

**Title: Towards an inclusive and participatory business model****Juan Manuel Sinde¹****1.-Background****1.1.-The “Arizmendiarrietaren Lagunak-Friends of Arizmendiarrieta” (ALE) Organization**

The ALE is a non-profit organization created in 2007 by members of the MONDRAGON Co-operative Experience (ECM). Its founding mission is to “*promote and put into practice Jose Maria Arizmendiarrieta’s ideas and life’s work while continuing to develop and modernize them.*”

Among other activities, it seeks to “*promote the analysis of new business models or viable improvements to cooperative models.*”

Arizmendiarrieta’s humanist values have been the foundation of ECM’s business success. The primary vision of ECM is to apply these values to “conventional” (i.e., non-cooperative) businesses. As such, it seeks to transfer the knowledge it has gained to other businesses and social models, bringing some of its best practices to different spheres of the economy and society.

Taking into account the origin of its members and the current administrative conditions, the organization is proactively working in the Basque Autonomous Community (BAC) and Navarre, and reactively in the rest of Spain (Madrid, Barcelona, Castile-León, Canary Islands, Andalusia, etc.) and other places of the world (France, England, Italy, Switzerland, Peru, etc.) where support has been requested.

In the BAC, in addition to other educational activities, the organization, along with the Universities of Deusto, UPV and Mondragon, created the *Pasuen Foroa* in 2009 to promote research and experiences related to people’s participation in business.

As a result, the *Pasuen Foroa* Legal Committee prepared its first work, published in 2011 by the University of Deusto under the title “*La participación de las personas en la empresa. Algunas reflexiones y propuestas para su desarrollo (People’s participation in business: considerations and proposals for its development).*” This document presents several success stories and identifies 24 fiscal proposals to eliminate obstacles and favor initiatives that encourage employees’ participation in the share capital of businesses.

Subsequently, the *Pasuen Foroa* Legal Committee published another study entitled “*La participación de los trabajadores en el capital social. Algunas soluciones jurídicas (Workers’ participation in share capital: some legal solutions.*” This paper offers several practical options, within the framework of existing legislation, statutes, agreements

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among partners, etc. both directly or through a general partnership (*sociedad civil particular*) in order to facilitate participation projects.

Given that the abovementioned documents were favorably welcomed by political, union and business groups, a more ambitious project was set to be developed starting in 2014.

1.2.- The Arizmendiarieta Kristau Fundazioa (AKF) Foundation

The AKF Foundation is based on the idea that a sense of transcendence provides people with a vision for life that encourages them to act accordingly while giving their best. The foundation attempts to channel these longings into a joint mission inspired by Arizmendiarieta's teachings. It is a call for action to those who would like to be more congruous with their deep-rooted feelings, sharing them with others and presenting them to society from a united platform.

The AKF Foundation provides a space for discussing, guiding and promoting the latent feelings of many people who share a vision for life and society and who have been unable to find ways of expression that allow them to participate in a joint mission.

In general terms, its mission is to promote:

- cooperation towards social evangelization, especially in socio-economic and business spheres;
- participation in civil society in order to achieve a socio-economic transformation inspired on the Gospel and the principles of the Social Doctrine of the Church (SDC);
- international contribution to social evangelization based on Arizmendiarieta's ideas, teachings and work, in cooperation with global catholic institutions; and
- the continued support of the Nominating Committee for the Canonization of Jose Maria Arizmendiarieta, while it is in place.

Its vision focuses on activating and promoting Arizmendiarieta's symbolic and social capital, which has grown larger thanks to the canonization process, to support the transformative role played by Christianity and our local churches in business and society based on the values of Christian humanism.

The foundation's work is based on the principles and values of Christian humanism and the social doctrine of the Church and is centered on the following guidelines:

- Disseminate the life and work of Jose Maria Arizmendiarieta.
- Promote social evangelization in cooperation with the local churches.
- Participate in socio-economic transformation processes in the Basque Country.
- Take part in the international catholic arena.
- Cooperate with Arizmendiarietaren Lagunak Elkartea.

The ultimate goal is to disseminate the life and work of Jose Maria Arizmendiarieta, as a way to apply the social doctrine of the Church through actions that help keep his legacy alive, while expanding it internationally and to new environments. The foundation aims to promote his work so it could serve as a reference for any person, organization or



business that would like to apply the principles set out in the Social Doctrine of the Church in their work.

