Recent trends in employee financial participation in the European Union

EUROPEAN FOUNDATION
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EUROPEAN COMMISSION
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Foreword

There is increasing interest in the financial participation of employees in their enterprises within the European Union. The PEPPER II report of the European Commission, published in 1996, concluded that there is more diversity than unity in the use of financial participation schemes across the EU. There is also a lack of empirical research on the application of different schemes, their success or failure, advantages or disadvantages.

Against this background, the European Foundation for the Improvement of Living and Working Conditions initiated a project in 1999 to develop research on the application of employee financial participation. This report, published in conjunction with the European Commission (DG for Employment and Social Affairs), presents the initial findings of this research and gives an update of the current situation in EU Member States.

Financial participation is also seen as important since it represents a means of promoting social dialogue and employee involvement. This is an issue identified as an objective of the Commission's *Social Policy Agenda (2000-2005)*, in which it is proposed to 'launch a communication and action plan on the financial participation of workers'. The Foundation's research will build on the work of the Commission during the 1990s, when the PEPPER I and II reports were published. The issue of financial participation is also included in the Foundation's *Four-year Programme (2000-2004)* as a topic for strategic research and this report is the Foundation's first contribution to the debate. A first interim report was discussed and commented upon by experts at a joint Foundation/Nijmegen Business School seminar, held in Leiden in the Netherlands on 9-10 September 1999. Dr. Erik Poutsma of Nijmegen Business School in the University of Nijmegen is the author of the report.

The main objective of the report is to provide the most recent comparative overview on the nature and extent of financial participation in the EU. It is based on a review of available international research and publications, together with interviews with national experts. It presents a systematic overview of existing forms of employee financial participation, the reasons for its application, the preconditions for its existence and the impacts on the employment relationship. Special attention is given to types of employee share ownership and the relationship with the three other pillars of employee participation — namely, direct participation, representative participation and collective bargaining. For this purpose, the report includes an analysis of the situation in 10 countries, based on the findings of the 1996 EPOC survey (Employee Direct Participation in Organisational Change), conducted on behalf of the Foundation.

We hope that the report will provide useful insights into the present situation of financial participation across the European Union and that it will contribute to the present debate on the topic. We propose to continue the cooperation of the Commission and the Foundation on what we consider to be an important aspect of building social partnership in European enterprises.

Raymond-Pierre Bodin
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European Foundation for the
Improvement of Living and Working
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Secondly, since the project is embedded in the research group PARTNER (Participation and New Employment Relationships) of the Nijmegen Business School, I wish to Fred Huijgen and Willem de Nijs, who provided real contributions in terms of critical comments.

Thirdly, parts of this report could not have been written without the support of experts and so I wish to extend my thanks to the following for their valuable contributions: Joseph Blasi, Rutgers University, NJ, USA; Andrew Pendleton, Manchester Metropolitan University, Takao Kato, Colgate University, Hamilton, NY, USA; Virginie Pérotin, ILO, Geneva; Francine Van Den Bulcke, Catholic University, Brussels; Daryll d'Art, University of Limerick, Ireland; Mark van Beusekom, Participation Solutions, The Netherlands; Mariá González-Menéndez, University of Oviedo, Spain; Thomas Coutrot, Ministry of Labour and Solidarity, Paris, France; Peter Mozet, Ministry of Labour, Germany; Hans Schneider, University of Nuernberg, Germany; Peter Wilke and Stefan Würz, ISA Consult, Hannover, Germany; and, finally, to all the participants at the workshop in Leiden on 9-10 September 1999 and to the Netherlands Participation Institute for organising this memorable event.

Finally, as the author of this report, any errors, misunderstandings or other imperfections lie entirely with me.

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Contents

Chapter 1 Introduction

This report describes recent developments in financial participation of employees in their enterprises within the European Union. It examines the background of the phenomenon and, based on available literature, research results and interviews with national experts, presents an overview of the current situation in EU Member States. The aim of the report is to present insights that will serve as a basis for discussion by social partners, European governments and the European Union.

There is a growing interest in the theme of financial participation of employees in Europe. The European Commission promoted the phenomenon in the 1990s under the heading of PEPPER (meaning ‘Promotion of Employee Participation in Profit and Enterprise Results’, including equity). The latest, PEPPER II report (1996) of the European Commission, however, concludes that there is more diversity than unity in the use of these employee financial participation schemes. There appears also to be a lack of empirical research on the application of different schemes, their success or failure, advantages or disadvantages. Against this background, the European Foundation for the Improvement of Living and Working Conditions (subsequently referred to as the Foundation) initiated a project in 1999 to develop research on the application of employee financial participation. This report is the outcome of that research to date.

The main objective of the report is to provide the most recent comparative overview on the nature and extent of financial participation in the EU. It presents a systematic overview of existing forms of employee financial participation, the reasons for its application, the preconditions for its existence and the impacts on the employment relationship. Special attention is given to types of employee share ownership and their relationship with the three other pillars of employee participation — direct participation, representative participation and participation via collective bargaining. One of the aims of the Foundation's research project on financial participation is to examine further topics for research in this area.

Background of the research

In Europe, the participation issue has always been an important aspect of organisation and management in companies. Various European governments have traditionally developed legislative arrangements to promote the involvement of employees. Recently, the issue of direct participation has shifted from the more statutory indirect participation. This shift is generally explained by global competition and increased flexibility requirements. The significance of direct participation has been widely recognised by the social partners, as the survey on Employee Direct Participation in Organisational Change (EPOC) confirms (Regalia, 1995). There was a general consensus about the objectives of direct participation and a widespread understanding of what was involved (even though different labels were used), as well as concerns about certain drawbacks such as work intensification, stress and self-exploitation. Employer representatives often emphasised the social, as well as the economic, benefits of direct participation, while their trade union counterparts did not limit their expectations to improving working conditions but also mentioned improved economic performance. This suggests, at the very least, a shared industrial relations culture and, in some cases, increasing co-operation between the social partners.

Also at European level, the issue of involvement and new forms of work organisation are seen as major steps towards improved quality of production and of working life, as expressed in the European Commission's Green Paper *Partnership for a new organisation of work* (1997). The need for direct participation in the organisation of work has become a new 'conventional wisdom' (Osterman, 1994).

Such conventional wisdom cannot be found on any widespread basis in the case of employee financial participation. Although the European Commission has developed resolutions and studies to promote this type of participation, its spread and use in Europe is low (PEPPER II, 1996). There has been a growth in recent years of management's interest in increased application of profit-sharing and share options as involvement instruments and some governments (the UK, France, Netherlands, Finland and Ireland) have developed or improved legislation and tax provisions.

One of the arguments for putting financial participation into practice is to commit employees to the company and to develop an entrepreneurial attitude in them, thereby enhancing co-operation between employees and management. Of course, this argument suggests an alignment with direct participation. In some instances, this alignment is presented as the 'partnership company', which covers high participation on all levels and all issues (the high-involvement company). However, this alignment argument is not without dilemmas. Both pillars of employee participation can have quite different and conflicting objectives and functions: *financial participation* might aim at flexible profit-related pay on an individual basis, while *direct participation* might aim at improving the co-operation between workers. Also, the third and fourth pillars of employee participation (*indirect representative participation* and *collective bargaining*) might conflict with financial participation since these are mainly focused on collective schemes, solidarity and social justice. On the other hand, there are several forms of financial participation that adhere to different objectives, which might support synergy with the other pillars of employee participation.

Structure of the report

The pillars of participation

Chapter 2 of the report presents an overview of the forms of financial participation, examining the broad spectrum of systems available and the complexity of the phenomenon. It also looks at the differences between the concept of PEPPER schemes, as promoted by the European Union, and the broader spectrum of existing schemes.

Basically, there are four broad categories of financial participation plans:

- cash-based profit-sharing;
- deferred profit-sharing;
- employee savings plans; and
- employee share/stock ownership.

Recent developments suggest the following for the issue of financial participation:

- more emphasis on organisational efficiency than on power sharing;
- more emphasis on decentralised arrangements of participation than on collective central arrangements;
- more emphasis on direct participation than on statutory indirect participation;
- more emphasis on parties' contribution than on collective redistribution; and
- more emphasis on remuneration through additional income and savings than on fixed wages.

Motives and impact

Chapter 3 focuses on the concepts and theories that apply to the use of financial participation in conjunction with the other pillars of participation. It examines conflicting explanations of the impact of the different pillars of employee participation and, more specifically, makes reference to recent theoretical and empirical insights related to the different functions of broad-based financial participation (satisfaction, commitment, binding, incentives, savings, participation and performance) in relation to its different forms (employee shares, options and profit-sharing).

Despite the lack of empirical data, there is a growing body of knowledge and research on the possible impacts of financial participation. However, the research does not provide a full picture of the different types of financial participation, while information on the impact on the employment relationship is limited. In addition, most research does not question the relationship with the other pillars of participation. This report presents the available empirical research in an extensive bibliography based on a search of libraries and Internet sites. Discussions were also held with specialists in the field, with particular focus placed on recent research results dealing with conditions for financial participation and its functions, implementation problems and the risks for the parties involved.

Incidence of financial participation schemes

Chapter 4 presents an update on developments and incidence of financial participation in EU Member States and analyses the characteristics of companies operating different schemes. The information presented draws on the PEPPER II report, subsequent empirical research and the results of the 1996 EPOC survey.

Given the differences in industrial relations systems within Europe, it is to be expected that divergence rather than convergence will be the outcome in the way participation schemes are implemented in different European countries (Gatley *et al*, 1996; Hampden-Turner and Trompenaars, 1993). The way in which organisations, and subsequent employment relationships, in a country are structured and managed is strongly influenced by national, specific social and cultural factors, so much so that one can identify ‘societal patterns’ of management and organisations. Both PEPPER reports (1991 and 1996) on the promotion of financial participation reveal some of these differences.

Policy developments in the EU

Chapter 5 describes in more detail developments in the 3 European countries where financial participation is most developed (France, Germany and the United Kingdom) and examines 3 other countries with specific patterns and activities concerning financial participation (Ireland, the Netherlands and Spain). The developments in these 6 countries essentially cover the variety of characteristics of schemes, as well as the variety of empirical insights on relevant topics.

This part of the research was based mainly on interviews with national experts and their supplied resources. Specific focus is on the explanations for developments so far, recent developments in policies, future perspectives and the relationship with the other pillars of employee participation.

Finally, a direction for future research is presented, with an overview on existing knowledge gaps and possible future research topics. Given the suggested positive impact on a number of desirable objectives of the parties concerned (employers, employees and governments), the question of implementation and its problems becomes important. Knowledge about these problems is dispersed but locally available, so there is a need to systematise it and other experiences, as well as identify knowledge gaps especially where these concern the combined efforts of improved employee participation as supported by the different pillars. This part of the project was based mainly on available research and on the experiences and discussions with experts at the Leiden workshop in September 1999.

Chapter 2 The pillars of participation

We seem to be in the Age of Participation. Governance is an important word in this context. It refers to the way in which stakeholders in an institution live their power, rights and responsibilities. The authoritarian form of governance has prevailed since people began to organise economic institutions. Participation seems to have emerged as an alternative form of governance.

Definitions of 'participation' abound. Some authors insist that participation must be a group process, involving *groups* of employees and their employer. Others stress delegation — the process by which the *individual* employee is given greater freedom to make decisions on his or her own. Some restrict the term 'participation' to formal institutions, such as works councils; other definitions embrace 'informal participation' or the day-to-day relations between supervisors and subordinates in which subordinates are allowed substantial input into work decisions. Finally, there are those who stress participation as a *process* and those who are concerned with participation as a ***result*.** For present purposes, we will define participation as *a process which allows employees to exert some influence over their work, over the conditions under which they work and over the results of their work.*

There are four basic pillars of employee participation in organisations:

- *direct participation*, where employees have an influence on daily work-related issues;
- *indirect or representative participation*, where employees have an indirect influence through their employee representatives who deal with work- and organisation-related issues;
- *financial participation*, which gives employees the opportunity to participate in profits and enterprise results; and

- *collective bargaining*, where parties try to influence labour terms and conditions at company and sectoral levels.

Why participation?

In general, four broad arguments support employee participation:

- *humanistic argument*, whereby participation will enhance human dignity by contributing to personal growth and job satisfaction;
- *power-sharing argument*, whereby participation will redistribute social power, protect employees' interests, strengthen unions and extend the benefits of political democracy to the workplace;
- *organisational efficiency argument*, whereby participation promotes efficiency within organisations; and
- *redistribution of results argument*, whereby participation achieves 'sharing' in the sense of reaching a more equitable distribution of income, capital and other assets.

Humanistic

Of the four arguments, the humanistic one is most appealing to direct participation in decision-making. The argument is that participation helps satisfy the non-material needs of employees, including those for achievement and social approval. It contributes to competence development and self-actualisation. For employees, having a voice in how they do their work may be as important as how much they are paid for it. As Heller *et al* (1998) put it, 'A worker should not have to leave his or her head at the factory gate or office door'.

Indeed, it is argued, participation is a necessary antecedent to human psychological and social development. Development in social psychology theory showed the emergence of a number of models that connect workers' satisfaction, participation and achievement. In any case, humanistic demands may become more insistent as employees become better educated and their basic needs for survival are better satisfied.

At the same time, however, participation and commitment might also mean more complexity and stress, which can lead to danger in other life spheres. To quote Heller *et al* again, 'A worker should not have to keep his or her head full of work when he or she leaves the factory gate or office door'. This suggests an optimum level of participation in working life and a level of self-regulation that also covers other life spheres.

Power-sharing

Advocates of the power-sharing approach support participation for ideological and moral reasons, arguing that the traditional autocratic relationships are inherently unjust and inconsistent with the values of a democratic society (Moss, 1991; Vanek 1971). Some do so on political grounds, others out of religious or moral conviction.

Trade unionists today differ considerably in their attitudes towards participation. Some see it as a management tool, designed to capture employee loyalty and weaken union influence. Others view it chiefly as a means of limiting and controlling autocratic and technocratic management power and of extending union control to cover issues commonly subject to collective bargaining. There were plentiful democratisation arguments in the late 1960-70s. According to some observers, workers involved in the wave of strikes in Europe in 1968 were protesting not just for higher wages, but also against bad working conditions and arbitrary management. They demanded 'a say in management, if not the introduction of some form of workers' control' (Streeck, l995).

Organisational efficiency

Explanations abound of the positive impacts of participation on organisational efficiency (Aoki, 1990). These can be summarised as follows (Heller *et al*, 1998):

1. Participation may result in better decisions. Employees often have information which senior management lacks. Further, participation permits different views to be aired and in this way the danger of 'group think' is reduced.
2. People may be more likely to implement decisions they helped make themselves than decisions imposed on them from above. Not only do they know better what is expected of them, but helping make a decision commits them to it.
3. Motivation is frequently enhanced by the setting of goals during the participative decision process and by expecting reward from results that are actually influenced by the participant.
4. Participation may improve communications and co-operation; employees may co-ordinate each other, thus saving management time. Further, by disseminating the experience in employee problem-solving, participation may facilitate organisational learning. In so doing, participation contributes to what has been called 'dynamic (as opposed to static) efficiency' (Aoki, 1990).
5. Participative subordinates may supervise themselves, again making the lives of managers and supervisors easier.
6. Joint participation by employees and management to solve problems on a non-adversarial basis may improve employee – management relations generally.
7. On a personal level, employees may learn new skills through participation, while leadership potential may be readily identified and developed.

Redistribution of results

Collective bargaining has already resulted in a certain redistribution of power and wealth within enterprises. This trend was also supported by states through intervention in the employment relationship and in the redistribution of the national wealth through social protection and social security policies. However, more recently, with the trend towards deregulation, responsibility has been devolved back to the enterprise and to the individual, thus influencing this redistribution process. In this context, financial participation arrangements have become an important alternative means of distributing wealth.

Specific reasons and conditions

In addition to the general arguments above, there are numerous other, more specific reasons why managers adopt participation and why employees strive for a voice. For example, it might be *a management fad*. Indeed, Ramsay (1977 and 1983) argues that interest comes in cycles, with interest being greater when management's traditional rights are in question. Various forms of participation are adopted because they are popular at the moment and are pushed by consultants and management publications. Management's tendency to follow fads might be a problem because it may adopt participation programmes chiefly as a quick, low-cost solution to organisational problems, without recognising that these programmes require substantial changes in day-to-day behaviour, heavy investment in training and often considerable reduction in managerial discretion. Management's failure to consider these facts helps explain why many participation programmes, including financial participation schemes, are short-lived and unsuccessful.

It is not only management who follows these mimetic institutional pressures. According to the institutional perspective, an organisation's decision about an innovative administrative technology, such as financial participation, is influenced less by efficiency considerations than by *environmental pressures to conform* (Di Maggio and Powell, 1983). Organisations will adopt an innovation, even if it is technically inefficient, in order to gain legitimacy and resources, and hence to ensure their survival (Meyer and Rowan, 1977). Thus, by following prevailing practice, an organisation may enhance its effectiveness. This might very well be the case for multinationals entering foreign countries. Some of these practices may get institutionalised in regulations and legislation concerning the way organisations should be run, how pay is determined and how staff should be rewarded.

Indeed, an important impact not to be neglected comes from *legislative arrangements* in countries. The laws and other legally binding rules in many countries require various forms of participation and provide a major explanation for differences in the extent of actual participation across countries (IDE, 1981a; IPSE, 1997; PEPPER, 1991 and 1996). Recent initiatives by the European Commission and European Parliament may spread participation further.

Thus, in practice, participation is adopted for a variety of reasons. There are *gaps between rhetoric, theory and practice*. Given this, it is understandable that the parties involved have differing expectations as to how it should work and what it should accomplish. Nevertheless, the reasons for which participation is introduced often have little to do with how it works in practice; indeed, the reasons for its initial introduction may have little to do with whether it is successful in the end.

Recent developments

Recently, there has been a shift from statutory to more decentralised arrangements of employee participation. Discussion has now focused on the organisational impacts of participation — on organisational efficiency rather than on workplace humanisation or justice. This shift is mainly the result of four developments:

- Experience with real participation in numerous contexts demonstrates that, while participation has many advantages, it is unlikely to transform society or make the workplace into a paradise. In other words, full participation is not necessarily desirable.
- The lengthy European economic recession has required greater attention to productivity than to social justice. This means that participation is put into a context of contributions to be made to a better economic performance.
- The political pendulum has swung generally to the dominant coalition between management and shareholders in their striving towards increasing shareholder value. At the same time, the influence of unions has declined at company level in most countries, putting pressure on fixed wages and collective labour agreements. The immediate effect of this is that labour terms and negotiations are tending towards decentralised arrangements.
- Most participation has already established and institutionalised workplace humanisation and justice to a large extent. This means that the need for deliberate action for more participation is diminished.

In addition, the recent deregulation movement by governments has stressed the point of responsibility of private business and the individual. This influences the redistribution of contributions and resources and, in this context, financial participation has become an alternative for channelling this redistribution.

In summary, recent developments suggest the following for the issue of financial participation:

- more emphasis on organisational efficiency than on power sharing;
- more emphasis on decentralised arrangements of participation than on collective central arrangements;
- more emphasis on direct participation than on statutory indirect participation;
- more emphasis on parties’ contribution than on collective redistribution; and
- more emphasis on remuneration through additional income and savings than on fixed wages.

Thus, the whole issue of financial participation is beset with paradoxes, dilemmas and often controversies. For every advantage participation has for the actors and parties involved, there is also a disadvantage. The pluses and minuses can be substantial. From an organisational point of view, therefore, the change in participation may alter not only how employees perceive and do their jobs, but also how they and their unions relate to their employer and how and in what form they get their revenues.

Forms of employee participation

By combining different aspects of the four pillars of participation — direct, representative, financial and collective bargaining — four dimensions can be distinguished for participation schemes generally (Heller *et al*, 1998):

- *Organisational level*: This dimension covers both direct individual participation and more strategic representative participation.
- *Range of issues*: This dimension deals with the importance of the content of participation, from minor personnel issues up to major investment decisions.
- *Degree of control*: This dimension distinguishes between degrees of influence, from consultation up to joint decision-making.
- *Ownership*: This dimension refers to 'economic democracy' and 'financial participation', where employees may own all or part of a company. Ownership here is distinguished from the 'degree of control' dimension in the sense that ownership implies so-called 'return rights' (involving claims to income, such as profit-sharing and allocation of shares to employees), whereas degree of control relates to 'control rights' (Ben-Ner and Jones, 1995).

Table 1, adapted from Heller *et al* (1998), presents some examples. From a financial participation perspective, the last two dimensions (degree of control and ownership) are central to the debate on the promotion of schemes.

Financial participation schemes

One of the most significant business initiatives in the 1980s was experimentation with employee participation in decision-making within enterprises. At the same time, employers in countries with market economies increased their experimentation with employee financial participation. The concept of sharing profits or other assets with employees is necessarily related to the private enterprise system, so it is not surprising that the countries in which private enterprise is the strongest are generally the countries where financial participation has flourished. The most obvious examples are the USA and the UK, where profit-sharing, gain-sharing, savings plans, share-based plans and employee share ownership plans (ESOPs) have become relatively widespread on a voluntary basis, with some government encouragement through tax laws. In continental Europe, employee financial participation has been more influenced by government policies attempting to encourage asset accumulation, a wider distribution of the ownership of capital or profit-sharing. In part, the growing privatisation of State-owned companies has contributed to wider employee ownership.

