**Haute Ecole**

**Groupe ICHEC - ISC St-Louis - ISFSC**

Enseignement supérieur de type long de niveau universitaire

# Developing the awareness of Employee Stock Ownership Plan (ESOP) in Belgium and its contributions to performance improvements as part of a Corporate Strategy

Mémoire présenté par
**Salim EL MOUTAKI**

Pour l'obtention du diplôme de
**Master en Sciences Commerciales**

Année académique 2016 - 2017

Promoteur :
Monsieur Jacques SPELKENS

Boulevard Brand Whitlock 2 - 1150 Bruxelles

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*Acknowledgements*

*I would like to thank my thesis supervisor Jacques Spelkens for his guidance and inputs throughout the elaboration and writing of my thesis. Moreover, I am thankful to all the people that contributed with their time and their well appreciated support. Namely, anyone who helped me answer the many questions I had. And naturally, I would like to thank my friends and my family.*

*Festina lente, Hâte-toi lentement*

# Table of Contents

**INTRODUCTION** .......... **7**

**Methodology** .......... **8**

**HISTORY: Introduction of Employee Stock Ownership Plan (ESOP)** .......... **11**

**United States** .......... **12**

**United Kingdom** .......... **13**

**European Union** .......... **14**

**NON-FINANCIAL AND FINANCIAL INCENTIVES** .......... **16**

**Non-financial incentives** .......... **18**

**Theories of Motivation** .......... **21**

**Financial incentives** .......... **25**

Employee Stock Purchase Plan (ESPP) .......... 25

Employee stock options (ESO) .......... 29

Phantom stock and Stock Appreciation Rights (SARs) .......... 32

Profit sharing and Gainsharing .......... 35

Pay for Performance .......... 38

Bonuses .......... 40

**Conclusion** .......... **42**

**SUCCESS ABROAD** .......... **43**

**Major ESOP companies** .......... **44**

Huawei .......... 44

Procter & Gamble .......... 46

New Belgium Brewing Company .......... 47

**Case study: The John Lewis Partnership** .......... **49**

**Conclusion** .......... **53**

**ADVANTAGES AND RISKS OF ESOP** ........ **54**

**Contributions to performance improvement** ........ **54**

**Potential drawbacks** ........ **57**

**Conclusion: Do's and Dont's** ........ **59**

**ESOP AS PART OF A CORPORATE STRATEGY** ........ **60**

**The Access/Execution Paradox** ........ **61**

**Agency Theory in Corporate Governance** ........ **62**

**Corporate Social Responsibility (CSR)** ........ **64**

**Conclusion** ........ **65**

**EMPLOYEE SHARE OWNERSHIP IN THE EUROPEAN UNION (EU-28)** ........ **66**

**The Five-Point Plan** ........ **69**

**EC Market Researches: interpretations for Belgium** ........ **70**

**SWOT Analysis on the implementation of EFP in the EU-28 zone** ........ **77**

**Conclusion** ........ **79**

**INCREASING THE AWARENESS OF ESOP IN BELGIUM** ........ **80**

**Communication strategy** ........ **80**

Objectives ........ 80

Segmentation ........ 81

Targeting ........ 83

Positioning ........ 84

**Communication tools** ........ **86**

Short-term ........ 86

Medium-term ........ 88

Long-term ........ 90

Communication Channels ........ 91

**Communication plan** ........ **93**

**Implementation of an ESOP** ........ **94**

Simplified scenario: Partly employee-owned company ........ 99

**Conclusion** ........ **101**

**CONCLUSION** ........................................................................................................ 102

**BIBLIOGRAPHY** .................................................................................................... 103

# INTRODUCTION

The elaboration of a thesis recalls for all the knowledge accumulated during the academic cursus but also the experience acquired in a lifetime, through, academic exchanges abroad, internships, student jobs and personal interests. Developing this specific thesis was for me very important. As a student in business management, I was taught that nothing is perfect in businesses, everything has got advantages and disadvantages. The inherent characteristic of organisations is that they are in a continuous change process adapting to fluctuations in their environment. Changes require adaptations and thus solutions have to be found.

In recent years, issues regarding increasing inequalities and wealth distribution are more and more discussed in economic and political circles. In these circumstances employee financial participation plans have emerged as a potentially viable solution to both problems and for the challenge of employee engagement. Vanishing the persistant cleavage of employees versus owners and investors. Among the various employee financial participation plans, one triggered my attention and interest, the Employee Stock Ownership Plan (ESOP). Although it is already quiete popular in certain countries, it is still perceived as an innovation in others and particularly in Belgium. For the fact, in 2008 only 1,6% of the capital of big companies in Belgium was detained by Belgian employees against 24% of the capital detained by employees in the United States.[1] Following a few researches, ESOP revealed itself being full of benefits for organisations and for employees despite some drawbacks. The idea of developing a thesis on this subject started at that moment, which resulted in multiple questions: why is ESOP not widespread in Belgium? How could it be adopted considerably? Why is it important? How can it help organisations? How would it benefit employees? Do comparable incentive tools exist? What are the main advantages and disadvantages of ESOP? What is the current situation of ESOP in the World, in Europe and in Belgium? How can one develop the awareness of ESOP? How can it contribute to the performance of an organisation?

Then, the title of my thesis arised, which is also the main objective of my study.

“Developing the awareness of Employee Stock Ownership Plan (ESOP) in Belgium and its contributions to performance improvements as part of a Corporate Strategy.”

[1] http://www.lesoir.be/salarie-et-actionnaire_t-20080417-00FQ1Q.html

## Methodology

**The objectives** of the thesis are as follows:

1. Understand the appearance of ESOPs
2. Define an Employee Stock Ownership Plan
3. Compare ESOP with different non-financial and financial incentives
4. Highlight the benefits of ESOP through concrete cases and examples
5. Demonstrate the advantages and risks of ESOP
6. Make a link between ESOP and Corporate Strategy
7. Understand the current state of ESOP in the EU
8. And finally, utilize the results of above researches in order to develop a communication strategy aiming at developing the awareness of ESOP in Belgium – and its contributions to performance improvements as part of a Corporate Strategy

**The framework** applied for the study included first the limits of the study, which are geographic and grossly devided in three parts. The more we go further in the thesis, the more informations are getting closer to the final objective, increasing awareness of ESOP in Belgium. Each sub-division includes a conclusion and the paper ends with a general conclusion.

<u>The three parts</u>

- ESOP with a global point of view
    - History
    - Non-financial and financial incentives
    - Success abroad
    - Avdantages and risks of ESOP
    - ESOP as part of a Corporate Strategy

- ESOP in the European Union
    - Employee ownership in the EU-28

- ESOP in Belgium
    - Increasing the awareness of ESOP in Belgium

**The resources -** The final paper is the result of multiple researches.

Desk researches

Litterature papers, expert reports, business books, statistics and websites.

Interviews

DE MAGHT Stéphane – Former Senior Advisor – FSMA
BELLUZZO Carlo – Assistant Accounting & Reporting – BDO
SPELKENS Jacques – Head of CSR – Engie
Several members of the European Federation of Employee Share Ownership (EFES), Avenue Voltaire 135, 1030 Brussels

## ESOP with a global point of view

The aim was to understand how it appeared and what is its current state worldwide and particularly in three regions where ESOP activity is dense, namely, the United States, the United Kingdom and the European Union.

Since ESOP is an employee incentive, the understanding of the concept of incentive was mandatory. The analysis of non-financial and financial incentives led me to researches of Frederick Herzberg and Frederick Taylor whom developed the Theories of Motivation.

To better understand how ESOP contributed to performance improvements in organisations, I presented concrete examples of successful companies having adopted ESOP and concluded in more details with a case study of the John Lewis Partnership in the UK.

Success does not mean perfecton, therefore I analysed the potential contributions of ESOP and its potential drawbacks as well. This was followed by a link between ESOP and Corporate Strategy, and how it can reveal itself a solution to inherent issues in strategy.

## ESOP in the European Union

This part aims at understanding the current situation of ESOP in the EU. Researches pointed out that there exist huge disparities in the implementations and success of ESOP and other employee financial participation (EFP) schemes. As result of a 2014 report, the European Commission developed in the form of recommendations a Five-Point plan including several actions that will increase the awareness of EFPs and decrease disparities across the EU-28.

These future actions are based on multiple quantitative and qualitative market researches carried out by the European Commission. I interpreted these reasearches for Belgium and they have proved to be a strong base for the development of my communication strategy. A SWOT analysis on the implementation of EFP in th EU summarizes this part.

**ESOP in Belgium**

Finally, increasing the awareness of Belgium is treated with the elaboration of a communication strategy linked to communication tools that are summarized in a communication plan. The communication plan describes several action programmes that are classified in short-, medium- and long-term.

The implementation of an ESOP in an organisation requires the following of several steps in order to be successful. These steps are developed in this final part and followed by a simplified scenario exemplifying the implementation of an ESOP in a Belgian company.

## HISTORY: Introduction of Employee Stock Ownership Plan (ESOP)

The concept of employee ownership did not originate recently, neither did the idea that employee stock ownership can effectively increase employee motivation and productivity. In the years 1980's and 1990's, there were many successful companies, both public and private, that relied on employee stock ownership. Among them well-known names such as Procter & Gamble, Chrysler, United Airlines, Avis Rent-A-Car, Enron, Polaroid and many others. Some of these companies provided stock ownership through profit sharing plans, employee stock options, or as nowadays more and more through an employee stock ownership plan.

An **employee stock ownership plan** (**ESOP**) is an employee-owner program that provides the workforce an ownership stake in the organisation. In an ESOP, employee ownership is provided with the issuance of shares, often at no cost for the employees. ESOP shares are thus part of the employees' remuneration. "Shares are allocated individually to employees and may be held in an ESOP trust until the employee retires or leaves the company. The shares are then either bought back by the company for redistribution, sold to other shareholders or voided."[2][3]

Some ESOP companies are majority employee-owned. Such organizations are similar to worker cooperatives but the distribution of the capital is not necessarily even. Most of the time, shares with a voting right are given only to a few employees and new hires are granted less shares than more senior employees.

Reasons for organisations to make use of ESOP are multiple, for instance, they use stock ownership plans as a form of employee incentive, as part of a retirement plan or as a way to prevent from aggressive takeovers.

[2] http://sesadvisors.com/esop-knowledge-center/esop-information/esop-faq-how-esops-work
[3] https://en.wikipedia.org/wiki/Employee_stock_ownership_plan

## United States

In the 19th century the United States developed an industrial economy, major organisations at that time like Procter & Gamble, the Railway Express Agency and others decided to set an employee ownership plan where shares will be given to employees when they retire. The reason for that choice was the recognition of employees' complaints regarding the fact that some employees could work years in these companies but when reaching retirement, they were left without no income.

In the 20th century, ESOPs were discussed as a way to encourage capital expansion and economic equality. Early defenders of ESOP both democrats and republicans believed that capitalism is based on a continuous growth, for them there was no better way for economies to grow than by distributing the benefits of that growth to the workforce.

In 1956, the first ESOP was invented by Louis Kelso. It allowed the employees of *Peninsula Newspapers* to buy out the company and preserve their jobs[4]. Chairman of the Senate Finance Committee, S. Russell Long, helped develop a tax policy for ESOPs. Policy established in the Employee Retirement Income Security Act of 1974.

In 2001, the United States Congress enacted the Internal Revenue Code, ensuring that ESOP benefits are shared fairly between investors and workers. It also requires that an ESOP should include everyone in an organisation "from the receptionist to the CFO".[5]

---

[4] "Louis O. Kelso, Who Advocated Worker-Capitalism, Is Dead at 77."*New York Times*. 21 February 1991.

[5] "Economic Growth and Tax Relief Reconciliation Act of 2001" Public Law 107-16. 7 June 2001.

## United Kingdom

Under the government of Margaret Tatcher (1979-1990), ESOPs expanded for a short period in the UK. As for example, following the Transport Act 1985, bus services in the UK were privatised. Councils seeking to protect workers ensured that employees could access shares when privatisation takes place. Rapidly after, employees' shares were bought up by private companies and the bus services were taken over.[6] Stock plans vanished, it was dramatic for employees and followed by many strikes.

In July 2012, the Department for Business Innovation and Skills in the UK published a report[7] describing major advantages of employee ownership plans but also highlighted that employee owned businesses face more difficulties regarding fund raising and satisfying legal and administrative requirements.

In a speech at the Conservative Party Conference on October 8th 2012, The Chancellor of the Exchequer George Osborne announced that the law would be reformed to create a new employment status for 'employee-owners'. "Employee-owners will pay no capital gains tax on any profit made from selling these shares, but they will have to give up certain employment rights in return, including redundancy and unfair dismissal."[8]

Since 2014, the UK has launched the Employee Ownership Trust scheme inspired by, but less efficient than the ESOP in the United States.

---

6 A Pendleton, J McDonald, A Robinson and N Wilson, 'Employee Participation and Corporate Governance in Employee-owned Firms' (1996) - Work, Employment and Society 205-226

7 https://www.gov.uk/government/publications/employee-ownership-benefits-and-consequences

8 "Share The Facts" www.conservatives.com. 2016-09-02

## European Union

The oldest example of employee share ownership in the European Union dates back to the years 1970's in Spain with the *Sociedades Laborales* meaning 'workers companies'.

*Sociedades Laborales* in Spain has been recognized as a corporate model with the approval by the Spanish Parliament of Law 24/04/1986. In 1973, the worldwide oil crisis had a great impact on the Spanish economy, which was at the time still under dictatorship of General Franco. Spanish businesses could not bear the impact, leading to a forced adaptation and a huge social change. In that context, workers were faced with the dilemma of losing their jobs or maintaining the company. In 1963, the first *Limited Sociedad Laboral* was founded. The *Sociedad Anónima Laboral de los Transportes Urbanos de Valencia*, the company that managed urban transport in Valencia was owned by its 1,500 employees for twenty years. The first *Sociedades Laborales* were thus linked to the macro-economic situation and an almost natural form of work preservation.[9]

After increasing continuously since 1980, the number of employee shareholders in Europe was slightly declining from 2011, this was due to the impact of the 2008 financial crisis and the policy decisions that followed. However, the situation is stabilizing since 2015.[10]

According to a 2014 report of the European Federation for Employee Share Ownership, *Fiscal incentives are indispensable prerequisites for the development of employee share ownership,* the widespread of employee share ownership depends mainly on incentive policies. They are an engine that creates a boost in the economy leading to, employee motivation, productivity, profitability, growth and employment.[11] A 2015 study by the National Center for Employee Ownership showed that the balance of fiscal costs and benefits of the ESOP policy for the US federal budget in 2015 was $2 billion compared to $17 billion, a gain of $15 billion.[12]

[9] http://www.europarl.europa.eu/RegData/etudes/STUD/2016/587300/IPOL_STU(2016)587300_EN.pdf
[10] http://www.efesonline.org/Annual%20Economic%20Survey/2016/Survey%202016.pdf
[11] http://www.efesonline.org/INDISPENSABLE/Fiscal%20incentives%20are%20a%20prerequisite.pdf
[12] http://www.nceo.org/observations-employee-ownership/c/impact-employee-ownership-esops-layoffs-costs-unemployment-federal-government

After 2008, some European countries decreased fiscal incentives, with as consequence the underlying decline employee shareholders. Some other European countries established higher incentives. In 2009-2012, France and Ireland reduced their fiscal incentives, as well as Denmark, Greece and The Netherlands. In contrast, in Denmark, one of the first deeds of Lars Rasmussen and the new Danish Government in 2016 was to restore the incentives that were removed in 2011 by the former socialist government.

European federations and organizations are trying to create a common environment in the European Union regarding employee ownership, trying thus to increase the awareness of this kind of incentives as a better way to increase employee motivation, and assen the economic environment in Europe by reducing disparities between countries. As for comparison, 10,000 ESOP companies in the US count some 10 million employee owners holding total assets of more than 1,300 billion $ in 2014. While Europe counts only 300 similar majority-employee-owned companies, with some 300.000 employee owners holding 17 billion € in 2016.[13]

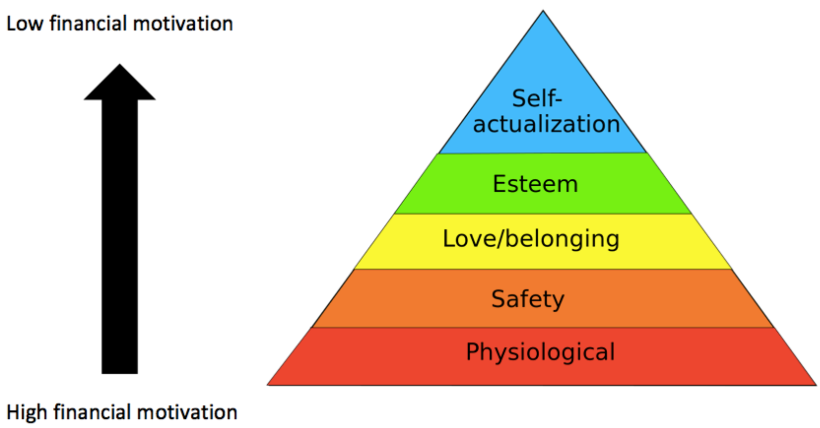
[13] http://www.efesonline.org/EUROPEAN%20COMMISSION/2017/EFES%20Response%20-%20Public%20Consultation%20on%20the%20Capital%20Markets%20Union%20mid-term%20review%202017.pdf

## NON-FINANCIAL AND FINANCIAL INCENTIVES

The term incentive means an inducement which stimulates one to action and effort in a desired direction. An incentive has a motivational power. Nowadays, a large number of incentives offered in organisations in order to motivate their people may be broadly grouped into financial incentives and non-financial incentives.