Some courses of action would include:

- promoting studies focusing on his life,
- creating audio-visual material that facilitates the dissemination of his life and work,
- using social networks and other activities to expose younger generations to his ideas, and
- fostering studies and dissertations about the impact of Arizmendiarieta's life and work on past, present and future society.

2.- General framework

Many economic, business, social and political changes have taken place since the 1950s when Arizmendiarieta first decided to promote the first cooperatives after he was unable to alter the rules of the game of the Autonomous Societies.

This is not the place to speak in detail about these changes. However, it might be relevant to highlight some of the data presented in the 2013 *Human Development Report*, which the UN publishes every year measuring diverse factors in each country. These are not limited to the economy but also include indicators such as education, health and life expectancy, all included in its Human Development Index (HDI).

The report highlights the rise of the South, confirming the striking progress made over the past 12 years by the citizens of many of the poorest nations. Even though they still have a low average purchasing power, hundreds of millions of people from China, Brazil, India and African countries, are emerging out of poverty and show a significant improvement in terms of HDI.

It is interesting to outline that this situation also coincides with very relevant changes at a world economic level. For the first time in 150 years, the combined output of the developing world's three leading economies—Brazil, China and India—is about equal to the combined GDP of the long-standing industrial powers of the North—Canada, France, Germany, Italy, the United Kingdom and the United States.

In 1950, Brazil, China and India together accounted for only 10% of the world economy, while the six traditional economic leaders of the North accounted for roughly half. According to projections in this Report, by 2050 Brazil, China and India will together account for 40% of global output, far surpassing the projected combined production of today's Group of Seven bloc.

The improvement in terms of HDI of the poor countries also coincides with a remarkable increase in international trade, which, by 2011, accounted for nearly 60% of global output. Developing countries have played a big part: between 1980 and 2010, they increased their share of world merchandise trade from 25% to 47%. Developing regions have also been



strengthening links with each other. Between 1980 and 2011, South–South trade as a share of world merchandise trade rose from 8.1% to 26.7%.

Results have been analyzed by the UN, which was able to identify some development drivers that, in fact, challenge preconceived and prescriptive approaches: on the one hand, they set aside a number of collectivist, centrally managed precepts; on the other hand, they diverge from the unfettered liberalization espoused by the Washington Consensus.

In any case, they have concluded that there is not a single model of development, but multiple alternatives for success. The report highlights the case of South Korea, which 40 years ago had the same purchasing power per-capita as Ghana.

All in all, profound changes have been noted in the world economy, with positive trends for the inhabitants of the poorest countries that appear to be confirmed. However, these changes do pose formidable challenges for developed countries in terms of maintaining their levels of wellbeing.

At a business level, this new situation significantly changes the competitive framework, which poses the challenge of a business' survival in a globalized environment, unknown until recent years.

On the other hand, it is important to mention that, despite an environment where businesses and countries compete with counterparts with very low living standards and labour costs, European countries with the higher salaries are not the ones suffering most acutely from external competition.

According to Eurostat data on unemployment in the EU², there are low unemployment rates in countries such as Austria (4.80%), Germany (3.2%), Norway (3.7%) and Great Britain (4.0%).

In this context, Michael Porter's traditional classification of strategies according to price differentiation and strategies based on quality differentiation poses no challenge to European businesses that pay higher wages.

Likewise, according to a research by Harvard University on the correlation between multiple strategic alternatives and return on equity (ROE), the quality perceived by the client is the option that has a clear advantage over the rest.

3.- Forming alliances to define and implement a business model

A series of seminars were proposed to gather ideas for the new business model that Arizmendiarieta established during the Mondragon cooperative experience and to discuss further concerns stemming from business and union sectors. These meetings gathered individuals from diverse political, business and social backgrounds with a shared desire to propose a new business model adapted to this new reality.

² *Eurostat. January 2019*



The debates were held independently in the BAC and Navarre.

The participants were individuals who did not represent the organizations they belong to.

The meetings fully respected the criteria and priorities of the involved political, business and social agents, and promoted discussion based on the same humanist values that were responsible for the success of the first business group of the BAC and second business group in Navarre.

As such, the discussion aimed to consolidate the following proposals:

1.-A *humanist business model* that takes into consideration the equal human dignity of all the participants in a business project, regardless of their professional knowledge and responsibilities.