Employee financial participation plans, recently introduced or currently developing in European countries, are not new. There are a number of classifications in the literature that are more or less diffused into broad categories, but an exclusive set of definitions does not exist. Moreover, schemes can become so complex (a combination plan, for example) that employees are unsure whether they are participating in an ESOP or receiving pay for a 13th month.

Table 1 *Participation dimensions and examples*

Dimensions	Examples
Organisational level	
Individual	Job enrichment
Small group	Autonomous work team
Department	Quality circle
Plant	Works Councils in Germany and Netherlands
Company	Worker directors
Range of issues	
Wages	Collective bargaining in most countries
Personnel issues	Collective bargaining in USA; Works Councils in Germany and Netherlands
Welfare benefits	Works Councils in France regarding medical services
Production methods	Quality circles, semi-autonomous work groups
Selecting managers	Works Councils in Yugoslavia (in the 1980s)
Major investment decisions	Supervisory board under German co-determination
Degree of control	
Joint consultation	Works Councils in France
Joint decision	Co-determination in the German iron and steel industry
Self-management	Former Yugoslavia; producers' co-operatives; semi-autonomous work groups
Ownership	
No employee ownership	Typical company in most countries
Some employee ownership	Employee share ownership plans (ESOP)
Complete ownership	Producers' co-operative

Source: Adapted from Heller *et al* (1998)

The wide range of financial participation schemes that exist can be classified into the following broad generic categories, which may co-exist and/or overlap:

- *Profit-sharing*
  - cash-based profit-sharing
  - deferred profit-sharing
  - asset accumulation and savings plans
- *Employee share/stock ownership*

The various schemes detailed below are combined in some countries and companies. One of the objectives of this report is to provide a better understanding of these national and company differences.

Profit-sharing

Profit-sharing, in the strict sense, means the sharing of profits between providers of capital and providers of labour, by giving employees, in addition to a fixed wage, a variable part of income directly linked to profits or some other measure of enterprise results. Contrary to traditional bonuses linked to individual performance (such as piece rates), profit-sharing is a collective scheme applied to all or to a large group of employees.

In practice, profit-sharing can take various forms. At the enterprise level, it can provide employees with immediate or deferred benefits; it can be paid in cash, enterprise shares or other securities; or it can be allocated to specific funds invested for the benefit of employees. At higher levels, profit-sharing takes the form of economy-wide, sectoral or regional wage-earners' funds.

Cash-based profit-sharing and deferred profit-sharing

Although cash-based profit-sharing and deferred profit-sharing have some common features, the differences are more significant than the similarities. The most important difference, from the point of view of the employee participant, is that the reward from a *cash-based profit-sharing* (CPS) plan is paid much sooner (and in immediate cash) to the performance being rewarded than it is with deferred profit-sharing. Ordinarily, this would be expected to increase the incentive value of the payment, but it also means that the amount received is taxable in the year it is paid to the employee.

Cash-based profit-sharing is easily confused with gain-sharing. *Gain-sharing* is usually considered as a productivity-improving or cost-reducing activity, not directly related to company profit levels. It also provides for payments to participants much sooner to the performance that is being rewarded and is often organised on a unit-wide basis. Profit-sharing, in contrast, is usually company-wide. Gain-sharing is thus closer to a true incentive plan than cash-based profit-sharing, and is certainly closer than plans of deferred profit-sharing, savings or employee share ownership. It is noteworthy that a given employer may have one or more of these plans designed to meet particular company objectives.

Deferred profit-sharing (DPS) is a form of deferred compensation under which the allocated profit share is held, most commonly, in trust and is not immediately available to the employee. Usually a DPS scheme allocates a certain percentage of profits to enterprise funds, which are then invested in the name of the employee. Investment can be made in the employee's company, but other assets can also be developed. Alternatively, the amount can be allocated to the employee's account, with a certain minimum retention period before the amount is made available.

Generally, in most countries with any policy on financial participation, a DPS plan must be approved by the tax authorities, particularly where tax concessions to employer or employee are involved. These are called 'approved schemes'. In fact, most countries regulate plan features, such as eligibility, contribution rates, vesting, investments and distribution.

DPS plans in the USA have typically developed to provide retirement benefits. Since most European countries have well-developed public retirement plans, there has been less need for private, supplementary pension plans. DPS in Europe is mainly used as a savings plan for future employee spending. However, recent discussions in Europe on the resources of retirement plans have shifted the focus towards more private resources, including financial participation schemes in general.

DPS plans might have minimal value as employee motivators. Generally, the employee receives nothing more than a periodic statement of the amounts accumulated in his or her account and perhaps a projection of prospective savings or income. Obviously, the employee is receiving some degree of future financial security, but the individual, immediate incentive value is probably minimal. The employer, on the other hand, may deduct from current income amounts paid into the fund or the trust, up to specified limits, thereby reducing that employer's tax liability, depending, of course, on the existing provisions. Employers may have other reasons for establishing DPS plans, for example, to attract and retain high-quality employees or to provide an inducement to employees to identify with the company.

Share-based profit-sharing consists of giving employees, in relation to profits or some other measure of company performance, a number of shares in the company. These shares are usually frozen in a fund for a certain period before employees are allowed to sell them. When shares are subject to a minimum retention period, the term 'deferred share-based profit-sharing' is preferred.

Asset accumulation and employee savings plans

Deferred share-based profit-sharing comes close to asset savings plans and employee share ownership. *Asset accumulation* and *savings plans* provide for employees to set aside a portion of their pay, and perhaps to receive contributions from their employer, in an account that is, in most cases, invested in stocks, bonds or other investment choices for a period of time before being made available to the employee. Although usually intended as a long-term savings programme, plans may allow for withdrawals or loans.

These plans appear under a variety of names, such as savings plans, incentive plans or investment plans. The most common examples are savings plans in the USA, France, Germany and the Netherlands. These are usually defined contribution plans, which follow tax provisions of governments. Government regulation consists mainly of the regulation of the amount of contributions by employees and employers, eligibility criteria to prevent discrimination and retention periods for tax exemption. Savings plans are designed mainly to encourage employees to save, while entailing little risk for them, and to attract a committed workforce. There is virtually no direct incentive that might influence immediate performance. From the employer's point of view, they provide a relatively low-cost fringe benefit. To promote savings, governments in some countries give bonuses on employee contributions.

Employee share ownership

Employee share ownership provides for employee participation in enterprise results in an indirect way (on the basis of participation in ownership), either by receiving dividends or by the appreciation of employee-owned capital, or a combination of both. While such schemes are not directly related to company profits, they are related to company profitability and so enable participants to gain indirectly from the company's added value.

Employee share ownership can be both individual and collective. Shares can be in the company where the employee works or in other companies, or in both. This means that the possibility exists of overlap with asset accumulation and other savings plans. In order to avoid risks in some cases, investing employee contributions in several assets has become common practice.

Employee share ownership can take many different forms. Typically, a portion of company shares is reserved for employees and offered at privileged terms. Or employees are offered options to buy their company's shares after a certain amount of time, under favourable tax provisions, either through stock bonus plans or stock options plans or immediately. Alternatively, an employee benefit trust is set up through employee share ownership plans (ESOPs), which acquire company shares that are allocated periodically to each employee's ESOP account. When a loan is needed to buy the employee shares, the term 'leveraged employee share ownership' is used.

Employee share ownership can be built up by a savings plan with contributions (allocation of stock options, part of wages and/or cash savings) from employee and/or employer. These have became known as 'Save-as-you-earn schemes' and are most common in the UK and Ireland. During the 1990s, there was an increase in the use of personnel stock option plans that may enhance employee share ownership after execution of the options.

As with savings plans, government regulation consists mainly of the regulation of the amount of contributions by employees and employers, eligibility criteria to prevent discrimination and retention periods for tax exemption. To promote savings, governments in some countries give bonuses on employee contributions.

Employee stock ownership plans have acquired a specific meaning in the USA, where they have grown tremendously over the last 20 years, largely as a result of favourable tax considerations for companies that establish them. The chief difference between ESOPs and other stock ownership plans is that ESOPs make possible a greater share ownership for employees.

From the point of view of the employee participant, he or she could experience little difference between an ESOP and a deferred profit-sharing plan, at least to the extent that the profit-sharing trust invests in shares of the sponsoring employer, since it is possible that in neither case does the participant receive any shares (or cash) until distribution at some future time. The participant may receive a periodic statement of amounts accumulated in his or her account. From the employer's standpoint, the ESOP offers the possibility of additional tax benefits over a deferred profit-sharing plan. Employers may also establish ESOPs in the hope of realising many of the same indirect advantages as those listed above for deferred profit-sharing plans, including the establishment of an ownership culture.

Further variants of financial participation schemes include *producer co-operatives* (CO-OP), in which all the company's shares (provided the legal form of share ownership is observed) are collectively owned by its workforce; and *employee buy-outs* (EBO), under which the company's shares are purchased exclusively by its individual workers.

European models

The broad range of financial participation schemes given above could be combined to produce a generalised picture typical for any European country. Figure 1 presents such a range of possible financial participation schemes. It is clear from this figure that it covers a number of models that could be implemented, especially given that one scheme can resolve into another and that combinations are possible. For example, the scheme could be embedded in retirement plans or investment funds in which not only employee shares are involved, but also other contributions from profit-sharing schemes. In fact, some countries have specific tax advantages in transferring certain employee benefits derived from one scheme to another.

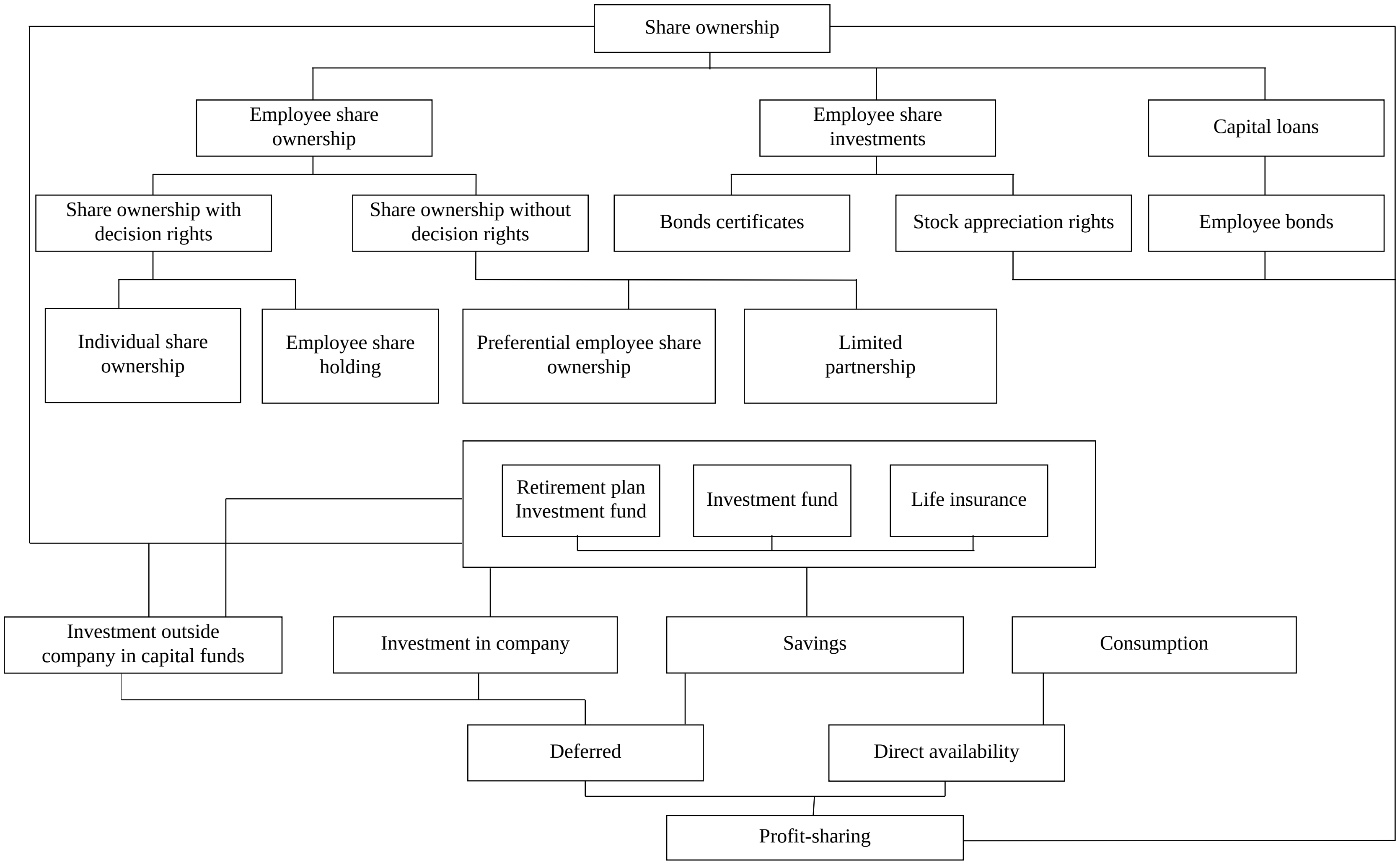
Figure 1 differentiates between share ownership, on the one hand, and profit-sharing, on the other. Share ownership can develop into certain distinct forms, such as allocated employee shares, employee share investments made and the development of capital loans to acquire certain bonds. Allocated shares may or may not involve decision rights; shares can be allocated individually or more collectively through holdings or certain statutory funds, administered by trustees.

In contrast, profit-sharing schemes may allow for direct availability by cash or indirectly through funds. These funds can be allocated to a savings account with certain retention periods or can be invested in assets, including employee shares in their own company.

Two notes of caution are needed. Firstly, to do with terminology — in practice, terms are not used in a consistent way. The generic term ‘employee share ownership’ is frequently used to denote both share-based profit-sharing *and* employee share ownership; ‘profit-sharing’ is sometimes used to refer to profit-sharing (in the strict sense of profit-related pay), share options schemes or share-based profit-sharing.

Secondly, it is worth noting the difference between profit-sharing and share schemes. Pendleton (1999b) points out that the differences between these two types of financial participation may well outweigh the similarities. In contrast to the ‘theory’ of *profit-sharing*, profit shares are usually ‘pre-residual’ payments. This is because in many companies there are predetermined formulae for calculating the size of profit share distributions. It is only in a small number of companies (exemplified by small owner-managed companies and professional partnerships) that a decision is taken to share a residual component of the profits after the profits have been calculated. The corollary of this is that profit shares do not have any special or unique status. They are essentially the same as ‘base’ wages and salaries. This concept is recognised in the taxation treatment of profit-sharing. Typically, their treatment in relation to corporate taxes is identical to that of wages and salaries (though partial social security exemptions are granted in some cases). In most cases, employees do not receive any income tax exemptions on their profit shares. France and the UK are the main exceptions here (though Italy has recently introduced very modest tax benefits to employees receiving profit shares). Cash profit-sharing may well be incorporated into employees’ contracts of employment. This is usual in mainland European

Figure 1 *Financial participation schemes*



countries, where legal regulation of employment is well developed. In turn, the operation of profit-sharing is influenced by the principles and requirements of labour codes and labour legislation. In essence, profit-sharing forms part of the employment relationship and conceptually takes a similar form to base remuneration.

Conceptually, *employee share schemes* are quite different from cash profit-sharing. Share schemes are related to the ownership of the company rather than to employment within it. They have no direct impact on the amount spent on wages within the company and, unlike profit-sharing, are not recorded on the company's profit and loss account (although UK accounting practice now requires that discounts in share option schemes be recorded as a cost). Instead, they impact on the company's balance sheet and affect its value. In principle, it is the owners of the company who decide to share ownership with employees, though, where there is separation of ownership and control, managers may initiate the share scheme. Although employees may acquire shares on privileged terms by virtue of their employment, in principle share ownership is legally distinct from employment and it is rare for share ownership to be incorporated in employment contracts.

These fundamental differences may well have important effects on the relationship with decision-making participation. Whereas one form of financial participation is essentially employment-related, the other is ownership-related.

The variety of schemes is further based on a number of variables, which it is also important to take into account.

- *Eligibility — broad-based or discretionary*: 'Broad-based' financial participation schemes have only minor regulations for exclusion, while other 'discretionary' schemes are aimed at certain categories of personnel, mainly core and higher paid staff. 'Approved' schemes by governments have rules to prevent most exclusions and to enhance eligibility. Of course, this does not mean that there is an equal distribution of shares; this depends on a company's allocation criteria.
- *Dependency on company performance*: Schemes can be assessed on their relationship to some kind of measure of performance. It is clear that profit-sharing schemes are more directly related to short-term performance than share ownership schemes. However, in practice, the term profit-sharing might be quite misleading because it could be independent of direct performance. Other schemes, like certain savings and capital-investments plans, might not be related at all to the performance of the company.
- *Agreement plan*: In most cases, management takes the initiative to implement a plan. Some schemes have come into existence through negotiations and, in certain European countries, approved schemes have the requirement to be agreed on with employee representatives or employees directly.
- *Voting rights and worker control*: In the case of share ownership, schemes have developed where the participants have not full voting rights. Of course, this is guided by the legislation of the country involved. In most cases, there is no requirement that voting rights should be given on shares that are unallocated (in cases of borrowed funds for purchasing the shares). Unallocated shares are ordinarily voted by the trustees. In the case of publicly held companies and allocated shares, the employee has only the same control as an outside shareholder has. In the case of privately held companies, it might be expected that they do

not extend voting rights beyond that called for by law. In some countries (mainly the USA), there is a requirement to nominate employee directors on the board of the company or on the trustee board where a certain percentage of shares are allocated to employees. In cases of negotiated arrangements, a representation on such boards may be the outcome, irrespective of legislative requirements. Such ‘worker directors’ are found in companies throughout Europe.

- *Company level or sectoral/regional*: These schemes are rarely developed on a strictly company level, but usually on a sectoral level. This means that contributions, distribution and other regulation might not be set by the company, business unit or establishment where the employee works. The individual employment relationship, work and performance are all indirect in such cases. This is the case especially with profit-sharing plans agreed by collective bargaining, as well as certain general wage-earners’ funds and employee savings plans.
- *Approved and voluntary autonomous schemes*: Certain schemes are approved by government and follow legislative regulations. Some companies have developed their own system of elaborate and sophisticated schemes, which are probably not fully documented.
- *Retention periods and vesting schedules*: Most schemes do not provide an immediate and direct availability of the employee benefit for the individual employee. This means that there is some variance between schemes in terms of retention periods and vesting schedules. Government approved schemes within a country are also subject to certain rules in this respect.
- *Allocation formulae and schemes*: Schemes vary according to the way they allocate benefits to the participants. Certain formulae, for example, could include compensation levels and years of service. In other words, the distribution of shares may be quite unequal.
- *Contributions*: Considerable variation exists between schemes in the allocation of contributions and in the ways these contributions are made to the plan (except for profit-sharing plans). At one extreme, the company offers the contributions, while at the other extreme the employees make the contributions from their monthly or annual wages. In the case of acquiring shares, a loan might be needed that has to be repaid (probably by using dividends for the purpose). In most cases, some favourable terms for employees are developed, which are dependent, of course, on tax treatment in a particular country.

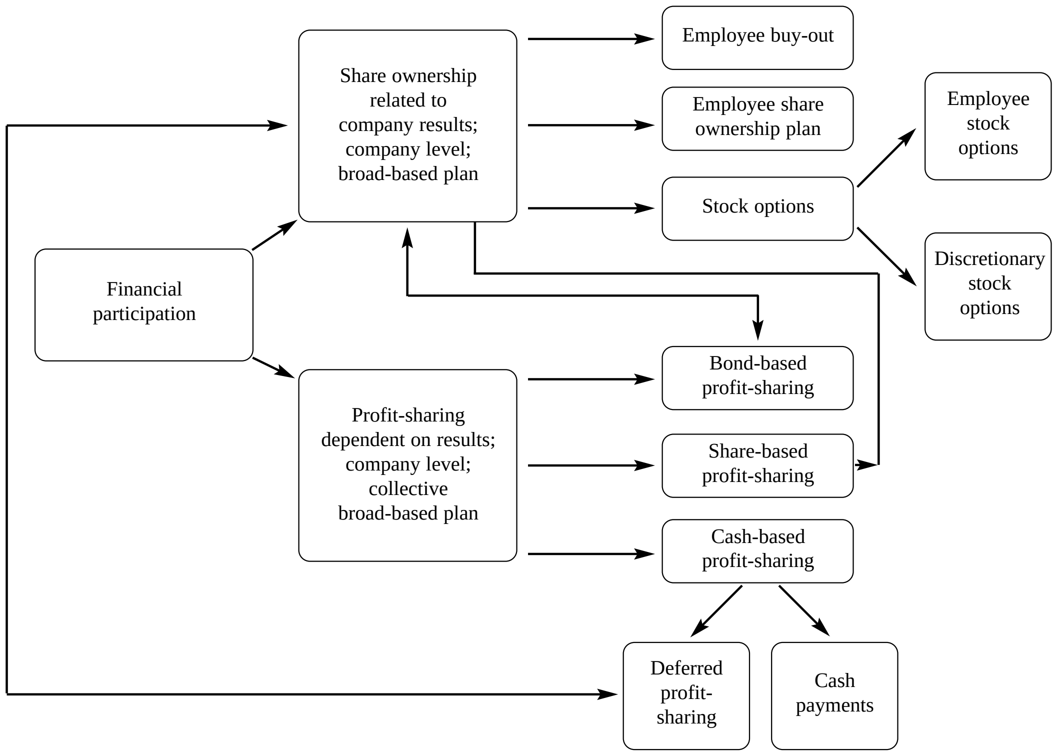
Promotion of financial participation in the EU

There are several approaches to the phenomenon of financial participation and hence a range of definitions. Pendleton (1999b) puts the case for at least ‘unbundling’ the concept and distinguishing between profit-sharing and employee share ownership schemes. Other important elements to be considered in our discussion include:

- whether schemes are broad-based or eligibility is only for certain categories of personnel;
- whether schemes are dependent on the performance of the company or otherwise;
- whether schemes are additional to basic wages or part of basic wages;
- whether schemes are negotiated and agreed with employee representatives or otherwise;
- whether schemes include more or less worker control rights;
- whether schemes are at company level or developed at multi-company, multi-employer or sectoral levels.