Taking into consideration the pyramid of Maslow, representing the hierarchy of needs in human psychology, and making a parallel with the subject, one can observe that once money satisfies an individual's physiological and security needs, solely financial incentives cease to be a motivating force. At this point, higher-ranked needs such as status, recognition and ego in the society start to emerge. Social belonging, esteem and self-actualization become thus new motivational tools.

*Table 1 Relation between motivaional power of financial incentives and the satisfaction of needs*




Non-financial rewards can have a stronger impact on employee satisfaction and motivation than traditional financial rewards. According to a study by the Hay Group involving around four million employees; "work climate, career development, recognition and other non-financial characteristics of issues were listed as key reasons for leaving a job."[14]

[14] http://smallbusiness.chron.com/importance-nonfinancial-rewards-organization-45146.html

In the past, many companies relied on money almost exclusively to motivate the workforce. Employees are then only focused on putting all their effort on whatever will grant more money, it becomes their main purpose for being at work rather than working together for a mutual benefit and finding long-term motivations. When facing budgetary difficulties during a recession for instance, making it complicated to offer increases in base pay or other financial incentives, companies tend to rely on non-financial rewards. Nevertheless, non-financial incentives should be a part of any human resources strategy regardless of the economic situation.

In 2011, according to a survey conducted by Mercer, the world's largest human resources consulting firm, employees in Argentina, Brazil, Canada, Mexico and the United States all listed “being treated with respect” as the most important factor in motivation.[15]

[15] https://www.mercer.com/newsroom/hero-mercer-introduce-health-and-well-being-scorecard-to-international-employers.html

## Non-financial incentives

The following non-financial incentives are part of tools used by management to help increase the motivation of employees once money becomes a less efficient motivational driver.

**Appreciation of Work Done**

Appreciation for work done serves as an effective non-financial incentive. Appreciation satisfies an individual's ego needs. Intentionally express appreciation will positive the atmosphere. However, managers need to keep cautious, praising an incompetent employee may create resentment among competent employees.[16]

**Flexibility in work hours**

Flexible hours schedule allows workers to alter workday start and finish times. It often involves a compulsory period of the day during which employees are required to be at work and a period within which all required hours must be worked but with more autonomy. At the end, the total working time required of employees on flexible schedules is the same as that required under traditional work schedules.[17]

**Training opportunities**

The responsibility of management is to provide the right resources and an environment that supports the growth and development needs of the individual employee. Training and Development is the foundation for excellence in performance from employees.[18]

---

16 http://www.forbes.com/sites/chriscancialosi/2016/02/16/the-surprising-power-of-appreciation-at-work/

17 http://www.huffingtonpost.com/sara-sutton-fell/top-10-benefits-of-flexib_b_4158603.html

3 http://www.whatishumanresource.com/training-and-development

**International mobility**

According to a research paper from PriceWaterhouseCoopers, 71% of the millennials want and expect an overseas assignment during their career. “Mobility opportunities are now recognised as a key element in attracting, retaining, developing and engaging talents.”[19]

**Competition**

The existence of a healthy competition among the employees will prompt them to more efforts in achieving their individual and/or group goals.[20]

**Group Incentives**

In a certain case, group incentives can act as more effective than individual incentives to motivate the employees. This results in high synergy and increases in productivity.[21]

**Knowledge of the Results**

Knowledge of the results of work done leads to employee satisfaction. An employee delivers higher performance when aware of the impact of his/her efforts.

**Worker’s Participation in Management**

Inviting workers to participate in management gives them a satisfaction in that their voices are also heard. This importance given to workers creates a cohesion within the organisation strengthening the shared vales, the vision and the strategy. Everyone works for the same goal.

---

[19] https://www.pwc.com/gx/en/managing-tomorrows-people/future-of-work/pdf/pwc-talent-mobility-2020.pdf
[20] https://www.forbes.com/sites/work-in-progress/2015/07/08/competition-at-work-positive-or-positively-awful/
[21] http://www.yourarticlelibrary.com/employee-management/top-7-non-financial-incentives-for-motivating-employees/34675/

**Opportunity for Growth**

Individuals are ambitious by nature. People always need to grow in their career. Providing employees with proper opportunities for growth and career advancement will increase their satisfaction and commitment to the organisation.

**Job Enrichment**

Adding content to a job leads to more responsibility and challenge. Particularly for higher levels of management who often prefer job enrichment, satisfying their needs for a more and more challenging job.[22]

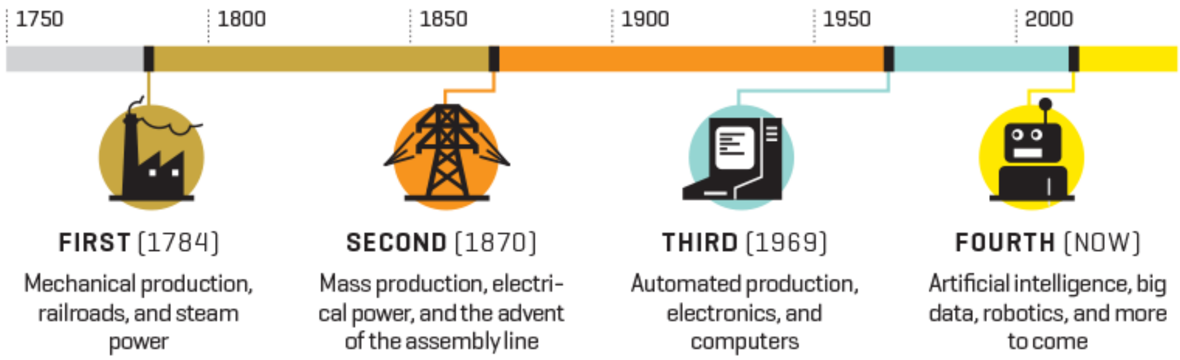
[22] Dr. S.S. Khanka, Human Resource Management, 2013, S.CHAND

## Theories of Motivation

In any cases, money stays a key motivator. Traditional uses of money as incentives in every organisation are in the form of compensation and salaries. These financial incentives have to be increased in order to create a competitive advantage regarding competition in order to attract and retain talents. Money plays a compulsory role in satisfying basic needs such as physiological and security needs. Later on, it also helps to satisfy social needs in the society till a certain level, but when basic needs are satisfied the motivational ability of money becomes less and less efficient.

To put these facts in context, when the Industrial Revolution started in the 18th century, business owners and managers have always been concerned with getting more and more productivity from their workers.

*Table 2 The four industrial revolutions*




[23]

In the 19th and 20th centuries, economists, psychologists and sociologists began applying scientific principles to the study of business management and how to achieve maximum rates of production from the workforce combined with the use of machines. Two of the best known of these theorists were Frederick Taylor (1856-1917) and Frederick Herzberg (1923-2000).[24]

[23] http://fortune.com/2016/03/08/davos-new-industrial-revolution/
[24] http://smallbusiness.chron.com/herzberg-taylors-theories-motivation-704.html

Together they contributed to the so called Theories of Motivation. The contribution of Frederick Taylor was mainly his scientific experiments and analysis of work. His aim and major idea was to determine through studies the best way to perform a job by breaking it down into phases, looking for the most efficient gestures, adapted in combination with the best tools and machines. In 1881, these concepts led to the foundation of Scientific Management. The results were astonishing, in an iron mining plant for instance "workers could extract effortlessly an added 48 tons per day against 12,7 tons per day previously, thanks to scientific management. The gains in productivity are important, work achieved increased by 369% and salaries increased as well by 60%."[25]

Frederick Herzberg, on the other hand was interested in the relations between job performance and job conditions with a humanistic point of view. In his 1966 book titled, *Work and The Nature of Man,* Herzberg presents an anthropological theory to work based on a double myth.

- **The myth of Adam**: After being sent by God on earth his motivation is based on avoiding and decreasing his sufferings.
- **The myth of Abraham**: He's chosen by God, his motivation is based on realizing his destiny.

Man at work is both Adam and Abraham looking for a minimum of sufferings (stress, tiredness) but also an aim at work, feeling special (self-realization, fulfilment).

The relations of man at work are thus fundamentally ambiguous. Herzberg explains this with the Two-Factor theory of motivation. It explains that there is satisfaction factors and dissatisfaction factors at work that are totally independent. Hence, the contrary of satisfaction is an absence of satisfaction and the contrary of dissatisfaction is an absence of dissatisfaction. For him, it is possible for employees to be both satisfied and dissatisfied by a job.[26]

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[25] Frederick Winslow Taylor, *The Principles of Scientific Management*, Harper & Brothers, 1911

[26] Frederick Herzberg, *Work and the Nature of Man*, The World Publishing Company, 1966

Factors of satisfaction are related to the content of a job (tasks, responsibilities) while the factors of dissatisfaction are related to the overall environment of a job (job security, salary, perks). Money as financial incentive decreases dissatisfaction but there is a need for non-financial incentives to increase satisfaction, a factor that money couldn't vary.

The **Two-factor theory** distinguishes between:[27]

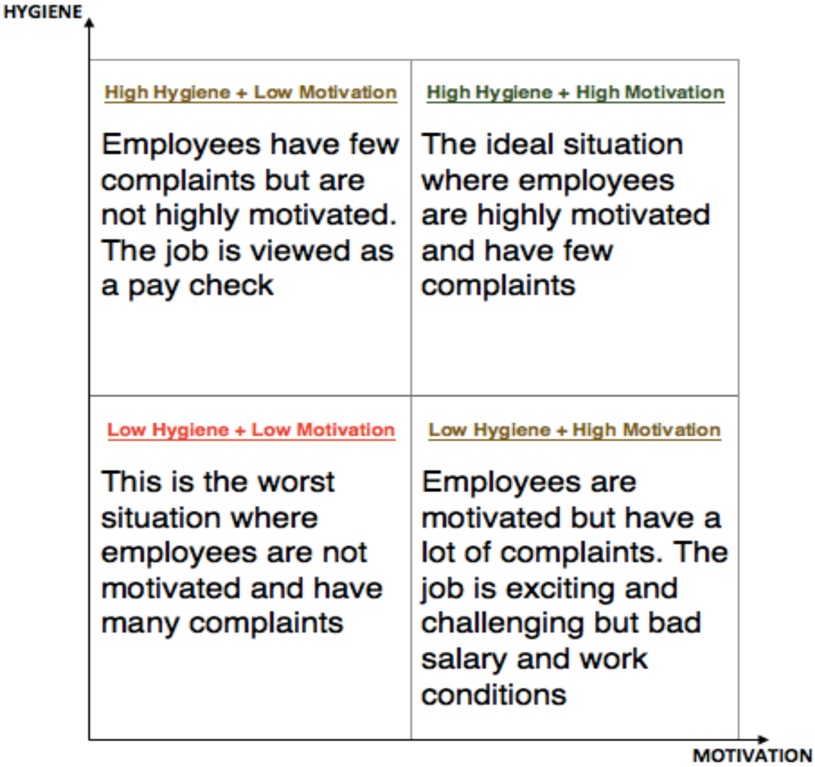
**Motivators:** Challenging work, recognition for achievement, responsibility, opportunity to do something meaningful, involvement in decision making, sense of importance to an organization that give positive satisfaction.

**Hygiene factors:** Job security, salary, fringe benefits, work conditions, paid insurance, vacations that give as result an absence of dissatisfaction. The term "hygiene" is used in the sense that these are maintenance factors, that are extrinsic, part of the environment but external to the work itself.

Money then becomes, what Herzberg termed, a hygiene factor. The presence of this hygiene factor prevents thus from job dissatisfaction but do not provide added job satisfaction to the employees in the organisation. At that point, money cannot be considered as motivator. Then, in order to motivate employees, according to Herzberg, it is necessary to provide other incentives for the satisfaction of ego, status, and self-actualization needs.

[27] Hackman, J. Richard; Oldham, Greg R. (August 1976). "Motivation Through the Design of Work: Test of a Theory". 250–279.

*Table 3 Motivation-Hygiene relation for employees*



[28]

However, these needs are generally more experienced by employees working at higher levels in the organisation. "People in higher positions getting already a high monetary compensation are not motivated by a financial increase, unless the increase is large enough to raise their standard of living and status in the society."

All the above discussion can be summed up as that money is a key motivator but not the only one and also in certain cases it is not a motivator anymore. In order to satisfy different kinds of human needs, management needs to provide non-financial incentives as well.

The combination of non-financial incentives and financial incentives is the best way to create a strong Motivation Strategy. Here after we can take a look at some of the many possibilities of financial incentives.

[28] http://www.valuebasedmanagement.net/methods_herzberg_two_factor_theory.html

## Financial incentives

### Employee Stock Purchase Plan (ESPP)

Outside of the wages and salaries, one common method and closest in characteristics to ESOP for compensating employees in today's corporate environment involves the purchase of company stock. The Employee Stock Purchase Plan (ESPP) offers a method for allowing employees to participate in the overall profitability of the employer over time.

An **employee stock purchase plan** (**ESPP**) is "a tax-efficient medium by which employees of an organisation can purchase the company's shares, often at a discount. Employees contribute to the plan through payroll deductions. At the purchase date, the company uses the accumulated funds to purchase shares in the company on behalf of the participating employees."[29] The amount of the discount depends on the specific plan set within an organisation but can be in general, as much as 15% lower than the share market price.

Depending on when the employee sells the shares, the employee shares will be classified as either qualified or not qualified. If the shares are sold at least one year after the purchase date, the shares will fall under a 'qualified' disposition. If the shares are sold within one year after the purchase date the disposition will be 'not qualified'. These dispositions will have different tax implications.[30]

**Eligibility**

ESPPs often do not allow individuals who own more than 5% of company stock to participate. Restrictions disallow employees who have not been employed with the company for a specified duration, often one year. All other employees have the right but not the obligation to participate in the plan.

[29] http://www.investopedia.com/terms/e/espp.asp
[30] https://www.nceo.org/articles/stock-options-restricted-phantom-sars-espps

**Taxation**

The taxation rules can differ from countries to countries but to simplify, qualified dispositions are taxed during the year of the sale of stock. When the shares are sold, any discount offered to the original stock at market price (on the offering date or purchase date) is taxed as 'ordinary income', while the remaining gain is taxed as a 'long-term capital gain'. Non qualified dispositions can result in the entire gain being taxed at ordinary income taxation rates.[31]

In general, the tax treatment of the sale of ESPP stock is governed by four factors:

- The length of time the stock is held
- The price the stock is actually purchased at
- The discount rate
- The closing price of the stock on the offering date
- The closing price of the stock on the purchase date

**Plan mechanisms**

Employees must apply to enrol in the plan. On the application, they will state the amount that they wish to contribute to the plan, which is usually limited to about 10% of employee's gross annual salary. After the purchase period, the employee shares and capital are placed in individual accounts by a third-party, often a bank, until they sell their shares and collect the profits.

**Potential gain**

ESPPs allow their employees to purchase their stock at a 10 to 15% discount from its market value, thus providing them with an instant capital gain when they sell. However, employers can set their own policies of funds withdrawal or change the contribution levels.

[31] http://www.investopedia.com/terms/e/espp.asp

*Table 4 Advantages and disadvantages of ESPP*

| |
|---|
| **Advantages** |
| ESPPs can help to motivate the workforce and their commitment. |
| It provides employees with an additional remuneration that does not come entirely from the company's finances. The administration and management of ESPPs is also quite simple. |
| Employers that are looking for a relatively simple way to get their employees to buy company stock are taking advantage of ESPPs. Offering simplicity and liquidity with low administrative costs. |
| By consistently participating in an ESPP through payroll deductions, one can accumulate a substantial amount of money over working years.[32] |
| **Disadvantages** |
| The only reason for an employee to enter in an ESPP is the potential profit. |
| No retention effect, since a lot of employees who have access to a stock purchase plan will benefit from engaging in a continuous cycle of buying stock and selling the stock immediately after they met the required holding period.[33] They are not really interested in keeping the share and waiting for the company to acquire value. |

[32] http://www.investopedia.com/articles/stocks/12/employee-stock-purchase-plans.asp
[33] https://www.thebalance.com/when-to-sell-espp-2388745

| |
|---|
| It can negatively affect the share value, if in certain circumstances majority of participant employees start selling their shares at the same time. |
| Holding a lot of a single stock can be risky for employees, especially the ones that are not familiar with investment strategies. |

### Employee stock options (ESO)

An **Employee Stock Option** refers to a right given generally to key and best performing employees to buy a certain number of company stocks at a certain price at a time fixed in advance for a certain period. It is an incentive to perform well.

---

For example, let's take a new manager in a multinational company whom share value equals 5€. This new manager signs a contract where the Total Reward and compensation scheme includes the right for employee stock options as follows:

Exercise price – 5€

Number of shares that he can buy – 10 000

The option can be exercised in two years (vesting period) during one year.