At the same time, a business model that promotes more equitable wealth distribution in order to promote a more stable and cohesive society with fewer conflicts.

2.-An *advanced business model* that fosters and takes advantage of the knowledge, skills and capacities of those involved (including emotional, relational, creative abilities) to make the business competitive and, as a result, sustainable in today's competitive environment.

3.-A *Navarre/Basque business model* that, in its design and function, allows for the strengths and weaknesses of the local culture and its people, and their existing unique experiences; a model that can be promoted by the Chartered Community of Navarre or the Basque Autonomous Community within the framework of its current (or foreseeable close future) jurisdiction.

At the same time, the meetings took into consideration international examples of success that could help formulate an adequate business model for the present and future.

Each seminar aimed to propose precise recommendations that could be implemented into current Basque/Navarre businesses.

Participants included individuals from political parties represented in the Basque and Navarre Parliament, the majority of the current trade union organizations from both communities and key businesspeople who support the aforementioned values. All of the above took part in the seminars in their individual and not institutional capacity.

Logically, the conclusions are convergent, although there are distinct emphases in each of the different regions. The following sections highlight the most relevant conclusions compiled by the sessions' organizers:

1.-Change must be built on the cornerstone of confidence; firmly supported by systematic, truthful and transparent information; and administered using a model that fosters “day-to-day” participation.



This means providing not only economic data, but also informing about future plans and projects following the minimum standards set out in Article 64 of the Workers' Statute³, with the obvious exception of confidential material.

The responsibility of bringing forth this information lies with management, who must ensure that it is relevant, coherent and understandable. This must also include complementary access to the works council, via regular meetings between management and workers, in order to be understood by the greatest number of workers possible.

As opposed to classic Taylorist models, change also implies implementing participatory management with suitable procedures, tools and indicators to foster worker creativity and contributions and thus, innovation.

This would allow businesses to make better use of human capital while fostering a greater growth of workers' professional and personal competencies and capacities, providing them with greater human wealth and personal wellbeing

It was concluded that unions and entrepreneurs should give more importance to these factors. They should also avoid the tendency to only provide or demand information during hard times while ignoring its provision during good times.

2.-Change in businesses must be real and not just “cosmetic”.

This means changing the traditional relationship between workers and managers; and fundamentally rethinking power relationships within businesses and the consequential wealth distribution.

This requires being realistic rather than idealistic, acknowledging that at the heart of businesses lay conflicts of interest that must be tackled using a wide variety of measures.

This change could also be supported in schools and by public opinion by highlighting the importance of humanist values in companies and by recognizing those businesses that best apply these values.

This change would seek to modify the way businesses operate, which frequently results in workers suffering the negative consequences when things go poorly, while never benefitting when things go well.

The practical consequences of this are:

³ This article states that “the works council must be informed and consulted by the entrepreneur with regard to those matters that can affect the workers, the company's situation and the evolution of employment within, as per the terms laid out in this article”. It defines the information that must be received, according to a pre-established timetable, quarterly or annually, as well as those cases where the right is not only to receive information but also to be consulted.



- a) Business leaders adopt an attitude of service to the project.
- b) Steps are taken towards overcoming, in practice, the spiral confrontation between capital and labour.
- c) The search to find more effective ways for workers to participate, in a progressive and well-informed manner, in the administration of business, including profit and ownership distribution.

Profit sharing was highlighted as a form of variable remuneration, complimentary in all instances, to fixed salary, which must not be less than what is set out in the corresponding agreement.

When this profit sharing is reinvested it can form the basis of an equity participation that would be part of a process of overall involvement.

Adequate financing must be found and negotiated in order to facilitate the monetary contribution to be contributed by all workers who wish to participate. This would avoid creating a limited group of elite workers who could even act out against the rest of workers of a business under certain circumstances.

The proposal does not aim to hand over the final control of the company from the owner, unless, for whatever reason, there was unanimous agreement to do so.

3.- Change must be built on the understanding that today's competitive environment means that in business, wealth creation and sustainability lie in innovation and the people responsible for it.

This means ensuring that these people: have a decent wage, have a good education (which implies a certain distribution of intellectual wealth), support the business project, are satisfied with their work, have a good social environment that favors teamwork, are treated fairly in terms of gender, and have a decent work-life balance.

Adapting to the new competitive environment cannot be limited merely to incorporating new technologies. It also requires organizational and administrative changes to improve the overall satisfaction, internal cooperation and the better utilization of the employees.

