

# The PEPPER V Report

Benchmarking Employee Participation  
in Profits and Enterprise Results in the  
European Union, the United Kingdom  
and the United States

**With a foreword by  
the European Commissioner  
for Jobs and Social Rights,  
Nicolas Schmit**

**Executive Summary**



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## Foreword

The promotion of employee participation in profits and enterprise results (PEPPER) has been on the agenda of the European Commission for more than three decades. The PEPPER V Report looks at the effect the financial crisis and the COVID-19 pandemic have had on employee financial participation and makes recommendations that can also be food for thought in today's socio-economic context.

Social participation rights as enshrined in the European Pillar of Social Rights are key to the success of maintaining and expanding the social welfare state. One way to enable all European citizens' full participation in society is the financial participation of employees in their employer companies. Particularly important in this context is active support to long-term employment and the involvement of workers. Therefore, social rights need to have a definite place on the European map as most recently affirmed in the 2021 Porto Social Commitment, a blueprint for implementing the Pillar of Social Rights action plan. But for Porto to actually prove itself to be a "game-changer", we need to continue taking concrete action to ensure quality jobs that offer decent pay and work-life balance across the Member States.

The Social Economy should not be thought of as an alternative to public services but as complementary and reinforcing. There is great scope for collaboration between the mainstream private, profit-oriented companies, and entities operating within the Social Economy. In particular in times of crises this sector has proved to be resilient and agile in responding to citizens' and communities' needs. Social Economy entities need targeted support, while their employees need to be protected, and enjoy adequate working conditions, as well as training and career development opportunities. The report argues that employee financial participation should be extended to the Social Economy.

Just like conventional enterprises, social enterprises, cooperatives, non-profit associations, and the like need mechanisms in place to motivate and reward their staff, to retain key employees and pass on their mission to the next generation. It is all too often forgotten that they are inclined to be best suited to confront the current challenges of climate change and the energy transition as they put people and the environment at the centre of their mission and reinvest most of their profit back into the organisation or a specific social cause.

The conclusions of this PEPPER V Report provide interesting reflections in this important debate on employee financial participation.

Nicolas Schmit

European Commissioner for Jobs and Social Rights



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# The PEPPER V Report

## Benchmarking Employee Participation in Profits and Enterprise Results in the European Union, the United Kingdom and the United States

### Executive summary (January 2024)

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#### Background and aim of this report

The European Commission's interest in employee financial participation (EFP) has grown substantially since publication of the first PEPPER Report in 1991 and the Council Recommendation on EFP of 27 July 1992. Since then, the European Union has not only extended from 12 Member States to currently 27 but has also faced many complex and urgent challenges. Financial and other crises have endangered prosperity and cohesion on the continent and **both, the financial crisis of 2008/09, and the COVID-19 pandemic 2020/21 have left their marks on "Social Europe"**. Although the overall trend is positive, both crises, as the econometric analysis in Part 1, Chapter II shows, have – albeit only to a limited extent – negatively affected EFP and put the issue of distributive justice on the agenda of national policy makers and that of the European Commission.

Opinions drafted by the European Economic and Social Committee, and Reports and Studies by the European Parliament and **2014 and 2018 Resolutions on EFP** emphasised the growing importance of EFP, particularly with respect to small and medium-sized enterprises (SMEs). Against this background, the Commission included the promotion of employee share ownership (ESO) in its **Action Plan to reform European company law and corporate governance** and embarked on **the 2013/14 Pilot Project**. Based on the most recent data on the scope and impact of various EFP schemes in EU companies and the legal and regulatory changes in individual Member States, the aim of this report is to identify the main obstacles to EFP schemes and to **develop detailed policy recommendations** for the promotion and encouragement of employee ownership both at the EU and at the national level.

#### Types of EFP plans, benefits, and their increasing incidence in the EU

Financial participation of employees can take a variety of forms:

- **Employee share ownership** (ESO, i.e., employee shares or stock options);
- **Employee Stock Ownership Plans** (ESOPs, i.e., collective employee share ownership, with shares acquired through an intermediary entity, financed by a share of profits allocated to employees in addition to their remuneration);
- **Profit sharing** (PS, in cash or shares, paid immediately or deferred).

Thirty years of research have confirmed that companies partly or entirely owned by their employees are more profitable, create more jobs and pay more taxes than their competitors without employee ownership. At the **macroeconomic level**, EFP leads to

higher productivity and, therefore, higher competitiveness and growth as well as strategic stabilisation of ownership. At the **company level**, it can contribute to solving problems such as absenteeism, labour turnover and the retention of key employees, and business succession and funding, especially in SMEs and micro-enterprises.

At the **regional level**, EFP encourages enterprises to stay rooted in their home communities, enhancing the purchasing power of employee households while discouraging outsourcing and hostile takeovers. Of course, it is also important to consider the potential negative aspects associated with ESO, such as the risk borne by employees.