In its promotion efforts, the European Commission has taken a certain position on these elements. The acronym PEPPER (meaning 'Promotion of Employee Participation in Profit and Enterprise Results', including equity) has been developed in the course of European initiatives to promote financial participation. The European Commission has issued two PEPPER reports (1991 and 1996), which present an overview of policies in Member States and diffusion of schemes. In these reports, specific PEPPER schemes are described that cover a certain section of the broad spectrum of financial participation schemes available (*see Figure 2*).

Figure 2 *Financial participation according to PEPPER*



PEPPER schemes have four characteristics:

1. The schemes are developed internally on company level. This means that PEPPER excludes more or less schemes that are developed outside the company, such as certain sector capital funds and other capital accumulation plans.

2. The schemes are broad-based in that there are no limitations on eligibility. This implies that the more diffused and dispersed management-oriented schemes are set aside. This adheres to the point of view of participation of employees in general.

3. The schemes are regularly implemented and maintained as an instrument. This means that certain irregular schemes are excluded, such as a stock option scheme that is developed in a certain year but has not had a follow-up.

4. The schemes should include the participation of employees in the profits or enterprise results of their company in addition to their basic wages. This means that there should be a formula that relates performance to the employee benefit and that it is not part of regular wages.

It is important to note that in the definition of PEPPER schemes, there is no mention of agreement with employee representatives and/or control rights of employees. Adherents of the participative approach might emphasise these aspects of financial participation schemes.

The PEPPER schemes, as promoted by the European Commission, are company-level, broad-based plans dependent on company performance, allowing participation in the assets or revenues of the employee's company (however, participation in the assets of other companies is not excluded). Given the focus on participation and commitment and following the PEPPER definition, there is an argument to exclude gain-sharing, irregular cash-based profit-sharing, share options schemes and 'exclusive' executives share (option) schemes.

Chapter 3 Motives and impact

Motives

In general, the motives at company level for putting financial participation into practice fall into four broad categories:

- productivity increase;
- enhancing flexibility of remuneration;
- gaining tax advantages; and
- providing employee benefits and hence an increased commitment from staff (labour market argument).

Some authors include more negative or defensive reasons for companies adopting these plans, such as:

- discouraging unionisation (Kruse, 1996);
- used for take-over defence;
- financing companies in trouble.

The motives of the European Commission in promoting the practice of employee participation in profits and enterprise results is based on expectations of benefits for both employees and companies. The first PEPPER Report (1991) listed the following expectations, which were also presented as motives for the presentation of the Recommendation of the Commission in July 1992 and for commissioning the PEPPER II Report in 1996:

- achieving a wider distribution of the wealth generated by the enterprises which the employed persons have helped to produce;

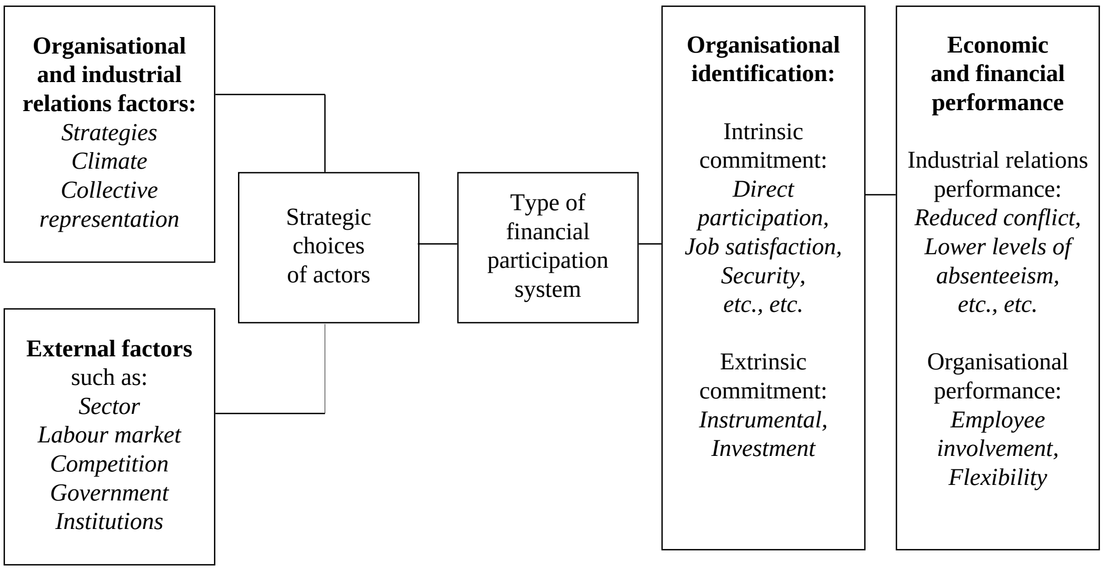
- encouraging greater involvement of employees in the progress of their companies;
- developing positive effects on motivation and productivity of employees;
- enhancing the competitiveness of enterprises through wage flexibility; and
- sustaining employment.

The two macro-level-oriented motives of the European Commission — a redistribution of wealth and sustaining employment — have proved important reasons for governments to develop policies for financial participation.

Employee motivation and productivity

By way of a summary of the literature, Poole and Jenkins (1990) developed a company-level model that guides the reasoning for financial participation and its impact (*see Figure 3*). The logic that derives from this model is that companies implement a financial participation system to enhance intrinsic commitment (direct participation and job satisfaction) as well as extrinsic commitment (instrumental and investment orientation), resulting in improved economic performance and organisational performance (increased flexibility) and hence in improved industrial relations (reduced conflict).

Figure 3 *Model for financial participation at company level*



Source: Adapted from Poole and Jenkins (1990)

Management has different reasons for adopting different financial participation schemes since it is believed that some schemes will meet certain objectives earlier than others. In a Dutch survey, a difference was found in the objectives set for profit-sharing and share ownership schemes. For profit-sharing, most managers believed that it enhances ‘productivity’ and ‘profitability’ as well as an ‘improvement of motivation’; for share ownership, management stressed employees’ ‘involvement with the company’, with less emphasis on ‘productivity’ and ‘profitability’ (Poutsma and Van den Tillaart, 1996).

Employee ownership plans in the USA have attracted attention for their potential both to broaden the distribution of ownership and to improve workplace co-operation and performance. The limited evidence indicates that the primary reasons for adoption of employee ownership plans are to provide an extra employee benefit, improve productivity and gain tax advantages. This means that these schemes provide for additional benefits and that employees are considered as beneficiaries and not as acting owners.

In a recent survey among human resource managers of European multinational companies (conducted for the Directorate-General for Employment and Social Affairs), it was found that the main objective for developing plans in such companies appears to be the improvement of employee attitudes (commitment, involvement, identification and understanding of the business) rather than any direct improvements in performance or productivity (Van den Bulcke, 1999). Another successful objective was the creation among employees of a feeling of 'belonging to the company' and of sharing common goals.

The main reasons for companies adopting financial participation schemes are most often related to improving motivation and productivity. The change from a system of guaranteed wages, in which rewards are independent of effort, to a system that provides workers with an income more directly linked to enterprise performance is considered likely to lead to greater employee commitment, lower absenteeism and labour turnover, greater investments in company-specific human capital and reduced conflict within the company. In contrast to individual merit pay systems, more collective financial participation systems are likely to enhance teamwork and co-operation. Higher commitment, combined with teamwork and co-operation, might also facilitate improvements in the quality of production and work organisation, as well as the adaptation of the labour force to new technologies. According to the theorists, the incentive effects of financial participation schemes are much greater when they are accompanied by greater worker participation in decision-making. It must be noted that, in general, participation in this theory means 'supporting' managerial decision-making.

These positive effects have influenced official government policies in several European countries, leading to the adoption of specific laws offering tax benefits to companies introducing financial participation schemes for employees. This, in turn, has contributed to the continuous rise in the number of enterprises adopting some form of scheme. Important cases and research results point to the positive effects on productivity, motivation and satisfaction (*see*, *for example*, Blasi *et al*, 1996; Buchko, 1992a, 1992b; Cable and Wilson, 1988; Jones and Kato, 1995; OECD, 1995; PEPPER, 1991; PEPPER II, 1996; Poole and Jenkins, 1990; Voets and Spear, 1995). With these results, management's attitude in Europe seems to be changing, influenced perhaps by popular financial participation developments in the USA.

Wage flexibility

Another macro-level argument in favour of financial participation concerns wage flexibility. Financial participation schemes and, in particular, profit-sharing bonuses (paid in cash to employees) should have the effect of making total remuneration more flexible and thus more responsive to macro-economic shocks. This wage flexibility is seen as a means of reducing the risk of unemployment in periods of recession and therefore of achieving greater employment stability.

Employment effect

Again on the macro level, an argument that has influenced the development of financial participation (particularly used by governments) comes from the work of Martin Weitzman (1984). In an extension of the wage-flexibility argument (*above*), Weitzman claims that profit-sharing would promote employment by significantly reducing the marginal cost of labour, which would not include the flexible part of remuneration. Monetary policy could then safely be directed towards fighting inflation without the fear of creating unemployment.

Although his statements have contributed to emphasising the potential of profit-sharing schemes, several of Weitzman's basic assumptions have been questioned in theoretical and empirical studies (Uvalic, 1991; Vaughan-Whitehead, 1992). Moreover, his model requires workers to be excluded from managerial decision-making because existing employees will obviously object to the reduction in their pay resulting from any expansion of employment. The introduction of profit-sharing without a parallel development of workers' participation in decision-making is, at least in Europe, neither feasible nor desirable.

Take-over defence

There are cases that make clear that, initially, financial participation may have functioned as a potential take-over defence in public companies, with mixed success. Moreover, there have been several publicised cases of such plans being adopted in exchange for wage and benefit concessions to save failing companies. But such cases represent a small portion of the overall growth of employee share ownership plans (ESOPs). Most plans are adopted and maintained in successful companies (Kruse and Blasi, 1995).

Company characteristics

Part of the research for this report has focused on the characteristics of companies that implement financial participation schemes and the objectives of such companies. Schemes are most often found in:

- *larger* companies (publicly owned) — *see* Jones and Pliskin (1989), OECD (1995), Poutsma and Van den Tillaart (1996);
- *more profitable* companies — *see* Blasi *et al* (1996);
- *financial sector* companies (banking and insurance) — *see* Cheadle (1989), Poole (1988);
- companies with *higher-than-average skills* — *see* Cheadle (1989), Mol *et al* (1997); and
- *young growing* companies — *see* Poole and Jenkins (1990).

Given these results, it is suggested that large, more profitable companies also tend to develop more financial participation regulations and other employee benefits for their personnel. Note that this implies the reversal of the cause-effect relationship of financial participation enhancing profitability.

That financial sector companies are developing financial participation systems more than companies in other sectors is explained by the fact that such companies experience a greater awareness, at both management and employee level, of how financial participation works and its benefits. This points to an important condition for plan development.

‘Higher-than-average skills’ shows the encouragement given to employees to remain with the company. In this way, a store of knowledge and skills can be built up and maintained at high levels.

Another company-specific predictor often referred to in the literature is the *age of the company*. It is suggested that profit-sharing and employee share ownership schemes vary at different stages in a company’s lifecycle and that the frequency of use is higher in young growing companies.

Relationships with the other pillars of participation

Human resource policies are contingent upon environmental factors, such as global markets, intensive competition and technological change. Those companies that face a dynamic environment and compete in products of high quality — and therefore require functional flexibility (Friedrich *et al*, 1998; Valverde *et al*, 1997) — need employees with appropriate skills and attitudes, including flexibility, adaptability and entrepreneurial flair. Hence, it follows that the use of financial participation schemes seems to be substantial for achieving competitive advantages. This has been supported by FitzRoy and Kraft (1987), who stated that the rapid growth of interest in profit-sharing schemes and employee share ownership models is related significantly to the dynamic environment, such as shifts in technology. It has been suggested that the different pillars of participation —direct, representative and financial — tend to reinforce each other in their contribution to competitiveness. Heller (1998) suggests a systems approach to participation in which diverse types of participation are interrelated.

Ownership culture

Recent research focuses on work structure and culture as determinants of financial participation. In this context, it has been noted by several authors that shifts in working organisations towards more co-operation, interaction and responsibility (rather than strongly specialised routine tasks) lead to a higher use of financial participation schemes. The following proposition is consistent with the relationship between the type of task and financial participation: *profit-sharing and employee share ownership are more likely to be found in companies that concentrate on direct participation and on management by objectives* (Becker, 1993; FitzRoy and Kraft, 1987; Wächter and Koch, 1993). Furthermore, patterns of financial participation need to be embedded in the basic values shared within the company. To improve outcomes, financial participation schemes should be consistent with the company’s philosophy and culture. Winther (1999) has suggested a new ‘Theory O’ that covers the interrelationship of participative structures, subsequent behaviour and enterprise culture.

Partnership

Direct participation of employees is believed to enhance involvement and commitment, to improve quality and productivity, and to enhance the competitiveness of enterprises. Indeed, participation is a key ingredient in management strategies utilising ‘high commitment’ or ‘high involvement’ policies (Lawler, 1986). The purpose of these policies has been said to ‘empower’ employees and to develop ‘high-performance’ workplaces. In the course of these strategies, there is evidence that financial participation, when combined with employee participation, increases productivity. Put differently, financial participation and participation (both direct and indirect representative) tend to reinforce each other (Jones and Pliskin, 1991; Poole and Jenkins, 1990). In some cases, this alignment of arguments for the different participation forms is presented as the ‘partnership company’, which covers high participation on all levels and all issues — the ‘high-involvement company’.

However, this alignment argument is not without its critics. Types of participation can have quite different and conflicting objectives and functions. Financial participation might aim at flexible profit-related pay on an individual basis, while direct participation might aim at improving the co-operation between workers. Also, indirect representative participation might conflict with financial participation since the former focuses mainly on collective solidarity and social justice in labour terms, while financial participation tends to stress diversity and flexibility in rewards.

Relationship with representative participation and collective bargaining

Discouraging unionisation via financial participation has been put forward as an argument. Of course, this has led trade unions to counteract and to be sceptical about financial participation. However, results from the UK Workplace Industrial Relations Survey make it clear that workplaces belonging to companies with share option schemes tend to recognise unions (Pendleton, 1997). They also tend to be more participative in other respects. Most of the literature views share-based financial participation as a strategy to deepen participation in companies that are already relatively participative, rather than as a strategy to weaken union-based forms of representation and participation (Poole, 1989). In addition, it must be noted that financial participation does not imply an enhancement of employee involvement in strategic decision-making. However, one important distinction here are the actors involved in the decision to implement a scheme: when trade unions and employee representatives are involved, the development of industrial democracy appears to be an important objective.

Employment and ownership channels

Following Pendleton’s observation (1999b) to differentiate between profit-sharing and employee share ownership, the relationship of either scheme with participation in decision-making might be quite different. Given that cash profit-sharing occurs within the ‘employment channel’ and is similar in form to base remuneration, it may be subject to the same institutions and processes as those for determining normal pay and conditions of employment. If this is the case, there is no *a priori* reason to expect that profit-sharing should change the existing forms of representative participation in any fundamental way. If profit-sharing is incorporated into employment contracts and if contracts are negotiated with or influenced by unions, then it may be anticipated that unions will engage in consultation or negotiation over profit-sharing. Indeed, where unions are well established in a company, it is more likely that profit-sharing will be incorporated into the existing recipe of pay determination and collective bargaining, rather than undermining the prevailing institutions and practices of representative participation.

Pay decentralisation

Underlying these questions and considerations are the objectives of those introducing profit-sharing. These have been well covered in the economics and industrial relations literature (Kruse and Weitzman, 1990). However, Pendleton (1999b) suggests that a weakness of these theoretically derived reasons for profit-sharing is that they are not usually located in pay determination contexts. In contrast, he suggests that the growing popularity of profit-sharing in some countries since the mid- to late 1980s (as in France and Italy) has to be understood in the context of pay decentralisation.

Pay decentralisation has occurred because of the market challenges facing companies in Europe and the perceived need to tailor remuneration and grading systems (especially the case in France) more closely to the circumstances facing individual companies. It is possible to interpret the use of profit-sharing in these circumstances as a form of ‘efficiency wages’, to boost pay to the remuneration levels offered by industry-wide agreements or as a compensation for stepping outside of them, whilst not adding to long-term or quasi-fixed claims against the company. Profit-sharing itself is not designed to weaken existing forms of decision-making participation, though the decentralisation which gave rise to it may. However, profit-sharing will become subject to the prevailing form of participation at company or plant level. Profit-sharing may be more prevalent in companies or workplaces with higher-than-average levels of either direct or representative participation since these provide both a means for employee expression and some institutional framework for the determination, allocation and administration of remuneration supplements. However, in contrast, profit-sharing may be viewed as unattractive in companies with unions since it may give unions additional leverage over remuneration and lead to increased access to financial information. Furthermore, ‘Machiavellian’ managerialism (d’Art, 1992) may be responsible for managers and principal owners using these schemes as a means to develop autonomy in pay determination, excluding the influence of trade unions.

Involvement of employee shareholders

Turning to employee share schemes, these differ from profit-sharing in that they occur in the ‘ownership channel’ of the company rather than in the ‘employment channel’. The extent to which employee participation in decisions is connected to employee share ownership is likely to be substantially influenced by prevailing models of corporate governance and the capital structures of companies. As yet, this is an unexplored area of financial participation. Theoretically, there are a number of possibilities (Pendleton, 1999b). Where ownership is widely dispersed, as in the traditional USA model, managerial discretion may be high. So, although share schemes impact primarily upon owners, they may be introduced by managers ‘within’ the company. Here, in principle, the barriers to close relationships between other forms of participation and financial participation may not be high. Indeed, managers and workers may conspire together to realise value for employees (and managers) at the expense of other shareholders. In practice, the compliance of shareholders to employee share schemes appears to be secured by limitations on the amount of stock passed to employees and the discouragement of active involvement by employee shareholders in corporate governance matters and other forms of direct or representative participation linked to ownership of the shares.

Corporate governance differences

In the European model, ownership tends to be more concentrated. The decision to introduce employee share schemes seems more likely to be the prerogative of major shareholders (which may explain the lower incidence of share schemes in Europe) and may thus be distinct and separate from other forms of employee participation. In practice, however, the situation is complicated by co-determination rights in some European countries. These rights give employee representatives greater direct access to the company board representatives of major shareholders than would be found in the Anglo-American context.

Differences within ownership schemes

A further complication in the analysis of employee share schemes is that many take the form of share option schemes. This means that during the period when employees are members of the scheme, they are not actually shareholders; at the end of the period, there is no compulsion to use the amount saved to buy shares. In these circumstances, it is highly debatable whether there is likely to be any clear relationship or impact upon patterns of decision-making participation. Similar points may be made in relation to deferred schemes, at least during the deferral period. The main point here is that there are potentially fundamental differences within the category of employee share schemes (Pendleton, 1999b).

Impacts

European research on the impact of profit-sharing and employee share ownership schemes on organisational performance is relatively limited. In the USA, several studies have examined this relationship (Poole and Jenkins, 1991b). Most of them analyse the influence on corporate performance and profitability, while others discuss the impact on employee attitudes and behaviour.

Productivity and profitability

A considerable body of evidence suggests that the introduction of profit-sharing is associated with a rise in the level of productivity in a company (Kruse and Blasi, 1995; Jones and Kato, 1995; Kumbhakar and Dunbar, 1993). The consistency of the findings on the incentive effect on profitability is remarkable. Profit-sharing is associated with higher productivity levels in every case, regardless of methods, model specification and data used (Cable and Wilson, 1988; Kumbhakar and Dunbar, 1993; OECD, 1995; PEPPER, 1991; Whadhwani and Wall, 1990). The experience to date suggests that these cash-based schemes have had significantly greater incentive effects than share-based schemes.