In addition, it is important to pursue high value-added activities employing business strategies based on quality and innovation. While avoiding, as much as possible, those based on cost differentials, a practice that is unsustainable when competing on an international level. Another ongoing focus is on talent retention and recruitment.



4.-Change implies rethinking the objectives of businesses to go beyond solely focusing on maximising short-term profits.

As such, the business should be seen as an organism that equitably satisfies a constellation of ideas, while taking into account environmental and Human Rights issues among others.

Business stakeholders should all feel committed to its long-term success and sustainability. This commitment should be held above individual interests, and implies that all parties see it as a way of improving their respective interests when compared to a business model based on a culture of confrontation and mistrust.

The business should be a place where people experience a wholesome development, balancing their personal and family life while pursuing the social good.

5.- Change is everyone's responsibility, but it especially falls to those who are in power in a company.

This point underlines the importance of business leaders and executives setting good examples and of progress towards a cultural change that emphasises teamwork, honesty and openness to accept the changes needed to make businesses sustainable.

For businesspeople there is a need to overcome near-sighted selfishness while workers need to get over the tendency towards non-participation.

6.- The new model will not work while there are inadequate salaries and poor job security.

This is a situation that many workers find themselves in, especially those in the service sector. A decent wage is paramount to lead a decent life as well as to guarantee a business' stability and cohesion. If the worker does not have a living salary or cannot envision a future in the company then they will not participate.

It is harder to get manual laborers to participate, although there are some success stories where some of us succeeded in attaining their participation and involvement.

On the other hand, there are divergent opinions on how to come up with the criteria for salary allocation for different roles.

Another challenge faced by this new model is that it must also incorporate a day-to-day organizational management model that is more inclusive and participatory. A model that includes organizational methods that are more horizontal and less hierarchal to foster the creativity and contribution of the workers that leads to innovative products and processes.



7.-Change must be supported by public authorities and by the society in general

There is a diverse range of businesses and business leaders as well as moral standards. Although it is always possible for business leaders and workers to reach agreements outside of legislation, there may be a need for public authorities to get involved by way of mandatory laws or by incentivizing businesses to follow certain organizational models and ownership options.

Public administration should play a key role in promoting the reinvestment of a significant portion of the gains obtained while fostering innovation through public policies and budgets that are in step with the entire production network.

Economic measures should be introduced to eliminate barriers and to foster this new business model, while the current legal-political framework should be improved to enable it to adjudicate other measures that would support this model.

University education is also key in shaping future business leaders, providing them with the relevant skills and values, along with other public-private policy cooperation initiatives (for example, the *Programa Innovarse* in Navarre, management training courses, which are crucial for the effective implementation of the envisioned changes).

In any case, more extensive debate is needed in terms of the opportunities and limits of universal basic income for workers who are excluded from the system. Pertaining to this issue, there is a wide range of positions of principle and opinions regarding the priority of values that must be considered, while there is an absence of the relevant economic data needed to make adequate recommendations.

8.- Business is not without its share of social problems, which should be addressed through public-private cooperation.

The predictable asynchronicity that will stem from the training required by advanced technologies (robotization, digitalization, industry 4.0) in the context of the globalization of markets and rapid technological advances on one hand, and the specific training needed for workers on the other, presents the following challenges:

The specific training that workers will require in the future context of advanced technologies (robotization, digitalization, industry 4.0), the globalization of markets and rapid technological advances present challenges that necessitate:

- a) Modifying vocational education, university education and continuing education



to meet the new requirements of businesses, especially the industries that compete in the global market, as well as the production sector in general.

- b) Making a systematic effort to improve the qualification of employed workers who must also be equipped with a functional versatility, the ability to work in teams, etc.
- c) Providing continuing education for workers who lack continuity in their work due to technological changes in order to maintain social cohesion in society.

The governments of each community are primarily responsible for these challenges, and businesses must establish a cooperative relationship with them (as well as with the municipalities and the regional development agencies in the regions where they operate).

However, they must never forget that technology is potentially a positive development that can foster social changes that lead to a better quality of life, such as reducing working hours (as has happened in the past as evidenced by analysing prolonged time periods).

Businesses must also engage in discussion with other social agents to come up with environmental strategies and energy models. These are examples of other areas that are part of a business' responsibility towards their community.