With this type of incentive, the company ensures to keep this talented manager for at least two years, it will also motivate him/her to increase the share value over time. Considering the share value to have increased to 10€ after two years the manager has now one year to exercise the option and he does it immediately. The substantial profit for buying 10k shares for 5€ and selling them immediately for 10€ results to a profit of 50 000€.

---

The ideal situation will be that the market value of the stock will have increased during the vesting period, so that employees are able to purchase the shares at a significant discount. The employee's gain is the difference between the exercice price and the market price at the time the options are exercised. "Once employees own stocks rather than options to buy stocks, they can either hold the shares or sell them on the stock market."[34]

[34] http://www.referenceforbusiness.com/encyclopedia/Eco-Ent/Employee-Stock-Options-and-Ownership-ESOP.html

In the past, ESOs were a form of compensation limited to certain employees such as top executives. In the years 1990s, stock options were granted to all employees especially in high-tech companies in order to attract and retain top talents. Eversince, various companies in different sectors have tried to mimic the dynamic atmosphere of the high-tech companies.

*Table 5 Advantages and disadvantages of ESO*

| **Advantages**[35] |
|---|
| With a financial stake in the company's performance, granting stock options increases employee loyalty and commitment to the organization. |
| Talented employees will be attracted to the company, and will stay longer in order to profit from the increase of the share value. |
| Stock options also offer tax advantages to businesses. Only when employees exercice the option, the company is allowed to "take a tax deduction equal to the difference between the strike price and the market price as compensation expense." |
| Granting options enables the company to pay employees with a a recognition of debt rather than cash with the hope that the stock market**,** not the company, will one day pay up. |

[35] http://www.referenceforbusiness.com/encyclopedia/Eco-Ent/Employee-Stock-Options-and-Ownership-ESOP.html

| **Disadvantages** |
| --- |
| Employees often cash out their shares immediately after exercising their option to buy. They do not remain shareholders long, thus any motivational value of the options is lost. |
| The difference with regular shareholders is that employees who hold stock options do not share the risk of a stock price downfall. Encouraging excessive risk taking by management to increase the share value. |
| If a large number of employees exercise their options at the same time it can create unstability in the company's equity structure. The company is required to issue new shares of stock when employees exercise their options, this increases the number of shares and dilutes the value of stock held by other investors |

### Phantom stock and Stock Appreciation Rights (SARs)

Stock appreciation rights (SARs) and phantom stock are very similar. They are both basically bonus plans that grant not necessarily stocks but the right to receive an award based on the value of the company's stock.

"**SARs** provide employees with a cash or stock payment based on the increase in the value of a stated number of shares over a specific period of time. **Phantom stock** provides a cash bonus based on the value of a stated number of shares, over a specified period of time. Unlike SARs, phantom stocks may offer dividend-equivalent payments."[36] Phantom stocks and SARs can be given to any employee but could require the achievement of certain objectives such as sales or profits.

---

**Phantom Stock**

For instance, a company could promise Jane, its new employee, that it would pay her an amount equal to the value of a fixed number of shares (set at the time the promise is made). In January 2020, the employer promises to pay her the value of 500 shares in five years, the share increases from 10 to 15€. In 2025, the company would thus pay her 500x15 = 7500€.

**Stock Appreciation Rights**

For instance, a company could promise Gerard, its new employee, that it would pay him an amount equal to the increase in value of a fixed number of shares (set at the time the promise is made). In January 2020, the employer promises to pay him the increase in value of 500 shares valued at 10€ in five five years. In 2025, the share increases to 15€, the company would thus pay him 5x500 = 2500€.

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[36] https://www.nceo.org/articles/phantom-stock-appreciation-rights-sars

**Taxation and accounting**

For both phantom stocks and SARs, employees are taxed when the right to the benefit is exercised. If the reward is set in shares, the amount of the gain is taxable at exercise, even if the shares are not sold.

The company must record a compensation charge on its income statement as the employee's gain in the reward increases. Each year, both incentives must use a ‘pricing model’ to adjust the additional increase, or any other adjustment to value, due to the rise or fall in share price.

*Table 6 Advantages and disadvantages of Phantom Stock and SARs*

| |
|---|
| **Advantages** |
| One of the great advantages of these plans is their flexibility. |
| Grants a financial interest linked with company performance. |
| Increases employee motivation and commitment. |
| **Disadvantages** |
| Flexibility can also be challenging. These incentives can be designed in so many ways that management has to consider carefully issues such as number of shares, vesting rules, liquidity concerns, restrictions, eligibility and corporate governance. |
| For both Phantom stocks and Stock appreciation rights the complex tax and accounting rules make it quiet complex to implement in every organisation. |

## Profit sharing and Gainsharing

**Profit sharing** refers to "various incentive plans introduced by businesses that provide direct or indirect payments to employees that depend on company's profitability in addition to employees' regular salary and bonuses."[37]

Profit sharing is a variable compensation plan. A percentage of annual profits is designated as a pool of money to share with often part of the employees such as executives. The pool of money generated is then divided across covered employees using a formula for distribution that can vary depending the company.

*Table 7 Advantages and disadvantages of profit sharing*

| **Advantages** |
| --- |
| The employees share a sense of team spirit, they have the same goals and are rewarded equivalently in percentage. |
| Employees who know that they will receive financial rewards if the company does well are more likely to want the company to succeed. |
| Employees develop a sense of commitment for their work and the company. |
| By sharing, the company is communicating an important message to the workforce: "Your contribution is respected. Let's share the financial benefits." |

[37] https://en.wikipedia.org/wiki/Profit_sharing#cite_note-3

| Disadvantages |
| --- |
| Individual employees cannot know the impact of their own contributions on the profitability of the company. |
| With profit sharing, employees receive the profit sharing money regardless of their individual performance.[38] |
| Generating the right formula for profit sharing calculations can be complex. |
| It is often only high-level employees that access a profit sharing plan. |

[38] https://www.thebalance.com/profit-sharing-1918230

In order to prevent from the disadvantages of profit sharing, gainsharing was developed. **Gainsharing** is an incentive plan "that returns cost savings to the employees, usually as a bonus. It is a productivity measure, as opposed to profit-sharing which is a profitability measure. There are three major types of gainsharing":[39]

- Scanlon plan
- Rucker plan
- Improshare

Taking the Scanion plan more in details, it all started in the years 1930s, Joe Scanlon an MIT Lecturer believed that the person closest to the problem often has the best and simplest solution, meaning the workforce.

As for example, Scanlon was involved in a company aiming to resolve a business case. He asked employees for their ideas and suggestions to help reduce waste and lower costs. The company became more successful as many improvements were made.

Thanks to Joe Scanlon a calculation method to measure monetary and productivity gains was created. Nowadays, companies use Gainsharing to both measure performance and reward employees when it improves. The objectives of a company's Gainsharing plan depend on its cost structure and competitive strategy.[40]

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[39] Gomez-Mejia, Luis R.; Balkin, David B. (2007), Managing Human Resources (Fifth ed.), Upper Saddle River, New Jersey: Pearson Prentice Hall

[40] *All You Ever Wanted to Know About Gainsharing* but Were Afraid to Ask. Gainsharing Consulting. Imberman and DeForest. 2012

## Pay for Performance

Salary increases are often expressed as a percentage of an employee's total compensation, they are often based on skills, expertise, contribution, performance and the internal value of the job.[41]

Increases in base pay can take other forms as well, at the University of South Florida for instance, they use a so called **Pay for Performance** method as part of their compensation strategies.

Enhancing pay for successful outcomes, pay for performance may be made in the form of either a single sum payment or a permanent increase to base pay. Given as an increase to base pay is usually for longer term reasons, such as:

- Goal accomplishments which have a long-term, cumulative impact
- Consistently superior performance over a number of years, where single bonuses may have been given
- Superior application of new competencies which are expected to be consistently applied over an extended period of time.

Payment in recognition of the accomplishment of shorter term projects or goals is paid in single sum payments.[42] While job performance and merit are major factors in any pay raise decision, other factors may be considered as well:[43]

- Employer overall financial situation/budget for raises
- Employee length of service
- Employee qualifications
- Employee requirements
- Benchmark
- General economic conditions, inflation rate, changes in the cost of living, etc.

[41] https://cardinalatwork.stanford.edu/manage-lead/employees/recognize-reward-employees/base-pay-administration/objectives-guidelines
[42] https://usfweb2.usf.edu/human-resources/pdfs/class-comp/pay-for-performance.pdf
[43] http://hrdailyadvisor.blr.com/2014/03/20/key-factors-in-determining-salary-increases/

*Table 8 Advantages and disadvantages of Pay for Performance*

| |
|---|
| **Advantages** |
| Paying employees individually regarding their performance. |
| Employees feel the merit of this kind of grant. |
| It creates a gentle and productive competition amongst employees. |
| **Disadvantages** |
| Difficult to measure the individual performances. |
| No tax benefits with salary increases. |

## Bonuses

**A bonus** is an additional compensation "given to an employee above his/her normal wage. A bonus can be used as a reward for achieving specific goals set by the company, or for dedication to the company."[44] Employers can distribute bonus pay randomly as the company can afford to, or the amount of the bonus can be specified by contract.

**Types of Bonuses**

- **Contracted bonus:** Often for senior executives, they may have contracts that require the company to pay out bonuses.
- **Performance bonus:** Rarely, companies offer bonuses to people below the executive level. These bonuses are based on different factors, such as, personal performance, company goals, salary level**.**
- **Sales commissions:** For sales employees, also considered as bonus as well, but they differ from other bonuses in that they are directly tied to a single factor, the sales.
- **Random bonus:** Some companies grant year-end or holiday bonuses that are not part of an employee contract.

The general definition for a bonus is 'anything over and above what is expected'. In certain cases, bonuses can reveal themselves far higher than the employee's salary compensation. As for example, Goldman Sachs CEO L. Blankfein received $68 million in cash and stock as a 2007 bonus, but only made $600,000 in salary.[45]

[44] http://www.investopedia.com/terms/b/bonus.asp
[45] http://money.cnn.com/2007/12/21/news/newsmakers/blankfein_bonus/

*Table 9 Advantages and disadvantages of bonuses*

| |
|---|
| **Advantages** |
| Bonus pay is used by many organizations as a 'thank you' to employees that achieved significant goals.[46] |
| Improves employee morale, motivation, and productivity. |
| Only paid out after reaching certain organisation objectives. |
| **Disadvantages** |
| Knowing that a bonus can be far higher than the salary, it can be a source of stress and excessive risk taking reason for high-level employees. |
| Often for senior executives only. |
| Less tax efficient compared to other financial incentives. |

[46] Heathfield, Susan M., *What is Bonus Pay?,* The Belance Journal, September 03, 2016

## Conclusion

Following the analysis of several major non-financial and financial incentives and making a link with Employee Stock Ownership Plan one can notice that ESOP integrates benefits from both incentives. In the way that ESOP satisfies multiple employees' needs, more than just the monetary ones. Making it a perfect tool - in combination with others - to build a strong Motivation Strategy.

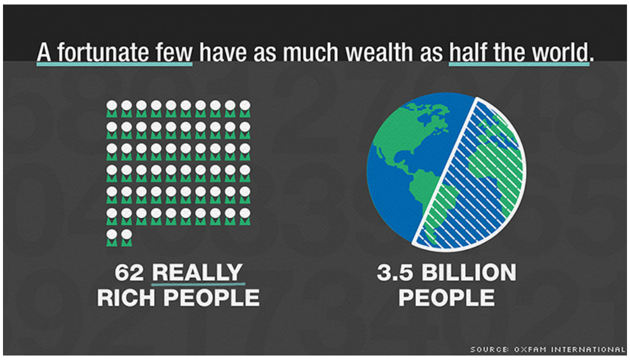
It integrates appreciation of work done, it creates a healthy competition, it is a group incentive, employee satisfaction is met with the knowledge of the results, their commitment and sense of involvement is clear with their indirect participation in management and corporate governance. It is also a job enrichment permitting to completely change the mindset of employees at work, they experience a sense of ownership of the job as they have got a financial stake in the company.

Compared to other financial incentives, the main advantage of ESOP is that it can be considered as a long term and sustainable incentive. The employees are part of the stock ownership plan until they leave or retire from the company. Unlike other incentives such as employee stock options where employees rush to sell their shares after the vesting period of the option, in order to acquire a quick monetary profit, making the stock option lose all of its motivational value.

Finally, regarding the Theories of Motivation, ESOP contributes to the overall well-being of an employee, who is both 'Adam and Abraham' at work. Making use of Frederick Taylor contributions, an organisation should combine individual improvements gained, with the right use of other tools such as machines and Information Technologies to increase the productivity of employees and thus decrease their *sufferings* at work. And on the other hand it also calls for the contributions of Frederick Herzberg, by satifiyng the needs for recognition, responsibility, meaning and involvement in decision making and thus increases the sense of importance needed by employees.

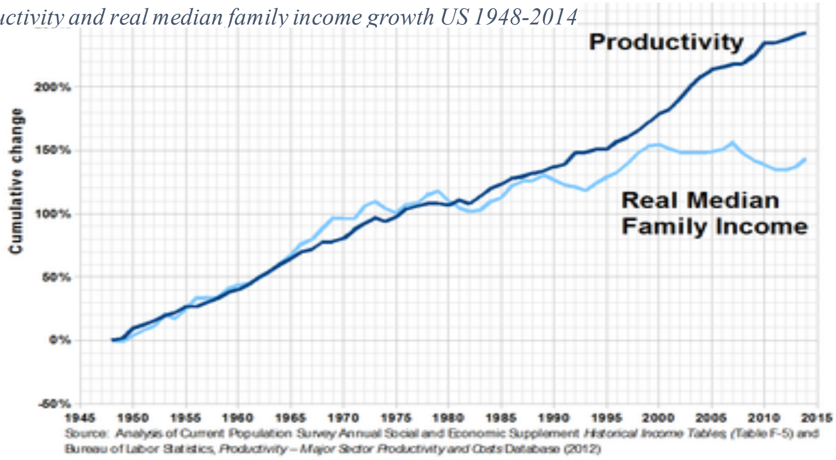
## SUCCESS ABROAD

New methods of wealth distribution and compensation for employees such as ESOP are more and more discussed. This can be explained by the gaps between what CEOs earn and what workers do. Such uneven wealth distribution has long been a topic of discussion in economics and polics. During the 2016 presidential elections in the United States, Senator and Candidate Bernie Sanders main campaing topic was about income inequality. He stated: "It is not sustainable that the top 1% of the population now earns almost as much as the bottom 90%".[47]




These discussions are now increasingly common in the corporate world as well. A 2014 International Monetary Fund (IMF) study illustrates that extreme inequality is self-defeating as it slows down economic growth.[48] Also, insights from behavioral economics show that it damages employee morale and productivity. In the past, productivity gains in organisations were linked to wage increases, but since the end of the 1980's with the introduction of more liberal policies with Margaret Tatcher and Ronald Reagan it is not the case anymore.

*Table 10 Productivity and real median family income growth US 1948-2014*




From this, employee financial participation plans have emerged as a potentially viable solution to both the problem of wealth distribution and the challenge of employee engagement.[49]

[47] https://berniesanders.com/issues/income-and-wealth-inequality/
[48] https://www.theguardian.com/business/2014/feb/26/imf-inequality-economic-growth
[49] https://hbr.org/2015/09/huawei-a-case-study-of-when-profit-sharing-works

## Major ESOP companies

All around the world, multiple companies are using ESOP schemes in order to provide employees part or full ownership of the organisation in which they perform a job. Major well-known companies even listed in the Fortune 500 are employee-owned. An overview of some of these major companies can be find below.

### Huawei

**Huawei Technologies Co. Ltd.** is a Chinese multinational; it is the largest telecommunications equipment manufacturer in the world.

The company was founded in 1987 by Ren Zengfei, a former engineer in the People's Liberation Army. In 2015, Huawei has over 170,000 employees and recorded a profit of $5.5 billion. It has 21 Research & Development institutes around the world. Its products and services have been deployed in more than 140 countries.

Huawei is a partly employee-owned company. The founder retains a direct 1.42% share of the company. The remaining shares are held by an employee stock ownership trust managed by Shenzhen Huawei Investment Holding Co. About 64 percent of Huawei staff participate in this plan, 82,471 employees as stated in Huawei’s 2014 Annual report, as of December 31, 2014. - foreign employees are not eligible - and hold what the company calls ‘virtual restricted shares’. These shares are nontradable and are allocated to reward performance and productivity. When employees leave or retire from Huawei, their shares are bought back by the company, which compensates them for their holding. Although employee shareholders receive dividends, the shares do not entitle them to vote in management decisions.

Ren Zhengfei designed the Employee Stock Ownership Plan (ESOP) himself. At the time, Zhengfei had no idea what a stock option system was for instance. Chinese entrepreneurs were not familiar with the types of incentives developed in the West. At that time in China, being a private owner and thus capitalist was still perceived as an awful concept.

