

In the Company of Owners – Employee Share Ownership in SMEs and Start-ups

Related to a project funded by the German Federal Ministry of the Economy (BMWi)

Description

It has been argued that introducing Employee Financial Participation (EFP) in SMEs is difficult because of their limited financial resources. Financing constraints may make pay outs to employees in addition to wages very difficult. Furthermore, an employee's decision to withdraw from a share ownership plan can involve substantial costs. In addition, implementing an EFP scheme involves considerable expenses. With regards to employee share ownership (ESO) schemes the central problem is that the majority of SMEs are private unlisted firms, thus it is difficult to determine their true value. This may be a disincentive for employees to acquire shares in a company of unknown market value. The company's owners may fear loss of control if outsiders are able to acquire shares from divesting employees. Share plans are bureaucratic because of the need to observe statutory and legal requirements to comply with securities legislation, etc. These complications cause SMEs to opt for cash profit-sharing schemes (rather than share ownership schemes) as a simpler alternative.

On the other hand, problems common to SMEs (business succession, additional financing, staff retention) can be alleviated by employee share ownership plans. Best practice from the UK and France exemplify how EFP can facilitate business succession in SMEs by means of an intermediary vehicle creating a market for shares of unlisted companies. We observe a general trend towards using an intermediary vehicle, e.g., a trust, as custodian of employee shares, because this limits the risk for employee shareholders and allows for leverage and the pooling of voting rights (most recently in the new 2018 law in Austria). The shares are funded, acquired, administrated and represented by the intermediary entity, which unlike an individual employee can, at least partially, fund the acquisition from the company's profits, dividends and/or a bank loan.

ESO schemes in small and micro enterprises can be combined with labour market measures and thus help to reinstate the unemployed. Employee financial participation schemes in SMEs can also be combined with unemployment benefit as in the case from Spain. In other countries also, the unemployment benefit paid in as a lump sum could also be invested in a start-up (e.g., the concept of "Ich-AG" in Germany), but this has not been successful. The distinguishing feature of the Spanish model is that the unemployment benefit has to be invested in a special form of corporation in which the employees own the majority of shares.

The seminar discusses these problems and opportunities against the background of the most recent developments across the EU 28.

Course plan

- Introduction: formalities; overview
- LV1: Background: Overview of the forms of Employee Financial Participation; European Policies
- LV2: tba;
- LV3: tba;
- LV4: tba;
- LV5: Conclusion and oral presentations.

Teilnahmevoraussetzungen

Registration until 24.10.19 at kelso-professorship@europa-uni.de including immatriculation number and seminar title

ECTS-Credits

- 5 and 6 ECTS: regular attendance; oral presentation; term paper around 15 pages
- 9 ECTS: regular attendance; oral presentation; term paper around 20 pages

Deadlines

1. Optional: first draft of the term paper by the end of the lecture/exam period onward (only if feedback wanted): WiSe1920: 14/02/2019
2. Finalized term paper by the end of the semester: WiSe1920 31/03/2020

<https://www.wiwi.europa-uni.de/de/studium/pruefungen/index.html>

<https://www.europa-uni.de/de/studium/termine/wintersemester2019.html>

Leistungsnachweis

Regular attendance, oral presentation and term paper

Zielgruppe

- Master of European Studies
- Master of International Business Administration
- Exchange students

Literatur

- European Commission. (2014). European employment policy observatory review - Activating jobseekers through entrepreneurship: Start-up incentives in Europe. Brussels.
- European Commission. (2016). Communication of 22. November 2016 'Europe's next leaders: the Start-up and Scale-up Initiative' COM(2016) 733 final.
- European Parliament. (2016). Employee Financial Participation: Spain's Sociudades Laborales. Briefings for the EMPL Committee (IP/A/EMPL/2016-01, PE 587.300). Rapporteur: S. Schulz, Committee on Employment and Social Affairs. Brussels.
- Lowitzsch, J. (2018). Die Entwicklung der Mitarbeiterbeteiligung auf EU-Ebene - Impulse durch Best Practice aus Spanien, Österreich und den USA. in: Beyer/Naumer CSR und Mitarbeiterbeteiligung, Springer
- Lowitzsch, J. with Iraj Hashi and Sophie Dunsch (2017). Activating the unemployed through Sociudades Laborales in Spain – A potential new EU active labour market policy instrument. Palgrave/McMillan;
- Lowitzsch, J. with Iraj Hashi, et. al. (2014). A Study on A Study on the Promotion of Employee Ownership and Participation. prepared for the European Commission DG MARKT , Brussels, 188 p.
- Lowitzsch, J. with Iraj Hashi et al. (2012). Financial Participation of Employees in Companies' Proceeds. Study for the European Parliament, Employment & Social Affairs Committee, Brussels, 2012, 188p.