These efforts will promote progress towards a unique societal model in BAC and Navarre that is based on more humane values and that acknowledges the contributions of businesses that implement this model.

On the other hand, experience has taught us that in order to improve participation it is necessary to create favorable environmental conditions. Public institutions, social agents and unions must create these conditions to favor a socio-productive model that prioritizes social, economic and environmental sustainability and the collective interest over individual interests.

Nevertheless, to change to this type of inclusive-participatory model is not just a simple case of changing regulations; rather, it requires negotiating with and transforming business culture itself. This requires a commitment on behalf of business leaders since business culture is transmitted by the daily examples set by its leaders through their conduct in line with the aforementioned values.

This means that business leaders or entrepreneurs are responsible to initiate change. However, effective implementation of a participatory model also requires gaining the support of the people who belong to the business along with the unions, taking advantage of the information and consultation provided by the works council as set out in Article 64 of the Workers' Statute or by the regulations that create it.



4.-Characteristics of an inclusive-participatory business model

The framework for this model represents a specific proposal that acknowledges the different interests that exist between capital and labor. As such, it seeks new methods to resolve this conflict that encourage workers' participation in the business.

This begins by recognizing the significant potential contribution of business to the common good, based on the creation of wealth and employment.

This is not a rigid or well-defined model. Therefore, it is open to new contributions from economic and social stakeholders and agents. Likewise, it can be implemented as a module or partially, and not necessarily in its entirety.

The model could be supported by the following guidelines:

Guideline 1: To modify the management practices and business culture, basing them on trust, transparency and cooperation, to bolster business competitiveness and sustainability.

Guideline 2: To devise a project shared by the business owners, managers, and professionals/workers.

Guideline 3: To reconcile the conflict between capital and labor through increased workers' participation in business management, profits and ownership, while implementing the abovementioned guidelines.

Guideline 4: To consider the social impact of business activities and address some of the local social concerns.

The implementation of the model should be spearheaded by businesspeople, while counting with the support of representatives from workers and public institutions, such as governments and universities.

It could include the following specific policies:

Guideline 1: To modify the management practices and business culture, basing them on trust, transparency and cooperation, to bolster business competitiveness and sustainability.

Focusing on:

a) **Creating an environment of trust through a policy of information transparency**, regularly notifying workers about the most significant business activities and policies.

A minimum requirement would be to meet Art. 64 of the Workers' Statute regarding the right to information and consultation with workers' representatives.



A relevant example would be to provide workers with the information that businesses that trade in the stock market are legally required to provide to their investors (understandably adapting the information to each company).

This would entail having a criterion for informing workers, just like with investors, even providing them with additional qualified information on qualitative aspects of the business (future investments, the business positioning in the market, etc), while respecting confidentiality.

b) Establishing a participatory organization and management model, that surpasses Taylorist form and promotes the participation of multifunctional workers in the business day-to-day through autonomous groups, thus also boosting business innovation.

c) Programming and developing systematic training plans tailored to each worker, including both technical and management skills.

For example, there could be a plan to provide a week of training to each worker, reaching a minimum of 80% of the workers in the roster per year.

It would also be convenient to plan internal training needs in terms of obsolescence, technological innovations, and professional careers.

Likewise, it would be appropriate to agree on the training plans with the workers in terms of objectives, content and instructors.

d) Promoting pay policies that favor social cohesion and that prevent large inequalities, while boosting the loyalty of skilled workers to the business project.

A relevant example would be to use a pay scale not higher than 1:6 for SMEs, except for special circumstances.

On the other hand, it would be advisable that salaries include some participation in profit sharing that could be extended to the entire staff.

e) Establishing regular systems to continuously evaluate and improve workers' satisfaction and to meet their needs.

An example could be to carry out a biennial systematic study, preferably comparing the results with an external sample.

Management and professionals at all levels, as well as the works council, should be involved in the development of such a study.

f) Prioritizing (without any exceptions) internal promotions to assign higher responsibilities and using objective criteria to assess merit and potential contributions during candidate selection.

g) Moving towards wage equality between men and women in the Chartered Community of Navarre.



h) Searching for ways to balance the professional and family life of everyone, without affecting business efficiency.

Guideline 2: To devise a project shared by the business owners, managers, and professionals/workers.