The debate on the association between performance and financial participation is, however, not closed. Pendleton (1997), in research based on data of the UK Workplace Industrial Relations

Survey (WIRS), found only weak and mixed support. He states that, by contrast, the findings are both more consistent and stronger in respect of variables referring to employee participation and representation. This was most apparent in the case of workplaces where there were significant associations between the use of information-sharing mechanisms and white-collar union recognition agreements and the presence of financial participation. This is also supported by survey data on employee stock ownership plans in the State of Ohio, USA (Logue and Yates, 1999). The importance of this complementary relationship has recently been voiced by Pendleton (1999a) in a review of the research on profit-sharing and employee ownership as reward systems. He suggests that it is probably unrealistic to expect that any one participation scheme can have a transformational effect on employees or upon the company in which it is introduced. He goes on to suggest that participation schemes have to be used in conjunction with other human resource instruments and, if well designed, may have mildly positive effects on company performance.

Kruse and Blasi (1995) reviewed 27 studies of productivity and profitability, separating them into those examining American plans only, co-operatives and all other forms and combinations. They summarised the results in two statements:

1. There is no automatic connection between employee share or stock ownership and productivity or profitability.
2. While several studies indicate better or unchanged performance under employee ownership, almost no studies find worse performance.

They go on to state that there has been little study of the salient organisational mechanisms that might help explain the actual connection between employee ownership and performance. Similarly, there is little study on the range of other human resource policies that might produce positive impacts on employee ownership.

Employment and wage flexibility

The effects of profit-sharing on employment through greater wage flexibility are much more debatable. Some earlier evidence for Japan indicates that profit-sharing has a significant and positive effect on employment (Bradley *et al*, 1990). The evidence suggests that financial participation has resulted in higher wage flexibility, fewer adjustments in employment and in higher and more stable employment growth on micro-level. In contrast, other studies suggest no relationship or question the methods and outcome due to the periods of investigation (Whadhwani and Wall, 1990).

Employee attitude and behaviour

With the use of participation schemes, especially in the case of employee share ownership, companies aim at changing the employee's attitude and behavior. It is expected that employees who participate in ownership programmes consider themselves as entrepreneurs and focus on organisational interests. Hence, it is argued that employees' *commitment* to work and to the company will increase by the use of financial participation (Klein, 1987; Poole and Jenkins, 1991; Weber, 1992). Furthermore, if ownership is viewed as financially rewarding, it is suggested that this may lead to a higher level of *satisfaction* (Buchko, 1992b; Guski and Schneider, 1977) and may improve the company's attractiveness for current as well as future employees. Motivation to remain with the company increases.

A recent analysis of four countries (Germany, France, Sweden and the UK) by Festing *et al* (1999), based on data of the Cranfield Network on European Human Resource (Cranet-E), suggests that financial participation is not only responsible for an increase in financial performance (increased profits), but also for a more efficient human resource management (decreased absenteeism and staff turnover). However, Festing *et al* added that, compared to profit-sharing, the argument for employee ownership is not that straightforward.

The first PEPPER Report mentions that PEPPER schemes could increase the degree of attachment between employees and their companies, encouraging skill formation. Empirical results suggest a positive effect on motivation and satisfaction (Buchko, 1992a; Cable and Wilson, 1988; Poole and Jenkins, 1990; Voets and Spear, 1995). Other studies report no effect where share ownership schemes are concerned (Kruse and Blasi, 1995).

Kruse and Blasi (1995) have reviewed 25 studies on employee attitudes, behaviour and company performance under various types of employee ownership plans, including cross-sectional comparisons between employee-owners and non-owners, longitudinal comparisons before and after employee ownership, and comparisons within groups of employee-owners. The conclusions were as follows:

1. Employee ownership does not magically and automatically improve employee attitudes and behaviour whenever it is implemented.
2. While there are a number of findings that employee attitudes and behaviour are either improved or unaffected by employee ownership, it is rare to find worse attitudes or behaviour under employee ownership.
3. Where there were differences in attitudes or behaviour linked to employee ownership, they were almost always linked to the status of being an employee-owner and not to the size of one's ownership stake.
4. Perceived participation in decisions, either by itself or interacting with employee ownership, was often found to have positive effects on employee attitudes.
5. Despite the possible benefits from increased employee participation in decisions, there was no automatic connection between employee ownership and either perceived or desired employee participation.
6. There is no evidence of decreased need or desire for union representation in employee ownership companies.

These findings might be slightly biased towards the USA because of the amount of research done there. Kruse and Blasi state: 'Given that positive effects of employee ownership on workplace performance are predicated chiefly upon greater employee motivation and co-operation, it is no surprise that results of firm performance studies are as disparate as those of the attitudinal and behavioural studies.'

Attraction, binding, motivation, commitment incentive

In summary, it can be said that both instruments of financial participation — employee share ownership and profit-sharing — are similar in terms of the goals they pursue. If the compensation system is well designed and attractive by the additional use of financial participation schemes, this may influence the decision of future employees to join the company, while employees who already work for the company may be encouraged to remain (Weber, 1992). Hence, there exists a motivation and commitment incentive. The potential shortcoming of both schemes may be that they may not result in a higher motivation when the relationship between input and output is weak. The influence of top management decisions on organisational performance is believed to be stronger. Owners tend to control this relationship by minimising opportunistic behaviour of agent-managers. This explains why stock options as well as profit-sharing have typically been reserved for executives (Noe *et al*, 1997).

Disincentives

Not surprisingly, financial participation has disincentives for both publicly traded and closely held companies. For companies that find the disadvantages outweighing the advantages, there are other ways to make employees into shareholders, including stock bonus or purchase plans, profit-sharing plans and stock option plans. Disincentives most commonly cited are the re-purchase liability and the dilution of stock value.

'Free-rider' problem

A series of arguments has been put forward against financial participation. Theoretical criticisms often emphasise the 'free-rider' issue. Group incentive schemes, such as profit-sharing, give individual workers only a small fraction of any additional profit accruing due to their own effort, especially in large organisations. Such schemes could therefore tend to encourage shirking or free-riding, which would result in lower productivity. However, according to the findings of other theoretical and empirical studies, these negative aspects would be more than offset by the enhancement of co-operative behaviour and teamwork resulting from financial participation.

Relationship with performance

An obvious disadvantage of certain financial participation plans, such as employee savings plans, is their less direct relationship with company performance. This is, however, not confined to employee savings plans. Pendleton (1999a) noticed a tendency in the UK towards stabilising the effect of the relationship with performance in the case of profit-related pay to minimise the risks for employees. Of course, this cuts out a central element of financial participation.

Another argument on this relationship questions the basic assumption underlying most financial participation schemes. Many employees do not see a direct relationship between individual and organisational performance. Only top-management decisions on products, engineering, pricing and marketing seem to have a direct influence on the profit of the company. Based on this reasoning, Noe *et al* (1997) question the performance impact of profit-sharing: 'Performance motivation is likely to change very little under profit-sharing. Consistent with expectancy theory, motivation depends on a strong link between behavior and values consequences such as pay.' Bell and Hanson (1989), on the other hand, argue that employees do have a high interest in profit-sharing as long as they do not have to take a risk themselves.

Restrictions

An obvious disadvantage of deferred profit-sharing plans and employee savings plans is the sometimes significant restrictions on withdrawals. Most schemes use certain retention periods before benefits are made available to employees. These retention periods may be a legislative requirement. Withdrawals within the retention period might be made impossible or quite unprofitable. This also has an impact on the problem of expectations and operating costs, which might lead to lower levels of participation by employees.

Re-purchase liability

Closely held companies might be willing or even obliged to purchase the shares of departing plan participants because of the absence of a public market for their stock. This re-purchase liability generally increases over time if the company is successful and the appraised value of the company's stock rises. If a company does not plan adequately to meet this liability, it may be forced to make a public offering of its stock and in this way eliminate the re-purchase obligation. Of course, this solution is not ideal since public offerings are very expensive and also involve a loss of control and independence. In other words, it might be necessary to create a market (internal).

This phenomenon highlights another observation on which there is virtually no research — the dynamics of employee share ownership. Spear (1999), in his account of employee-owned bus companies in the UK, suggests that employee ownership might be more flux than permanent and that it occurs at certain stages of the development of enterprises, while at other stages share ownership might not be the best solution or is simply resolved by selling the stock.

Employee risks

Another argument raised against financial participation is that it shifts the risk to the employee, entailing, as it does, a greater likelihood of income variability. In the case of share ownership, it is not only the income of employees that is at risk, but their savings also.

Employee share ownership means a higher degree of risk than other investment options because, to a significant extent, it is undiversified. This problem might be reduced by implementing other investments as a portion of the contributions or moving to investments plans. Nevertheless, employee share ownership is generally not a diversified investment portfolio and the risk to participants is greatly magnified if they are relying on company share as their principal benefit. However, the risks may be very limited if the scheme only provides for an additional benefit to basic wages.

Another aspect of risk relates to leveraged employee share ownership, as in the case of employee buy-outs and ESOPs. Whereas profit-sharing plans represent a variable financial burden, leveraged employee share ownership requires fixed loan amortisation payments regardless of the company's financial performance. In this sense, a leveraged share ownership is similar to taking on debt. In fact, such loans are treated as a liability if the company guarantees the loan or commits to future contributions to service it. For publicly traded companies, this can cause problems since the stock purchased with a loan is treated as a reduction in stockholder equity. Thus, if a company is not growing and is unprofitable, the need to service the loan can threaten its ability to survive.

Another argument against profit-sharing schemes is that they might result in a situation of higher pressure for performances in terms of a merit pay system, driving stress up to unhealthy levels.

Dilution of shareholder stock

When a company contributes newly issued stock to its employees, the current stockholders suffer a dilution in equity per share. Theoretically, this dilution can be compensated for if the company increases its productivity and profitability as a result of higher employee motivation and increased working capital, and in the process raises the value of its stock. There are some studies that confirm this (Chang, 1990; Jones and Kato, 1995; Meihuizen, 2000; Sesil *et al*, 2000).

Reduction in management control

In the vast majority of employee share ownership arrangements, there has not been any significant transfer of decision-making authority from management to employees. Depending on the structure of the plan, however, it is possible that management could lose some control as employees (and their representatives) gradually become more substantial shareholders. However, with the exception of distress buy-out situations, where unions have at times taken an active role in establishing share ownership, it is almost always management that initiates and implements employee share ownership, hence preventing any loss of control by influencing the design of the scheme and its subsequent control and voting rights.

Failure to meet expectations

If a company's management establishes share ownership in the belief that the plan alone will lead to higher productivity and profitability, it will undoubtedly be disappointed in the results. The research to date fails to establish a clear link between share ownership and greater employee motivation and commitment. When ownership has been accompanied by worker participation programmes, however, it does appear that employees react in a positive manner and that company performance improves.

Viewed from the perspective of the employee, employee ownership can create the expectation of a greater role in decision-making as a natural result of the ownership stake. Employee frustration and discontent could arise if these expectations are not met and thus share ownership could potentially have a negative effect on productivity and profitability. Another potential employee disincentive could occur if the value of the sponsoring company's shares falls for reasons perceived by employees as unrelated to their own or the company's performance (Maaløe, 1998).

Set-up and operating costs

The costs may be considerable for a company to design, implement and, perhaps, negotiate a financial participation scheme and there are also the ongoing costs for administrative personnel and communication programmes. For closely held companies, there is the additional expense associated with the need to have an annual appraisal by an outside expert of the company's value. Generally speaking, unless a company is medium-sized or larger, these costs would probably outweigh any tax advantages. This argument is mentioned by smaller companies in particular (Poutsma and Van den Tillaart, 1996).

Chapter 4

Incidence of financial participation schemes

Nowadays, it is crucial for enterprises to take into account the contribution made by the involvement and participation of employees. High levels of involvement and partnership to meet global competition and demands on flexibility seem to be normal practice in European companies or are at least on the agenda of management teams. However, there appears to exist a wide variety of participation and involvement schemes and practice does not follow theoretical outlines and management-prescriptive literature. Moreover, there exists a diversity in the diffusion and use of different schemes between European countries. Company practices in some countries appear to commit to schemes on participation by representatives; in other countries, the emphasis is on more direct participation by way of, for example, group work; while in yet other countries, preferred practices focus on employee ownership.

An overview is presented here of existing practices on participation schemes in various companies in several European countries. An analysis is given of the interrelationships between schemes for *financial participation* (employee ownership and profit-sharing) and schemes for *direct participation* (employee consultation and delegation). The third type of participation scheme — *indirect participation* (employee representation through works councils and trade union representatives) — was used as a contextual variable. Two questions central to this research are:

1. what is the level of diffusion of participation practices in European countries; and
2. what is the explanation for their existence.

Answering the first question, we can conclude that the level of financial participation is low in large parts of Europe. Profit-sharing is more developed than employee share ownership and we noticed a great diversity in practices between countries of the European Union.

Regarding the second question, there is a possible alignment between financial participation and the other participation practices of direct participation and representative or indirect participation, which supports the concept of high involvement workplaces. There could also be a negative relationship due to the fact that different schemes support contradictory objectives and functions. However, we found a positive relationship between direct and financial participation, and a less positive relationship between representative and financial participation. Indirect participation seems to have a diverse impact. These results suggest that:

- less profit-sharing schemes are found in unionised companies with less recognised employee representation; and
- employee share ownership schemes are found in less unionised workplaces, but with recognised employee representation on establishment level, suggesting more decentralised arrangements of work and labour terms in these types of company. On the other hand, labour terms bound by collective labour agreements do not hinder the existence of these schemes.

A secondary analysis is also presented, consisting of survey data from the EPOC research project, dealing with Employee Direct Participation in Organisational Change. This survey was commissioned in 1996 by the European Foundation for the Improvement of Living and Working Conditions and covers data from establishments in 10 European Member States. Most of the questions concern the *largest occupational group in the establishment* and the analysis is thus focused on broad-based schemes, rather than executive-type schemes for management and higher paid staff. The analysis was done by Erik Poutsma and Fred Huijgen and reported in an internal document; parts of the analysis have been published in Poutsma and Huijgen (1999).

A word of warning is needed here. Since EPOC focused only indirectly on financial participation schemes, this implies that the literature review given in Chapter 3 of this report came up with important variables to be included in the analysis, but for which the available survey does not always contain the appropriate indicators.

Share ownership and profit-sharing are both forms of participation that are typical for the profit sector. Since financial participation is the focal point of this discussion, public sector workplaces are excluded from the analysis.

The analysis of the data from the EPOC survey consists of three steps:

1. a description of the existence of financial participation schemes is presented against the background of global variables: country, sector, size of establishment and type of profession of the largest occupational group;
2. analysis of the relation between financial participation and the intensity of different forms of direct participation; and
3. a contingency analysis of the existence of financial participation schemes, including conditional variables that could explain the existence of profit-sharing and share ownership.

EPOC survey

The data used below was collected for the EPOC survey, commissioned in 1996 by the European Foundation for the Improvement of Living and Working Conditions (EPOC Research Group, 1997). The main purpose of the survey was to establish the incidence of different forms of direct employee participation in different countries. A mail questionnaire, directed at the (general) manager of a sample of establishments, was used to collect information on workplaces in 10 European countries: Denmark, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the UK. (In targeting managers only, and not employees or their representatives, the EPOC survey is open to the criticism that its results are one-sided.) For larger countries (France, Germany, Italy, Spain, the UK), the gross sample was 5,000 workplaces; for medium-sized countries (Denmark, the Netherlands, Sweden), the gross sample was 2,500 workplaces; and for smaller countries (Ireland, Portugal), 1,000 workplaces. As is often the case with mail surveys, the response was not very high, the overall response rate being almost 18%, varying between 9% (Spain) and 39% (Ireland). The total number of respondents was 5,786. The analysis was restricted to the private sector, consisting of 4,603 observations.

The EPOC survey was confined to establishments with at least 50 employees in the non-agricultural sector and was stratified by company size and sector. Appropriate weights based on sector, company size and country were used to make the data representative for a selection of European countries.

EPOC definition of participation

The problem of defining ‘direct participation’ is difficult since the term has different meanings and connotations in different national systems of industrial relations. Within these systems, participation can range from a superficial involvement to an extensive involvement in decision-making. It also takes many forms, ranging from the provision of information, through consultation, to negotiation and, in some cases, joint decision-making.

The following definition of direct participation is used in the EPOC survey: *Opportunities which management provide, or initiatives to which they lend their support, at workplace level, for consultation with and/or delegation of responsibilities and authority for decision-making to their subordinates, either as individuals or as groups of employees, relating to the immediate work task, work organisation and/or working conditions.*

The focus of the EPOC project was on the two main forms of direct participation:

- *consultative participation*, in which management encourages employees to make their views known on work-related matters, but retains the right to take action or not;
- *delegative participation*, in which management gives employees increased discretion and responsibility to organise and do their jobs without immediate feedback.

In contrast to information disclosure (through team briefing or company bulletin) and financial participation (profit-sharing and share ownership), the distinguishing features of direct participation are *consultation* and *delegation*. Indirect and financial participation may be integral features of a participative strategy, but they do not necessarily involve consultation or delegation. Indirect participation takes place through the intermediary of employee representative bodies, such as works councils or trade unions. In contrast, direct participation involves the employees themselves. In this investigation, indirect participation is regarded as a background facilitating or limiting the use of direct or financial participation.

Both *consultative* and *delegative* participation can involve individual employees or groups of employees. Consultative participation can be further subdivided into, for example, consultation with temporary groups or permanent groups; still further subdivision can be distinguished according to the frequency of consultation and the importance of issues addressed. These types, contents and intensity were the main focus of the EPOC survey's questionnaire. In our analysis, we will reduce this complexity of forms and limit ourselves to a number of variables indicating the direct participation intensity of three main forms: group consultation, individual delegation and group delegation. We excluded individual consultation since this form is the most common practice used. Probably because of this the variable does not discriminate as much between categories as preliminary analysis has revealed.

The wide range of financial participation schemes can be divided into two main categories, which may or may not co-exist and/or overlap — profit-sharing and employee share ownership. The EPOC survey data did not allow for a detailed analysis of all existing forms. We investigated the existence of collective schemes of both types of financial participation at various workplaces in different countries.

An important analytical distinction, which is implicit in our investigation of direct participation and financial participation, is that management deliberately sets out to develop participation of employees. It is not simply, in other words, a question of a change in the style of individual managers, although the behaviour of such managers is likely to be a prime target. Both direct participation and financial participation schemes in our investigation are explicit formal ones. Our investigation does not cover informal individual participation styles.

Structural features of participation

The EPOC survey contained data on establishments that had introduced participation schemes for their largest occupational group. Focus here is on a contingency analysis that might provide an insight into the variables concerning the existence of participation schemes. Structural features are examined which may explain the spread and use of direct and financial participation schemes. Of course, cause and effect conclusions are not possible with this survey data.

Company characteristics

Taking a contingency perspective and given the empirical research on motives and effects, it is expected that both direct participation and financial participation are important for those companies that face a dynamic environment and have to compete on quality and variety. This environment is reflected in organic structures with greater task interdependence and required flexibility due to greater variety in products and services. Scarcity on labour markets also tends to enhance the use of these schemes to commit employees to the company and its objectives. This pertains especially to qualified professionals in knowledge-intensive service industries. In addition, financial participation schemes are more often found in young growing companies and among higher qualified professionals and commercial personnel. They were found to a lesser degree in companies with substantive levels of unionisation and more often seen as a remuneration instrument for staff and management. They were not found in independent family-owned companies. For an overview of the different contingencies, see Fröhlich and Pekruhl (1996); Lammers and Széll (1989); Mol *et al* (1997); OECD (1995); Poole and Jenkins (1990); Poutsma and Van den Tillaart (1996); and Sisson (1996).

Among the important internal influences shaping participation are the strategies and range of values and beliefs held by the actors involved. These actors include the managers, individual employees, workgroups and their representatives who are involved in the decision-making process of the organisation and the bodies concerned with participation (Cotton, 1993; Long, 1982; Mygind and Rock, 1993).

Institutional context

The influence of institutional and legislative programmes varies in European countries for both direct and financial participation. The statutory structures of the Federal Republic of Germany and the Works Council legislation in the Netherlands can be contrasted with the more voluntary systems in the UK, Italy and Ireland. The elaborate arrangements on financial participation in the UK and France can be contrasted with the almost non-existent governmental regulations and provisions in Denmark, Sweden, Italy and Spain (PEPPER, 1991 and 1996). In France, the implementation of a profit-sharing system is mandatory for companies with more than 50 employees.