Huawei is a private company and being in majority employee-owned, means that they take a large share from the companiy’s earnings. In the case of Huawei, over the last twenty years, the total net profit that was paid out to its employees is considerably higher (three times) than the total net profit that was retained in the company.[50]


50 [50] https://hbr.org/2015/09/huawei-a-case-study-of-when-profit-sharing-works

## Procter & Gamble

Procter & Gamble Co., also known as P&G, is an American consumer goods corporation founded in 1837 by William Procter and James Gamble. In 2014, P&G recorded $83.1 billion in revenue. P&G was one of the early American companies to introduce an ESOP as part of its employees' remuneration.

"The Procter & Gamble Profit Sharing Trust (PST) and Employee Stock Ownership Program is the Company's primary retirement program for their employees in the United States."[51] More than just providing retirement benefits for all the full-time U.S. employees, P&G has created ownership at all levels of the organisation. Under this plan, each employee has an individual account and receives an annual contribution of restricted shares and/or common shares funded by the company through the profit sharing trust. Participants also earn dividends on the stock in their PST account and have the option of reinvesting those dividends or taking them in cash. The amount and form of the annual contribution varies depending on the individual base salaries and seniority.

In January 1989, the company marked all minds while making a page in The New York Times in an article entitled: '*P.&G. Plans to Add $1 Billion To Its Employee Stock Plan'*. The company announced that it would add $1 billion to its employee stock ownership plan, a strategy that will provide considerable tax benefits and offer a shield against a hostile takeover. At that time, P&G ESOP plan owned about 14 percent of the company's common stocks, and the new investment raised its stake to about 20 percent.[52]

Regarding the voting right of participants in The P&G ESOP, employees can instruct managers of the trust how to vote the common shares that are allocated to their account. If shars are not voted, the trust managers will vote them in proportion to the shares for which they have received voting instructions. The same treatment will apply for shares that have not been allocated to any account yet.

[51] http://www.wikinvest.com/stock/Procter_&_Gamble_Company_(PG)/Procter_Gamble_Profit_Sharing_Trust_Employee_Stock_Ownership

[52] http://www.nytimes.com/1989/01/12/business/company-news-p-g-plans-to-add-1-billion-to-its-employee-stock-plan.html

## New Belgium Brewing Company

**New Belgium Brewing Company,** also refered to as *New Belgium* is a craft brewery located in Fort Collins, Colorado. It was founded in 1991 by Jeff Lebesch and Kim Jordan. In 2016, it was eighth-largest brewery in the United States.

In 2015, New Belgium had 780 employees and $245 million in revenue. Since 2000, the company developed an an employee stock ownership plan and in January 2013 became 100 percent employee-owned. New Belgium's focus on employee-ownership has completely reshaped the culture of collaboration.[53]

New Belgium is now well-known for its innovative corporate culture. The company has a low 3% annual employee turnover and thus a very high retention rate. In 2013, Outside magazine named New Belgium Brewing Company the 17th best place to work in America in the 250+ employee category. Company culture and perks were mentioned as being exemplar.[54] Employees who become part-owners of the business are recognized at an annual Ownership Induction Ceremony and are offered a bicycle recalling the company's symbol.

New Belgium has been a partial ESOP since 2000 and was advised by an investment-banking firm with expertise in ESOP transactions which assisted in structuring and completing the buyout transactions. The transition to a 100% ESOP in 2013 has put the company on a path that will have a “multi-generational impact”. Prior to this deal, New Belgium co-workers held 41% of the company’s shares. According to the founder and CEO Kim Jordan, it is an opportunity honouring human capital and providing a succession framework while keeping the executive team unchanged, ensuring the continuity of the founders’ vision New Belgium ESOP also represents a strong sustainable competitive advantage towards competition.

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[53]Video:http://www.newbelgium.com/community/Blog/new-belgium-brewing/2015/10/23/In-the-news-PBS-looks-at-New-Belgium-s-ESOP-program

[54] https://www.outsideonline.com/1857141/100-best-places-work-2013

“A key component to New Belgium's success has been the talented employees it's been able to attract and retain — which is part of the reason why workers now own the entire company and are engaged in each facet of the business.”[55]

[55] http://www.businessinsider.com/new-belgium-brewing-kim-jordan-2016-6

## Case study: The John Lewis Partnership

The **John Lewis Partnership PLC** (**JLP**) is a British company founded in London 1929 by John Spedan Lewis. “The group operates John Lewis department stores, Waitrose supermarkets, its own banking and financial services, and other retail-related activities. John Lewis has a premium marketing strategy that appeals to middle and upper-class customers. The JLP group is the third largest UK non-traded company by revenue.”[56] The business has an annual turnover of more than £11 billion.

The company is owned by all its employees through a trust on their behalf. All the employees have the status of *Partner*, the 86,700 partners have voice in the management of the business and receive a share of annual profits, which is usually a significant addition to their salary. Today, the partners own 48 John Lewis boutiques across the UK, 355 Waitrose supermarkets, an e-commerce and catalogue business, a large production facility and a farm.

The founder's vision of a successful business powered by its people defines their unique corporate strategy, culture and organisation. The profits and benefits created by their success are shared by all the partners. The John Lewis Partnership is a visionary and successful way of doing business, It's the finality of an ideal that was imagined nearly a century ago.

The John Lewis Partnership ESOP was structured and developed by the founder, he elaborated a completely unique corporate governance system set in their so called JLP ‘Constitution’. This constitution integrates both strategic and commercial guidelines but also internal politics and democratic instructions on how every partner can contribute with voice to the business.

The John Lewis Partnership is a member of the Employee Ownership Association (EOA) in the United Kingdom and is one successful example of a growing number of businesses with an employee-owned structure.[57]

[56] https://en.wikipedia.org/wiki/John_Lewis_Partnership
[57] https://www.johnlewispartnership.co.uk/about.html

**Organisation of JLP**

Based on the John Lewis Partnership *Constitution*. The Partnership Council is composed by a chairman and 82 councils that are elected by the partners. The councils have the power to discuss any matter, and are responsible for the non-commercial aspects such as the development of the social activities within the Partnership. Non-management partners also have an open channel for expressing their ideas and suggestions to the management and the Chairman of the Council. All the partners have the opportunity to influence the business through divisional branch forums, discussing local issues at every store with John Lewis and Waitrose *Councils*.[58]

JLP has a very extensive programme of social activities for its partners, as for example:

- The Partnership offers subsidised staff events and excursions and conducts charity work.
- JLP publishes two weekly in-house magazines, *The Gazette* and *The Chronicle* – the latter one varies from each branch division. Partners can communicate through articles to the magazines even anonymously.
- Two large country estates with parks, playing fields, tennis courts, a golf club, a sailing club with five cruising yachts, and three hotels.
- The John Lewis Partnership bought part of the Brownsea Island and the Brownsea Castle in the South-East of London, in 1962. The group runs it as a holiday venue for employees.
- JLP also owns the Odney Club, an estate and private club that is charged to the public unlike partners that are granted a free membership.

Finally, every Partner owns a stake in the company through shares that are hold in a trust managed by the management and executives, the functioning is in the form of a pool. In the way that, employees do not earn individual shares but the shares are global and owned by all the partners. They receive a net annual bonus, which is a share of the profit. It is calculated as a percentage of salary, with the same percentage for everyone, from top management down to storage workforce. The bonus is dependent on the annual profitability of the group, since 2000, it has varied between 9 and 20% of the partners' annual salaries.

[58] An eye for retail, People Management Magazine, 16 July 2009 A human resources' view of the John Lewis Partnership

## Financial performance 1999-2015

*Table 11 JLP Financial performance 1999-2015*

| [59][60]Financial year | Revenue | Profit before tax | Net profit | Partner bonuses | Profit retained |
|---|---|---|---|---|---|
| 2014-2015 | £10.94 billion | £342.7 million | £299.7 million | £156.2 million (11%) | £143.5 million |
| 2013-2014 | £10.17 billion | £376.4 million | £304.1 million | £202.5 million (15%) | £156.4 million |
| 2012–2013 | £9.54 billion | £509.0 million | £409.6 million | £210.8 million (17%) | £198.8 million |
| 2011–2012 | £8.73 billion | £393.3 million | £353.8 million | £165.2 million (14%) | £188.6 million |
| 2010–2011 | £8.2 billion | £431 million | £367.7 million | £194.5 million (18%) | £173.4 million |
| 2009–2010 | £7.4 billion | £389 million | £306.6 million | £151.3 million (15%) | £155.3 million |
| 2008–2009 | £7 billion | £279.6 million | £580 million | £125.5 million (13%) | £146.0 million |
| 2007–2008 | £6.8 billion | £379.8 million | £320.4 million | £181.1 million (20%) | £198.7 million |
| 2006–2007 | £6.4 billion | £319.2 million | £263.2 million | £155 million (18%) | £164 million |
| 2005–2006 | £5.7 billion | £251.8 million | £215.1 million | £120.3 million (15%) | £94.8 million |
| 2004–2005 | £5.3 billion | £215.3 million | £175.9 million | £105.8 million (14%) | £70.1 million |
| 2003–2004 | £5.0 billion | £173.5 million | £148.8 million | £87.3 million (12%) | £61.5 million |
| 2002–2003 | £4.7 billion | £145.5 million | £108.6 million | £67.6 million (10%) | £41.0 million |
| 2001–2002 | £4.4 billion | £141.5 million | £103.3 million | £57.3 million (9%) | £46.0 million |
| 2000–2001 | £4.1 billion | £149.5 million | £120.4 million | £58.1 million (10%) | £62.3 million |
| 1999–2000 | £3.7 billion | £194.7 million | £161.0 million | £77.8 million (15%) | £83.2 million |

Note: FY February to January. The percentage figure in the bonus column shows the value of the bonus in relation to the salary of a partner.

[59] https://www.johnlewispartnership.co.uk/financials/financial-reports/annual-reports.html
[60] https://en.wikipedia.org/wiki/John_Lewis_Partnership

The success of the John Lewis Partnership reflects itself in its financial performance, from 1999 to 2015 the revenue of the group has tripled. Increasing from £3.7 billion to more than £11 billion today. The growth was accompanied with an increase of the net profit over time, it permitted to grant the employees net bonuses up to 20% of their annual salaries in 2008. Knowing that one month salary is equal to 8.33%. It shows that since 2000, all the employees received more than one month's additional salary as bonus each year.


**Picture: Executives of the John Lewis Partnership announcing a 17% bonus for all partners 2013**

## Conclusion

This overview of major employee-owned companies showed up that an Employee Stock Ownership Plan may take many forms. Each company here above is different from the other, in the structure of their employee ownership plans but also in its extent, power and benefits.

There is no one ideal solution to apply in every company, one should consider every companies as unique. The ESOP implementation cannot be standardized and has to take into account less tangible aspects such corporate culture and corporate governance with internal politics to profoundly understand the objectives of the ESOP and the way employees will collaborate in the running of the organisation.

A clear fact is that since the introduction of an Employee Stock Ownership Plan in these companies they have been thriving and they still do. The particular case of the John Lewis Partnership is very interesting, it is an insight in an organisation where the ESOP has fully merged with all aspects of the business. Moreover, it has put happiness, fairness and equality amongst employees as first reason of existence. The benefits and profits are shared in the same proportions for all and the remainings that are retained within the group are serving for its expansion and the acquisition of goods and services that will benefit everyone.

From this, one can ensure that if well applied, employee financial participation plans are sustainable and viable solutions to both the problem of wealth distribution and the challenge of employee engagement.

## ADVANTAGES AND RISKS OF ESOP

ESOPs offer many advantages to employers but as for any incentive there exist also some disadvantages or drawbacks that have to be considered carefully. However, it is important to point out that much of the researches in a variety of countries and different forms of employee participation have concluded that employee financial participation plans have a positive influence on the performance of companies. Here after, several factors inherent to ESOPs are discussed.

### Contributions to performance improvement

**Improvemens in efficiency, productivity and competitiveness**

ESOP creates incentives for workers to be more involved in the organisation, they have a stronger link with the company that provides them with a financial stake and as they feel like owners they will act as commited owners.

It will motivate greater efforts from their part, increasing productivity but also generate a more cooperative attitude. An alignment of their interests with the ones of the company will then emerge. Resulting in increased productivity and improved overall enterprise efficiency, which make the company more competitive.

**Acquisition, retention and employee turnover**

ESOP can help recruit and retain talents. In SMEs it is in some cases quite difficult to attract and retain employees that often prefer a career development in larger organisations. But for both SMEs and large organisations the use of an ESOP may have an effect of locking the most valuable employees since an ESOP share grants annual dividends but also acquires value over time until the employee leaves or retires from the company. A lower turnover rate also reduces recruitment and training costs.

**Source of income after retirement**

After leaving or retiring an employee-owner ESOP shares are bought back by the company with ideally a capital gain on the selling of the shares. This additional income can be put aside in a savings intent to increase the income available for retirement.

**Improved economic resilience**

Firms may implement ESOP to create a more flexible employee remuneration package. This will have an effect of stabilization paying them more in prosperous periods and less in more difficult times. For instance, during the financial crisis many companies couldn't afford to increase wages nor support salaries expenses and were forced to dismiss people.

Employee owned companies focus on long term operations, avoiding excessive risk taking in different phases of the business cycle which is more the case in non-employee-owned companies.

**Prevents from aggressive takeovers**

Compared to private investors, employees having stake in an organisation through their job and ESOP shares wouldn't sell their shares as easily for a short-term profit in case of an aggresive takeover.

**Business succession**

The European Commission in a 2011 report states that each year some 450,000 companies in the EU look for successors it affects about 2 million employees. "Every year, there is a risk of losing approximately 150,000 companies and 600,000 jobs due to inefficient business transfers." Employee buyout is thus a possible solution to the business succession problem of certain companies.

The ESOP model encourages business owners to sell their enterprise to their own employees and facilitates the gradual acquisition of up to 100% of company stock by employees. Employees do not have to contract a debt, since the employee stock purchase is generally financed by the ESOP trust and the debt reimbursed each year with the dividends earned by the trust.

**Tax benefits**

ESOPs have a number of significant tax benefits, thanks to financial incentives awarded by the Government. However, thses fiscal incentives vary from country to country. Fiscal incentives may include for instance, tax deductions on stock and cash contributions to an ESOP and favourable tax rates on dividends of ESOP shares.

**Solution for the agency theory problem**

Introducing an ESOP scheme may decrease the agency theory effect, creating a mechanism which ensures that the interests of workers are aligned with the ones of the company. A more comprehensive and cooperative behaviour of employees will contribute to positevely influence the company's performance. This potential solution will be discussed further on.

**Employees wellbeing**

A less tangible advantage with the establishment of an ESOP is an increase in employee loyalty in addition to productivity. Employees feel treated with the same respect that is accorded to an executive.[61]

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61 http://www.referenceforbusiness.com/encyclopedia/Eco-Ent/Employee-Stock-Options-and-Ownership-ESOP.html

## Potential drawbacks

Many studies showing the positive effects of various forms of employee financial participation also suggest that they may be associated with problems for both the organisation and the workforce. While employee-owned companies have generally outperformed their conventional competitors, there have been a number of failures due to reasons summarized below.

**Interference with management**

Several studies called employee ownership in organisations as being a form of 'collective governance'. Employees may then interfer with the management in decision-making. However, an ESOP can be established with some restrictions towards employees diminishing their direct involvement in the decision-making process and setting a more indirect one. This will keep a certain line between management and non-management employees.

Here is an example of an ESOP failure:

South Bend Lathe is an important manufacturer of metalworking lathes and machines, the company close to bankruptcy was saved by its 500 employees in 1975 and became the first 100% employee-owned company in the United States. The company was thriving for years after the buyout. But in 1980, the employees went on strike, complaining about the wage-system that the management had put in place. The case was highly publicized and the company was cited as "the firm where owners went on strike against themselves". Later on, the company terminated its ESOP as the employees sold all their shares to a private corporation.[62] The main issue in this case was a lack of communication and collaboration between management and non-management employees.

[62] http://www.cesj.org/resources/articles-index/south-bend-lathe-what-can-we-learn-from-an-esop-failure-by-norman-g-kurland/

**Individualism**

An ESOP is a group incentive where participants collect the profits and benefits thanks to the commitment and productivity of all employees. But this fact raises the problem of individualism. One individual employee would try to avoid to put in too much effort and wait for others to outperform and collect the fruits and profits generated by the effort of others.

The management should thus implement a monitoring program, also as ESOP participants are all owners there will be an effect of auto-control and arbitrage amongst employees.

**Dilution of shares**

Caution has to be taken with the issuance of new shares, companies should keep in mind the effect of dilution that can affect the value of shares especially in publicly-traded companies. As the number of shares increases, the existing shareholders own a smaller/diluted percentage of the company, decreasing the value of each share.[63]

**Risk for employees**

From the employees' point of view, holding a lot of company shares creates the double risk of becoming unemployed and losing their potential savings if the company experiences severe financial issues.[64] Moreover, employees in an ESOP may not be able to sell their shares before they leave or retire from the company.

However, the company shares form in general only a small part of an employee's savings.