This would entail:

- a) **Developing balanced incentives for both shareholders and workers simultaneously**, so that both share a common interest to improve both the profitability of shareholder equity and workers' total remuneration.
- b) **Earmarking at least 50% of annual profits to increase the total equity**, in order to support investments in teams and R&D&I.
- c) **Setting aside a sales percentage that is higher than industry averages for R&D&I activities.**

Guideline 3: To reconcile the conflict between capital and labor through increased workers' participation in business management, profits and ownership, while implementing the abovementioned guidelines.

Taking into account that these three aspects can be addressed individually or as a group, their development would lead to:

a) **Implementing participatory management systems, with appropriate procedures and tools** that foster innovation and organizational changes. This would entail co-responsibility between managers and representatives in the relevant decisions of the business undertaking.

It would include consulting workers' representatives about the most important decisions of the company (as long as these were not confidential in nature) and integrating the participatory management model in the collective bargaining process.

b) **Including workers' representatives in the highest levels of decision-making and control of the company.** Except in exceptional cases, these same workers' representatives should not also form part of the works council, given the diverse nature of these committees.

c) **Enabling collective access to equity participation in the company**, which would require searching for adequate time frames and forms of financing in order to be successfully implemented.



This could be carried out through financial contributions from workers who voluntarily join a program opened to all or through company contributions for profit sharing as a result of collective bargaining. In this case, it would affect the entire staff.

In both cases, **it is advisable to use an intermediate organization** that would collect contributions from workers and/or the company.

For the governance of the intermediate organization, **it is recommended to consider the alternative of “one person, one vote”**, in addition to the usual capitalist methods.

d) Businesses supporting employees’ equity participation, by financially contributing to employees’ inclusion in ownership, up to a previously set limit.

On the other hand, if an intermediate organization is used to facilitate participation, **it is advisable to consider the alternative of sharing benefits among members in proportion to each person’s salary**, in addition to the usual capitalist methods.

e) Studying the feasibility of establishing an arbitration committee, for the resolution of internal conflicts, subject to being expanded to include other conflicts that involve suppliers, clients or the environment.

Guideline 4: To consider the social impact of business activities and address some of the local social concerns.

This guideline addresses concerns regarding the social impact of business activities and to come up with ways to involve them in finding and implementing solutions.

It would include the following actions to:

a) Sustain a policy of financial honesty, to prevent fraud and tax evasion, as well as the use of tax havens, so that the necessary public resources to deal with the economic and social challenges of the Chartered Community of Navarre are not reduced.

b) Participate in the analysis, assessment and, if applicable, implementation of social policies aimed at achieving workplace integration of less skilled workers who could become “excluded” from production processes due to the use of new technologies.

c) Cooperate with the corresponding public bodies so that professional, continuing and university education adequately meet business needs, establishing appropriate dual training plans, practicum experiences, and apprenticeship programs.

d) Earmark 1%-3% of profits to go towards resolving social problems, supporting development and university activities related to the social objective of the company, taking into account the workers’ involvement in the various projects and with the support of the works council.



e) Favoring intra-entrepreneurship and an internal culture that encourages business vocations among the company's professionals and managers, so they can create new projects that generate wealth and employment for the community.

5.-Public policies to promote the model

The parliaments of the Basque Autonomous Community and Navarre, by unanimous agreement of all their parliamentary groups, urge their respective governments to elaborate an action plan to promote an inclusive and participatory business model to be developed by current and future legislatures. This plan will not only support progress towards this model, but also reinforce the strong local identity and continuity of businesses in the BAC and Navarre, while facilitating the resolution of future problems. Such a plan should include the following policies:

a) Support the dissemination and implementation of participatory management systems that are representative of the inclusive-participatory model, adjusting them to the definition and deployment of best practices in policies regarding internal communication in Basque/Navarre businesses, as well as the definition of objectives and guidelines, which are considered essential for the transformations proposed.

b) Promote the introduction of employee profit sharing plans, cooperating to identify successful strategies both at a local and European level.

c) Facilitate the inclusion of workers in business equity, matching the contribution of each worker, with a set maximum.

d) Identify the best practices at an international level in terms of tax policies that help promote ownership participation. For example, when employees buy shares in the company where they work, these are treated the same as their contributions towards pension or retirement plans.

e) Study the appropriate legal norms and, if needed, create a law that improves current legislation and/or design a new legal mechanism better suited to the requirements of power and profit sharing based on the criteria specified by the workers involved.