The most recent rounds of different **large scale cross-country surveys** (2015 European Working Conditions Survey, 2021 CRANET (Cranfield Network on International Human Resource Management), 2019 European Company Survey (ECS)) analysed in Chapter III show that **in the last 15 years** – despite the financial crisis and the COVID-19 pandemic – **companies increased their offer of EFP while employees continue to expand their participation in EFP plans in Europe.**

- ECS data – Offer in firms with at least 10 employees: **Between 2009 and 2013** the proportion of firms offering **ESO schemes rose from 4.7% to 5.2%** (an increase of 10%) and **between 2009 and 2019** that offering **PS schemes from 14.3% to 42%** (the incidence almost tripled). Since the incidence of ESO is strongly size-related, the ECS figures – including small firms – are much lower than the following CRANET figures – only capturing large firms.
- CRANET data – Offer in larger firms with at least 200 employees: **Between 2005 and 2021**, the offer of **broad-based ESO schemes increased from 19% to 27%** – a clear increase of almost 30% during fifteen years – while, however, that of **broad-based profit-sharing schemes slightly decreased from 35% to 31%**. The year 2021 is the period immediately after the Covid-19 pandemic, which may have affected company profit levels and the offer of profit sharing by large companies.
- EWCS data – Take up of schemes by employees: **Between 2000 and 2015** the proportion of **employees having ESO in their firms increased from 1.4% to 3.5%** and that of **employees receiving income from profit-sharing schemes from 6.4% to 15%**. The take-up figures are much lower than the figures for the offer as on the one hand not all employees participate in a scheme offered and on the other the data set also includes other forms of employment.

In conclusion, EFP in general has been increasing over the last two decades. Nevertheless, the level of ESO schemes remains fairly low in all EU countries while PS schemes have already become prevalent in over 40% of companies across the EU. Despite this difference, **the estimated number of firms that – given appropriate incentives – can be expected to offer ESO schemes to their employees is a bit over 300,000 and that for SMEs is around 190,000 across the EU.** This provides an opportunity for policy makers to adopt policies that apply to a very a large number of companies and to provide targeted support especially for SMEs where ESO can have **significant impact on employment and sustainability as our econometric analysis shows.**

### Challenges for the promotion of ESO

The ECS data suggests that firms with ESO or PS schemes are more likely to experience an increase in both productivity and employment. However, despite the acknowledged positive effects and the widespread use of EFP schemes throughout the EU, they have

been extended to a significant proportion of the working population in only a handful of Member States. In 2019, about **58% of firms in the EU did not offer any form of financial participation to their employees**, despite the above-mentioned potential for the introduction of EFP schemes. If these prospective firms decided to offer an ESO or PS scheme, there would be a significant improvement in both productivity and employment – and thereby competitiveness – of these firms.

At the same time available data presented in Chapter IV indicate that both **capital ownership (wealth) and capital income are concentrated at the top** in both, the EU and the US though wealth is less concentrated in Europe. US data on capital income show that:

- **Capital income has largely collapsed between 1979 and 2018 for the working middle class.** 59.3% of all capital income was received by the richest 1% of households in 2018 (compared with 39.6% in 1979); 89.7% of all capital income was received by the richest 20% of households in 2018 (compared with 76.2% in 1979).
- **Each percentile, except for the richest 1%, has seen sharp falls in its total share of capital income over the period.** Business income increased in dollar terms by 600% for the richest 1% of households and doubled as a percentage of income for this group, from 11% to 22%.

Policy makers need to be aware that **EFP can have an important role in narrowing the income and wealth gap for the working middle class** when the concentration of capital ownership and capital income is high and when real wage growth is low.

However, as Chapter V reports, in recent years most legislative activities focused on start-ups with as many as 12 EU Member States having introduced tax incentives for ESO in this type of SME. But **incentivising ESO in SMEs should be extended to all SMEs**, the engine of the European Economy, **including those from the social economy** having shown their crucial function for the resilience of our societies during the COVID-19 pandemic. Since the European Commission launched the 2011 Social Business Initiative followed by the 2016 Start-up and Scale-up initiative, many actions to support social enterprises in view of their potential to address societal challenges and contribute to sustainable economic growth have followed. Most recently, the 2021 Social Economy Action Plan of the European Commission gave important impulses. The potential of employee buyouts offering a continuation perspective to SMEs owners looking for successors was highlighted in the **2022 EC report "Transition Pathway for Proximity and Social Economy" calling for the implementation of ESOPs**.