Undoubtedly, the experience of participation, the expectations and culture of consensus and co-operation are, in many respects, pre-structured by the wider political framework and the rules and rights assigned to industrial organisations, trade unions and social actors. However, one must warn against seeing any national system as monolithic and determining, although financial participation schemes appear to be more determined by national regulations than are direct participation practices. There are important areas where informality and voluntarism occur even in a legalistic system and, for many issues, the legal or institutional forms of participation may be of peripheral or lesser importance when compared to the ‘best suited’ arrangements agreed between the relevant actors. More specific research on direct participation and new technologies shows a greater variation of methods and schemes of participation *within* countries than *between* countries (Cressey and Williams, 1990). However, some legislation, particularly of the supportive and non-regulatory type, may favour participation in Europe. Recently, the phenomenon of privatisation has had an important impact on the growth of share ownership throughout Europe, particularly in the UK, France, Italy and Spain. Hence, multinational companies face difficulties to transnationalise their participation schemes and have asked for more support on a European level.

Based on the literature described in Chapter 3 and the available data, our analysis distinguishes two categories of contextual variables, as follows:

Global characteristics	Conditional factors
• country • size of workplace • sector • profession/occupational groups that make use of financial participation schemes	• scope of competition • ownership of establishment • labour terms bound by collective labour agreement or not • percentage membership of union • degree of innovation • management's attitude towards participation • employment growth • qualification level of workforce

Spread and use of financial schemes

Tables 2 – 5 present percentages of companies in the different classes of the global company characteristics: country, profession, sector and size. The figures show that the overall average use of financial participation schemes in Europe is rather limited. Employee share ownership schemes, in particular, are not popular, with only about 9% of companies having some form of them.

As expected from the PEPPER studies, the countries with a substantial use and spread of financial participation schemes are France and the UK (*see Table 2*). Profit-sharing schemes are especially popular in France, while elaborate share ownership schemes are fairly common in the UK. Both countries also have higher numbers of companies that combine both types of scheme.

Table 2 *Financial participation schemes by country*

Country	No financial participation schemes	Profit-sharing only	Share ownership only	Both	N (=100%)
Denmark	85	9	5	1	525
France	42	51	1	6	439
Germany	84	12	3	1	580
Ireland	89	7	3	1	301
Italy	93	4	2	1	474
Netherlands	83	13	3	1	404
Portugal	91	7	2	0	194
Spain	84	6	8	2	368
Sweden	79	19	1	1	513
UK	49	28	11	12	730
Total	**72**	**19**	**5**	**4**	**4,603**

Of the other countries, only Sweden, the Netherlands and Germany have some profit-sharing schemes, while Spanish companies appear to have developed relatively more share ownership schemes. The use and spread of financial participation schemes reflect both the tradition and government policies in these countries. The data suggests that in those countries with a well-established government policy on financial participation, the use of these schemes has become widespread, as in France and the UK.

Figures for the different professions or occupational groups (*see Table 3*) show that profit-sharing schemes are mainly developed for commercial staff and, to a lesser extent, for administrative/clerical personnel and personal service workers. Commercial personnel also participate in share ownership schemes. These results support earlier research, which showed that these types of remuneration are offered more often to commercial and financial services workers than to other occupational groups.

Table 3 *Financial participation schemes by profession*

Profession	**No financial participation schemes**	**Profit-sharing only**	**Share ownership only**	**Both**	**N (=100%)**
Product/transport	72	19	6	3	2,517
Commercial	67	23	4	6	743
Repair/technical	76	17	4	3	323
Personal service	73	19	3	5	157
Admin./clerical	71	21	5	3	223
Other	78	15	3	4	640
Total	**72**	**19**	**5**	**4**	**4,603**

This latter result is also reflected in the number of schemes per sector (*see Table 4*). Financial participation schemes are particularly developed in the trade and services sectors, while they are least developed in the industrial and construction sectors.

Table 4 *Financial participation schemes by sector*

Sector	**No financial participation schemes**	**Profit-sharing only**	**Share ownership only**	**Both**	**N (=100%)**
Industry	75	18	5	2	2,118
Construction	80	14	3	3	402
Trade	65	23	6	6	1,186
Services	70	21	4	5	898
Total	**72**	**19**	**5**	**4**	**4,603**

There is often a strong relationship between size of the company and use of financial participation (*see Table 5*). This holds true for both profit-sharing and share ownership schemes. Smaller companies seldom develop such schemes for their personnel.

Table 5 *Financial participation schemes by size*

Size	No financial participation schemes	Profit-sharing only	Share ownership only	Both	N (=100%)
Less than 49	80	14	3	3	1,009
50 – 99	73	19	5	3	1,658
100 – 199	69	24	4	3	1,095
200 – 499	64	21	6	9	599
500	68	18	6	8	242
Total	**72**	**19**	**5**	**4**	**4,603**

Relationship between financial and direct participation

Two questions now become pertinent to this discussion:

1. Is there a relation between the use of financial participation schemes and the practice of direct participation?

2. Does an intensive use of certain forms of direct participation, or combined forms, go together with a greater chance of financial participation schemes being practised?

First, the relationship between financial participation schemes and the intensity of three forms of direct participation (group consultation, individual delegation and group delegation) is analysed. Next, the occurrence of schemes in team-based organisations (where the majority of personnel work in semi-autonomous groups) is examined. Finally, the relationship between overall intensity of direct participation and financial participation is discussed.

Intensity of different forms of direct and financial participation

Tables 6 – 8 present the figures concerning the relationship between financial participation schemes and the intensity of three forms of direct participation (group consultation, individual delegation and group delegation).

Table 6 *Intensity of group consultation related to financial participation schemes*

Intensity of group consultation	Profit-sharing (row %)		Share ownership (row %)		Total (column %)
	No profit-sharing	Profit-sharing	No share ownership	Share ownership	Intensity of group consultation
No group consultation	82	18	94	6	50
Low	73	27	88	12	26
Medium	72	28	90	10	10
High	64	36	90	10	9
Totals	**77**	**23**	**91**	**9**	**100**
(N)	(3,533)	(1,071)	(4,204)	(400)	(4,604)

There is a fairly strong relationship between the intensity of *group consultation* and profit-sharing (*see Table 6*). In the category without group consultation, the proportion of companies with profit-sharing is only 18%. This percentage increases with the intensification of group consultation, reaching 36% for the category with a high intensity of group consultation. On the other hand, there is no clear association with share ownership.

Similarly, there is a strong relationship between the intensity of *individual delegation* and profit-sharing (*see Table 7*). In the category without individual delegation, only 20% of companies have profit-sharing, with this figure rising to 38% in companies where there is a high intensity of individual delegation. It is also noteworthy that a relatively large number of companies with a high intensity of individual delegation also use share ownership (17%).

Table 7 *Intensity of individual delegation related to financial participation schemes*

Intensity of individual delegation	**Profit-sharing (row %)**		**Share ownership (row %)**		**Total (column %)**
	No profit-sharing	**Profit-sharing**	**No share ownership**	**Share ownership**	**Intensity of individual delegation**
No indiv. delegation	80	20	93	7	49
Low	75	25	93	7	19
Medium	77	23	91	9	22
High	62	38	83	17	10
Totals	**77**	**23**	**91**	**9**	**100**
(N)	(3,533)	(1,071)	(4,204)	(400)	(4,604)

Almost the same picture emerges for the relationship between the intensity of *group delegation* and financial participation (*see Table 8*). Group delegation here refers to the number of decision rights in the case of group work and the autonomy of groups (*see below*). Again, there is a fairly strong relation between the intensity of group delegation and profit-sharing, while a weak, though positive relationship exists with share ownership.

Table 8 *Intensity of group delegation related to financial participation schemes*

Intensity of group delegation	**Profit-sharing (row %)**		**Share ownership (row %)**		**Total (column %)**
	No profit-sharing	**Profit-sharing**	**No share ownership**	**Share ownership**	**Intensity of group delegation**
No group delegation	79	21	92	8	68
Low	75	25	90	10	12
Medium	75	25	91	9	13
High	58	42	86	14	7
Totals	**77**	**23**	**91**	**9**	**100**
(N)	(3,533)	(1,071)	(4,204)	(400)	(4,604)

Team-based workplaces and financial participation

Benders *et al* (1999) analysed the EPOC survey data, focusing on workplaces that practised ‘group delegation’ or ‘group work’. We used their variable to indicate workplaces that can be characterised as ‘team-based’ and related this variable to financial participation.

In the EPOC survey questionnaire, group delegation was described as: ‘Management gives non-managerial employees in the largest occupational group at workplace level increased responsibility to organise and do their jobs without reference back (decision-making).’ In this context, a central question in the survey tried to assess whether or not group delegation was practised, as follows: ‘Has the management given to formally introduced *groups* the right to make *decisions* on how their work is performed on a *group* basis without reference to immediate manager for one or more of the following: allocation of work; scheduling of work; quality of work; time keeping; attendance and absence control; job rotation; co-ordination of work with other internal groups; improving work processes?’

The total number of positive answers could range from a minimum of 1 to a maximum of 8. We used the same number to assess the intensity of group delegation, as did Benders *et al*, who considered the intensity of group delegation to be a proxy for group autonomy.

Data on the proportion of employees in the largest occupational group involved in group delegation were used to select the organisations that apply group delegation on a broad scale, for a relatively large part of the largest occupational group. In order to qualify as a ‘team-based’ workplace, two criteria have to be met:

- an intensity of at least 4 decision rights; and
- a coverage of at least 70%.

About 4% of all European workplaces (public sector included) can be typified as team-based.

Table 9 shows that team-based workplaces seem to be at the core of the high participative model since financial participation schemes are used in these organisations far above average. It is noteworthy that 39% of the team-based workplaces operate a profit-sharing scheme for the largest occupational group, compared to only 22% in the ‘other’ workplaces. In almost 16% of the team-based organisations, an employee share ownership scheme exists, which is twice the number for ‘other’ workplaces.

Table 9 *Team-based and ‘other’ (not team-based) workplaces by profit-sharing and share ownership*

	Profit-sharing		**Share ownership**	
	No	**Yes**	**No**	**Yes**
Team-based	61	39	84	16
Other	78	22	92	8

Financial participation and overall intensity of direct participation

The overall intensity of direct participation is a measure based on the summation of the number of decision rights granted to individual employees and to groups of employees, together with the number of issues on which the views of groups of employees are sought. It is a measure which is strongly related to the combined use of the three different forms of direct participation.

Table 10 shows the relationship between financial participation and the overall intensity of direct participation. It appears that there is a relationship between profit-sharing and the overall intensity of direct participation, as would be expected given the data presented in Tables 6 – 8. The figures in Table 10 show that workplaces in the highest intensity categories of direct participation implement profit-sharing schemes more often (up to 30% – 34%) than those in the lower intensity categories. However, the number of workplaces representing the high intensity categories is comparatively small; these are clearly exceptional cases. For share ownership, the picture is less clear: the combined and intensified use of different forms of direct participation does not go along with the use of more (or, the other way around, less) share ownership schemes.

Table 10 *Relationship between overall intensity of direct participation and financial participation*
Contingency coefficient .22, < .001

Intensity of direct participation	No financial participation schemes	Profit-sharing only	Share ownership only	Both	N (=100%)
0	81	13	4	2	1,381
1,2	78	14	3	5	612
3,4	71	21	4	4	855
5,6	60	27	9	4	553
7,8	69	23	3	5	482
9 – 11	64	19	6	11	354
12 – 15	58	34	5	3	299
16 – 24	57	30	7	6	67
Total	**72**	**19**	**5**	**4**	**4,603**

Incidence of profit-sharing and share ownership schemes

So far, the incidence of financial participation schemes can be explained by a country effect — the effect of government policy and legal provisions or other institutional arrangements, or other ‘societal effects’ (Maurice *et al*, 1980). Also a sectoral effect should be expected and, perhaps, an effect of occupational group (*see Tables 2 – 5*). As far as profit-sharing schemes are concerned, an effect of the intensity of direct participation schemes may be expected (*see Tables 6 – 8*). Furthermore, a whole range of company characteristics may be relevant. However, as mentioned, participation and the existence of certain schemes is part of a process and the outcome is affected by certain traditions and the relationships between the actors involved. It is impossible to give a full account of these processes with the use of a survey as the measurement instrument. Therefore, we must restrict ourselves to the more or less structural features behind the existence of schemes, as measured in the EPOC survey.

In the analyses below, apart from the global variables (country, occupational group, sector and size) and the intensity variables of direct participation already mentioned, the following company variables are used. They were selected on the basis of the literature review and a preliminary contingency analysis of a larger selection of variables.

Variables

OWNER:	Type of ownership; totally independent, domestic, European or non-European
COMPET:	Intensity of competition; low – medium – high
COLLECT:	Labour terms bounded by collective labour agreement; yes or no
UNION:	Percentage (recognised) trade union members; four classes
EMPREPR:	Recognised employee representatives in establishment; yes or no
INNOVAT:	Degree of innovation; variable based on factor analysis of strategic management initiatives in the last three years which led to a factor with: product innovation, introduction of information technology, policy directed towards more automation and introduction of new machinery and equipment; five item scale
EMPGROWTH:	Growth in number of employees (during the last three years); reduced – same – increased
DPCOMP:	Management agrees major role of direct participation in competitiveness; agree – disagree
QUALIFIC:	Required qualification level; low – middle – high

Profit-sharing schemes

The following overview presents the main results of a multivariate analysis of the positive and negative effects on the incidence of profit-sharing; to be more precise, it gives the main findings of a logistic regression model explaining the incidence of profit-sharing (*see Table 11*). The reader should bear in mind that these effects must be interpreted as unique contributions of the factors presented to the (non) existence of profit-sharing schemes: the effects are influenced by other factors in the model.

Certain factors that seemed to be relevant are no longer important in the multivariate model. Factors that turn out to be of minor or of no relevance are:

- size of the workplace;
- occupational group;
- being bound by collective labour agreements; and
- intensity of individual delegation.

Factors with a unique, positive effect on the incidence of profit-sharing are:

- the countries France and the UK;
- the trade sector;
- medium intensity of competition;
- establishment of a multi-establishment company;

- highly qualified workforce;
- employment growth over the last three years;
- management believing that participation enhances the competitive advantage; and
- practising work groups, with a relatively high level of autonomy for the workers.

Factors with a significant negative effect are:

- being located in Italy or Spain;
- low intensity of competition;
- totally independent, single establishment companies;
- operating without an employee representation at workplace level;
- a fairly highly unionised workforce;
- no technological innovation; and
- operating without group consultation and a low intensity of group delegation.

Table 11 *Positive and negative effects on the incidence of profit-sharing*
Only factors at .01 level of significance;
\# = Significant at bivariate level of analysis, but not at multivariate level

	Positive	**Negative**
COUNTRY	France/UK	Italy/Spain
SECTOR	Trade	–
SIZE #	–	–
OCCUPATIONAL GROUP #	–	–
COMPETITION	Medium	Low
OWNERSHIP OF ESTABLISHMENT	Domestic owner	Totally independent
LEVEL OF QUALIFICATION	High	–
LEVEL TECHN. INNOVATION	–	None
EMPLOYMENT GROWTH	Increased	–
COMPET. ROLE OF PARTICIPATION	Agree	–
COLL. LAB. AGREEMENT #	–	–
EMPLOYEE REPRESENTATION	–	No
UNIONISATION	–	30% – 60%
INTENSITY OF IND. DELEGATION #	–	–
INT. OF GROUP CONSULTATION	–	None
INT. OF GROUP DELEGATION	High	Low

Workplaces with profit-sharing schemes can be typified as growing, domestically owned companies, operating in the commercial (trade) sector under rather severe competition, in the UK or France, with a highly qualified workforce organised into empowered teams. These types of companies are dynamic workplaces. From this analysis, it appears that management's attitude towards direct participation also plays a role in profit-sharing,. Management's opinion that direct participation is important for competitiveness correlates with the existence of such financial participation schemes. This fits the prevailing theoretical notions and research. We can conclude that financial participation schemes are used by management to establish an innovative and productive climate, especially in the case of commercial professionals.

While size does not contribute significantly, the status of ownership does. Totally independent, single establishment companies do not tend to implement profit-sharing. Most probably, the explanation is that such companies are private or family-owned, and owners may not be inclined to share the profits. In a domestically owned multi-establishment company, profit-sharing is more common.

In contrast, the typical establishment with no profit-sharing tends to be an independent company, located in Italy or Spain, operating under low competitive pressure with a rather highly unionised workforce, but without an acknowledged employee representation at establishment level. The picture presents a rather traditional and non-dynamic type of company.

Share ownership schemes

As with profit-sharing (*above*), the following overview presents the main results of a multivariate analysis of the positive and negative effects on the incidence of share ownership; to be more precise, it gives the main findings of a logistic regression model explaining the incidence of share ownership (*see Table 12*). The number of significant predictive variables is less than bivariate analyses suggested.

A comparison of Tables 11 and 12 reveals that the set of variables explaining profit-sharing only partly overlaps the set of variables of relevance for the prediction of share ownership. This can be expected from the literature. Unlike profit-sharing, the intensity of competition, unionisation and employment growth are not important variables for share ownership. It appears that other forms of direct participation contribute more to share ownership than group delegation. As with profit-sharing, occupational group turns out not to be significant for share ownership. Company size is, however, an important predictor for share ownership.

Factors with a unique, positive effect on the incidence of share ownership are:

- the countries Spain and the UK;
- the trade sector;
- large companies with more than 200 employees;
- establishment of a domestically owned multi-establishment;
- acknowledged employee representatives within the establishment;
- highly qualified workforce;
- medium level of innovation; and
- practising a relatively high level of individual autonomy for the workers.

Factors with a significant negative effect on share ownership are:

- being located in Sweden;
- smaller companies with less than 200 employees;
- totally independent workplace/company; and
- operating without group consultation and a low intensity of individual delegation.

Table 12 *Positive and negative effects on the incidence of share ownership*
Only factors at .01 level of significance; # = Significant at bivariate level of analysis

	Positive	Negative
COUNTRY	UK/Spain	Sweden
SECTOR	Trade	–
SIZE	200 – 499/500+	Less than 49/100 – 199
OCCUPATIONAL GROUP	–	–
COMPETITION	–	–
OWNERSHIP OF ESTABLISHMENT	Domestic owner	Totally independent
LEVEL OF QUALIFICATION	High	–
LEVEL TECHN. INNOVATION	Medium	–
EMPLOYMENT GROWTH	–	–
COMPET. ROLE OF PARTICIPATION	–	–
COLL. LAB. AGREEMENT #	–	–
EMPLOYEE REPRESENTATION	Yes	–
UNIONISATION	–	–
INTENSITY OF IND. DELEGATION	High	Low/None
INT. OF GROUP CONSULTATION	–	None
INT. OF GROUP DELEGATION	–	–

Workplaces with share ownership schemes for the largest occupational group are most typically found in the UK and Spain, in the trade sector, among domestically owned larger companies, with more than 200 employees, with a medium level of technical innovation and where there is employee representation among a highly qualified workforce and a relatively high level of empowerment for the individual worker as introduced by management. This latter result appears to be an important factor and differs to the case of profit-sharing. Intensity of individual delegation calls for share ownership, while intensity of group delegation contributes to profit-sharing. Rather unexpected is the fact that establishments of multinationals do not contribute much to the phenomenon.

In contrast, the typical workplace without share ownership tends to be a totally independent company, often family-owned, located in Sweden, employing less than 200 people and not practising individual delegation or group consultation.

Conclusions

Based on earlier research, we expected that certain company characteristics would explain the incidence of financial participation schemes. We expected that both direct participation and financial participation are important for those companies facing dynamic environments and that have to compete on quality and variety. Competitive environments would enhance the use of these financial schemes. Scarcity on labour markets would also tend to enhance their use by committing employees to the company and its objectives. This would be true especially for such occupational groups as qualified professionals in knowledge-intensive service industries.

Research has found that these schemes were implemented for higher qualified professionals and commercial personnel.

In addition, we expected that financial participation schemes are more often found in young growing companies and less applied to employees with labour terms bound by collective labour agreements. We expected these schemes to be less prevalent in companies with substantive degrees of unionisation and to be rare in independent, family-owned companies. Hence we expected that an important factor would be management's attitude towards participation in general.

Analysis of the EPOC survey data reveals that, from these expectations, the type of occupational group and the incidence of collective labour agreements do not promote or hinder the existence of financial participation schemes. The other variables give results in the expected direction, but there are mixed results for the two schemes of profit-sharing and employee share ownership.

- *Characteristics of typical companies with profit-sharing schemes are:*
  growing, domestically owned companies, operating in the commercial (trade) sector under rather severe competition, in the UK or France, with a highly qualified workforce organised in empowered teams —dynamic workplaces with participative work structures of the autonomous group work type.
- *Characteristics of typical companies with no profit-sharing schemes are:*
  independent companies, located in Italy or Spain, operating under low competitive pressure with a highly unionised workforce, but without employee representation at establishment level and no group consultation — rather traditional, non-dynamic workplaces.
- *Characteristics of typical companies with share ownership schemes are:*
  domestically owned larger companies, with more than 200 employees, in the trade sector, in the UK or Spain, with a medium level of technical innovation and with employee representation among a highly qualified workforce and a relatively high level of empowerment for the individual worker.
- *Characteristics of typical companies with no share ownership schemes are:*
  totally independent companies, often family-owned, located in Sweden, employing less than 200 people and not practising individual delegation or group consultation.

