions.
EIRCOM	35%	Profit sharing + ESOP	ESOP	Eircom ESOT	Yes (even if the profit-sharing scheme limits voluntarism)	High	Unions appoint 4 out of 7 trustees. The ESOT votes in block in the General Assembly.
DEXIA	?	Saving plans + direct allocation to employees	Individual ownership + Investment fund	Dexia Star	No	High	No influence. There is a will to keep employee share ownership below the threshold of 5% entitling the appointment of 1 rep to the Board.

Table four Company case-studies and the matrix of worker involvement in corporate governance

JOHN LEWIS PARTNERSHIP

Consensus building	Conflict management	Risk sharing	Employees and new capitalism
The Partnership Council acts like a supervisory body. The Chairman of the Board is accountable to the Council and is normally sensitive to suggestions received from it. The Council has the power to dismiss the Chairman. The Board of Directors consists of 12 members, 5 of which are elected by employees and 5 by the Chairman. Other forms of participation are softer and linked to communication processes. A third level consists in branch-level forums that give employees a chance to influence decisions at the local level on local issues.	Collective bargaining is absent, but this is not seen as a shortfall. Conflict is prevented by managing a series of tools to deal with the problem of employee salaries. Salaries are considered generous whilst various listening points in the workplace give employees a chance to voice their individual problems. Wages respond to market rules and are normally higher than the average for the sector. Bonuses linked to profit-sharing are awarded on an individual basis and are in addition to wages. Dividends are distributed to the partners (employees) on an equal basis.	Employee control stems from corporate rules. Risk capital is very low and not relevant compared to company turnover. Some reserves ensure a sustainable leverage ratio. Risk management relies mainly on an effective system of internal control. Trade unions are absent. Employees are called to appoint management through an election system that recalls ballots for political representation.	Employees do not hold shares. They exercise a right to vote to appoint managers and have an opportunity to influence corporate governance. There are tangible results in terms of CSR. JLP has a set of responsible sourcing principles and a code of practice concerning partnership. This internal code, which has been translated into 9 different languages, sets out JLP's expectations of suppliers and covers issues such as wages and benefits, working hours and conditions and health and safety, the use of forced or child labour, employee representation and worker associations, equality, welfare and respect for the environment and animals.

IsBank

Consensus building	Conflict management	Risk sharing	Employees and new capitalism
Employee share ownership does not develop any of the traditional forms of participation. Consensus is simply the result of company governance stemming from employee ownership.	In IsBank conflict is low. In this case, stable collective bargaining should be seen in the interest of the employees. Advantages do not lie in the widespread peace enjoyed, but in the fact that the workforce feels it has a high salary. It should be noted that collective bargaining is possible only in companies where trade unions are recognized. In IsBank, a certain level of conflict is considered useful for a better perception of the mood of the workforce. Human resources dedicate particular attention to anti-cyclical tools capable of safeguarding employment levels in the bank. Such policies bring unions and company management closer together and become part of the identity of the bank.	The governance mechanism puts the union in a dominant position, controlling 42% of the shares. Their control is exercised through an employee pension fund.	In this way, it is possible to guarantee that the bank endorses certain values promoted by employees in its decision-making processes. Governance then develops autonomously. Trade unions meet management again when working conditions and wages have to be negotiated: they play a different role and feel a sense of responsibility to keep conflict low and obtain optimal agreements.

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Banca Popolare di Milano

Consensus building	Conflict management	Risk sharing	Employees and new capitalism
Employees are not directly represented on the company board. Employee-shareholders are represented through their association "Amici della BPM". All managers appointed by the employees have a role in all sub-committees and working groups to whom the powers of the Board of Directors are delegated. Consensus is the simple result of company governance stemming from employee share ownership.	About 5% of wages depend on the economic results of the bank (coherent with the Italian model of collective bargaining). Company-based collective agreements normally last three years and the profit-sharing scheme is periodically assessed on the basis of the results announced by the company each year. At BPM this "check-and-go" procedure is a continuous process in which the risks of renegotiation are extremely low and the level of satisfaction of employees rather high. This peace allows for greater investment in innovative practices benefiting both parties.	Specific corporate governance rules give trade unions a great influence in the Shareholders' Meeting. Trade unions are able to submit their demands dealing with governance and corporate strategies. On the basis of that, they propose their candidates for the board. The BPM model is a case worth mentioning as it shows a different way to be a stakeholder in complex corporate governance. Other institutional or traditional investors have to mediate their position with employee-shareholders. The result is a company with a strong managerial identity.	The discussion that influenced the last Shareholders' Meeting in 2009 (which elected a new President chosen by the employees) is an emblematic example of the ability of the unions to be active on the ownership side. In this way, they show their concept of capitalism and measure their views against positions expressed by other groups of shareholders.