### **Comparative analysis of the 27 MS, the UK and the US**

ESO is much less frequently used in Europe than, e.g., in the US. If this **still largely unexploited potential** is to be harnessed, the further development of financial participation, ESO in particular, should be part of an overall European strategy for stimulating sustainable and inclusive growth of the EU economy. A generally favourable attitude in a given country has usually led to some supportive legislation for EFP schemes, which in turn has spread their practice. Tax incentives are important tools for enhancing and broadening financial participation; when properly designed, they effectively promote the spread of EFP. **Chapter VII assesses the EU 27 and the UK using three indicators, i.e., (i) legal framework, (ii) fiscal incentives, and (iii) political support / social dialogue** to obtain an overall ranking for each country both for ESO and PS and compares it with that of the Pilot Project. **In twelve countries, i.e, 44% of MS a positive change in the ranking incurred between 2014 and 2024.**

**However, barriers especially for cross-border EFP plans persist because of (a) differences in regulatory density, application and legislative requirements of national legal frameworks or (b) differences in the fiscal treatment of existing schemes. Although the scope and types of these obstacles are diverse, the actual effect on the spread of cross-border EFP schemes is the same; firms will need to collect a large quantity of information, which will involve high costs and considerable expert knowledge – two **obstacles that many companies, especially SMEs, may not be able to overcome.****

The result of comparing the incidence of EFP with the ranking of a given country conveys different messages for ESO and for PS:

- Regarding ESO we find some degree of correlation, showing that countries with high value in the country ranking mostly also have a high(er) offer figure. This indicates that **ESO is effectively promoted by a conducive regulatory and political environment** but also, that it **is likely to remain underdeveloped in the absence thereof.**
- For PS, on the other hand, we do not find this type of correlation, meaning that countries with high PS offer do not necessarily have high ranking too (many of them have low ranking on the composite index). This is consistent with the experience in many MSs, showing that **PS is less dependent on supportive measures than ESO, and is often introduced without them.**
- In summary, for ESO – especially in SMEs, as the incidence is strongly size-related – we conclude that **ESO is likely to be sustainable only when supportive measures are in place for a long period of time without substantial changes.**

### **The way to European harmonisation ten years after the DG MARKT Pilot Project**

With a third of business successions failing, **the EU is still confronted with a haemorrhage of around 150,000 enterprises and 600,000 jobs every year.** Although thirty years of research has confirmed the positive effects of ESO for European enterprises and its important function for business succession, best practice such as the US ESOP is thinly spread across the EU. Nevertheless, MS have developed a broad variety of ESO schemes involving intermediary entities to acquire and administer employee shares in the employer firm in particular for the transfer of businesses to employees. However, for SME owners the main barrier is still a lack of clearcut and transparent options to sell their enterprise to their employees and corresponding incentives to do so. In this light **Chapter VIII proposes a European approach, that is, a European Employee Stock Ownership Plan (European ESOP).** The Proposal is a response to the Council Recommendation of 7 December 1994 "on the transfer of small and medium-sized enterprises", Commission Communications and the 2003 European Parliament report. The **2013/14 DG MARKT Pilot Project and the 2018 European Parliament Own-Initiative report explicitly calls for a European mechanism** facilitating the sale of businesses to employees.

**A "Common European ESOP Regime"**, as a first step towards a "Common European Regime on EFP" would complement existing national laws aiming primarily at their harmonisation.

- As the name suggests, this would be a **second contract law regime parallel to national legislation on ESO.** Its objective is to eliminate obstacles to the single market that mainly, though not exclusively, stem from heterogeneous regulatory density. The existing obstacles are due to the multifarious development of national laws governing EFP in the Member States.

- The “Common European ESOP Regime” would **offer employers and employees a choice between two alternative EFP regimes one originating in national legislation, the other in European legislation**. The choice between these two alternatives would be entirely optional, as in the case of the European Company Statute.
- **The European ESOP is modelled on the US ESOP and EU best practice**. It embraces six European types of legal vehicles, i.e., the employee ownership trust (EOT), the French employee ownership mutual fund (FCPE), the Austrian civil law foundation, the Spanish Sociedad Laboral, the cooperative, and the closely held limited liability company.

Thus, the “Common European ESOP regime” would neither replace nor override national legislation but would serve as a cross border alternative to national laws, to be used at the discretion of the parties involved. Regarding its contents it would contain best practice rules derived from each of the ESOP vehicles discussed in Chapter VIII to reflect the entire life cycle of SMEs (starting up, consolidation, succession).

## Conclusions and policy recommendations

From the first PEPPER report in 1991 until this PEPPER V report the EU has not only expanded from 12 Members States to currently 27 but also faced complex and urgent challenges. Both the financial crisis of 2008/09 and the COVID-19 pandemic 2020/21 have left their marks on “Social Europe”. **Although the overall dynamic of EFP across the EU 27 is positive, EFP is declining in terms of its share of household income in the light of the concentration of capital ownership and of capital income**. Along the issue of distributive justice other challenges like that of business succession in SMEs, on the agenda for decades, and new ones like the extension of EFP to the social enterprises are calling for action. It is against this background that the following policy recommendations should be read.