f) Create a Registry of Participatory Businesses that helps provide legal backing and security to the measures being promoted. These businesses would be required to meet a minimal percentage of employee equity participation and would be further required to follow any additional terms and conditions set forth in the future.

g) Cooperate in the creation of an assessment system for the implementation of the inclusive-participatory model, to help businesses identify their progress through the use of a checklist.

h) Assist in awareness campaigns aimed at businesspeople and workers to promote the proposed inclusive-participatory model.

i) Grant an award or recognition to the businesses that best implement the model.



j) Develop business strategy and business management training sessions for members of the work committee, union representatives and union leaders; along with further sessions that would also include business managers.

k) Plan the financial resources necessary to disseminate the model and execute the action plan.

l) Other policies resulting from the application of the model.

m) Encourage the works councils of both parliaments' to annually monitor compliance of the approved recommendations.

6.- Proposed fiscal policies

In this context, it is especially important to use appropriate fiscal policies that include measures for workers, businesses and business leaders. These measures should also take into consideration the different stages of a participative process: beginning, continuity and ending.

The proposed policies attempt to supplement the current measures used by the BAC and Navarre Revenue Agencies, which are currently inconsistent, relatively limited and infrequently used in some autonomous territories.

These policies are mainly derived from existing research, examples from international and national comparative law from the United States and Gipuzkoa, and some are innovations.

They are supported by the following ideas:

- Fiscal measures are not an end, but a tool to promote a new inclusive-participatory business model, that contributes to business continuity and sustainability. They represent only some of the tools that can be used in order to achieve this goal.
- Their main objective is to remove the fiscal obstacles that can arise when a business decides to carry out this type of project. Many measures simply are aimed at guaranteeing fiscal neutrality in the processes related to business continuity; while others are aimed at enabling these processes and preventing them from being abandoned due to the fiscal burdens generated. Burdens which are often simply deferred to future times.
- The measures are focused on favoring these business processes and, therefore, they are not just for workers or business leaders, but for both, according to their scope and role in each phase of the process.
- The measures contribute to business continuity, favoring the inclusion of certain people considered to be relevant for continuity, based on a plan and objective criteria. They are not applied to all workers.



- There are also measures that do not require participation in business equity, but that foster involvement, a sense of belonging, innovation, talent recruitment and retention, especially in knowledge-intensive firms.
- It is important to use and benefit from the fiscal sovereignty we have in Navarre which enables us to legislate on these aspects, thanks to the Economic Agreement.
- Lastly, these are targeted measures, which can be perfectly managed by Finance and Industry. Their costs are not relevant, considering that some of them can be deferred, if not exempt from payment.

According to this framework, the following general measures are proposed⁴,

1.-Modifications to taxation with regards to the participation of workers in the company.

A series of tax incentives have been proposed to promote access to ownership and the participation of workers in companies as a way to increase their sense of belonging, productivity, competition and, in some cases, the guarantee of continuity. These are fundamentally aimed at workers who meet the following minimum requirements:

- Length of service: more than three years. Unpaid leave to take care of family members will be considered as part of time worked.
- Length of ownership: shares must be held for at least five years, during which time the worker must continue to render their services to the company except in the case of disability or death.
- Maximum contribution limit: 10% to 20% limit per worker and their family.
- Unlisted companies: Shares shall not be traded in any regulated market.
- Direct and indirect contributions from the company or the group: Access to shares of the company where an individual works or to any shares held by the group, either directly or indirectly, will be made via employees' participation in an entity that groups together the workers and that is directly involved in the place where they work.
- Consequences for non-compliance: Modification of tax benefits in the case of non-compliance.

The following specific incentives are proposed to promote workers' participation in the company. These represent the minimum requirements and are included in an action plan to promote participation and access to ownership that regulates the conditions of access.

- Regarding personal income tax:

⁴ The specific measures proposed summarize an unpublished document by Jose Ignacio Perez de Albeniz Andueza, General Director at Arpa Abogados y Consultores (Arpa Lawyers and Consultants), with extensive tax management experience in the private sector and in the Department of Treasury of the Government of Navarre.



