

# Chapter 8

## Significant Employee Share Ownership and Corporate Governance: Evidence From French Firms

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### ABSTRACT

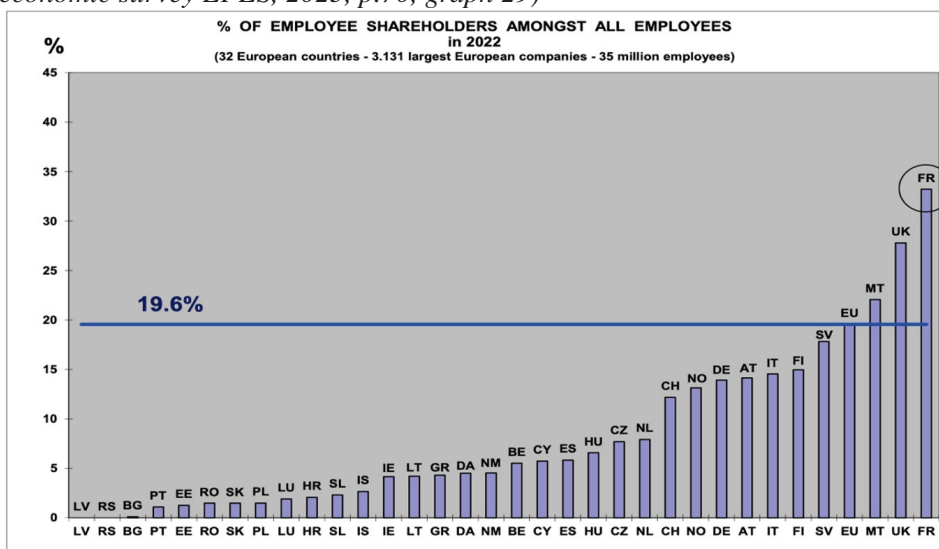
*In France, over the years, employees have acquired an increasingly significant stake in the capital of their companies, often to the point of becoming a key shareholder group. French legislation has made it compulsory for employee shareholders to be represented on the board of directors once they collectively hold more than 3% of the capital. This chapter examines the effects of significant employee share ownership and the resulting board representation on the overall performance of the corporate governance system. The empirical results show that significant employee share ownership has positive effects on corporate governance. The results also show that employee shareholding representation on the board of directors has negative effects in terms of governance. These results suggest a number of recommendations that could help companies in their choice of ownership structure, and that could enlighten regulators about good governance practices.*

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## INTRODUCTION

In France, more and more employees are holding a financial stake in their companies. The 2023 census by the European Federation of Employee Share Ownership (EFES) shows that there are around 3 million employee shareholders in France, owning around €110 billion<sup>1</sup>, placing France at the top of European countries in terms of both the total value of capital held by employees and the total number of employee shareholders. According to EFES, the proportion of employee shareholders in relation to the total number of employees is 34% in France, compared with a European average of around 19.6% (Figure 1). These figures clearly show that employee share ownership tends to make employees a key shareholder group in France.

Figure 1. Democratization rate of employee share ownership in Europe (Annual economic survey EFES, 2023, p.70, graph 29)



This rise in employee share ownership in France is the result of a threefold determination: That of the company, which adopts it to stimulate the efforts of its employees and align their interests with those of the company and its shareholders; that of the employee, who becomes a shareholder to ensure a more profitable and equitable sharing of the value created through his or her work; and that of the State, which encourages and facilitates its development for its positive long-term effects on job stability, the reduction of social inequalities, the easing of pension systems and, more generally, on the sharing of the value created by companies (Hollandts and Guedri, 2008). The 2019 PACTE Act encourages the further development of the

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