[63] http://www.investopedia.com/terms/d/dilution.asp#ixzz4onreDxXB
[64] http://ec.europa.eu/internal_market/company/docs/modern/141028-study-for-dg-markt_en.pdf

## Conclusion: Do's and Dont's

*Table 12 ESOP DO's & DONT's*

| **DO's** |
|---|
| ESOP should be implemented in **large companies** in order to increase efficiency, productivity and competitiveness. Also since they grant more shares than in SMEs they provide employees with an additional and flexible compensation each year through dividends and with a potential capital gain when they leave or retire. |
| ESOP should be implemented in **SMEs** for a business succession, to save employees' jobs when the company faces financial difficulties or to prevent from an aggressive takeover. Moreover, it helps them in being more competitive to attract and retain talents that in general often prefer large companies for a carreer development. |
| The implementation of an ESOP should integrate a training programme for employees, in order for them to understand the functioning of a financial instrument in this case a share and its inherent risks. |
| **DONT's** |
| The implementation of an ESOP should not take place without establishing a framework describing the extent of employees' collaboration and relationships with management. In order to avoid management interferences. |
| Companies should not implement an ESOP without a combined monitoring programme. Each individual employee performance has to be directly or indirectly measured. |
| Companies should not issue new ESOP shares without taking into account the effect of dilution of shares that would damage the stock value. |

## ESOP AS PART OF A CORPORATE STRATEGY

Esop as part of a Corporate Strategy can help in resolving intrinsic problems of organizations in addition to contributing to performance, productivity and profitability improvements.

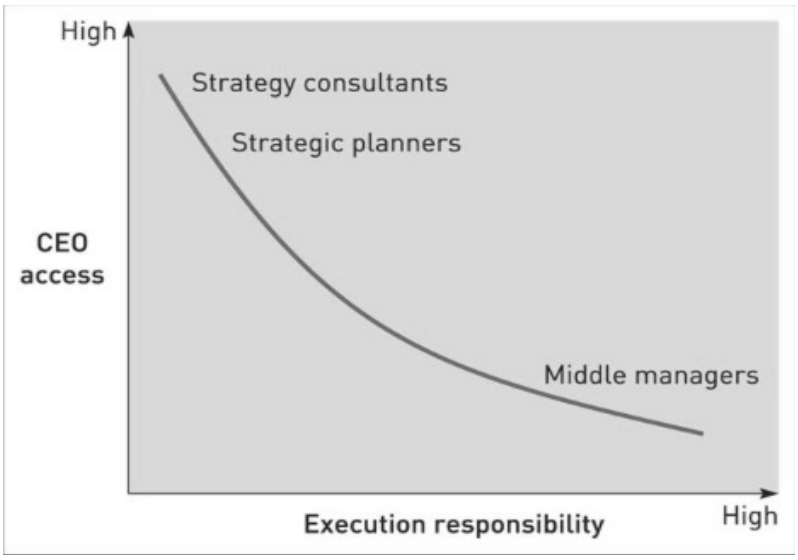
Corporate Strategy is a continuous cycle involving the formulation and implementation of the major objectives and actions taken by a company on behalf of its owners, based on the organisation's resources and capabilities. Corporate Strategy provides the overall long-term direction to the organisation.

Corporate strategy has its own issues that have to be addressed continuously, in particular three main components of corporate strategy refers to the access/execution paradox, the agency theory and more recently the development of a corporate social responsibility (CSR). After explaining these components, a conclusion will clarify the way the implemetation of ESOP can help address these issues or at least help diminish their negative impact.

## The Access/Execution Paradox

A wide range of people can be involved in strategy varying from case to case. For example: the executive committee, the top management team, non-executive directors, strategic planners, strategic consultants and middle managers.

*Table 13 Execution responsibility/CEO Access relation*




"The general trend in recent years has been to include more people in the strategy process, moving towards a more 'open strategy'."[65]

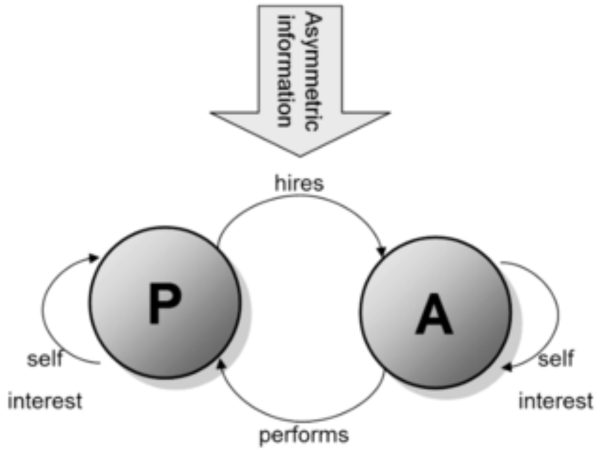
The execution responsibility becomes higher for people under the level of middle managers, thus including these employees in the strategy process is an opportunity. Taking the example of Scanlon in gainsharing, he managed to address a solution to a business case through the help, ideas and suggestions of employees. In gainsharing schemes and in ESOP models, collaborative employees, the ones closest to the problem, may permit to find more simple and efficient solutions to address the problems that an organistion could face.

[65] JOHNSON G., WHITTINGTON R., *Exploring Strategy*, Pearson 2013

## Agency Theory in Corporate Governance

The **agency theory** apeared in the years 1970s. This theory highlights the fact that in certain circumstances *the agent* is motivated to act in his own interests which are contrary to the ones of *the principal*. The agent being an individual or an entity that is able to take decisions and actions on behalf of the principal, another indvidual or entity.[66]

*Table 14 Principals and agents interests*




The agency theory is concerned with resolving problems that can exist in an organisation due to unaligned objectives or different risk-taking levels. The most common agency relationships exist between shareholders (principal) and company executives (agents) or between an employer (principal) and employees (agents).

The agency problem in corporate relationships is a conflict of interest. For instance, the manager, acting as the agent for the shareholders is supposed to make decisions that will maximize shareholders profit even though it is in the manager's best interest to maximize his own wealth. Same thing for employees acting as agents on behalf of the employer, they are supposed to work efficiently but it is in their own interest to do the minimum required since their compensation package is fixed.

While it is not possible to completely eliminate the agency problem, a manager can be motivated to act in the best interest of shareholders through incentives such as participation in the capital or performance-based compensations but the same applies for other employees as well. The agency problem may be minimized with a more flexible compensation package linked to the company's performance. By intregrating all employees in an ESOP, there is more incentive to act on the principal's best interest since both interests will be aligned.

[66] https://en.wikiquote.org/wiki/Agency_theory

Historical example of an agency problem:

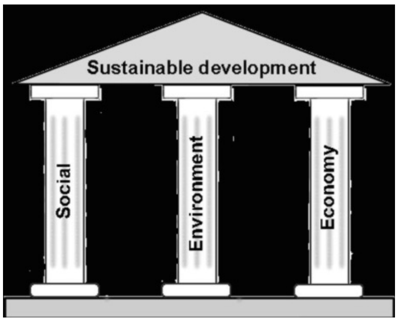
In 2001, the huge Enron corporation went bankrupt. The falsification of accounting reports by managers and executives allowed the stock price to increase for a time where these executives were selling their share holdings. Although the management committee was responsible for taking care of the shareholders' best interests, the agency problem resulted in management acting in their own best interest.[67]

[67] http://www.investopedia.com/terms/a/agencytheory.asp#ixzz4ohiawrYs

## Corporate Social Responsibility (CSR)[68]

**Corporate social responsibility** is a form of corporate self-regulation. The implementation of CSR goes beyond compliance and statutory requirements, which engages in actions that appear to further some social good, beyond legal requierements and the financial interests of a company.

The aim is to develop a sustainable business through the increase of long-term profits, a positive impact on the environment and the development of a social consciousness that responds to the expectations of the stakeholders. CSR is a vast domain of study based on three pillars: economic, environmental and social. The implication of ESOP deals with the wellbeing of employees and is thus present to reinforce the social pillar and the value of employees within the organisation. Moreover, as the results of multiple studies have shown, it also ultimately develops the productivity of these employees and thus the profitability of the company which is the economic pillar.




There exist many stakeholders for one organisation, for instance: customers, employees, shareholders, the government, etc. One of the most important stakeholders are the employees, they are the foundations of an organisation and its first ambassadors. Contributing with their "hands, hearts, minds and voices". However, the concept of stakeholders is still quite recent and new solutions have to be found to deal with it. ESOP in particular, has proven to be an efficient tool to address employees fears and complaints. They are more integrated and commited to the organisation by owning a symbolic and financial stake of the company for the long term. Benefitting year after year from the positive performance of the company in which they contribute all their efforts.

The ultimate aim of CSR is to create sustainability and ESOP has perfectly its place in that matter contributing in the long term to ensure a stronger economic and social pillar. Combined with an efficient environmental strategy it will help in the creation of a more sustainable organisation.

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68 SPELKENS Jacques, ICHEC Brussels Management School, CSR class, 2017

## Conclusion

The implementation of an Employee Stock Ownership Plan as part of a Corporate Strategy can prove itself very benefic to the overall functioning of an organisation. ESOP provides direct and indirect solutions to address corporate issues.

It helps in diminishing the access/execution paradox in the strategy process by integrating the people with the highest execution responsibility, the employees. In a more collaborative scheme, the employees can help management address corporate issues since they are the closest to these same issues.

ESOP provides a new protection tool for the agency problem, all the employees of the organisation being part of the same ownership plan makes them work altogether towards the same goals and objectives. in their interests being aligned with the best interests of the shareholders and the company.

Finally, the reinforcement of the Corporate Social Responsibility is obvious. ESOP integrates more profoundly one of the main stakeholders of an organisation which are the employees. They are granted with a symbolic and financial stake by the company, increasing their commitment and attachment to the organisation. Feeling respected and praised they will put all their efforts to the success of the company in which they finally completely belong as owners. As part of a CSR strategy, an ESOP combined with an efficient environmental, economical and social program reinforces the three CSR pillars for an organisation's sane sustainable development.

## EMPLOYEE SHARE OWNERSHIP IN THE EUROPEAN UNION (EU-28)

Even following the period of economic and financial crisis in EU countries, companies continued to offer share ownership plans to their employees. From 2010 to 2013, the average proportion of private european companies offering ESO plans had increased from 4.7% to 5.2%. However, there is significant variation in adoption of ESO schemes across the European Union. Firms in Austria, Estonia, Finland, France, Lithuania, Luxembourg, Slovenia, Spain and the United Kingdom have experienced an expansion of ESO schemes while those in **Belgium**, Bulgaria, Denmark and Romania have witnessed significant declines.

**Belgium**[69]

In the particular case of **Belgium**, the slow adoption of Employee Stock Ownership Plans is due to multiple facts. First of all, the concept of employee ownership is still recent and not a lot of people are aware of its existence. ESO legislation in Belgium only emerged on May 22nd 2001, with the introdution of a law regulating the treatment of employee stock ownership and profit sharing shemes. The quiete complex administration of these plans discouraged belgian companies in adopting them. Cultural differences and a lack of enterprise spirit can be a reason as well.

As for comparison, in 2008 only 1,6% of the capital of big companies in Belgium was detained by Belgian employees against 24% of the capital detained by employees in the United States. Even though it may have potential drawbacks, ESOP can be a mutual benefit for employees and for-profit enterprises in Belgium.

ESOP is particularly efficient if implemented in large companies capable of offering more shares to employees. Its establishment in SMEs takes place mainly for a business succession, to save employees' jobs when the company faces financial difficulties or to prevent from an aggressive takeover. In Belgium, 87% of enterprises are SMEs, firms with less than ten employees and family businesses. This can also explain the slowdown of ESOPs in Belgium.

[69] http://www.lalibre.be/economie/libre-entreprise/actionnaires-oui-mais-51b883b0e4b0de6db9aa366a

The Government provides some incentives, such as, a favorable tax rate of 15% on the dividends distributed from ESOP shares. But not enough according to various Belgian scholars. However, several large companies in Belgium seased the opportunity, namely: Dexia (today Belfius), Colruyt, Suez, Engie, Stef and Accenture who implemented employee ownership schemes such as ESOP or ESPP. In these organisations employees detain up to one-third of the capital.

Being aware of the reasons making ESO schemes unfamous permits to develop improvement strategies in order to increase their implementation in more companies. In Belgium, issues can be addressed among others by increasing the awareness through a communication strategy promoting the benefits and advantages of ESOP, the legislation of ESOP has to be facilitated and more fiscal and social incentives have to be provided by the Government.

In October 2014, the European Commission developped a study in a report titled *The Promotion of Employee Ownership and Participation*[70]*,* providing recommendations aiming at the development of employee financial participation (EFP) – employee stock ownership plans and profit sharing schemes - particularly employee share ownership, across the EU-28.

The report assesses the current situation of employee ownership accross the 28 EU Member States, identifies the best practices to be implemented in coordinated initiatives and provides recommendations including:

- A code of conduct for Employee Financial Participation (EFP)
- An information sharing strategy to increase the awareness of EFP
- Detailed action programmes
- The establishement of a European legal framework decreasing disparities in the EU-28

Showing employee financial participation's potential positive impact on employment and productivity. The study analyses a range of policy options in depth and provides recommendations in the form of a five-point plan.

[70] http://ec.europa.eu/internal_market/company/docs/modern/141028-study-for-dg-markt_en.pdf

**The five-point plan** is structured in short-, mid- and long-term measures as follows.

**Short-term measures**

Starting with the launch of a *Virtual Centre for EFP* inclidung a *Tax Rate Calculator* developed as result of the study.

**Medium-term measures**

The establishment of a Commission Expert Group that will develop a template for the Code of Conduct. Each action planned will be accompanied by a PR strategy to raise awareness for EFP in an awareness raising campaign. And a new media strategy to share information with groups of various interests and levels of expertise, the strategy will focus on people who have not yet been exposed to EFP. The European Commission ideas include:

- Pass on new data from the project to economic bloggers and policy analysts
- Create web-based knowledge resources on EFP in the EU-28 through scientific publications, blogs and social media, short animated features
- Portals for digital archives, research, teaching and public education

**Long-term measures**

A common legislation regime on employee financial participation for the 28 Member States.

## The Five-Point Plan

The Five-Point plan can be summed up as in the following table classified by short, medium and long-term measures and actions to be achieved.

*Table 15 The Five-Point plan for EFP promotion*

*European Commission: Promotion of Employee Ownership and Participation*

### Five-Point Plan to promote Employee Financial Participation (EFP)

**Short term**

**1) Launch a *Virtual Centre for EFP***

**Action 1:** Provide an **online tool** that could be uploaded on different websites, giving easy access to information on EFP across the EU-28 (country profiles form part of this Study).

**Action 2:** Include an **effective tax rate calculator** as a complementary decision-making tool comparing social security contributions and taxation of EFP in the 28 Member States.

**Medium term**

**2) Set up a *Commission Expert Group***

**Action 3:** Set up an expert group on EFP with the following tasks:

- Give regular policy recommendations on EFP on the basis of best practice and update the information on EFP available through the *Virtual Centre for EFP;*
- Prepare the elaboration of a *Code of Conduct for EFP* compiling information on standard EFP templates and on employee guidelines to EFP and continuously improve this toolkit;
- Assist the Commission in checking the feasibility and preparing potential future draft legislation on EFP.

**3) Implement an *Action Programme to raise awareness for EFP***

**Action 4:** Launch an information campaign and engage with employers and workers' representatives and other stakeholders. This should be accompanied by a PR strategy.

**Action 5:** Implement a package of awareness raising measures, e.g.

- Allocate the EFP-related activities to one specific Commissioner responsible for EFP;
- Develop a network of officials / politicians interested in EFP from political bodies at EU level;
- Popularise EFP in a media-friendly manner (e.g., information leaflets);
- Undertake additional publicity actions, e.g. establish a European EFP Day.

**4) Launch a *Code of Conduct for EFP***

**Action 6:** Elaborate **standard templates for EFP schemes** based on best practice resulting from the EU pilot project. Such 'off the shelf' templates would be of a general nature, taking into consideration different existing national models and traditions of EFP as well as the different types of firms concerned. Common definitions of relevant concepts could be also collected in this context.

**Action 7:** Develop a **guide on EFP for employees** describing in a clear way the concept of EFP, the options for employees as well as potential pitfalls.

Standard templates & guide for employees could be made available via the *Virtual Centre for EFP.*

**Long term**

**5) Legislative proposal for a *Common Optional European Regime on EFP***

**Action 8:** Verify the legal basis and feasibility of a **Common European Regime on EFP** as requested by the European Parliament Resolution of 2014. Such a voluntary 2nd regime would function in parallel to national laws and would contribute to creating a level-playing field for EFP.