In summary, the analysis of the EPOC data reveals that the financial participation schemes of profit-sharing and employee share ownership for the largest occupational group are found in the trade sector in more dynamic workplaces which have participative work structures.

From the analyses, we can conclude that, while our understanding and focus in research is on new forms of work organisation and *Neue Produktionskonzepte* in traditional sectors (such as industry) and for traditional occupational groups (such as technical core staff), the greater part of European experience with both direct and financial participation schemes is located in the commercial sector.

There are great differences between European countries. For example, the UK has substantial application of both types of financial schemes. Spain has some share ownership. France promotes profit-sharing. The Netherlands and Sweden have developed relatively more direct participation schemes. Sweden has little share ownership. These country differences determine the existence of schemes to a large extent. Also, in some European countries, these schemes appear to be a reaction to the possible benefits provided by government policy.

The important effect of country suggests that other conditional and operational variables, not covered by the EPOC survey but important for the traditions and work arrangements in workplaces, might influence the existence of schemes. Among such variables are government policies and legislation, industrial relations systems, corporate governance structures, the labour market situation, the attitudes and behaviour of the actors involved and the prevailing organisational culture (*see Chapter 5*).

Chapter 5 Policy developments in the EU

Drawing on the latest PEPPER II Report (1996), as well as secondary sources and interviews with country experts, an updated overview of policy developments for financial participation in European countries is presented here. The countries selected for in-depth coverage are France, Germany, Ireland, the Netherlands, Spain and the UK. The reports on Ireland, the Netherlands and Spain are provided by Daryll d'Art (University of Limerick, Ireland), Mark van Beusekom (Participation Solutions, the Netherlands) and Mariá González-Menéndez (University of Oviedo, Spain) respectively.

National differences

Profit-sharing and employee share ownership schemes are part of reward systems with a greater emphasis on performance related pay. Discussions and interests, often conflicting, on this topic within industrial relations systems influence the existence and diffusion of these schemes. Given the differences in these systems within Europe, there is a divergence, rather than a convergence, in the way in which financial participation schemes are implemented in different European countries. A country's pattern of financial participation reflects the industrial relations system, the corporate governance system and the prevailing business and corporate culture. Nagelkerke and de Nijs (1998) have described the industrial relations systems of the UK, France and Germany on the basis of 'ideal – typical' characteristics. Each of these systems has its own dominant participation structure that is a reflection of the specific operational logics in each country — the logic of contract (UK), the logic of opposition (France) and the logic of co-operation (Germany).

Corporate governance differences

Employee share ownership schemes are part of corporate governance systems with a greater emphasis on participation by employees. Discussions and interests, often conflicting, on this topic within corporate governance systems influence the existence and diffusion of these schemes. Again, given the differences in corporate governance systems within Europe, a divergence is to be expected in the way in which these schemes are implemented in different European countries. Weimer and Pape (1999) have developed a typology of corporate governance systems, which offers an explanation of the different patterns of financial participation found in European countries. Three models of corporate governance can be distinguished (*see Table 13*):

Table 13 *Corporate governance models*

Characteristics of model	**Anglo-Saxon**	**German**	**Latin**
	USA UK Canada Australia	Germany Netherlands Switzerland Sweden Austria Denmark Norway Finland	France Italy Spain Belgium
Open market-oriented business systems *versus* more closed network-oriented business systems	Market	Network	Network
Business concept instrumental or more institutional	Instrumental Shareholder value	Institutional Stakeholder value	Institutional
Control structure (one tier or more); division on control	One tier (one board of directors with 'internal' and 'external' members)	Two tier (division between execution and control)	Optional (normally one tier)
Influence of stakeholders	Share owners	Industrial banks, employees	Financial holdings, government, families
		Diversity	Diversity
Importance of stock market	High	Medium/high	Medium
Active market of takeovers, buyers and sellers	Yes	No	No
Relative concentration of ownership	Low	Medium/high	High
Performance related pay of management	High	Low	Medium
Time-horizon of economic relationships	Short term	Long term	Long term

Source: Weimer and Pape (1999), adapted by Broekhof (1999) and author

The criteria for classification involves several factors of which the most important are:

- the role and position of the State;
- financial systems and institutions;
- the influence of employees and their representatives;
- ownership and control structures; and
- performance-related behaviour of management.

In the case of employee share ownership, the difference in extent and nature of the capital market is important. There is a striking difference between the capital markets of typical Anglo-Saxon countries, such as the UK and USA, and those of continental Europe. In the UK and USA, the stock market tends to represent a larger percentage of the total number of corporations and total corporate employment than in Europe. The incidence of citizen participation in stock markets is also high in the UK and USA, while stock markets in Europe tend to be dominated by large institutional investors, banks and financial holdings. Also, there is evidence that a large part of citizen share ownership in the USA is initiated and developed through employee share ownership (Blasi *et al*, 1999). In other words, the incidence of widespread share ownership is also related to the development of stock markets. Thus, in contrast to the rest of Europe, the UK has more employee share ownership than its fellow EU partners.

Influence of government policy

Another interesting difference between the USA and Europe underpins the importance of government policy and measures. In Europe, employee share ownership tends to be concentrated in large publicly listed companies, while ownership in smaller closely or privately held companies tends to be low. In contrast, smaller privately held companies in the USA tend to adopt employee stock ownership and small family businesses are a major source of growth (NCEO, 1998). This development started in 1984 when the US Congress exempted family and other small business owners of privately held companies from capital gains taxes if they sold more than 30% of their businesses to employees and invested the proceeds of the sale in the securities of another US company. This is, without question, the most important piece of stock ownership legislation in the USA since the employee share ownership plan was created (Blasi *et al*, 1999).

Differences in management regime

Besides the major influences of national industrial relations systems and corporate governance, there are national specific social and cultural factors that strongly influence the existence and diffusion of financial participation schemes. These factors determine how companies in a country are structured and managed, to such an extent that one could refer to 'societal patterns' of management and organisations (Lane, 1989). All the research to date bears this out (Gallie, 1983; Gatley, 1996; Hampden-Turner and Trompenaars, 1993; Hofstede, 1980; Lessem and Neubauer, 1994; Maurice *et al*, 1982; Sorge and Warner, 1987).

Despite differences encountered in companies *within* the same country, there is also a specific recognisable societal pattern that emerges *between* different countries. This implies that the employment relationship in companies is influenced by national specific social and cultural factors. Within this perspective, it is to be expected that workers and employers in different countries will have different attitudes towards participation in general and towards financial participation in particular (Poutsma *et al*, 1996).

For example, Sparrow and Hiltrop (1994) noted that, whereas American managers tend to assume the link between variable pay and corporate performance (given their cultural inclination towards short-term performance measures), European managers (given their cultural rejection of the short term) need to be convinced of the connection and prefer to proceed in a direction that reflects their ‘may be’ and ‘in certain organisations’ philosophy. In his comparative study on variable executive rewards systems, Pennings (1993) quotes a Dutch manager’s view on the link between remuneration and performance: ‘We don’t believe in it. Even profit-sharing pay-outs are fixed and can be found in the budget. We would not allow the polishing of results to boost a pay-out. Profits are due to a lot of factors, depreciation, setting of replacement value and so forth . . . We differ from the US, where historical prices induce people to focus on short-term profits, so that their business becomes very cyclical. People cannot wait five, ten years before they get the results on the basis of which they are paid . . . We let the people grow with the business. Their best reward is promotion.’

Financial participation in the EU

The variety of government positions in EU countries must be seen against a background of individual traditions and social and cultural factors, leading to great differences in the practice of financial participation schemes. The PEPPER II Report (1996) observed that since the first PEPPER Report (1991) there had not been any great change in the general situation of government policy on financial participation schemes. This situation has now improved slightly. There has been a slow development in a limited number of European countries since 1996 involving more support by governments and a more pragmatic attitude by trade unions, resulting in more diffusion of financial participation schemes. However, the position of government and trade unions in individual EU countries still ranges from those that are strongly or partly in favour of financial participation, to those that make an appeal to the social partners, to those that leave the matter to individual employers, or to those without a defined view on it. In most European countries, financial participation is not an issue in national debates.

Although the full range of financial participation schemes can be found throughout Europe, countries differ from each other not only in the development and diffusion of schemes, but also in the nature of schemes and the emphasis on certain objectives. This means that the pattern of financial participation differs between countries (*see Table 14*). France and the UK, for example, have a long tradition of encouraging financial participation. On the other hand, Belgium, Denmark, Germany, Greece, Spain, Italy, Luxembourg, Sweden and Austria have all discussed financial participation in the 1980s, but official government support for it has been limited or lacking. During the 1990s, there have been official strong appeals to the social partners in Germany, Spain, Italy and Ireland to promote these schemes in the course of their negotiations. Recently, Germany improved the possible revenues for employees and employers substantially, while in Belgium legislation on financial participation schemes was introduced in 2000.

Table 14 *Financial participation in European countries*

Abbreviations: CPS = cash-based profit-sharing; DPS = deferred profit-sharing; EBO = employee buy-out; EPOC = EPOC Survey (1996); ESO = employee share ownership; ESOP = employee share ownership plan; PS = profit-sharing; SO = share/stock ownership; SPS = share-based profit-sharing

Country	**General situation**	**Legal provisions**	**Dissemination** (1995 unless other mentioned)	**Change in 1990s**
Belgium	Not favourable, but recently more attention and plans	Since 1983, legislation for ESO; tax advantages limited; start of some regulation in 1997; intent for new bill in 1999	PS mainly by multinational enterprises and in financial services sector Selective application of ESO in specific companies	Plans for PS Plans for regulation of share options in 1999 *No other data*
Denmark	No attention	Legislation for ESO and SPS since 1958; minor tax-provisions for these systems	Small numbers of ESO; mostly savings plans EPOC % establishments 1996: 10% PS and 6% ESO	*data not available*
Germany	Recently more favourable for stock-related plans; appeal to social partners	Some regulations and advantages on DPS and ESO; not for PS	Approx. 2,700 companies covering 2.3 million employees DEM 25 billion capital in ESO types of schemes More emphasis on investments savings plans; total capital in savings plans outnumbers that of ESO type company plans EPOC % establishments 1996: 13% PS and 4% ESO	Growth in stock-related company plans
Greece	No attention	Some regulations on CPS (1994) and ESO (1987); important tax-advantages	*data not available*	*data not available*
Spain	Some attention; appeal to social partners	Only general regulation in employee statute; specific regulations for EBO; limited advantages, except for EBO; tax provisions for SPS in 1996 and for the 'social economy'	Collective labour agreements with CPS; covers more than 2 million employees; advantages not available EPOC % establishments in 1996: 8% PS and 10% ESO	Increase in PS and stock-related plans Increase of labour co-operatives and labour companies
France	Very favourable	Since 1959 for CPS; since 1967 for DPS, SO and ESO; important improvements in 1994; substantial advantages; specific work time/employment-related policy on CPS	Large numbers also due to mandatory PS arrangements; minor substance of ESO; growth in investments savings plans EPOC % establishments in 1996: 57% PS and 7% ESO	Strong growth in CPS and in stock-related savings plans
Ireland	Attention with a National Programme on Partnership	Only for ESO, SPS and SO; large improvement in advantages in 1995 and 1997	Estimated 290 share-based PS covering more than 140,000 employees EPOC % establishments in 1996: 8% PS and 4% ESO	Experienced growth

Table 14 *Financial participation in European countries (continued)*

Abbreviations: CPS = cash-based profit-sharing; DPS = deferred profit-sharing; EBO = employee buy-out; EPOC = EPOC Survey (1996); ESO = employee share ownership; ESOP = employee share ownership plan; PS = profit-sharing; SO = share/stock ownership; SPS = share-based profit-sharing

Country	General situation	Legal provisions	Dissemination (1995 unless other mentioned)	Change in 1990s
Italy	Some attention; appeal to social partners in 1993	Some regulation in employee social statute; no advantages	PS: In negotiated agreements profit-related schemes increased SO: Only in specific companies, also due to privatisation; small numbers EPOC % establishments in 1996: 4% PS and 3% ESO	Growth of PS Slight growth of SO
Luxembourg	Some attention; propositions for ESO from social partners	No legislation; no advantages	CPS, especially in financial sector	Slight growth
Netherlands	Favourable, but less attention	Legislation for CPS, DPS and SO in 1994	CPS: More than 27% of companies; more emphasis on savings plans EPOC % establishments in 1996: 13% PS and 3% ESO	Growth of PS Experienced growth of SO
Austria	Favourable, but sceptical about ESO	Legislation since 1974; revised in 1994	Small numbers of ESO, SO and ESOP *No other data*	Expected growth of ESO *No other data*
Portugal	Minor attention	Since 1989; privatisation law for ESO; PS based on law of 1969; advantages with PS only for companies; advantages with ESO for both companies and employees	PS: *data not available* ESO: only specific companies; 12.4% of all shareholders are employees EPOC % establishments in 1996: 6% PS and 3% ESO	Growth due to privatisation
Finland	Favourable and discussed with social partners	DPS in 1990; no advantages for CPS or ESO	DPS: Small number of companies CPS/ESO: *data not available*	Growth of DPS after introduction of regulation in 1990; since then, slowing down
Sweden	No attention	Only for DPS; advantages for both employers and employees	Mainly oriented towards employee savings plans EPOC % establishments in 1996: 20% PS and 2% ESO	*data not available*
United Kingdom	Very favourable	Since 1978 regular improvements of legislation, especially for SO schemes; substantial advantages for all parties; advantages for CPS and executives schemes	Large numbers of SO Only a very small number of ESOPs EPOC % establishments in 1996: 40% PS and 23% ESO	Strong growth, except for CPS and discretionary/ executive share option schemes due to change in legislation

Attitude of the social partners

Opposition from the social partners is found mainly in those countries with a limited development of financial participation — Belgium, Germany, Spain and Italy. However, there now appears to be a move towards a more pragmatic approach by trade unions and, in some cases, white collar unions have taken the lead with more proactive policies. These developments have occurred in Ireland, Germany and the Netherlands (*see individual country reports below*). In Ireland, the most recent National Partnership Agreement of February 2000 stipulates the possibilities of innovation in pay determination and pay practices, including profit-sharing and employee share ownership. Sweden's Trade Union Congress (LO) recently discussed a motion to the convention asking for an investigation into a Swedish model for employee ownership that has been promoted by the Metal Workers Union. The European Trade Union Confederation developed recommendations and guidelines for financial participation schemes in September 1999 (ETUC, 1999) and supports the idea as a complementary element of employee participation in decision-making under the requirements of democratisation in the workplace.

In general, European employer federations have not exhibited an active policy towards financial participation. It is considered mainly as a matter for individual employers. On the other hand, three observations may influence this position:

- The increase in the use of share option schemes in companies may have the effect that employers will demand some support from collective bodies and may lead to the request to governing bodies for certain conditions and requirements.
- Transnational companies experience major barriers in the implementation of their plans across borders. A recent survey among human resource managers in the top 500 European multinational companies revealed that there were legal, fiscal and industrial relations barriers to the implementation of their plans (Van Den Bulcke, 1999). On the other hand, the survey also found that there was a lack of information on the employers' side about the situation and climate in other countries and there was a need for exchange of practices and policies for the implementation of group-level plans among European companies.
- There are explicit negotiations going on between the social partners in certain sectors in some countries to include elements of financial participation in their collective labour agreements.

In Ireland, the Netherlands, Finland and, most recently, Belgium, there has been a development towards more elaborate government support for financial participation schemes, resulting in employer and trade union organisations becoming involved in the discussion. However, with the exception of Ireland, it must be stated that the implementation of regulations in these countries appears to be subject to political manoeuvres and economic downturns. The publicly criticised 'exhibitionist enrichment of top management', as Dutch Prime Minister Kok expressed it, by executing their stock options has led to an unfavourable climate in the Netherlands, while the economic problems of Finland has pushed the subject into the background. On the other hand, these developments have stimulated trade union organisations to ask for more negotiated and collective agreements.

In considering the development of financial participation in EU countries so far, we can conclude that France and the UK have reached a level of integrated legislation and policy, with a high level of distribution of these schemes. In all other EU countries, the legislation mainly favours only a limited number of schemes, with employee share ownership being most favoured and cash-based profit-sharing being least favoured. The initial scheme that promoted the development of financial participation appears to be a nationally supported deferred profit-sharing scheme. The most pronounced development of integration of schemes at company level stems from a nationally promoted company savings scheme. The beneficial tax treatment of these two schemes has undoubtedly contributed to the spread of financial participation in Member States.

While there is substantial development of schemes and employee involvement in countries with a longer tradition of financial participation (France, UK and, for savings plans, Germany), other countries with only a modest government policy and legislative arrangements have little or no growth of financial participation or even a decline (Denmark and Sweden). In countries where government policy has made some headway, there has been an increase and more is expected in the future (Ireland, Netherlands, Finland and Italy).

The macro-economic situation will have an influence on the support of both government and the social partners for any proposals on financial participation. Recent arguments for enhancing productivity, employment and wage flexibility are stimulating discussions on proposals, as are discussions on more private savings for future security. However, it is expected that the argument of promoting wage flexibility on labour markets through financial participation schemes will meet with opposition from trade unions.

Eligibility

Most Member States have no restrictive regulation that might hamper the introduction of financial participation schemes. However, there are certain legislative requirements set in Member States that relate to eligibility for tax relief, including such requirements as a minimum percentage of personnel covered by the scheme, eligibility criteria, retention periods and statutory and trustee requirements. These requirements could reduce the flexibility in introducing schemes. However, in several cases, the choices and options have been enhanced, while in others the possible administrative burden and/or set-up costs for the employer to meet the legislative requirements are deductible as operational costs.

In most countries, both in legislation and in practice, eligibility criteria prevent the participation of part-time employees and temporary employees on short-term fixed contracts; schemes are eligible to personnel with a certain minimum length of employment in the company. Although most of the existing arrangements do not discriminate between men and women or other categories of beneficiary, this does not mean that equal participation exists.

Incentives and financial advantages

Most legislation on promoting financial participation schemes in European Member States concerns incentives, such as fiscal or other financial advantages. The UK and France have made further improvements to the variety of incentives already existing for different schemes. In Belgium, Denmark, Germany, Spain, Ireland and Austria, incentives are reported only for share ownership schemes and not for profit-sharing schemes. Generally, the incentives are modest and range from tax-free issue of shares or bonds to employees to tax-free amounts on distributed profits, or by a profitable change of the taxation basis. Other advantages are the exemption from social insurance contributions. In some countries, incentives are provided for both employees and employers, and, for the latter, the costs of schemes are sometimes deductible. Other incentives are the possibility of withdrawals, without any or only minor taxation, before the end of the withdrawal period for specific expenses (such as new housing; insurance and specific capital savings; and retirement funds).

In some countries, problems arise with social charges due to the question of whether benefits should be regarded as normal wages subject to social charges (as they are in Belgium) or as other types of remuneration not subject to these charges.

These examples of incentives illustrate that, at least for those countries with a well-developed system of financial participation schemes, the policy on incentives and other financial advantages seems to have become a standard issue and part of the macro-economic policy on wages and consumption.

In France and the UK, activities to enhance awareness among management and workers are almost institutionally embedded in different public and private bodies. These bodies provide for specific information campaigns and consulting practices directed to both employers and employees. The official appeal to the social partners in Ireland, Germany, Spain and Italy has already been mentioned; in Ireland, a specific National Programme on Partnership was launched in 2000. Representative parties in Austria have developed a learning programme that was included in the training for works councils and employers.

Developments in France

Historically, the French financial participation system has Gaullist right-wing origins. De Gaulle's vision on the co-operation between capital and labour led him to introduce financial participation after World War II. Since this system has never been supported by left-wing socialist ideology, financial participation has virtually never been associated with participative structures. Political consensus on the financial participation system is quite recent. However, financial participation is not an issue of industrial democracy.

Despite the stop-and-go stages during the successive changes of left- and right-wing governments in France, there has been more or less continuous government support for employee financial participation since the end of the 1950s. As a result, French legislation offers a legal framework and generous tax advantages to a variety of financial participation forms, including voluntary cash-based profit-sharing, deferred profit-sharing and company savings plans for stock ownership. It is said that through participation in the enterprises' economic results, these three forms of financial participation are designed to improve the involvement of workers in enterprises and, at the same time, to contribute to collective savings and the growth of investments.

A belief in the merits of financial participation schemes as a competitive strategy, by improving the efficiency and productivity as well as the financial structure of French companies, has led to new legislative initiatives in 1993 and 1994. The legislation of July 1994 unifies the three main pillars of financial participation in France: voluntary profit-sharing (*intéressement*), compulsory deferred profit-sharing (*participation*), and company savings plans as the vehicle for employee share ownership (*PEE*). In addition, the law of 1994 encouraged companies to make their employee shareholders participate in the management of the company (decision-making). According to this law, employee representation on company boards is compulsory for companies which are to be privatised (privatisation law of 19 July 1993) and optional for companies in the private sector if employees hold more than 5% of the capital.