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ENEL

Consensus building	Conflict management	Risk sharing	Employees and new capitalism
There are no traditional forms of participation at ENEL. Collective agreements ensure information and consultation rights. For the time being, employee share ownership is not able to affect the consensus building process.	Employee financial participation would open new routes to collective bargaining. Italian ENEL employees already enjoy profit-sharing schemes and satisfactory long-standing collective agreements. FLAEI CISL is willing to explore the possibility of profit-sharing fuelling share ownership plans. This will have the dual effect of leading to tax benefits and encouraging a more mature collective bargaining culture. This approach is still opposed by FILCEM CGIL that has different opinions.	Employee-shareholders have very little influence on ownership. This means that management pays little attention to their requests. Many stakeholders attend the ENEL General Assembly but their corporate capital is small. Under current rules it is impossible for a shareholder (with the exception of the government) to hold more than 2% of capital. Employee share ownership could be a way to introduce innovative elements to corporate governance, too. A share ownership plan should therefore be accompanied by stronger cohesion of the workforce and specific rules to make the collective exercising of votes by employees easier.	Of course, holding shares is not seen as a goal in itself. It should go hand in hand with the aim of influencing corporate governance in order to bring to its attention certain values, such as respect of environmental issues, more balanced governance (the Italian government retains a sort of right to veto strategic choices) and closer attention to users and customers. In this sense, ENEL is quite active in the field of CSR. The weak side of it is the scarce involvement of stakeholders and the accountability of actions taken in the field of CSR. ENEL is a global player in the field of the production and distribution of energy. Its operations are strategic for the well-being of entire countries and their citizens.

Handelsbanken

Consensus building	Conflict management	Risk sharing	Employees and new capitalism
In Sweden, by law employee representatives sit on company boards. In Handelsbanken, employees have chosen to be represented on the company board as employee-shareholders. The difference lies in the fact that, being the expression of the most important shareholder, Oktogonen representatives have a greater weight on the board and all its sub-groups. A system of rights to information and consultation complement this. Consultation is built in such a way that employees can be involved in decision-making processes, being fully and promptly informed.	Collective bargaining does not produce conflict. It is in tune with the rest of the sector and Handelsbanken is simply "doing better than others". Thanks to stable and long-standing collective bargaining, the bank can easily concentrate its efforts on innovative policies for promoting human resources. The Oktogonen system, including the profit-sharing scheme, is not considered to fall under the scope of collective bargaining. Its statutory rules belong to the company and the Oktogonen bodies and allocations of the annual bonuses are unilaterally and autonomously decided by the company board (where, of course, employee representatives are well represented).	The governance mechanisms of the profit-sharing scheme feeding the Oktogonen Foundation, give the trade union a position as a key player in the General Assembly. Finansförbundet is able to exercise a strong influence on the General Assembly on strategic choices concerning the bank and its business. Given that the performance-related bonus is not considered remuneration, employees do not perceive additional risk, but only consider it an advantage. Employee-shareholders are not dominant. They share their power with three other groups of shareholders.	Even if the Oktogonen experience is considered unique in Sweden, it reflects a more common wish to go beyond the traditional patterns of employee involvement. Handelsbanken remains an example of a corporation that is profitable in the long-term and whose performances exceed the average of its direct competitors and outperform the average of the sector. All this happens with a strong attention to CSR and the social return of the business.

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Dexia

Consensus building	**Conflict management**	**Risk sharing**	**Employees and new capitalism**
No effects have been registered on consensus building as employees have never exceeded 5% of ownership, in other words the threshold that triggers mechanisms to attribute the right to appoint employee representatives to the company board.	The employee share ownership plan is agreed with the unions and, to date has not influenced collective bargaining. There is a vague desire to preserve antagonism as a driving force for industrial relations.	Employees and their trade unions do not see the ownership side as an interlocutor.	By introducing a share ownership plan, Dexia managers pursue the aim of stabilize a share of between 3% and 5% of total capital. This goal has not yet been achieved. The Dexia experience confirms that employee share ownership can be a corporate governance tool, but it is successful only when it reflects the expectations of both the company and its workers. This is not the case in Dexia today.