## EC Market Researches: interpretations for Belgium

*Table 16 Classification of EU Member States based on regulatory density and support measures for EFP*

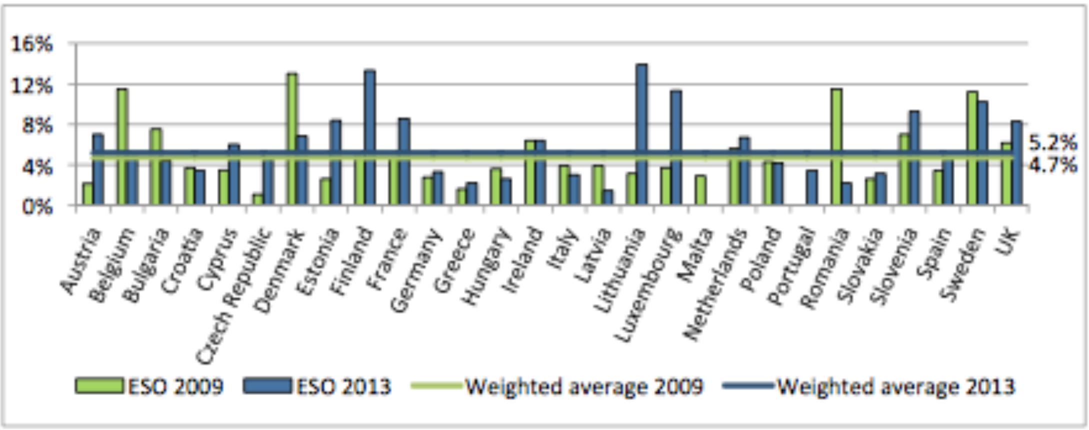
| EU Member States | Legal framework | | Fiscal incentives | | Political support, social dialogue | | Rating | |
|---|---|---|---|---|---|---|---|---|
| EFP schemes | PS | ESO | PS | ESO | PS | ESO | PS | ESO |
| Belgium | 2 | 2 | 2 | 2 | 1 | 1 | 5 | 5 |
| Bulgaria | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 2 |
| Croatia | 0 | 2 | 0 | 1 | 0 | 1 | 0 | 4 |
| Czech Rep. | 1 | 1 | 0 | 1 | 0 | 0 | 1 | 2 |
| Denmark | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Germany | 0 | 2 | 0 | 1 | 0 | 2 | 0 | 5 |
| Estonia | 0 | 1 | 0 | -1 | -1 | 0 | -1 | 0 |
| Ireland | 2 | 2 | 3 | 3 | 3 | 3 | 8 | 8 |
| Greece | 1 | 1 | 0 | 1 | 2 | 2 | 3 | 4 |
| Spain | 1 | 2 | 0 | 3 | 0 | 1 | 1 | 6 |
| France | 3 | 2 | 4 | 3 | 3 | 2 | 10 | 7 |
| Italy | 1 | 2 | 1 | 2 | 2 | 2 | 4 | 6 |
| Cyprus | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 2 |
| Latvia | 0 | 1 | 0 | 1 | 1 | 1 | 1 | 3 |
| Lithuania | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 2 |
| Luxembourg | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 2 |
| Hungary | 0 | 2 | 0 | 1 | 0 | 1 | 0 | 4 |
| Malta | 0 | 1 | 0 | 1 | 0 | 1 | 0 | 3 |
| Netherlands | 1 | 2 | 0 | 0 | 2 | 2 | 3 | 4 |
| Austria | 0 | 2 | 0 | 3 | 2 | 2 | 2 | 7 |
| Poland | 1 | 2 | 0 | 2 | 0 | 0 | 1 | 4 |
| Portugal | 1 | 1 | 1 | 0 | 0 | 0 | 2 | 1 |
| Romania | 0 | 2 | 0 | 1 | 0 | 0 | 0 | 3 |
| Slovenia | 3 | 3 | 3 | 3 | 3 | 3 | 9 | 9 |
| Slovakia | 0 | 1 | 0 | 1 | 1 | 0 | 1 | 2 |
| Finland | 3 | 1 | 3 | 1 | 3 | 0 | 9 | 2 |
| Sweden | 2 | 1 | 1 | 0 | 0 | 0 | 3 | 1 |
| UK | 0 | 3 | 0 | 4 | 0 | 3 | 0 | 10 |

*European Commission, Report: Promotion of Employee Ownership and Participation, October 2014*

*Calculation details for these ratings may be found in appendixes.

Regarding regulatory, legal and support measures for the integration of Employee Stock Ownership schemes, this rating table comparing the 28 European Member States shows that Belgium has a rating of 5. This is much less compared to countries such as the United Kingdom (10), Slovenia (9), Ireland (8), France and Austria (7). This supposes that more legal, fiscal and social incentives may be instaured in Belgium taking high-ranked countries as example.

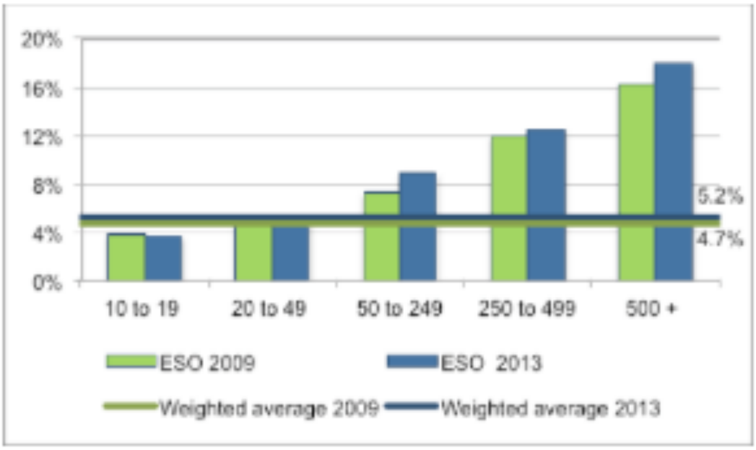
*Table 17 Proportion of private companies offering employee share ownership schemes in EU-28 in 2009 and 2013 (%)*




*European Commission, Report: Promotion of Employee Ownership and Participation, October 2014*

According to this chart, from 2009 to 2013 the average proportion of private companies adopting ESOPs in the EU-28 has increased from 4.7% to 5.2%. Despite this fact we can notice certain disparities between member states. In Belgium a strong decrease was recorded from almost 12% to 5%. However, this can be explained by the financial crisis that affected many European companies who restrained their budgets for employee compensation.

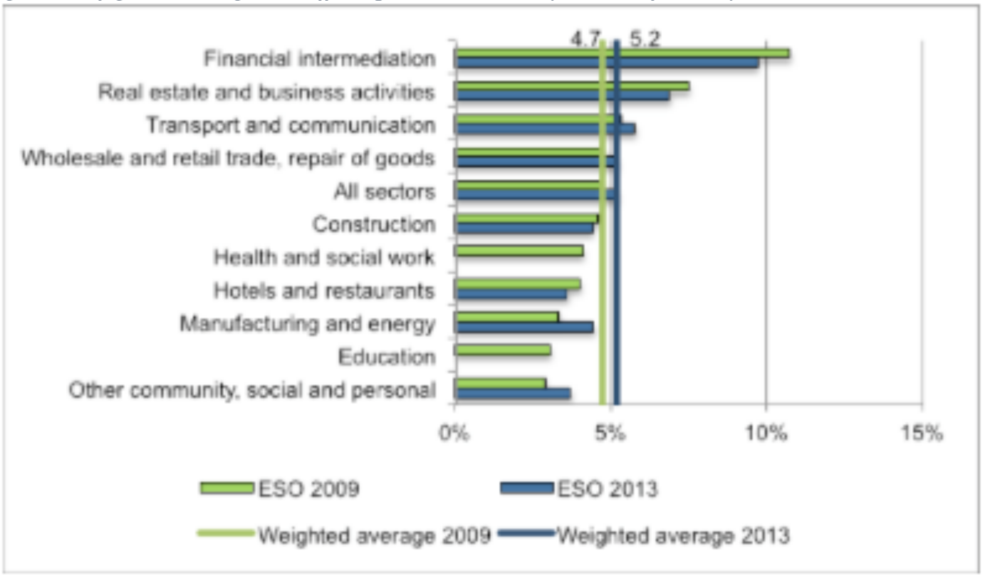
*Table 18 Proportion of private companies offering employee share ownership schemes by size-class in EU-28 in 2009 and 2013 (%)*




*European Commission, Report: Promotion of Employee Ownership and Participation, October 2014*

This chart is comparable to the previous one but comparing private companies by size class. It is interesting to see that large companies operating more than 50 employees offer much more ESOPs up, to 17% for companies of the 500+ class. SMEs on the other hand have recorded a stagnation or even a decrease (for the 10-19 class) of ESOPs implementations. This can be explained by the fact that ESOP serves SMEs mainly for a business succession, to save employees' jobs when the company faces financial difficulties or to prevent from an aggressive takeover. While ESOP serves large companies for a more flexible employee compensation package, an increase in productivity and performance improvements. Knowing that in Belgium more than 90% of companies are SMEs, the communication strategy should reach SMEs and large companies with a different positioning message.

*Table 19 Proportion of private companies offering ESO schemes by sector of activity in EU-28 in 2009 and 2013 (%)*




*European Commission, Report: Promotion of Employee Ownership and Participation, October 2014*

The Belgian Gross Domestic Product (GDP) is composed at 78% by the services secor and 21% by the manufacturing and industries sector. Which is a good fit with the integration of ESOP in the Kingdom since the sectors offering th most employee ownership schemes are part of the services sector and the sector having the greatest increase of ESOPs in Europe between 2009 and 2013 is the one of manufacturing and energy.

*Table 20 Proportion of private companies offering ESO schemes by employee representation and size class in EU-28 in 2009 and 2013 (%)*

| | 2009 | | | 2013 | | |
|---|---|---|---|---|---|---|
| Size-class | All companies | Without employee representation | With employee representation | All companies | Without employee representation | With employee representation |
| 10-19 | 3.8% | 3.6% | 4.7% | 3.7% | 3.10% | 6.50% |
| 20-49 | 4.6% | 4.3% | 5.1% | 5.2% | 4.70% | 6.40% |
| 50-249 | 7.3% | 5.2% | 8.6% | 8.9% | 6.90% | 10.50% |
| 250-499 | 12.0% | 10.8% | 12.3% | 12.5% | 8.90% | 13.40% |
| 500+ | 16.2% | 10.0% | 17.0% | 18.0% | 16.70% | 18.40% |
| Total | 4.7% | 3.9% | 6.3% | 5.2% | 4.10% | 7.90% |

*European Commission, Report: Promotion of Employee Ownership and Participation, October 2014*

In each case shown hereabove, all companies with an employee representation have adopted more employee stock ownership plans compared to companies without employee representation and this for any size-class. The importance of trade unions in the decision making for the implementation of ESOP is obvious and thus they should be an important stakeholder to consider when launching the communication campaign on employee stock ownership in Belgium.

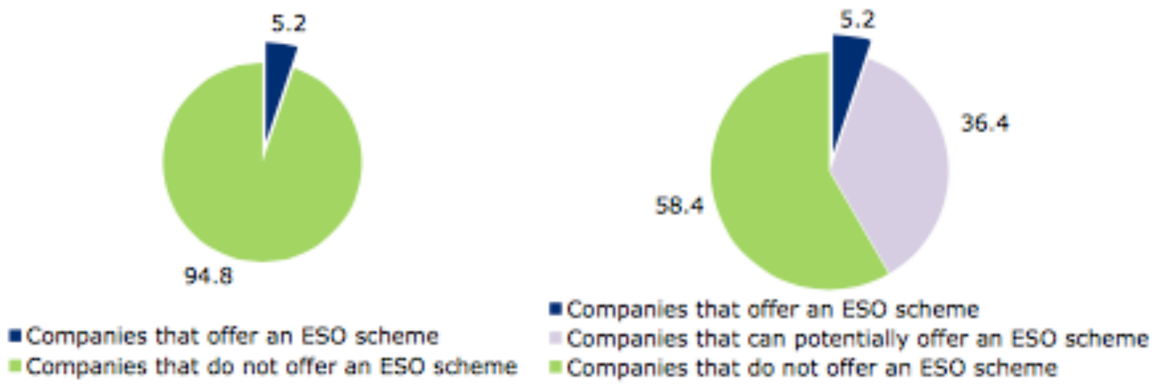
*Table 21 The impact of ESO schemes on productivity improvement and employment increase*

| No. | Scenario | Probability of improving productivity | | | Probability of increasing employment | | |
|---|---|---|---|---|---|---|---|
| | | A | B | C | D | F | G |
| | | Without an ESO scheme | With an ESO scheme | Propor-tionate in-crease from A to B | Without an ESO scheme | With an ESO scheme | Propor-tionate increase from D to F |
| 1 | A large firm in manufacturing in Western Europe in 2013, without a system of employee representation | 1.25% | 3.51% | 181% | 0.79% | 2.57% | 225% |
| 2 | Same as 1 but a small company | 0.27% | 1.02% | 278% | 0.14% | 0.63% | 350% |
| 3 | Same as 1 but in Financial Interme-diation sector | 2.34% | 5.84% | 150% | 1.93% | 5.06% | 162% |
| 4 | Same as 1 but in Nordic countries | 3.29% | 7.09% | 116% | 1.41% | 4.34% | 208% |
| 5 | Same as 1 but in CEE countries | 1.08% | 2.85% | 164% | 0.33% | 1.32% | 300% |
| 6 | Same as 1 but with employee represen-tation present | 1.75% | 4.72% | 170% | 1.01% | 3.22% | 219% |

*European Commission, Report: Promotion of Employee Ownership and Participation, October 2014*

With these different scenarios of the implementation of an ESOP model, one can see that the probability of increasing productivity and employment is considerable when comparing an ESOP and a non-ESOP company. Belgian employers and company-owners will be interested in the forecasts of increase in productivity and the Belgium Government will be interested in the forecasts of increase in employment, facts that may encourage them into providing more legal, fiscal and social incentives for the adoption of more ESOPs.

*Table 22 The actual and potential distribution of firms offering ESO schemes in 2013*




*European Commission, Report: Promotion of Employee Ownership and Participation, October 2014*

In 2013, only 5.2% of companies in the EU-28 were offering an ESOP. However, 36.4% of firms are potentially capable of offering an employee stock ownership scheme. 58.4% do not and are not capable of offering an ESOP. The communication strategy in Belgium should focus on the companies that are capable to support an ESOP.

## SWOT Analysis on the implementation of EFP in the EU-28 zone

| Strengths | Weaknesses |
|---|---|
| - easy to execute;<br>- low cost;<br>- can build on existing studies | - info dated; no continuous updates possible<br>- mere publication may have limited influence beyond small circles of experts and policy makers<br>- limited direct value for firms and employees |
| **Opportunities** | **Threats** |
| - analysis of the reasons for the wide divergence in approaches between MS<br>- information about the different EFP schemes in the Member States<br>- background information for all other activities promoting EFP | - low impact if not combined with other policy options<br>- not appropriate to reach companies and their employees unfamiliar with the concept<br>- not an innovative approach; may not be noticed among plenitude of existing other reports |

**Strenghts**

The implementation of employee financial participation schemes and especially employee stock ownership plans accros the EU-28 is quiete easy to execute, since it is already developed in many member states. The focus will be on a common European regime for EFP in order to eliminate the disparities between countries. The cost of the implementation is also affordable the detailed calculation will be treated further on. Several studies and cases of implementation in successful companies are existent and one can build on them to further develop ESOPs.

**Opportunities**

The actions pre- wide implementation of ESOPs will permit to determine the reasons of the disparities between countries and find solutions that will be accepted in all countries. A common employee financial participation scheme for the EU-28 will help people with various interests in promoting EFP such as national federations and organisations in focusing their efforts towards a same goal and framework.

**Weaknesses**

Information found on employee financial participation is generally not up to date, because quiete difficult to measure and monitor. Decision makers for instance, Governments and organisations will not be influenced nor encouraged to adopt ESOP with light informations and a lack of concrete examples of the ability of ESOP to increase productivity and employment in Europe.

**Threats**

Governments of all countries have to contribute in combined initiatives through incentives. ESOP adoptions have shown to increase and be efficient if combined with political, fiscal and social incentives. A strong communication strategy has to accompany the widespread of ESOP. Moreover, the strategy has to make itself unique in order to be noticed as a real added-value not only for businesses but also for the whole society.

## Conclusion

As expressed in this study, years of research on the impact of employee financial participation schemes and especially ESOP have confirmed that organisations partly or entirely owned by their employees are "more profitable, pay more taxes, create more jobs and are more resilient to economic fluctuations than their competitors without employee ownership". Moreover, since employees are long-term shareholders it also tends to stabilise the capital markets.

Concerning small and medium enterprises, the European Union is composed mainly of SMEs that are crucial to the economic viability of the member states. "Each year about 450,000 European businesses look for successors, affecting up to 2 million employees. The Commission, the European Parliament and the European Economic and Social Committee (EESC) have highlighted employee buyouts as one possible solution to the business succession problem of European SMEs."[71]

The growing competition of other countries is also a threat to European businesses. The implementation of ESOPs does provide a sustainable competitive advantage to organisations in addition to an increase of productivity, profitability and social wellbeing. Also one can imagine ESOP will encourage local purchases, and develop local economies since employee-owners would prefer to buy goods and services in companies where they have a financial participation.

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[71] Centre for Strategy & Evaluation Services, Evaluation of the Implementation of the 2006 *Commission Communication on Business Transfers*, December 2013

# INCREASING THE AWARENESS OF ESOP IN BELGIUM

## Communication strategy

The communication strategy is the critical bridge between the situation analysis and the implementation of the new social and behavioural change expected. It will help in communicating effectively the goals and objectives for the adoption of ESOP by the main stakeholders and decision-makers. The strategy is based upon the analysis of the current situation of ESOP at international, European and national level. On the EC market researches and on in-person interviews with, for instance, members of the European Federation of Employee Share Ownership in Brussels.