Other innovations in the new participation legislation are inspired by the search for economic policy measures to combat unemployment and declining economic demand. The law introduces the concept of a ‘time savings account’ (*compte d’épargne temps*), allowing the allocation of profit-sharing bonuses (*intéressement*) in the form of paid time off, for a minimum period of six months. Such schemes should enable employees to accumulate paid leave and are therefore expected to enhance work-sharing and employment. However, this has not been used much and is mainly used by higher staff. In order to stimulate consumption, measures are included which provide for the unfreezing of sums, within certain limits, tied up in company savings schemes and in special profit-sharing funds (normally frozen for a period of five years).

Finally, the creation of the Superior Council of Participation (CSP) in 1994 illustrates the importance of the issue of employee financial participation to the French government. The principal objectives and responsibility of the Council are:

- to watch over the application of financial participation and participation in management by French companies;
- to co-ordinate all initiatives leading to their further extension; and
- to produce an annual report for the Prime Minister and Parliament summarising all developments in financial participation plans (voluntary cash-based plans, compulsory profit-sharing and company savings plans) and in wage bargaining in those companies where voluntary profit-sharing agreements have been concluded. Cash-based profit-sharing and deferred profit-sharing agreements must include arrangements whereby employees are informed about the application of the schemes and the investment and management of the funds allocated to employees.

With the exception of savings plans, all financial participation schemes must be introduced by company-level collective agreements, which can be complemented by operation unit or work unit agreements. Sectoral agreements are only applied in a limited number of branches, while group-level participation agreements are more widespread. France is the only country where deferred profit-sharing is compulsory for companies of a certain size.

Cash-based profit-sharing is well developed in the French manufacturing sector, while in other European countries these schemes tend to be developed in the new services sectors. This higher participation rate of the French manufacturing sector follows the origins of the introduction of financial participation schemes: a way of overcoming the traditionally antagonistic relationships in manufacturing.

French schemes and their diffusion

French legislation promotes three types of financial participation scheme:

Cash-based profit-sharing *(intéressement des salariés de l'entreprise)*

Instituted in 1959, this scheme is voluntary for all companies regardless of size, type of business or legal constitution. It is designed to enable employees to participate in the economic results of the company. It must be the outcome of a collective agreement for three years, negotiated between employer and employee representatives.

The benefits are:

- *for employees*: profit-sharing bonuses are subjected to income tax and the general social security contribution, but free of social charges. The bonus is, however, deductible from income tax if it is allocated to a company savings plan (PEE), where it is blocked for 5 years;
- *for employer*: profit-sharing amounts are deductible from corporation tax or income tax, and exempt from all taxes, charges or contributions on wages, in particular social charges.

In order to benefit from tax concessions, the scheme must comply with the following conditions:

- cover all eligible employees (collective character);
- bonuses must contain an element of risk and be calculated on the basis of measure for results or performances of the company; and
- the maximum proportion of total gross payroll which can be allocated as profit-sharing is 20% (after having been reduced to 10% or 15% in 1990).

There was a spectacular increase (more than 300%) in the total number of cash-based profit-sharing agreements made between 1986-1989, after which there was a slower, though steady, rate of increase. There are two reasons for this slowdown: the worsening economic climate and the substitution effect of the change in legislation, extending compulsory deferred profit-sharing (*see below*) to companies with more than 50 employees. Consequently, a number of companies with between 50-100 employees switched to the deferred participation scheme. However, according to the proportion of the number of agreements, small companies continue to play an important role in the development of voluntary profit-sharing.

In 1997, the total amount of cash-based profit-sharing was valued at FRF 12.5 billion (9.5 billion in 1993) for 3 million employees covered by the schemes, the average bonus per employee being about FRF 5,300 (FRF 4,300 in 1993) or 3.1% of the total wage bill of the enterprises involved. The positive trend in recent years is also reflected in the rising number of agreements concluded. Profit-sharing practice increases strongly with the size of the company.

Compulsory deferred profit-sharing *(participation aux fruits de l'expansion)*

Implemented in 1967, this compulsory profit-sharing scheme is a characteristic feature of the French participation system. All companies with a minimum workforce of over 100 (and since 1994 of over 50) are required to institute a deferred profit-sharing fund (RSP), either according to a legal formula for profit-sharing or another well-defined formula, provided it guarantees workers an amount no less than the legal RSP. Those companies that distribute a profit share in excess of the legal formula are allowed to make a tax-free investment of 50% of that supplement. Smaller companies can adopt the scheme on a voluntary basis.

The accumulated amounts are blocked for 5 (or 3) years. The scheme must cover all employees with a minimum length of employment of 6 months. The individual allocation of the RSP to the employees is subject to a double maximum: the salary serving as the basis for the calculation of the profit share of the individual employee must not exceed 4 times the maximum salary, which is subject to social security contributions, and the actual amount received can be the maximum of one-half of this.

As in the case of cash-based profit-sharing, the adoption of deferred profit-sharing schemes must result from an agreement between employer and employees representatives. Since the legislation of 1994, group-level agreements can be negotiated without the need to be signed by each company of the group.

The same tax and social security advantages as cash-based profit-sharing apply to deferred profit-sharing schemes, but with the additional benefits of:

- employees benefit from total deductibility of income tax from their profit share in the case of a 5-year retention period and up to a half for a 3-year retention period; and
- those employers who distribute a supplementary profit-sharing sum (RSP) in excess of the legal formula are allowed to make an extra tax-free investment provision of 50% (25% for a 3-year retention period).

The law of 1994 extended this deferred profit-sharing system to all enterprises with less than 50 employees who applied it on a voluntary basis. The tax incentives were also increased for such companies. Employers are allowed to constitute an extra tax-free provision, representing 25% (12.5% for a 3-year retention period) of the profit-sharing fund (RSP) resulting from the legal formula (besides the 50% or 25% provision for the supplements distributed above the legal RSP).

Deferred profit-sharing is, of course, more widely adopted among French companies than cash-based schemes because of its compulsory character. Up to 1990, the number of participation agreements remained stable (at about 10,000), but has been increasing in recent years because of the extension of the 1994 legislation to all companies with between 50 and 100 employees. In 1997, a total of 15,500 agreements were in operation, covering more than 17,600 companies and almost 4.8 million employees, with the total amount of RSP estimated at FRF 17.3 billion, representing 3.8% of the wage bill of the companies who actually distributed profits. The sums allocated to the RSP are generally larger than the profit-sharing bonuses paid as a result of voluntary profit-sharing agreements (*intéressement*).

Company savings plans (PEE)

Instituted in 1967, a company savings plan is a system of collective savings, allowing employees to constitute, with the aid of their employer, a portfolio of securities. It can be introduced on the initiative of the employer or by an agreement with the employees.

Company savings plans were integrated in 1986 in the legislative framework for financial participation, serving as a privileged support for employee share ownership. Since then, company savings plans can receive savings from different sources, including:

- voluntary savings by the employee, matched by a contribution from the employer (*abondement*);
- the sums received from compulsory profit-sharing during and after the retention period; and
- the sums received from cash-based profit-sharing.

The sums allocated to a company savings plan, if blocked for a minimum of 5 years, are exempt from social security contributions up to a limit of half the yearly social security ceiling for wages. The employers' contribution to the plan (which is obligatory and free from income tax for the employee) is exempt from corporation or income tax, taxes on wages and social charges, within a yearly limit per employee for a diversified investment and a higher amount for an investment in shares of the employing company. The law of 1994 increased these tax advantages by 50%.

Besides the already substantial tax benefits, the participation law of 1994 has particularly increased the tax advantages for deferred profit-sharing and company savings plans. The beneficial tax treatment of these schemes has undoubtedly contributed to the spread of financial participation in France. From recent statistics on participation (Ministère de l'emploi et de la solidarité, 1998), considerable growth was found for savings plans or investments plans, indicating increases in shareholdership, albeit mainly in an indirect way. From the statistics of companies with company savings plans, it is estimated that 15% of these (about 1,000 companies) have a more or less broad-based share ownership plan, such as a PEE plan, with mainly shares in their own company. In addition, it is estimated that another 1,000 companies have employee share ownership plans. Therefore, these 2,000 companies account for about 7% – 8% of the total number of French companies (26,000) with financial participation systems. The growth in these schemes is obviously related to labour market factors and a greater awareness of financial participation systems as an employee benefit.

Recent developments and perspectives

There has been little change in the structure of financial participation in France since 1996. However, there have been some changes in the use of cash-based profit-sharing, which is traditionally a key element for income policy in France. The loi Robien (Robien law) of 1996 and the loi Aubry of 1998 introduced the possibility to use cash-based profit-sharing as an incentive for companies to reduce working time. A typical rule in France is that profit-sharing schemes are legally not a substitute for wages. This raises the possibility to use cash-based profit-sharing as a vehicle for reduction of working time without wage cuts, while at the same time keeping employment at the same level.

On the introduction of these laws, this exchange of financial participation for working time reduction was seen as a defensive means for sustaining and creating employment. They have been successful on account of their positive impact on employment. There has also been a recent growth in cash-based profit-sharing and employee share ownership schemes in France, as elsewhere in Europe. However, there are no reliable statistics on this.

The relationship between financial participation schemes and pension funding has not been investigated in France nor are there any discussions on this topic to date. There are, however, ongoing discussions about developing more private funds for pensions, but these will probably not be company-based. However, a small number of companies (such as Rhône-Poulenc) have developed savings plans (*plans d'epargne*) in which longer term life insurance (with possible payments at retirement age) is regulated.

A survey by the DARES Institute of the French government reveals that there is agreement in opinion between management and employee representatives about the reasons and possible impacts which cover the theoretical expectations of profit-sharing (Fakhfakh, 1997). The survey also noted a 5% productivity gap between non-profit-sharing companies and profit-sharing ones. This productivity gap did not exist in companies where employee representatives disagreed with management about the positive impact of profit-sharing schemes. One interpretation might be that a better understanding between management and employee representatives coincides with higher productivity. Another interpretation could be that profit-sharing is really not an incentive for workers in companies where management and employee representatives disagree. The survey also found associations between cash-based profit-sharing and participative management tools. Cash-based profit-sharing is clearly seen as part of a package of commitment tools.

The same survey reveals that there is no relationship between profit-sharing and more participative structures (such as decision-making) in French companies. This might be interpreted as a typical French result. The traditional, more antagonistic industrial relations system in France has not developed into one of participative structures, as is the case in Germany and the Netherlands.

Generally, unions are not in favour of financial participation systems as compensation systems. In the 1970s, unions promoted the idea of self-management, only to abandon it in the 1980s. Share ownership became an issue only in some defensive cases. Privatisation seems to be the only way of introducing substantive share ownership by employees in France and trade unions could have an influence on this issue. Recently, in the case of privatisation and privatised companies with a high proportion of employee share owners, unions have tried to influence the direction of the negotiations on bids.

Employers in France are inclined to think of profit-sharing as a tool for enhancement of commitment to the objectives of the company. This was the argument most cited for adoption of schemes, as was that of increased productivity. Of the managers in companies with financial participation schemes, 42% think that productivity has improved. However, only 25% have a tool for assessment of the effect on performance. A third argument is to increase flexibility of wages and to make the attitude to the normal trend of rigid wage increase more reluctant. Indeed, a real variance in total remuneration exists in the French system — of 3% with cash-based profit-sharing and 4% with deferred profit-sharing.

Summary

France has a pattern of State-regulated or mandatory, broad-based deferred profit-sharing, with the aims of enhancing employee savings, a wider distribution of wealth and wage flexibility. Financial participation systems are also used for income and employment policies. The corporate governance system of France allows only limited scope for employee share ownership due to more concentration of capital and the incidence of closely held family companies.

Developments in Germany

German legislation provides no incentives for profit-sharing per se. There is a considerable body of regulations designed to encourage employee share-holding and asset accumulation, which encourage a redistribution of capital and savings by employees in investments plans. These schemes are regulated through a series of Capital Formation Laws (*Vermögungsbildungsgesetz*) and the Income Tax Law. Minor changes were made to these laws during the period 1992-94, covering regulations on investments in building and housing (*Bausparen*) and the way in which premiums were paid. Major changes occurred in September 1998, resulting in the latest Capital Formation Law.

Employee participation in capital savings

Employees are encouraged to participate in their own company's capital and in that of other companies, primarily within specific savings schemes (as in the Netherlands). The regulations offer incentives related to individual workers' savings and to employer contributions to these savings. Under the latest Capital Formation Law of 1998, concessions on annual taxable income are offered to single people (DEM 35,000) and married people (DEM 70,000) and when participation is committed in a specific form of investment for a minimum retention period of 6 years. (Prior to 1998, these figures were DEM 27,000 and DEM 54,000 respectively.)

The savings bonus is 10% on up to DEM 936 in contributions paid into a home ownership savings plan or used to pay off a mortgage on residential property. There is also a 20% savings bonus available on up to DEM 800 in employee savings contributions invested in equities. For workers whose main place of residence is in Eastern Germany, the bonus is 25% for contributions paid in up to 2004.

In addition, the Income Tax Law grants employees who are offered shares by their employers exemption from tax and social insurance payments up to a certain maximum tax-free amount on the condition that enterprises contribute to the acquisition of employee shares up to a certain percentage of the share value and that shares are frozen for a period of 6 years (Mozet, 1999).

Cash-based profit-sharing

While Germany grants no concessions to cash-based profit-sharing schemes, these are relatively common in a small number of companies, which also have deferred or share-based schemes. The proportion of employees covered by the two broad types of scheme are roughly comparable. Profit shares are considered normal wages and the employer also has to pay the usual social insurance contributions as a percentage of the amount of profit share.

Diffusion of schemes

There are few statistics on financial participation in Germany. Figures dating from 1990 show that about 1.3 million employees were participating in a profit-sharing scheme. In 1996, the value of employee savings investments was about DEM 17 billion, including employer contributions (up to 50%), and involved about 2.4 million employees. It is estimated that half of the investments made in a given year is directed to housing investments (*Bausparen*). Also, in 1996, it was estimated that 2 million employees had shares from about 2,000 companies, with a total value of DEM 20 billion. New estimates show an increase — to 2.3 million employees in 2,700 companies, with a total value of DEM 25 billion.

Table 15 presents an estimate on the diffusion of schemes in Germany. From the sources available, it seems there has been a slight increase in the number of employees covered. More than 75% of employee participants are found in publicly held companies. Given the revised 1998 Capital Formation Law, a further increase is expected.

Table 15 *Financial participation schemes in Germany*

	Enterprises		**Employees**		**Capital**	
Type of participation	**N**	**%**	**N (*1,000)**	**%**	**N (*1,000)**	**%**
Bonds	500	18.5	100	4.9	800	3.2
Silent partnerships	650	24.1	200	8.8	355	1.4
Indirect partnerships	400	14.8	80	3.5	350	1.4
Stock options	300	11.1	100	3.9	1,500	6.0
Employee share ownership	400	14.8	1,800	78.0	21,900	87.6
Co-operatives	300	11.1	15	0.7	45	0.2
Share ownership in closely held companies	150	5.6	5	0.2	50	0.2
	2,700	**100**	**2,300**	**100**	**25,000**	**100**

Source: Estimates from AGP and GiZ

Further increases are expected from the larger number of enterprises that are going public. Traditionally, the German Stock Exchange Market is not big. Most companies, even large ones, are still closely held private companies. Only recently have a number of new enterprises entered the Stock Market. This might stimulate financial participation since these new companies are mainly high-tech services companies and, from experience, such companies often offer their personnel stock options.

Employees' savings are invested as agreed with workers or the trade unions in collective agreements. The coverage is more than 90% of employees who are bound by collective labour agreements. The social partners have the possibility of developing their own type of scheme. Existing schemes are usually based on agreements in which the following factors are regulated:

- the form of participation (either direct or indirect via capital fund);
- the amount, profit-based or otherwise;
- the way the capital is funded (employer or employee savings); and
- retention periods and withdrawal rights.

On several occasions in the 1995 Annual Economic Report and recently with the publication of the Capital Formation Law of 1998, the German government has encouraged the social partners to consider employee share ownership and other related schemes as part of their wage agreements. Also in new initiatives on employee share ownership, the focus is on the possible advantages of wage policy for employment growth, a more equitable income and capital distribution.

Recent developments and perspectives

The encouragement of employee participation in enterprise capital is based on the German concept of the Social Market economy (*Sozialen Marktwirtschaft*) in which economic democracy is considered to diminish conflicts between capital and labour. Financial participation is embedded in the long-standing tradition of German re-distribution policy. Despite this, the diffusion of schemes in Germany leaves much to be desired. The situation in the former East Germany is even worse. The German government has appealed to the social partners on the need for new initiatives to help create an environment for private employee investments in order to enhance employment growth, to encourage employee participation in capital and to improve employee involvement in enterprise. The 1998 Capital Formation Law was introduced with the following objectives:

- to promote share ownership of employees;
- to improve investments' potential and performance of companies;
- to offer a new arena for agreements on additional income at times when the possibilities for improvements of basic wages is limited; and
- to improve the retirement basis through capital formation and savings of lower income groups.

Germany's trade unions in the past have been sceptical about the phenomenon of share ownership. In the early 1970s, unions decided to support no other participation form than co-determination. Share ownership was accepted only in times of difficulty. However, dramatic shifts are taking place in the business landscape. There is a growing 'stock-mindedness' not only among employers, but also with members of the trade unions. Practically all large publicly held companies, traditionally covered by co-determination, have implemented stock options or related share-based profit-sharing plans for their personnel. Trade unions were part of these developments only in some cases. The rising sector of services and IT, with less trade union recognition, is heavily experimenting with stock options and employee share ownership. The position of trade unions has now shifted towards a more pragmatic approach. In one of its documents, the German Trade Union proposed the promotion of a more equal distribution of capital through the promotion of asset development for employees. Certain professional and white-collar unions are in favour of entering this bargaining field. However, the main position of the unions will be no trade-off between wage bargaining and financial participation.

Recently, German trade unions have negotiated and accepted a collective agreement in the chemical industry in which the possibility for company-based financial participation plans for retirement funding is explicitly stated. The agreement also includes the right of employees to receive an annual bonus to be used for the retirement plan. Similar agreements have been developed in the building industry. In the course of EXPO 2000, trade unions started research and discussions on the subject as an input for EXPO conferences on the future of work (Einkommen der Zukunft, 2000; Wilke, 1999).

German management's position may be described as aiming to provide, within the calculated costs, an alternative for fixed wages. Financial participation is viewed as good for the internal culture and an instrument for commitment and binding employees to the company. The German employers' federations are not inclined to see the phenomenon as a bargaining issue.

New developments in Germany can be summarised as follows:

- Financial participation is traditionally linked more to (multi-employer) savings plans for employees, following an approved government regulated provision, and less to employee share ownership at company level.
- There is slow movement towards a decentralised arrangement for retirement plans, to be funded by company-level contributions (both employer and employee) for stocks or profit-related plans. This is an innovation and it is large companies mainly that are developing these schemes. To date, Germany has virtually never experienced any discussion covering the link between company-based share ownership and retirement plans.
- There is a growing awareness on both sides that financial participation might be a new employee benefit to be adopted.
- The German trade unions are getting involved in this new bargaining field.
- The amount of share ownership in Germany is too small to have an impact on corporate governance or industrial democracy.

Summary

Germany has a pattern that consists of investments savings plans with the principal aim of enlargement of employee ownership of capital savings and other assets for the future security of low earners. The main actors involved in financial participation developments are employers and government. The consensus-based corporate governance system of Germany has led to the operation of collectively agreed schemes. Like France, the capital market is not overlarge in

Germany. Many companies are private and closely held, leaving little scope for the development of full employee share ownership. Trade unions are starting to get involved in the issue.

Developments in Ireland

Prior to 1982, employee shareholding or cash-based profit-sharing schemes were rare in Ireland. From the late 1970s, individuals who favoured the establishment of widespread employee shareholding argued that government intervention in the form of tax concessions was essential to promote the growth of these schemes. The 1981 Fine Gael/Labour coalition programme for government included a proposal to exempt from income tax any shares issued to workers under an employee shareholding scheme.

Finance Acts of 1982, 1984 and 1986

The Finance Act of 1982 and subsequent amendments mark the entry of government into the field of employee financial participation. Provisions in the Act relating to employee shareholding closely followed those of the UK Finance Act of 1978. Like its British counterpart, the Irish legislation was designed to encourage the voluntary and widespread adoption of share-based profit-sharing. Success of this project, it was believed, might encourage a positive alteration in employee behaviour, resulting in improved industrial relations, productivity and co-operation. To that end, government offered tax concessions for companies and their individual employees. However, such concessions would only be granted to companies establishing approved schemes. These were share-based profit-sharing or employee shareholding schemes which met certain government requirements.

Conditions of approval: The company seeking approval for its profit-sharing/employee shareholding scheme must first apply in writing to the Revenue Commissioners, enclosing relevant details. Approval will be forthcoming if the scheme meets the requirements (*see below*).

The Trust: The company must establish a trust, which will acquire shares on behalf of participating employees. Trustees must be resident in the State and will be required to maintain necessary records, such as the amount of shares allocated to individual participants. They will also be required to pay over dividends or other moneys to participants, act on their instructions and inform them of their taxation liabilities.

