

Employees as Users of Accounting Information: Participation of Shareholders, Administrators and Employees in Company Profits

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Considering a participatory company model composed of the confluence of different interest groups, we propose a model of employee participation in corporate governance and profit sharing. In this model, workers, company managers and shareholders participate in governance and share in the profits.

We offer a brief recapitulation of the most relevant Spanish regulations related to this topic. We then outline an empirical study and report its results.

Keywords: Accounting Information, Collective Bargaining, Interest Groups, Corporate Social Responsibility, Economic Transparency.

INTRODUCTION

According to the conceptual framework of accounting, reports should be understandable and useful, providing their users with the information they need to make economic decisions. It goes without saying that employees are stakeholders and a fundamental part of the company. Thus, the purpose of this article is to outline the usefulness of accounting information for employees, and to draw up a legal proposal making employees de facto participants when the company's economic situation is positive, in the same manner Spanish mercantile legislation does with regard to remuneration of directors and shareholders. This is addressed while bearing in mind that participation in any negative economic situation is already de facto and de jure included in Spanish labor legislation, while express profit-sharing by employees is not a legal requirement.

This article is divided into four sections. First, we make a brief exposition of the legal framework that guides participation in the economic situation by workers as well as administrators and shareholders. Secondly, we develop a brief empirical analysis of accounting information in the context of collective bargaining with companies. Based on this empirical exploration and the existing literature, we suggest a participative workers model. Finally, in the fourth section, we conclude and offer some final reflections.

Legal Framework

The Spanish labor legislation relevant to this article is the Workers' Statute, which lays out that employees are affected whenever a company is faced with any negative economic situation:

Article 47: For economic reasons, contracts can be suspended or working hours reduced. It is understood that this can happen in cases such as the existence of current or anticipated losses, or a persistent decrease in the company's level of ordinary income or sales. In any case, it will be understood that the decrease is persistent if during two consecutive quarters the level of ordinary income or sales of each quarter is lower than that registered in the same quarter of the previous year.

Article 51: This relates to collective dismissal, with wording similar to Article 47 regarding the concurrence of economic causes.

Article 82.3 ...without prejudice to the foregoing, when there are economic, technical, organizational or production causes, by agreement between the company and the representatives of the workers, the conditions may be waived in the company of work as foreseen in the applicable collective agreement, be it sector or company.

The Spanish mercantile legislation that we highlight in this article to examine the rights of administrators and partners/shareholders is the Capital Companies Act. This Act seeks to allow administrators to benefit when companies are in a positive economic situation:

Article 217.2: The remuneration system established will determine the remuneration concept or concepts to be received by the administrators, which may consist, among others, of one or several of the following:

- a) A fixed allowance,*
- b) Attendance allowances,*
- c) Participation in benefits,*
- d) Variable remuneration with indicators or general parameters of reference,*
- e) Remuneration in shares or linked to the price of the company's shares...*

Article 218.2: For limited liability companies, the maximum percentage of participation may be no more than ten percent of the profits distributed among the partners.

Article 218.3: In corporations, participation may only be deducted from the liquid profits, after the provisions of the legal reserve and the statutory reserve have been covered, and after the shareholders have been recognized a dividend of four percent of the nominal value of the shares or the highest rate established by the bylaws.

The right of partners to receive dividends is regulated, since the Capital Companies Law establishes a right of separation under certain circumstances; when no dividends are distributed:

Article 348:1. Except as otherwise provided in the by-laws, once the fifth fiscal year has elapsed since the inscription in the Mercantile Registry, a member who had recorded a protest in the minutes regarding the insufficiency of dividends shall have the right of separation in the event that the general meeting does not agree on the distribution as a dividend of, at least, twenty-five percent of the profits obtained during the previous fiscal year that are legally distributable—provided that benefits have been obtained during the three previous fiscal years. However, even when this circumstance occurs, the right of

separation will not apply if the total of the dividends distributed during the last five years equals, at least, twenty-five percent of the legally distributable benefits registered in said period.

We believe that, from the perspective of stakeholder theory, where both managers and workers are internal interest groups of the company, participation in the liquid profits of the company should be provided equitably for both workers (Statute of the Workers) as well as administrators and partners (Capital Companies Act).

It is useless to talk about corporate social responsibility in the workplace if there is a perception of inequity between the compensation for workers, i.e. salary, and the remuneration of other interest groups within and connected to the company. This is particularly notable for administrators, as well as partners and shareholders, who receive a large portion of the dividends when companies profit due to efforts by the company's employees.