Since the quality of the EC market researches is undeniable, the communication strategy developed hereafter will be in line with, but not limited to, the one of the European Commission. And this in order to avoid communicating informations or developing communication tools that would go against the ones developed at the European level.

### Objectives

The objectives of the communications strategy are to ultimately create a long-term change in behaviour and social relationships within organisations in The Kingdom of Belgium. The change expected is the large adoption of Employee Stock Ownership Plans and its inherent benefits for organisations – large and SMEs, their employees and the Government.

In 2015, Belgium counted 863,000 SMEs employing up to 49 people and about 7,000 large organisations.[72] A realistic objective could be the establishment of ESOP in 5% of SMEs and in at least 15% of large companies within 15 years. A plan of actions will reflect the extent of change in the short- (1-2 years), medium- (5-7 years) and long-term (10-15 years).

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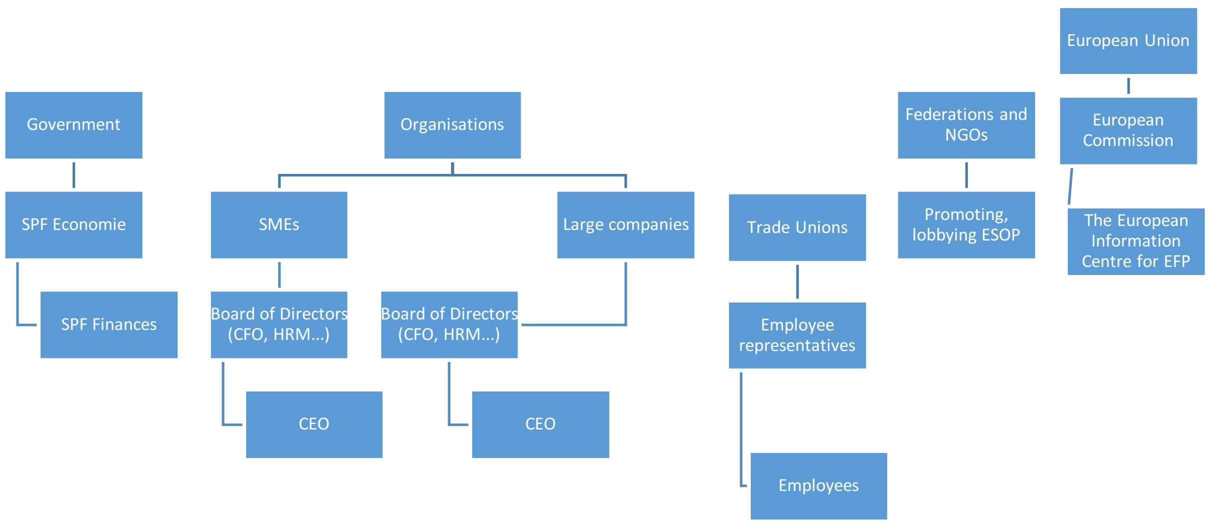
[72] http://www.sudinfo.be/1780527/article/2017-02-03/les-pme-representent-993-des-entreprises-belges

## Segmentation

For the segmentation part, it is first necessary to understand who are the stakeholders in the establishment of ESOPs and their relationships.

*Table 23 Stakeholders for a national ESOP implementation*




The past 30 years, many national and **European federations or NGOs** have been founded in order to increase the adoption of Employee Stock Ownership Plans. Advocating their advantages and benefits for the economy, for organisations and for the wellbeing of employees. This lobbying was considered by the European Union.

In 2014, **The European Union** has missioned the European Commission to analyse the current situation of EFP in the EU-28 and especially ESOPs. Recommendations regarding its implementation have been provided, the EU is just waiting for a common consensus of the Member States that will result in the inauguration of the *European Information Centre for EFP*, and is thus pushing every country to adopt even political, legal and social measures for ESOP.

This will encourage the **Belgian Government** in increasing political support in addition to fiscal and social incentives for the development of ESOP in organisations. When informed by the benefits of ESOP for the employees, **trade unions** will try to negociate these plans with employers.

Finally, the more incentives from the Government and requirements from trade unions, the more **organisations** will adopt ESOPs. When evaluating the gains in terms of profitability thanks to fiscal incentives and an increase of employees' productivity, organisations will be prompt in adopting ESOP.

## Targeting

The communication strategy will thus focus on the main actors in Belgium cited herabove in order to create a sustainable social and behavioural change.  Each target should be reached with a unique message since each target is expected to a different action towards the message received.

**Targets**

*Table 24 The targets for the implementation of ESOP in Belgium*

| |
|---|
| **INSTIGATOR** |
| The Belgian Government – Provides support and incentives |
| **DECISION MAKERS** |
| CEOs of SME's – Decides for the implementation of ESOP |
| CEOs of large organisations – Decides for the implementation of ESOP |
| **INFLUENCER** |
| Trade unions – Negociate with employers and are the link with employees |

### Positioning

In marketing terms, the positioning is the way a brand wants its product to be perceived by the consumer, the positioning of one product may be different depending on the consumer. The positioning also permits to be distinguished from the competion. In the same way, the communication campaign will postion itself differently depending the target receiving the message.

**The Belgian Government** – instigator

**Message**: The main message that should be delivered for this actor is the one of budget and employement benefits inherent to ESOP. Organisations that have adopted ESOP in other countries are "more profitable, pay more taxes, create more jobs and are more resilient to economic fluctuations than their competitors without employee ownership".

**Action**: The Government should increase political support, fiscal and social incentives for organisations adopting ESOP.

**Trade Unions** – influencer

**Message**: This actor should be delivered an informative message aiming at increasing the awareness of ESOP and its advantages for employees. Being participant in an employee share ownership scheme enables to completely belong to the company, in which they sometiemes spend years, by becoming a partial owner. Moreover, they share the profits of the company and thus they share the success of the company, a reward for their efforts.

**Action**: Trade Unions will transfer the message to employees on the one hand and on the other hand, they will negotiate with employers in '*Conventions Collectives de Travail'* (CCTs) for the adoption of ESOPs.

**CEOs of SMEs** – decision maker

**Message**: For SMEs, an ESOP is a good solution in case of a business succession or to prevent from an aggressive takeover. Many SMEs or family businesses struggle to find a successor and this can be at the cost of many jobs. Employees that lose their job from an SME after years may never find a job again. Also, if a company do not want to be taken over by a foreign company and lose its national/traditional identity it should consider transferring part or the whole company to its employees.

**Action**: More and more SMEs will consider providing shares to their employees as a solution for a business succession or to prevent from an aggressive takeover.

**CEOs of large organisations** – decision maker

**Message**: For large organisations, the implementation of an ESOP guarantees Improvements in efficiency, productivity and competitiveness**.** It permits to retain the most valuable employees at all levels of the organisation and enables to benefit from incentives provided by the Government.

**Action**: Implementations of ESOP in organisations as part of a Corporate Strategy.

## Communication tools

### Short-term

**Virtual Centre**

The establishment of the European Information Centre for EFP will first be virtual. The first communication tool will thus be a Virtual Centre for employee financial participation which is a website. The European Inter-University Centre for Human Rights and Democratisation (EIUC) has already developed a prototype of the website which integrates an effective tax rate calculator, it enables companies to evaluate the potential tax benefits of implementing an EFP scheme such as ESOP or profit sharing.

The website/virtual center will include sections divided in:

- Organisations: Large organisation/SME
- Employees: Trade Unions/Private individuals

Different resources among others reports, statistics, examples, business cases, displays and animated videos will be found depending on the visitor and website section. "Ultimately, the purpose of the *virtual centre for EFP* would be to deliver concrete information on EFP to both companies and their employees. It would be programmed as a web application that can be integrated into the websites of all kinds of different partners, e.g., national chambers of commerce, employers' associations and trade unions, the Commission, tax consulting firms, federations promoting EFP and NGOs.

As an easily accessible online tool, the virtual centre would be highly useful to companies at an early stage of their search for information saving both time and expense. The virtual centre will enable the user to compare different types of EFP and their different treatments in the EU-28. Country profiles could describe the legal frameworks of current EFP schemes, their fiscal treatment, as well as the history of EFP." [73]

[73] http://ec.europa.eu/internal_market/company/docs/modern/141028-study-for-dg-markt_en.pdf

*Table 25 Cost calculation for a virtual EU centre*

| **1 Virtual centre** (all figures in column 2 and 4 are EUR) | | | | |
|---|---|---|---|---|
| | Cost per unit | Units | Total | Comments |
| Experts | 90,700* | 1 | 90,700 | 1 expert for research & implementing feedback from local agents |
| Expert network | 7,500 | 28 | 210,000 | Yearly update of country files |
| Support staff | 53,928* | 1 | 53,928 | Administrative and marketing expert |
| Overheads | 100% staff cost | | 354,628 | Including office rent, equipment, additional costs |
| Marketing** | 10% of total budget | 28 | 70,926 | Online marketing only |
| | Total per year | | 780,182 | |
| | Average per country | | 27,864 | |

* Based on the assumption that such a centre would be based in Brussels the cost of experts / administrative staff is calculated using the maximum daily rates for EU staff researchers in Belgium on an annual basis (21 working days per month, data base of March 2013 Tempus IV Program). ** Based on the so-called percentage approach, marketing costs are calculated at 10% of the overall budget (however, the marketing costs of one virtual centre might be more as—like the 28 centres—it would still have to reach the whole of the EU).

*European Commission, Report: Promotion of Employee Ownership and Participation, October 2014*

Cost for Belgium = €27,864 / year

**Online advertising**

An HTML (or embed) code will be provided to the SPF Finances so that they can embed the effective tax rate calculator in their website, this will facilitate the access of organisations to the tax rate calculator and if they want more information they will be redirect to the Virtual Centre's website. Another HTML code will be provided for any organisation, federation, NGO or trade union that would like to partner and promote employee ownership. This specific code will display on a website as an advertisement redirecting to the Virtual Centre website.

EU sponsored posts will display on social media to the right targets through the use of cookies and other online advertisement tools. Posts will appear on Linkedin, Facebook and Twitter.

Animated information videos produced will be posted on Youtube in a new channel created for the campaign that will serve for the official youtube channel of the European Information Centre for EFP.

### Medium-term

**Physical EU Centre**

The establishment of a European Centre for EFP in Brussels, Belgium. This would involve regional experts instead of country specialists. It would be beneficial in terms of costs, specialised knowledge and management of cross-cultural operations. This structure would provide regional and national market feedback but less than would be the case with 28 national centres.

The presence of a single EU centre might be more visible than individual local centres and the EU centre could be perceived as an important source of knowledge and expertise. However, a single centre would have to accommodate a larger clientele and would be more distant from firms and markets. This missing local element might result in fewer requests for consultation and thus lessen the expected impact. Consequently, communication gaps between firms/employees and the centre's experts might widen.

The management will be centralised and make it easier to direct and oversee the activities of experts. Substantial administrative support would still be necessary to coordinate team operations and client support. Closer internal communication lines could facilitate adaptation to change.

*Table 26 Cost estimation for one physical EU centre*

| **1 European centre** (all figures in column 2 and 4 are EUR) | | | | |
|---|---|---|---|---|
| | Cost per unit | Units | Total | Comments |
| Experts | 90,700* | 15 | 1,360,800 | 5 regions - 3 experts per region |
| Support staff | 53,928* | 5 | 269,640 | 1 per region |
| Overheads | 100% staff cost | 1 | 1,630,440 | Including office rent, equipment, additional costs |
| Marketing** | 10% of total budget | 1 | 326,088 | Online / offline marketing per region |
| | Total per year | | 3,586,968 | |
| | Average per country | | 128,106 | |

*European Commission, Report: Promotion of Employee Ownership and Participation, October 2014*

Cost for Belgium = €128,106 / year

*Table 27 Advantages and disadvantages of establishing one physical EU centre*

| **Advantages** | **Disadvantages** |
|---|---|
| Medium costs | Lower degree of flexibility |
| Central management of experts | Larger clientele to deal with while lower reach when promoting centre |
| Regional approach possible | No local approach |
| Feedback loop from regional experts | Exit costly - high expense of unwinding centre as a consequence of institutional funding |
| Personal support | Distance from firms and markets |
| Physical drop-in centre | |

*European Commission, Report: Promotion of Employee Ownership and Participation, October 2014*

## Print and TV featured content

The inauguration of the physical EU center will spark interest of European and Belgian citizens. An opportunity that will permit to be featured in TV programmes, newspapers and magazines. This will increase the impact of the campaign and fulfil the objectives of information and awareness increase for Employee Stock Ownership Plan.

## Long-term

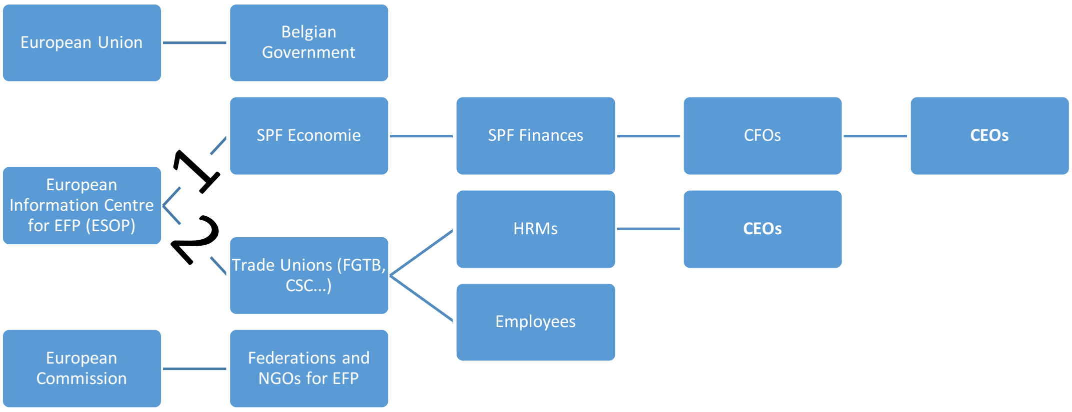
**European legal framework**

The achievement of all previous actions and objectives of communication will coincide with the perfect timing for the proposition of a potential European legal framework on Employee Financial Participation. A regulation that will establish a common or almost equal treatment of ESOPs in Belgium and in the other Member States of the European Union.

## Communication Channels

The communication channels are chosen and based on an influence network of the various stakeholders.

*Table 28 Influence network*




Via the European Information Centre for EFP that is meant to be set, marketing and economic experts will elaborate web-based (website, web-tool, social-media) and physical (infrastructure, experts, prints, displays, reports) resources on employee financial participation and especially ESOPs. The communication campaign is mainly based on lobbying with the support of European organisations, federeations and NGOs for EFP.

**1**

On the one hand, it will aim at reaching **the Government – the instigator**. The information centre will provide data to the ***'Service Publique Federal Economie'*** in order for them to make analyses and statistics on the impact of the implementation of ESOP on the economy of Belgium. The benefits in terms of employment and productivity will result in a report that will be transferred to officials responsible for economic policies. In Belgium, the Vice-Prime Minister Kris Peeters is also the Minister of Economy and he decides with the Prime Minister Charles Michel the different incentives that could be provided to companies.[74]

[74] https://www.belgium.be/fr/la_belgique/pouvoirs_publics/autorites_federales/gouvernement_federal/composition_gouvernement

**The SPF Finances** then integrates the new corporate tax treatments in its rules that are communicated to organisations. The **CFOs** are the first to be aware of changes in corporate taxes. In the case of a large organisation, CFOs will also consider ESOP as a potential solution for the overall performance improvements of their organisation in addition to its tax benefits. In the case of an SME, CFOs will consider ESOP as a potential solution for a business succession or to prevent from an aggressive takeover in addition to its tax benefits.

For this, CFOs will try to get as much information on ESOP as possible, their researches will lead them to resources provided by the European Commission through web-based (the effective tax rate calculator, the animated videos, sponsored posts) and physical resources (expert reports) of the European Information Centre for EFP. Analyzing the advantages, risks and benefits of ESOP they will share the information with the **CEO of their organisations – the decision maker**.

**2**

On the other hand, it will aim at reaching **trade unions – the influencer**. The information centre will provide trainings to Trade Unions on EFP and ESOP. Displays and prints on ESOP can be distributed and showed-off in trade unions' offices.

When aware of the benefits for the employees, trade unions will become the advocates of ESOP. They will share the information they learned with **the employees** of organisations (large and SMEs) that are capable of establishing an ESOP.

The trade unions will also get contact with human resources managers in organisations in order to require the implementation of an ESOP since it benefits the company and the employees as well. The ESOP adoption will require the negociation of a CCT. The **HRMs** will have to better understand what an ESOP is and how it would impact the business strategy and the employees. The HRMs' researches will lead them to resources provided by the European Commission through web-based and physical resources of the European Information Centre for EFP. Analyzing the advantages, risks and benefits of ESOP they will share the information with the **CEO of their organisations – the decision maker**.