From the comparison of the countries, the cluster analysis and against the background of the importance of legal framework and fiscal incentives – two general principles can be derived: a) **establishing EFP schemes through legislation is of primary importance** as countries that provide a stable and transparent regulatory framework for EFP also show a wider implementation of EFP practices; b) **when properly designed, fiscal incentives promote the spread of EFP effectively** as both countries with a long tradition of tax incentives for EFP (e.g., UK, France) and those with a more recent development (e.g., Austria) confirm. **Concerning fiscal incentives, the following best practices may be derived:**

- (i) Tax incentives should (and in most countries they actually do) target those taxes, which constitute the heaviest burden in the national taxation system.
- (ii) Tax incentives should be provided for both employees and the employer company.
- (iii) Even substantial tax incentives may prove inefficient when the pre-conditions for eligibility are too restrictive, complex, or inflexible.
- (iv) Some forms of tax incentives are more suitable for certain types of plans, e.g., deferred taxation for ESO, capital gains tax in lieu of personal income tax for dividends and sale of shares, or tax exemptions for matching contributions for ESOPs.

In spite of the difficulty of their implementation at the European level, tax incentives remain powerful tools for enhancing and broadening financial participation and, therefore, require European harmonisation.



**Focussing on ESO, one crucial circumstance is that size and enterprise type matter.** Despite more than three decades of political initiatives at the European level and that of MS, SMEs as the largest enterprise group across the EU still are at a competitive disadvantage regarding support measures and incentives for the introduction of ESO. While we have not yet seen much action in the field of EFP for the social economy, as many as twelve MS introduced tax incentives for ESO schemes in SMEs with a focus on start-ups. To make our economies both more competitive and resilient these incentives should be extended to other types of SMEs. Concerning privately held limited liability companies (LLCs), which have a very low ESO rate, despite structural differences, there are however intersections offering synergies and new impulses.

**In light of this need for SME action and the great potential for introducing ESO in this enterprise segment, from our recommendations we emphasise in particular:**

- Alleviating the evaluation problem in unlisted SMEs through debt-to-equity-swaps; ESO may initially take the form of an employee loan to the company, creating corporate debt, subsequently to be converted into company shares.
- Facilitating share transfers in privately held LLCs by ending the requisite for notarial certification (Italy, France) or limiting it to the identity of seller and buyer.
- ESO in SMEs via intermediary entities, e.g., trusts, foundations, LLCs, or other SPVs to hold and administer employee shares (AT, IE, UK, HU, FR, SI, USA).

### **Outlook: Extending financial participation to consumers**

PEPPER V also looks into EFP's future development and its possible extension. With the passing of the **"Clean Energy Package" (CEP) in winter 2018/19 the legal foundations for consumer co-ownership in renewable energies were laid, be it individually or be it collectively as part of energy communities.** Consumer co-ownership is deemed essential to the overall success of the Energy Transition, increasing motivation to become more energy efficient, making energy infrastructure projects publicly acceptable and to ensure energy equity for the European citizenry. And indeed, there is a dynamically growing population of energy communities (EC estimates 9,000 at the beginning of 2023) fostering co-ownership of European citizens in renewable energy installations. Parallel to the rise of consumer co-ownership in renewables the **EC has launched the "Proximity and Social Economy industrial ecosystem"** (European Commission 2022) in the framework of the EU Industrial Strategy to boost the social economy contribution to the green transition. For both policy fields promising synergies with EFP exist:

- There are no legal barriers to combine employee and consumer financial participation as the principal mechanisms of company law, corporate governance, fiscal and other incentives are mostly identical.
- An example for a legal vehicle already requiring employee and consumer financial participation is the French cooperative society of collective interest (SCIC).
- In the (renewable) energy world, Consumer Stock Ownership Plans (CSOPs) are implemented, providing a governance model for financial participation that involves a fiduciary element, just as the ESOPs do for EFP.

Therefore, the potential for co-ownership of employees in the enterprises they work for and of consumers in the utilities they are served by should inspire each other and possibly be harnessed under a joint approach.

## Country Information

The 29 Country Profiles (Part 2 of the report) have the following identical structure to enable a like-for-like comparison:

- a) General Attitude
- b) Legal and Fiscal Framework
  - aa) Share Ownership
  - bb) Profit Sharing
  - cc) Participation in Decision-Making

They are also available online via the “Virtual Centre for EFP”, an online tool developed for and financed under the Pilot Project for DG MARKT in 2014 (below screenshot is an example of how this online tool is embedded on partner organisations' websites; the iframe is available upon request).

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