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SAL and SLL companies associated to CONFESAL

Consensus building	Conflict management	Risk sharing	Employees and new capitalism
According to the company statutes, employees - choose management - monitor and control all company decisions. However, they do not appoint employee representatives therein. Information and consultation rights are implemented effectively and this is considered a good practice for SMEs in Spain.	Confesal has established framework agreements with the two main Spanish trade union confederations, UGT and CCOO. These common rules have two basic aims: - on the one hand they establish a better environment for developing sustainable and peaceful industrial relations - on the other hand, they prepare collaboration with unions in the promotion of the business model. Employee financial participation has created the conditions for highly-stable industrial relations and a strong spirit of cooperation between employers and trade unions.	Employees hold at least 50%+1 of capital. One holder cannot retain more than 33% of shares. Both trade unions and employers are aware that the competitiveness and long-term profitability of the business is related to the know-how and skills that employees use through direct participation. Such participation, along with relevant guidance and supervision, is only possible if employees are properly trained and assisted.	The business is normally deeply-rooted in the territory and well-connected to its real economy. This is why many consider these companies a way for creating employment and most of all, a way for re-employing workers who have lost their jobs thanks to entrepreneurship and the start up of new businesses. In this sense, employees are less speculative capitalists that create companies that can last. In macro terms, such companies are socially useful as they become a tool for absorbing the unemployed and help the creation of domestic capital.

Total

Consensus building	**Conflict management**	**Risk sharing**	**Employees and new capitalism**
Employee share ownership has neither started any new form of employee participation nor reinforced existing ones.	In Total, industrial relations are stable and collective bargaining satisfactory.	In Total, employees have not yet established a proper strategy for dealing with owners. However, trade unions are not indifferent to how the investment funds holding employee shares evolve. The fact that employees do not feel a risk linked to their investment can explain their reluctance in trying to conquer a role in the board of the company via a better coordination of their voting rights in the Shareholders' Meeting.	In France, trade unions consider employee share ownership a method for introducing forms of economic democracy to the financial markets rather than to single companies. Trade unions are keen to assist employees in making fully informed choices regarding management of their investment and to defend their interests where necessary. A recent law entitling employee-shareholders to appoint their own representatives to the board once their participation exceeds a minimum threshold could change the attitude of the social partners.

AerLingus

Consensus building	Conflict management	Risk sharing	Employees and new capitalism
In a company like AerLingus, trade unions with relatively stronger positions thanks to ESOTs ensure that the flow of information is efficient. The situation is different as far as employee participation on the company board is concerned. Employee share ownership generates a different kind of governance, but not a proper system of employee participation. Many have noted that the arrival of Ryanair is a negative element and employees feel the ESOT experience is less effective and respondent to their real needs. In fact, the trust that manages employee shares appoints managers and not employee representatives to the board.	On the corporate side, even if the trade union position is important the share ownership programme should not influence collective bargaining. The company does not have to be run in an acritical employee-friendly perspective. This means that the power arising from share ownership does not turn into the search for immediate and short-term benefits. In any case, managers are inclined to listen to and meet the needs of workers.	A sense of frustration amongst workers towards ESOT arose after 2006 when, following privatization, the trust borrowed 45 million euro to buy more shares, followed by another loan. The preoccupation lies in that fact that neither dividends nor profit-sharing can produce the cash flow necessary to repay the trust debt. Trade union organizations consider the lack of interest by the workforce the cause of some decisions that betray the expectations of the employees. We should recall that: a) trust directors are in clear minority on the Board of Directors and b) privatization and then liberalization of the market have caused deep restructuring in the sector. Social tension at AerLingus reflects similar situations throughout the air transport sector.	AerLingus is the most controversial case analyzed. A right balance has not yet been found between employee-shareholders, other investors, trade unions and management. A lot can be explained by looking at the characteristics of both corporate governance and industrial relations in Ireland. At the end of the day, the employee share ownership schemes and the trust can reasonably make the voice of employees heard at Shareholders' meetings pointing out their views on running the business.