## Communication plan

*Table 29 Communication plan (15 years)*

| |
|---|
| **Short-term (1-2 years)** |
| Launching of the web-based campaign with the launching of the Virtual Centre for EFP. Aiming at increasing the awareness of ESOP and provide various information produced by experts. Organisations can use the effective tax rate calculator to evaluate the potential benefits of an ESOP adoption.<br><br>Online advertising: featuring partners' websites, social media sponsored posts and animated explanatory videos. |
| **Medium-term (5-7 years)** |
| EU physical center established in Brussels. Belgium has to be an example in terms of employee ownership. With the lobbying of NGOs and EU commission, the Belgian Government will support ESOP and provide more fiscal and social incentives. More and more companies will implement ESOP each year.<br><br>The inauguration of the EU physical centre for EFP will mark minds and the campaign will be featured in TV programmes, newspapers and magazines. |
| **Long-term (10-15 years)** |
| Establishment of a European legal framework and other common regulations on EFP and ESOP. Decrease of the disparities between countries, the rate of employee ownership will have increased considerably in Belgium and throughout Europe. |

## Implementation of an ESOP

The implementation of an ESOP plan requires a certain number of steps to be successful. The common steps in a full ESOP rollout according to multiple cases in the United States are similar to the following:

- Step 1: Executive planning to clarify ownership goals and strategies
- Step 2: Setup of the Employee Stock Ownership Trust
- Step 3: Initial company-wide kickoff meeting
- Step 4: The ESOP committee
- Step 5: Employee ownership in details
- Step 6: Monitoring, evaluating, measuring and reassessing.

**Step 1: Executive Planning**

"What are we getting from our ESOP and from employee ownership? How are they contributing to the success of our firm?", "What do we want?" and "Which of our strategic goals should be achieved more successfully now that we have an ESOP?"

These are the kind of questions that have to be answered in this step of the ESOP roll-out. A discussion creating an employee ownership vision linked to business improvements. This is the job of the organisation's leadership/ business executives, setting an agenda for the ESOP implementation activities and their goals. The rest of the ESOP rollout process hugely depends on the outcome of this process.

**Step 2: Setup of the ESOT**

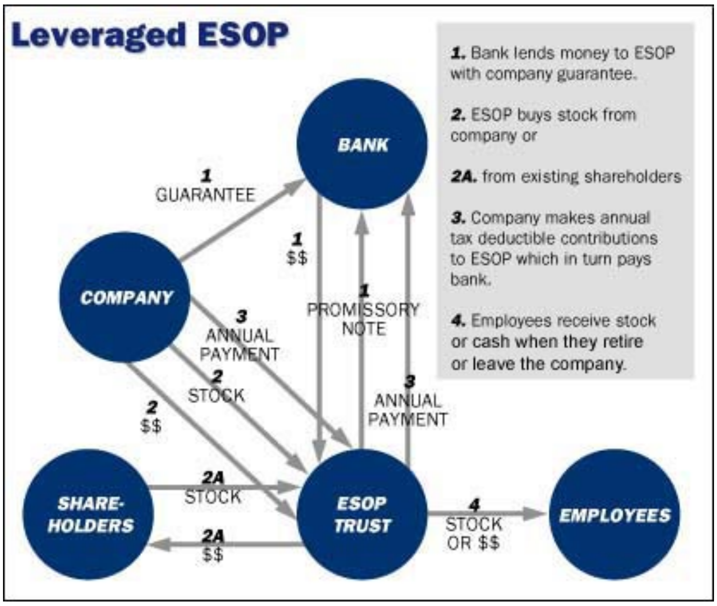
In partnering with a third-party, most of the time a bank or another financial consulting firm, the company has to set up an Employee Stock Ownership Trust and provide company shares (or cash) to aliment the ESOT. The company can issue new shares and purchase them, purchase treasury shares or purchase company shares to private shareholders on the capital market.

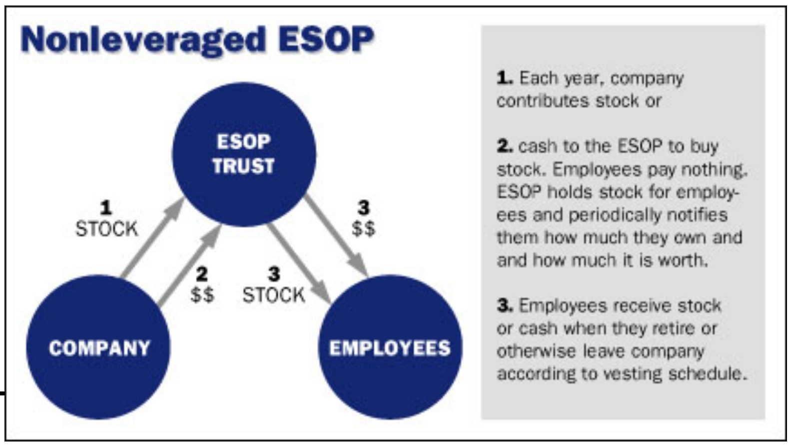
There exist two types of ESOPs, a leveraged ESOP and a non-leveraged ESOP. The difference lies in the fact that a leveraged ESOP purchases shares with debt, through a bank loan. This may have significant tax-benefits in some countries since the capital of ESOP loans and ESOP contributions (in cash or shares) can be tax-deductible. But not in Belgium where contributions to ESOP trusts are still classified as '*Dépenses Non-Admises*'.

ESOP Tax treatment in Belgium[75]

- - Contributions to ESOP trusts are not tax-deductible and taxed at a rate of 15%
- + There are no deductions for social contributions on the value of ESOP shares (*retenues ONSS*)
- + Dividends distributed from ESOP shares are taxed at a favourable rate of 15%
- +- Vesting period of 2 to 5 years imposed by the Law (if not respected additional tax 23,29%)
- + There is no capital-gains tax on the selling of ESOP shares after their vesting period (2-5 years)

*Table 30 Leveraged and Nonleveraged ESOP*




[75] https://www.ibr-ire.be/fr/publications/series_actuelles/brochures/pme/Documents/5300_Comment-remunerer-son-personnel-a-partir-des-resultats-ou-du-capital-de-la-societe.pdf

**Step 3: The Initial Kickoff Meeting announcing the ESOP**

The first step is to announce the formation of the ESOP and its purchase of company stock on behalf of employees. The initial kickoff meeting has a general purpose, to set the context—why an ownership transition? And why an ESOP especially?

Explaining how the ESOP is linked with the Corporate Strategy. And this for employees to understand that ESOP is a long term initiative that will reshape the company but always in line with the strategy. Finally, it will help to explain its role in terms of contributions to performance improvements.

There is rarely an immediate acceptance of the ESOP, resistance to change also applies in the case of an ESOP implementation. The kickoff meeting should be viewed as the beginning of the communications process, not the whole process, it will take some time for the ESOP to be accepted, understood and fully beneficial. The initial ESOP announcement is ideally made to all employees at the same time, the point is to get the same message out to everyone during the shortest period of time possible. Typically, all employees attend this meeting and the meeting format may take the form of a simple meeting with one or more speeches by senior managers for instance.

**Step 4: The ESOP Committee**

Many companies choose to set up an ESOP committee and confer to the committee several responsibilities for the management of the ESOP activities. Including informal communications and advisory committees. The committee is the link/bridge created between management and non-management employees.

ESOP committees are a clear, visible symbol of employee involvement. The committee is often created following the executive planning process, which among others establishes the ESOP committee's goals and tasks. The ESOP committee's job is to continuously define and implement the ESOP communications schemes such as the planning of ESOP training programmes for employees (business training, tax…) and explaining the development/monitoring programme. The form and activities of the ESOP committee evolve over time and may differ from company to company.

**Step 5: Employee ownership in details**

Supervised by the ESOP committee, the company will be providing detailed employee ownership education about the ESOP and how it is linked to the performance of the organisation.

Following the ESOP kickoff meeting employees will be familiar with its basic terms. However, few will fully understand the goals, rules, and opportunities of employee ownership. Thus, a more detailed ESOP and basic business education follows. The ESOP training will permit a more easy-going development and collaboration of the employee-owners. An effective training has to be interactive and provide informations that are immediately used. This learning is often more successful when conducted in relatively small groups where each group represents a division of the organisation. Depending thus on the size of the workforce, shift schedules, and the different locations of the company.

By the end of this process, employee-owners will have participated in a series of structured educational activities that provide more detail not only about how the ESOP works but also about its correlation with the success of the business. Most important, they have to understand what the company wants them to do to help achieve its goals. At the end of the tranings and learning sessions, each employee is granted with an individual account linked to the ESOP trust.

**Step 6: Monitoring, evaluating, measuring and reassessing**

The framework established by the executives gives a clear outline for the basic steps and Key Performance Indicators of the ESOP to be achieved, evaluated and re-assessed. And finally, what was originally an ESOP rollout evolves into the normal daily management of the ESOP, a new continuous operation/activity in the company. Organisation's shared values of systems, structures and skills developed during the rollout will provide residual benefits for the long-term. The ESOP rollout process sets the frames for what ownership means to the future success of the company and ultimately the success of the employees.[76]

[76] https://praxiscg.com/wp-content/uploads/2016/07/Rolling20Out20Your20ESOP20Sourcebook20ch203.pdf

## Simplified scenario: Partly employee-owned company

**Nonleveraged ESOP**

The Belgian company, Conoa SA is active in the retail market. The company operates 1,000 full-time employees and has a revenue of €700 million with €45 million in profits. The company has 50,000,000 shares including 4,000,000 treasury shares. The capital amounts to €500 million with a share value of 10€.

In 2017, the company established an ESOP. And contributes with 1,000,000 shares to the ESOP trust (2% of the capital). By this, Conoa grants shares to all full-time employees with at least one year seniority. The employees are required to hold shares until they leave or retire from the company. After the ESOP rollout all employees are allocated an individual account linked to the ESOT.

The tax treatment on ESOPs in Belgium is as follows:

Contributions to ESOP trusts are not tax-deductible and taxed at a rate of 15%
There are no deductions for social contributions on the value of ESOP shares
Dividends distributed from ESOP shares are taxed at a favourable rate of 15%
Vesting period of 2 to 5 years imposed by the Law
There is no capital-gains tax on the selling of ESOP shares after their vesting period (2-5 years)

Conoa contributions to the ESOP trust are thus taxed at a rate of 15%

Contributions to ESOT: 1,000,000 x 10 = €10,000,000

Tax on contributions to ESOT 15% = €1,500,000

Total cost for the ESOT = €11,500,000

The ESOP rollout investments amounted to €100,000, which brings:

Total cost for ESOP implementation = €11,600,000

After ten years, thanks to an increase in productivity and performance improvements with the establishment of the Employee Stock Ownership Plan the share value increases from 10€ to 30€, the revenue almost doubled and the profits increased as well.

Conoa share value 2017 = 10€ Conoa share value 2027 = 30€

Average annual net dividend = 1€/ESOP share (after tax of 15%)
Large company employing 1,000 people full-time: 200 Senior managers, 300 Middle managers, 500 non-management employees

The company uses a distribution key for the ESOT shares as follows: Senior managers (Senior M) 50%, Middle managers (Middle M) 30%, non-management employees (Non M) 20%

| | # employees | Total shares | # shares / person | Dividends/person/year |
|---|---|---|---|---|
| Senior M | 200 | 500,000 (50%) | 2500 | 2500€ |
| Middle M | 300 | 300,000 (30%) | 1000 | 1000€ |
| Non M | 500 | 500,000 (20%) | 400 | 400€ |

Senior managers received 2500 shares each with on average 2500€ in dividends each year. Middle managers received 1000 shares each with on average 1000€ in dividends each year. Non-management employees received 400 shares each with on average 400€ in dividends each year. The dividends are perceived in cash in their individual ESOT account.

In 2027, assuming that all employees left the company after 10 years, they sold their shares back to the company or to external shareholders through the ESOT. Their ESOT account will display:

| | Capital gain | Net dividends accumulated | Total holding profit |
|---|---|---|---|
| Senior M | 2500x30 = 75,000€ | 25,000€ | 100,000€ |
| Middle M | 1000x30 = 30,000€ | 10,000€ | 40,000€ |
| Non M | 400x30 = 12,000€ | 4,000€ | 16,000€ |

With the selling of their shares and no taxes on this operation, all the employees made a considerable capital gain, in accordance to their position in the organisation. The establishement of an ESOP allowed the organisation and the employees to benefit from an increase of productivity, profitability and social wellbeing.

## Conclusion

The communication strategy, the communication tools and channels of communication are strong, symbolic and visible increasing their efficiency. The achievement of the objectives is thus facilitated. Communication channels in the form of an influence network will have a double effect on the decision makers. CEOs will be delivered information regarding benefits for the organisation on the one hand and for the employees on the other hand. This double effect will increase the impact and trigger action in making the decision to implement ESOP in more large organisations and SMEs as well.

The ESOP rollout steps are key in the success of an implementation, the most important is to understand that the rollout is just the beginning of the communication process and it will take a certain time of adaptation before the ESOP is fully operational and providing the maximum of its benefits to the organisation and its employees. The rollout steps ultimately become the day-to-day management of the ESOP and integrates itself among the other business activities of the organisation.

The simplified example showcases that the implementation of an ESOP is feasible, advantageous in terms of costs and benefits and this despite the still mitigate tax treatment in Belgium. Hopefully, with the communication strategy developed, the Government will provide support and better fiscal and social incentives. In the long-term, ESOP will become much more widespread in Belgium.

# CONCLUSION

All the objectives set are met. The thesis gives a good understanding of Employee Stock Ownership Plan and its appearance worldwide. The benefits and drawbacks of ESOP are compared with the ones of other non-financial and financial incentives and this through concrete examples and a case study. ESOP reflects itself as a long term and sustainable incentive and the link with the Theories of Motivation proves that ESOP contributes to the overall well-being of an employee.

The overview of major employee-owned companies also showed up that an Employee Stock Ownership Plan may take many forms, one should consider every company implementation as unique. From this, one can ensure that if well applied, employee financial participation plans are sustainable and viable solutions to both the problem of wealth distribution and the challenge of employee engagement. ESOP's contributions to performance improvements as part of a corporate strategy are obviously presented by making links with strategy components. The implementation of an Employee Stock Ownership Plan as part of a Corporate Strategy can prove itself very benefic to the overall functioning of an organisation. ESOP provides direct and indirect solutions to address corporate issues and issues related to SMEs such as business successions and human resources. The study also analyses ESOP at the European level, and highlights the disparities between different Member States and the solutions that are currently being discussed by the European Commission. However, in any cases, the implementation of ESOPs does provide a sustainable competitive advantage to organisations in addition to an increase of productivity, profitability and social wellbeing.

Finally, all the results gathered throughout this study have contributed to the elaboration of a national communication strategy in line with the one developed at the European level. The communication strategy pin pointed the main stakeholders in the adoption of ESOP in Belgium and moreover the principal targets that have to be reached. Using creative communication tools and channels of communication, the campaign will make a double effect on the decision makers – CEOs. The communication strategy includes several action programmes in the short-, medium-, and long-term and will ultimately lead to Developing the awareness of Employee Stock Ownership Plan (ESOP) in Belgium and its contributions to performance Improvements as part of a Corporate Strategy.

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**List of Tables**


Table 1 Relation between motivaional power of financial incentives and the satisfaction of needs ..... 16

Table 2 The four industrial revolutions ..... 21

Table 3 Motivation-Hygiene relation for employees ..... 24

Table 4 Advantages and disadvantages of ESPP ..... 27

Table 5 Advantages and disadvantages of ESO ..... 30

Table 6 Advantages and disadvantages of Phantom Stock and SARs ..... 34

Table 7 Advantages and disadvantages of profit sharing ..... 35

Table 8 Advantages and disadvantages of Pay for Performance ..... 39

Table 9 Advantages and disadvantages of bonuses ..... 41

Table 10 Productivity and real median family income growth US 1948-2014 ..... 43

Table 11 JLP Financial performance 1999-2015 ..... 51

Table 12 ESOP DO’s & DONT’s ..... 59

Table 13 Execution responsibility/CEO Access relation ..... 61

Table 14 Principals and agents interests ..... 62

Table 15 The Five-Point plan for EFP promotion ..... 69

Table 16 Classification of EU Member States based on regulatory density and support measures for EFP ..... 70

Table 17 Proportion of private companies offering employee share ownership schemes in EU-28 in 2009 and 2013 (%) ..... 71

Table 18 Proportion of private companies offering employee share ownership schemes by size-class in EU-28 in 2009 and 2013 (%) ..... 72

Table 19 Proportion of private companies offering ESO schemes by sector of activity in EU-28 in 2009 and 2013 (%) ..... 73

Table 20 Proportion of private companies offering ESO schemes by employee representation and size class in EU-28 in 2009 and 2013 (%) .............................................................. 74

Table 21 The impact of ESO schemes on productivity improvement and employment increase ......................................................................................................................... 75

Table 22 The actual and potential distribution of firms offering ESO schemes in 2013......... 76

Table 23 Stakeholders for a national ESOP implementation................................................ 81

Table 24 The targets for the implementation of ESOP in Belgium........................................ 83

Table 25 Cost calculation for a virtual EU centre.................................................................. 87

Table 26 Cost estimation for one physical EU centre............................................................ 89

Table 27 Advantages and disadvantages of establishing one physical EU centre.................. 89

Table 25 Influence network ................................................................................................... 91

Table 29 Communication plan (15 years)............................................................................... 93

Table 30 Leveraged and Nonleveraged ESOP........................................................................ 96