- a. In the case of acquiring shares free of charge or at below market value, the difference of the market value of shares and the acquisition price will not be paid in kind. In the majority of cases, it is impossible to determine a market value since said market does not exist. Nevertheless, there are agreed-upon prices that relate to logical and justifiable criteria that could be used as defined values, without introducing the legal uncertainty of comparing it to market values that do not exist. In addition, in the subsequent transfer of shares, the gains would be taxed based on the value paid during the acquisition; as such the tax would be differed. This would allow the worker to participate in share ownership, paying agreed-upon prices which provide greater legal security to the transaction. This regulation is in effect in Guipúzcoa.
- b. In cases where a company pays workers with funds that are directly and exclusively assigned to buy company shares, these payments should be exempt up to an annual limit of 20,000 Euros per worker. In cases where the worker cannot take on the total or partial cost of acquisition, the company would pay salaries to enable this acquisition. This would mean incentivizing this salary by lowering the income taxes that the worker would have to pay up to a maximum of 20,000 Euros. This measure could be extended to include irregular income garnered through payments to support share buying starting from the exemption of 20,000 Euros up to 50,000 Euros. Income deemed “irregular” would include recurring incomes. This would also minimize the income tax charged to a worker, while also introducing an aspect of escalation.
- c. No asset gain or loss in cases of the transfer of shares in family businesses (via onerous or gratuitous transfer) to the individuals who work in these businesses and meet the aforementioned requirements. Current measures taken, which make gratuitous transfer tax neutral to family members who continue with the same business, should be extended to business workers in order to allow them to also acquire company shares, both from onerous and gratuitous transfer. This would guarantee the continuity of the business as well as the sense of belonging. These measures are currently implemented in Guipúzcoa.
- d. Current benefits that workers receive from pension plan contributions (a reduction in the tax base up to a certain limit) should be extended towards the purchase of company shares by those workers who have worked more than five years in the company. As long as they have not previously benefited from tax exemptions of salaries paid to buy shares.
- e. A 15% to 20% deduction for workers to allow them to acquire shares in the companies they work in as long as they meet the aforementioned requirements. Possible affirmative action for women. This measure would be incompatible with those proposed in number 2 and 4. This measure is currently implemented in Guipúzcoa.
 - o Regarding corporate tax

Company restructuring to accommodate the process of employee participation in business



equity should be considered as a valid commercial option.

- Regarding tax on inheritance and donations:

No taxes on shares in family businesses acquired free of charge by workers, as a supplement to the tax treatment of transferring Personal Income Tax laid out in proposal 3. This measure is currently implemented in Guipúzcoa.

- Other proposals

Create a set of requirements to acquire shares that have associated tax benefits for workers or for workers' organizations with this sole objective. Measures would be applicable when company shares are bought directly by workers themselves or by workers' organizations. This measure has been implemented in Guipuzcoa.

Lastly, some measures are proposed, from a more general perspective aside from equity participation by employees, to promote personnel retention and loyalty, to support innovative businesses, and to preserve human capital, especially in knowledge-intensive companies. These measures are aimed at engaging and retaining people and their talent in business projects, and represent another form of participating in the spirit and culture of the company.

2. Improvements to foster the consolidation and involvement of people in innovative and knowledge-intensive business projects, and worker loyalty.

The proposed measure is aimed at:

- Fostering the innovative and creative culture of the people who are part of business activities.
- Encouraging the creation of patents, as part of the process of smart specialization, via direct incentives to workers who create them.
- Creating incentives that are solely controlled by management to prevent abuse or prohibitive costs.
- Gaining and retaining the commitment of people and talent to business activities, by creating a culture of involvement, belonging and participation, which has a direct impact on businesses' competitiveness and continuity.

Similarly to what is proposed above, the incentive would consist of a personal income tax exemption for workers up to a maximum of 20,000 Euros annually for wages related to any innovative and creative activity that leads to the creation of a patent. Conditions would be:

- The worker benefiting from the exemption is the inventor of a patent.
- Such patent generates revenue for the business the worker works for, in a value



- that is higher to the salary received by the worker for the creation of the patent.
- The patent meets the legal requirements and regulations necessary to benefit from the patent-box regime. This enables the patent and the process to be solely controlled by management, which oversees the substantive requirements of the patents as well as tax administration.

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The Orkestra-Basque Institute of Competitiveness, in collaboration with the [Institute for Strategy and Competitiveness](#) (Harvard), led by professor [Michael Porter](#) has carried out several research projects applying these ideas to the case of the Basque Country.

<https://www.orquestra.deusto.es/es/investigacion/publicaciones>

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Bilbao, 14.4.19