



FINANCIAL PARTICIPATION AND TRANSPARENCY

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1/ FOREWORD

Employee Financial Participation brings, when effective, recognised benefits to employees as well as to employers and shareholders.

The purpose of this presentation is mostly to support the idea that transparency in the enterprise, a key factor of economic democracy, is also a key factor of a successful financial participation plan.

2/ MUTUAL TRUST, A PRICELESS MUST

The life, the efficiency of any company, depends upon the ability of its 3 pillars to work efficiently together, namely:

- the shareholders
- the management
- the employees, represented or not by unions

The company cannot expect to develop itself and be prosperous, if any of these pillars is not committed to supporting efficiently enough a common plan, particularly, a financial participation plan

Further, if the people belonging to these 3 categories are not prepared to trust each others, and to recognize the real value of every one' s work in the company' s achievements, then, any employee financial participation initiative would be understood by most as a mere financial operation. As a consequence, the proven benefits of the practice cannot be expected. Under these conditions, it would not be possible to develop the employees' feeling of belonging, the concern of each one with respect to the success of the enterprise, as well as the well known progresses associated with financial

participation, in terms of individual initiatives, productivity, and a peaceful social dialogue.

Mutual trust cannot be built up, unless, for a large part, the following conditions are fulfilled:

- a good training of the employees with respect to economy and finance
- a good **2 ways** communication system
- reliability based upon the obligation for each one to keep its word
- broad-based offers to employees in terms of financial participation
- a fair and large degree of transparency in the company's life

Any of the above practices has its own value, but its association with the others, increases drastically the quality of the resulting mutual trust. Hence, before launching any financial participation scheme, discussions between, at least, the management and the employees should take place, to give to each party, as clearly as possible a view of what this approach implies, particularly in terms of commitments.

Let's have a more detailed look at these practices.

3/ EMPLOYEES' TRAINING.

In many respects, making the employees conversant with the basic aspects of economy and share ownership is a critical need:

- nobody can be familiar with these aspects, unless getting a minimum training,
- there is no point in providing the employees financial information they can't understand,
- understanding the company's target (s) in terms of finance is the only way to make an individual judgement about its value, and decide whether it is worth a common effort or not.

The best is to create the need, in order to have the employees **requesting** the training, instead of being imposed the exercise. Usually, a short meeting and an open discussion are enough to convince them.

Many would be surprised, once beyond this step, to observe employees discussing the economic future of their company, a real break with the past, and the road to motivation.

Outsourcing this employee training is often the best solution to get the help of good and independent teachers.

4/ TWO-WAY COMMUNICATION BETWEEN THE EMPLOYEES AND THE MANAGEMENT.

Fair information should be considered as a right, and not as an occasional favour to the employees.

Fair information is the basis of mutual trust and the only mean allowing the employees to build up their own opinion about the life of the Group, and the possible financial offers they receive. Then, they do not need to “believe” what is said to be good for them. For example, when a financial participation scheme is going to be launched, it is common to have one or several Human Resources teams assigned to help the potential shareholders and to “convince” them to subscribe, as a low rate of subscription would appear as a management failure. Full and fair information is there, really important, to avoid destroying mutual trust. For example, a critical situation can appear when loans are offered to support the subscription, with a dead line for reimbursing the loan. Then, it is crucial to make sure the employees understand they may face some problems due, for example to the non availability of the shares or (and), their low price, at a given time.

A network to replicate and dispatch the information and an Intranet system are practical needs, as they allow for a quick flow, and help to avoid obsolescence.

5/ RELIABILITY

The worst situation is when nobody believes anybody in the company. Then, forget about financial participation and its benefits! Any offer to the employees is then often considered as a due, and the future of the company is at risk.

On the other hand, if the truth is considered as a must, and when any group in the company, and any member of these groups knows it will have to keep its word, then life become far simpler, and the road to participation is opened. For example, when a financial participation is proposed, an important question is to decide whether it will be a one shot operation or if the management considers the practice as a regular lasting one, when possible. It is an important issue for both the management and the employees, keeping in mind that a non lasting financial participation plan to is close to be a waste for the company.

6/ BROAD BASED PLANS.

No doubt that proposing to a minority of people in the company, often the richest one, to share some of its profits or (and) its capital, is not the best way to motivate the employees. On the contrary, and, based upon a long experience, everybody agrees with the fact that it will lead to the legitimate feeling of unfairness, and all the expected benefits of Financial Participation are likely to never appear.

It does not mean that such a narrow based plan should not exist at all. It may exist, provided that it **coexists** with a broad based offer to all,

under the same conditions, of a regularly lasting financial participation plan, and that fair explanations about the narrow plan are provided to all employees.

7/ TRANSPARENCY, A GROWINGLY REQUIRED PRACTICE.

The word “transparency” is an attractive one, yet, more important, it should be meaningful, and correspond to a real content.

First of all, let’s say that we only deal with **financial and economic information**.

The idea is not to ask that ALL the information generated within the company should be made available to ALL. It is to give to each one, the right to raise questions and to get reliable answers, including in some cases why the answers to some of these should remain confidential. Here comes the importance of mutual trust, provided it is not too often taken as a way to stop the flow of information, meanwhile destroying the management credibility

Nowadays, the demand for transparency is general and, doubtless it is going to be stronger and stronger, particularly when taking into account the explosive development of the information networks, as well as a far better awareness of the workers. There is no way back!

In fact, is there any reason, for example, in listed companies, to hide the cost of financial participation? This cost is an investment on employees, and, as such, should be given to them. They could, with that information, build up a personal judgment about the will of the Group to trust and motivate its employees, in the same way it is important for their future to know the profits as well as the planned investments, and the fate, if any, of the factory or office where they work.

The problem with the cost of financial participation is that some groups know it approximately; others don’t, as well as the beginners. This is why a study of this issue is one of the IAFP present projects.

However, although transparency is good anywhere, in practice, it is certainly easier to some extent, to provide financial information to the employees of large companies than in SME’s, as, for the former ones, most of it is public knowledge. Here, the need is only to explain the company strategy. On the other hand, the respective means of these two categories of enterprises cannot be compared. Hence the new French system of pooling the SME’s, either according to their common type of business, or to their common geographical establishment, in order to share the costs and the expertise with respect to financial participation.

In SME’s, all depends upon the willingness and the degree of training of a few people if not of a single one, like the owner of the business. Nevertheless, in quite a few small businesses created by young people, total transparency and total financial participation, mostly in capital, have often

been the mean to hire and keep the best people, and when successful, to make them rich

8/ CONCLUSIONS

Employees Financial Participation is a practice more than a century old.

It is still a current practice widely adopted all over the world

All the studies have demonstrated that it brings significant benefits to all: shareholders, management and employees

It has a cost, but I trust the accountants of the companies which regularly offer financial participation plans: it has to be a good investment.

Nevertheless, for the time being, the practice is often, too often adopted by large companies, and far not as widely in SME's.

Considering that the large majority of the workers belongs to this SME' s, we have here a big issue to tackle with, in terms of social and industrial progress.

The above development is based on both common sense and experience. It may appear even trivial to some. But reminding the obvious is, sometimes, of interest, if not necessary.

Financial Participation is like a well prepared good meal: if you miss to add one ingredient, it is not good anymore.

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