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Kardemir

Consensus building	**Conflict management**	**Risk sharing**	**Employees and new capitalism**
The trade union exercises a very powerful influence, backed by the fact it represents not only workers but also employee-shareholders. The role and influence of the trade union are exercised through informal procedures. In fact, there is no formal participation structure in the company for information and consultation and no official opportunity for discussing corporate strategic choices. The close relationship between trade unions and management means that the former often identify with the latter. A constant flow of information is guaranteed between the trade unions and the Kardemir Workers' Association, created and run by the trade union to represent employee-shareholders.	In terms of collective bargaining, in the earlier stages of the buy-out, the Kardemir workforce accepted a wage freeze and gave up a number of fringe benefits, including overtime and some paid holidays to help the new company. In 1997, trade unions and workers accepted an agreement that increased wages by 40% and increased benefits by 20% in addition to share dividends (that are not part of wages). Wages continue to grow and past sacrifices have been compensated by dividends or the sale of shares.	Today it is almost impossible to know the percentage of employee-owned shares: the company has around 50,000 shareholders. For these reasons, the trade union is conscious of the need to create a group of fully independent directors and therefore, does not send representatives to the Board of Directors. In any case, the trade union is still influential in managerial choices. The power of the trade union primarily influences the corporate culture that has matured and the habit of cultivating constructive relations with management. It can therefore be said that the union has helped the company and this guarantees its role in governance. The union allow corporate management to grow and exploit its independence.	The particular location of Kardemir steel mill determines a strong connection between the plant and the local community. Karabuk and the other small towns nearby, represent a real industrial district that rotates around Kardemir. Following privatization, local government and the company drafted a territorial upgrading plan in order to improve the living conditions of workers and their families and promote the economic growth of the area. A far-reaching change occurred in the quality of management thanks also to personnel selection policies that focused on quality skills and know-how. This offered the opportunity to promote the foundation of a university in Karabuk to train future company managers.

Tuliss Russell

Consensus building	Conflict management	Risk sharing	Employees and new capitalism
Direct employee involvement is considered the way to make employees feel an active part of the consultation process. The highest level of participation is the Share Council, a strong consultative and representative body that is directly and constantly in touch with both the board and the employees (who elected its members). An employee information and consultation body has recently been established that includes both trade union representatives and Share Council members.	The trade unions perform a traditional collective bargaining role, negotiating work terms and conditions and wage levels. The wage level is above the average in the sector and in addition there are dividends and profit-sharing. Along with the Share Council, the trade unions are informed by the CEO on decisions regarding labour and employment. The trade unions also discuss vocational training, health and safety and other work-related issues.	Employees are shareholders. Nonetheless, mechanisms to protect employee shares are in place. A system peculiar to the UK allows for employees to benefit from compensatory payment in the event of redundancy. This measure is part of the collective agreement and is a form of compensation that benefits those affected by inevitable company decisions that penalize employment levels. However, the risk relating to the state of business remains.	As capitalists, employees accept that the company is largely exposed in terms of CSR. The company is deeply-rooted in the territory and the way Tuliss Russell is managed has strong repercussions on the local community. Attention to the well-being of the workers and the entire community is a legacy of the entrepreneurial culture of the family that formerly owned the company.

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Eircom

Consensus building	Conflict management	Risk sharing	Employees and new capitalism
Regardless of the financial participation scheme, an information council exists at Eircom, along with a series of parallel information structures. Whenever an important decision is made at board level, they inform employees. All directors are trained to communicate with employees. There is an Internet site on which information is published for diffusion. An Eircom newsletter is also regularly issued to all employees and contains information and financial and organizational data. Trade unions use their own communication channels.	The authority of the trade unions in the company has allowed for the development of some forms of dialogue. All unions can thus discuss salaries, work conditions, including hours of work, regardless of the ESOP. When the ESOP was created, it was the national agreement "Partnership 2000" that inspired share ownership. Those who took part in the share ownership contract benefited from the rules of Partnership 2000 and benefited from a 4.8% wage increase. Those who adhered to the Superannuation Scheme would also make a 4.8% contribution to pension schemes, thus benefiting from the second set of benefits provided for by Partnership 2000 for 1999.	The trust is managed by 7 trustees, 4 of which are nominated by the trade union, two by company management and an external Chairman (to be approved by the Irish government). The role of the ESOT has been crucial in several company situations. The partnership approach is an interesting key to both relationships within ESOT, between ESOT and the trade union and between ESOT and company management. Some do not hide their doubts regarding a potential conflict of interest implicit to the governance structure.	ESOT representatives accompanied by the CWU secretary general of Eircom trade unions have been admitted to the governing committee in order to discuss the future of telecommunications in Ireland. The authority of the ESOT and its managers is recognized and the fact of taking part in the reorganization of the sector is a guarantee for the future of workers in the sector and the company. The share ownership plan for Eircom is of great importance to employees. Note that when employees vote in the trust, the one man-one vote principle applies. This gives democratic value to the behaviour of employees-capitalists.