The Usefulness of Accounting Information in Collective Bargaining: An Empirical Study

To collect objective data on the accounting references used in collective bargaining, together with the subjective perceptions of the two negotiating parties in the collective agreements, we reviewed more than 300 collective bargaining agreements in the province of Burgos (Spain) between 2002 and 2016. We then sent surveys to human resources (HR) managers who were familiar with the governance of their companies. Afterwards, we met with representatives of most labor unions in Burgos.

From the analysis performed we can briefly highlight the following results:

- Only a quarter of the companies surveyed directly refer to accounting information during salary review, or to indirectly establish the valuation of productivity pay, among other remuneration variables.
- Those responsible for human resources in companies of Castile and León consider economic factors related to the business or sector, not general factors, to carry the most weight during collective bargaining. Thus, the most valued reference among human resources managers when conducting salary reviews is economic information from the company itself, not the Consumer Price Index (CPI).
- There was divergence between the responses provided by union officials and by HR directors. HR directors reported considering the CPI to be the most acceptable reference, since they do not agree that the accounting information of the company reflects the true situation of each company, especially considering groups of companies can derive results from one to another. However, unions have increasingly accepted productivity as an objective index; they find it easy to see how being productive can help them remain employed. Moreover, productivity is easy to highlight when a company's "internal" results are being prepared. Regardless, if employees trust the contents of the accounting information, it would seem acceptable for the company to use it as a reference when consider requests for raises, given that the same accounting information is the basis in law under which employees suffer losses in negative economic situations.

Companies with negative economic circumstances are prone to highlight and use accounting information during salary review; however, this behavior is not observed when the economic situation is positive. Moreover, notwithstanding the economic situation of the company, workers would be willing to consider the financial standing of the company before they would accept to participate when the company enjoys positive results. This attitude encourages the achievement of common objectives by all parties involved.

Proposed Model for Workers' Participation in Business Results

It is advisable to move towards a model in which workers actively participate in the company's fortunes. This model considers the economic circumstances of each company via indicators that ensure

the viability of the company are verified. Such a program would ensure employees are motivated to help the business attain its objectives.

We propose a new model based on the following characteristics:

- If the turnover and/or profitability of the company does not improve compared with the average for its sector, changes in salary could at least be guaranteed to follow the CPI.
- If the turnover and/or profitability of the company decreases, then, as provided by law, workers' salaries might be reduced or left unchanged.
- If the company improves its turnover and/or profitability, we propose workers be eligible for profit-sharing.

**TABLE 1
MODEL PROPOSAL FOR WORKERS' PARTICIPATION IN BUSINESS PROFITS**

BILLING				
PROFITABILITY		Minor	Equal	Major
	Minor	Salary Reduction	Maintenance	+ CPI
	Equal	Maintenance	+ CPI	Participation
	Major	Maintenance	+ CPI	Participation

Source: Authors' own work

Another desirable advance could involve substituting or complementing a fixed salary with variable participation based on the fortunes of the business. However, beyond consideration when making changes in salary, use of the company's profits as the foundation for compensation is not quantitatively important and may not have a significant effect on workers' motivation. We suggest that compensation plans for workers be aligned with that for directors, as regulated by the Capital Companies Act, enforced since January 2015, which states that *the compensation of the directors may consist of ... participation in benefits and in variable remuneration with indicators or general parameters of reference ... since the remuneration system established should be oriented to promote profitability and long-term sustainability ...* (Article 217 of the Capital Companies Law).

In the same sense, we recommend that, as contained in the mercantile legislation, with respect to the distribution of dividends to shareholders, some amount should also be distributed to employees in recognition of their work in creating that benefit.

Additionally, we consider it very important that companies report the distribution of the surplus or annual liquid profits between at least three internal interest groups of the company: shareholders, administrators and employees. This mandatory information could be included in the company' annual accounts in a manner similar to the template provided in Table 2.

**TABLE 2
PROPOSAL FOR INFORMATION RELATED TO BUSINESS RESULTS TO BE INCLUDED IN COMPANY'S ANNUAL REPORT**

BENEFITS			
INTEREST GROUPS		Yes/No	Percentage of participation
	Shareholders		
	Administrators		
	Employees		

Source: Authors' own work

Final Reflection

We recommend that all internal interest groups of a company should be involved in the achievement of its business objectives—not only in the distribution of benefits, but in the creation of value. From our point of view, this involvement must be reciprocated by the company via a reasonable distribution of dividends to shareholders, adequate remuneration of administrators, and, of course, the adjustment of workers' salaries both based on the work they do and based on the extent to which the company's objectives are attained. Only when harmony among these participants is maintained can the survival of the company and true corporate social responsibility be guaranteed.

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