Participant eligibility: Participation in approved schemes must be open to all full-time employees and all employees must be eligible to participate on similar terms. The Finance Act, 1997, has since amended this definition of eligibility: approved schemes must now also be open to the inclusion of part-time employees. However, if the amount of shares appropriated to an employee were to vary with the level of remuneration, the legislation did not regard this as incompatible with participation on similar terms.

Participant shares: Shares issued to participants in approved employee shareholding schemes must conform to a variety of requirements. First, shares must form part of the ordinary share capital of the company or its parent company. Second, they must be shares of a class quoted on a recognised stock exchange. Third, they must be fully paid up, non-redeemable and free of any restrictions other than those which attach to all shares of the same class. In short, the shares must carry the same rights and privileges attaching to shares of a similar class held by conventional shareholders. Finally, closed or private unquoted companies were not precluded from establishing approved schemes, provided the Revenue Commissioners were satisfied with their method of share valuation.

Operation of approved schemes

Company contributions: First, a trust is set up and trustees appointed. The company then passes a sum of money, its profit-sharing contribution, to the trust. Trustees use this money to purchase shares in the company on behalf of all eligible employees. A company can shorten this procedure by passing directly to the trust a block of its own newly issued shares as its profit-sharing contribution.

Share distribution: Once trustees have purchased or received a block of shares from the company, they must be credited to blocked accounts of individual participants. The criteria for allocation, equally dividing the block of shares among eligible employees or varying the amount according to length of service or levels of remuneration, is in the main a company decision. Shares are not immediately released or distributed to employees who must, under the terms of the Act, agree to their retention by the trustees for a minimum period of 2 years. Beyond the obligatory retention period, employees can instruct trustees to release, sell on their behalf or retain their shares. Employees who instruct trustees to sell or transfer shares to their name will be liable for income tax. The extent of this liability will vary inversely with the time elapsed from the end of the retention period. Maximum tax advantage is gained by participants who allow trustees to retain their shares for a certain period from the date they were first acquired by the trust. Beyond this period, shares held in trust are automatically released or transferred to individual employees free of any liability for tax, though they may be liable for capital gains tax. Employees now become shareholders in their own company and enjoy the rights and privileges of conventional shareholders.

While the mandatory retention period remains in force, the automatic release date when employee shares will be free of tax has been gradually brought forward. Under the 1982 Finance Act, the automatic release date was 7 years from the time the shares were first acquired by the trustees on behalf of eligible employees. This was reduced to 5 years by the 1986 Finance Act and was further reduced to 3 years by the 1997 Finance Act. Apparently, the expectation is that these amendments will increase the attractiveness of the schemes for employers and employees, and so promote their widespread adoption.

Tax advantages for companies and employees

A company that establishes an approved profit-sharing or employee shareholding scheme is allowed to deduct the value of its profit-sharing contribution, be it in cash or its equivalent in newly issued shares, from its taxable income. This concession is subject to certain conditions.

Under the provisions of the 1982 Finance Act, only contributions up to a maximum of 20% of trading profit less deductions and losses were tax-deductible. Furthermore, the total shares acquired by trustees for an individual employee must not exceed IEP 1,000 per annum. These concessions underwent generous modification in the 1984 Finance Act. Company contributions up to 100% of trading profit less deductions and losses were now tax-deductible.

The limitation on the market value of the shares acquired for an individual employee followed a more erratic course. As we have seen under the 1982 Finance Act, the maximum share allocation to an individual employee was limited to IEP 1,000 a year. This was increased to IEP 5,000 in the 1984 Finance Act.

However, in 1992 when it appeared likely the government would withdraw all tax concessions to these schemes as a saving to the Exchequer, lobbying by the Irish Business and Employers Confederation (IBEC) and the Irish Congress of Trade Unions (ICTU) averted this outcome. Instead, the government reduced the maximum employee share allocation from IEP 5,000 to IEP 2,000. With a new government in office, the 1995 Finance Act increased the employee share allocation from IEP 2,000 to IEP 10,000 (*see Table 16*).

Table 16 *Growth in the number of approved schemes (1982-1999)*

Year ended 5th April	**Number of approved schemes**	**Limitation on the market value of shares for the individual employee (in IEP)**
1983	0	1,000
1984	2	5,000
1985	6	5,000
1986	7	5,000
1987	13	5,000
1988	18	5,000
1989	18	5,000
1990	23	5,000
1991	23	5,000
1992	11	2,000
1993	9	2,000
1994	4	2,000
1995	8	10,000
1996	27	10,000
1997	37	10,000
1998	32	10,000
1999	54	10,000
Total	**292**	

Source: Figures supplied by the Revenue Commissioners, Ireland

Some examples of the larger Irish companies operating approved profit-sharing schemes (APSS) are the Bank of Ireland, Guinness Ireland, Waterford Wedgwood and the tobacco concern P. J. Carroll. The Revenue Commissioners estimate that the 292 APSS cover approximately 141,350 participants. Given the Revenue Commissioners' method of calculation, it may tend to overestimate the number of participants involved in these schemes.

Recent developments in financial participation

Since the early 1990s, government policy towards State-owned companies has altered in favour of increased commercialisation and privatisation. One aspect of this change in policy was a provision for employees of State-owned companies to obtain shares in the company that employed them in the event of partial or full privatisation. The 1997 Finance Act contains provisions to facilitate this outcome, though the legislation can also be applied to privately owned companies.

Employee Share Ownership Trust and the 1997 Finance Act

The 1997 Finance Act introduces the concept of an employee share ownership trust (ESOT) to enable shares to be acquired, held and allocated to employees. The ESOT can raise a loan or borrow to acquire shares in the company that established it. This is very similar to the American leveraged employee stock ownership plan, which can borrow money for the purchase of employer securities or shares.

Conditions for ESOT approval: At the time the trust is established, the company must be an Irish resident company and cannot be under the control of another company. Indeed, the trustees cannot acquire shares in the founding company at any time after the founding company falls under the control of another company, as in a take-over. Shares purchased or received by the ESOT must form part of the ordinary share capital of the company. Finally, employees or directors having a material interest (5% of ordinary share capital) are excluded as beneficiaries of the scheme.

Operation of an approved ESOP consists of:

1. Employees, and their trade union, take part with the employer in the establishment of the ESOT.
2. Once established, the ESOT can take out a loan, guaranteed by the participating company, or receive cash contributions from the company which are tax-deductible. However, there are three alternative trustee models allowed under the legislation. The first model provides for employee control, with the majority of trustees being employee representatives. A second model allows for a balance of power between the employer and employees, while the third allows for a majority of management appointees. All models must have one professional independent person approved by the Revenue Commissioners.
3. Using the proceeds of a loan, the ESOT purchases shares in the company.
4. The company can make a tax-deductible cash contribution to an associated approved profit-sharing scheme or APSS (*see above*).
5. The APSS passes this contribution to the ESOT in return for a block of shares in the company. In this way the ESOT's stock of shares is reduced.
6. The contribution from the APSS allows the ESOT to meet the first instalment due on loan. However, the company may need to make cash contributions directly to the ESOT. An example would be a shortfall in loan repayments or to enable the ESOT to purchase shares from departing employees. Under the 1997 Finance Act, companies can require all shares held by departing directors or employees to be sold back to the company.

7. The APSS allocates the shares bought from the ESOT into the names of individual employees.

In Ireland at present, there is only one approved ESOT in operation. This is located in the formerly State-owned, but now privatised telephone company Eircom.

Save-as-you-earn (SAYE) and the 1999 Finance Act

Under the 1999 Finance Act, employees will be given the right to buy a certain number of company shares at a fixed price at a particular time. These shares will be bought using money the employee has saved under the save-as-you-earn (SAYE) arrangement. Not only will the price of the shares be fixed at the time the employee begins saving, but the price of the shares may be discounted by an amount below the market value to a level approved by the Revenue Commissioners. The scheme will be established by the employer, but must be open to all employees on similar terms. SAYE schemes will require approval from the Revenue Commissioners.

Employer and trade union responses to financial participation

Government haste to effect its pre-election commitment on financial participation may explain the absence of consultation with either the employers or trade unions prior to the passage of the 1982 Finance Act. Nevertheless, in 1984, both parties were invited by government to submit their views on the measure.

Employer response

As the Federated Union of Employers (FUE, now IBEC) had not developed a policy on the topic, it conducted an attitude survey among its corporate members so as to reflect their views in its discussions with government. Over half the respondents believed such schemes could improve company performance and industrial relations and so favoured the development of suitable schemes. A slightly smaller majority wished the FUE to support the concept. Possible obstacles cited by respondents to the establishment of the schemes were union opposition, worker distrust, the difficulty of educating employees concerning the schemes' operation, the obligation to disclose company financial information, dilution of ownership and unfavourable reaction of existing shareholders.

Reviewing the findings of its survey, the FUE was certain that the majority of family-owned businesses would not be interested in developing profit-sharing schemes. Profit-sharing, it believed, was only a useful motivator at senior management level. In the end, the official attitude adopted by the FUE on the schemes was hardly enthusiastic. The organisation regarded an entirely voluntary development of these schemes within individual companies as acceptable. It was flatly opposed to any element of compulsion in their establishment. Though the schemes were acceptable to the National Executive, it was not prepared to encourage their adoption by member companies.

This initial position of the employers' organisation has since been modified. As already noted, in 1992 both the Irish Business and Employers Confederation (IBEC) and the Irish Congress of

Trade Unions (ICTU) successfully lobbied government against the total abolition of tax concessions for approved profit-sharing schemes. Now IBEC encourages its members to consider schemes for the financial involvement of their employees. In its Budget submission for the year 2000, IBEC strongly requested government to develop a tax regime that will accommodate the most comprehensive use of financial employee involvement schemes. However, in one respect, the position of the employers' organisation remains unaltered: it is opposed to the mandatory or prescriptive introduction of financial involvement.

Trade union response

At the end of 1984, in response to the Minister's request, the ICTU outlined its position on profit-sharing and employee shareholding. Reviewing schemes already established, Congress was critical of many aspects of their operation, in particular (1) the general absence of employee consultation, involvement or participation, either at the introductory stage or in the schemes' subsequent administration; and (2) the reluctance of employers to disclose financial information and the small amount of profit distributed among employees. Nevertheless, Congress declared that 'the overall approach of the Irish trade union movement to worker shareholding is not a negative one'. However, its expectations of profit-sharing and employee shareholding were such as to render unsatisfactory any schemes based at the level of the individual firm. These expectations were the provision of extra investment capital for growth and job creation, a redistribution of wealth, increased equity and the introduction of industrial and economic democracy. Congress proposed to realise its objectives through a Scandinavian-type workers' fund system or collective profit-sharing.

This position has since been substantially modified. The demand for a workers' fund system or collective profit-sharing has been dropped. Similarly, the opposition to the privatisation of State enterprises has given way to neutrality, if not a general acceptance. Indeed, in the event of full or partial privatisation, Congress views the ESOP as a vehicle through which union members or employees of such companies can participate in the profits they have helped to create. Congress has also identified the sale of a subsidiary company or a management buy-out as a potential opportunity for union members to negotiate an ESOP.

Developments at national level may partly explain the altered position of employers and trade unions regarding financial participation. Since 1987, social partnership type agreements or bargained corporatist arrangements between government, employers and trade unions have been the dominant feature of collective bargaining in Ireland. All parties agree that partnership at national level should be complemented by partnership at enterprise level. Forms of financial involvement have been designated as one of the appropriate topics for discussion at enterprise level through the recent *National Programme for Prosperity and Fairness (PPF), 2000 to 2003*.

Summary

In Ireland, a favourable tax regime appears to be a crucial factor in promoting the growth of approved profit-sharing schemes (APSS). In the 12 years between 1982 and 1994, the annual average growth rate for APSS was approximately 11 schemes per annum. In the years since

1995, the annual average growth rate has increased to approximately 32 schemes per annum. Given the support of government, employers and trade unions for the promotion of financial participation, the growth in the numbers of schemes seems likely to continue. However, focusing attention on the tax advantages of schemes could be productive of an unintended consequence. Over time, one important objective of the schemes (a positive alteration in a range of employee behaviour) could become increasingly obscured.

Developments in the Netherlands

In the 1980s, there were discussions at national level on encouraging PEPPER schemes in the Netherlands. This resulted in a detailed proposal on tax incentives for profit-sharing. From 1 January 1994, a number of financial participation arrangements were modified and some fiscal incentives enhanced in order to stimulate employers to set up financial schemes and employees to participate in them (*Law Vermeend/Vreugendenhil*). An adequate legal structure for financial participation in general was also set up, although the main schemes in operation are savings schemes or personnel funds.

The variety of profit-sharing schemes in the Netherlands is limited when compared to other countries such as France or the UK. There are two different profit-sharing schemes for which fiscal incentives are available — cash-based profit-sharing and deferred profit-sharing. However, cash-based profit-sharing appears to be the most prevalent; employers can take other measures to calculate the profit-sharing benefit and can opt for options on stocks instead of payments.

Savings schemes

A central feature to the 1994 Law is the wage-savings scheme. This and the premium-savings scheme are the most important savings systems practised by companies. Both schemes were established with the aim of moderating annual wage growth. By means of fiscal incentives, employees are encouraged to save money and employers are induced to set up schemes. It is possible to make use of both schemes at the same time: savings can be converted into shares. However, the relationship of savings and performance and results (profits) is not direct.

To encourage participation in profit-sharing, the Dutch government increased tax-free benefits in 1994 and shortened the retention period. Employers who practise these schemes now pay a total charge of 20% (instead of 35% before 1994). In exchange for payments, employers may offer employees options on company shares.

Share options can be part of a savings scheme and are subject to the same tax incentives as the wage-savings scheme. A subsequent requirement was that the value of the options is ‘x’% of the value of the respective shares. Any revenues on the use of these options is allocated to a special savings account with a retention period of 4 years. The amount will be tax-free to a maximum figure (NLG 1,708 in 1999), which will be determined yearly by the government. Until 1998, ‘x’ was fixed at 7.5% but, in answer to the commotion about the large revenues and stock option plans provided to top management, the government changed the tax treatment of stock options.

The amount ‘x’ can now vary from a minimum of 4% to a maximum of 50%, depending on the length of the exercise period and the intrinsic value of the stock option. In general, the costs for an employee receiving a stock option with an exercise period of 5 years has now more than doubled (from 7.5% to 20% of the value of the underlying share).

The Dutch government combined this tax measure with tax relief in the case of employees receiving their stock options through their wage-savings scheme. The maximum is now doubled, so if an employee agrees to use the savings scheme for this purpose, an employer can grant stock options for an amount of NLG 3,416 (compared to the previous NLG 1,708).

Another change, introduced in 1996, relates to charges on employers. Prior to that date, a total charge of 10% had to be paid by employers when they make use of the wage-savings scheme. This charge has now been reduced to 0%, provided that the savings sum consists of company stocks belonging to either the employer’s company or to a partnership connected with the employer.

Diffusion of schemes

The total number of employees receiving a cash-based profit-sharing benefit has grown in the Netherlands, but the benefit level has dropped significantly at the same time. In 1994, this profit-sharing scheme applied to about 11.5% of all employees (compared to 7.3% in 1993). The total benefit averaged NLG 2,426 in 1994, 5.65% of the average earnings per hour. This was about 55% lower than the average benefit in 1993.

The existing arrangements do not discriminate between men and women, or other categories of beneficiaries. This, however, does not mean that equal participation exists. As noted above, the extent of participation depends on several aspects, wage levels being the most important. For higher paid jobs, the benefit is about 1% of total average hourly earnings (non-participants included), while for low paid jobs it is less than 0.3%. In December 1994, almost 26% of all employees took part in wage-savings schemes.

Quantitative research conducted in 1996 on the nature and number of financial employee participation schemes revealed the following results (Poutsma and Van den Tillaart, 1996):

- Stock (option) plans are a limited, but fast-growing phenomenon.
  2,000 companies (4%) have a stock (option) plan, with about 125,000 participants.
  A further 1,500 to 2,000 companies intend to introduce such a plan in the next 3 years.
- Profit-sharing is becoming a mature and common element of employee benefits.
  15,000 companies have a profit-sharing scheme, which is 27% of companies with 10 or more employees.
  About 500,000 employees participate in these schemes.
  Another 2,000 companies intend to introduce such a plan in the next 3 years.
- Stock option plans are mostly set up for management and staff.
  The greater part (75%) of the 2,000 plans are stock option plans.
  Only one-third of the 2,000 plans are open to all employees.

- Stock (option) plans occur most often in medium- and large-sized enterprises.
  2% of the companies with 10 to 49 employees have a stock (option) plan.
  15% of the companies with 50 to 99 employees have a stock (option) plan.
  13% of the companies with 100 or more employees have a stock (option) plan.

The *Act Vermeend/Vreugdenhil*, the law that offers fiscal facilities for stock (option) plans and profit-sharing, has not enhanced employee ownership. Wage-savings schemes compete with profit-sharing. Even after the introduction of the Law on 1 January 1994, many companies introduced employee ownership without making use of the possibilities of the wage-savings scheme.

It is time that Dutch companies and government started to make policies on employee financial participation. Research shows a possible growth of financial participation in the Netherlands. Recognising the fact that in the Anglo-Saxon countries employee ownership is much more developed, one might also expect a further growth in the Netherlands. Furthermore, companies are looking for ways to enhance the entrepreneurial competencies of their employees.

Companies appear to be poorly informed about the possibilities of employee financial participation. Knowledge of the fiscal advantages is not common. Many companies seem to opt for the least risky and most simple scheme, that of a stock option plan for higher management and staff, which is a small, controllable group. Companies probably also opt for stock options because of fiscal motives. Thus, with the current, most practised plans, the possibilities of financial participation to stimulate human resources is insufficiently used. These possibilities include improvement of motivation, strengthening of involvement and higher productivity.

Finally, research shows that employee financial participation is practised mainly in companies with well-developed institutional participation and participative management. The role of the works councils in these workplaces is significant and it is expected that they will put financial participation plans on the agenda.

Recent developments

The Dutch debate on financial participation is dominated by criticism of stock option plans for top management. Obviously, the sums involved are hard to accept, especially in a country where the economic success has been largely the result of employees moderating their salary demands. However, besides criticism on the amounts that management earn, another factor that is apparent is the unequal distribution of these options. At some point, it became acceptable to introduce financial participation solely for specific groups in an organisation. Top management is, of course, responsible for this policy, but the trade unions also have a responsibility. Many trade unions opposed (and some still do) the introduction of broad-based financial participation.

However, the attitude of the Dutch trade unions towards financial participation is changing. They used to oppose the idea for different reasons, such as ‘Capital and labour should not mix’, ‘Employees must not put two eggs in one basket’, ‘Employees need to get control rights because they work and not because they are owners’, ‘Will employee-owners stay members of a union?’.

As a result of the recent public debate on stock options for top management, unions started to realise that their normal way of thinking on financial participation gave the board of directors the freedom to act as it thought fit (in other words, stock options for select groups). The De Unie union at Philips began the trend, by demanding 'shares for employees' in its negotiations on collective labour agreements. Soon after, unions addressed this issue in banking and several other sectors.

Summary

The pattern of financial participation in the Netherlands is largely based on a nation-wide introduced wage-savings plan. This plan allows profitable tax provisions on contributions of both employer and employee to a share-based plan. However, most employees select the less risky savings on a special account, which has less profitable tax provisions. An increase has been experienced, however, since changes in 1999. Few trade unions are demanding collective schemes.

Developments in Spain

As in other European countries, Spain has its regulations concerning profit-sharing, share-based profit-sharing and indirect financial participation via asset savings for pension funds. Typical for Spain are the regulations and commitment for the social economy. It is significant that the Spanish government considers its fiscal support for share-based profit-sharing as one of its measures favouring small- and medium-sized companies. In fact, the development of a company's pension plans and the pronounced support for workers' co-operatives and workers' companies should be looked at in a complementary manner as the main Spanish plans to improve workers' financial participation in companies. (Pension plans are mentioned only briefly below since the main focus of this report is on employee share ownership, profit-sharing and participation in the company in particular.)

Profit-sharing schemes

Although the current practice and institutionalisation of profit-sharing in Spain is minimal in comparison with other EU countries, it should be taken into account that the 1990s are the inflexion point of that state of affairs. In terms of regulation, a considerable effort has been made in the last ten years to change and simplify remuneration structures. In this process, profit-sharing has moved from being merely one possible wage complement, in an extraordinary long list, to being one of three main categories of complements to wages that can be used. As such, it has recovered its original variable nature, which had been long-forgotten through tradition. Such qualitative support has already seen results through collective bargaining (the instrument of regulation of profit-sharing favoured by the law) — a trend that is expected to continue.

As in some other European countries, profit-sharing existed in Spain during the 19th century. In fact, one of the few contemporary books, published in 1896, dealing with labour matters was dedicated to the subject under the title *Profit-sharing: Basis of harmony between capital and labou*r (Armengol y Cornet, 1896). Both the First Republic and the Francoist regime attempted to promote this form of workers' participation; in the latter case, it may have been related to the ideological framework of social-Catholicism (Mercader Ugina, 1996). However, by the 1960s, it had become clear that profit-sharing bonuses had lost their original variable nature and had become a fixed bonus, independent of business fluctuations.

Fixed cash-based 'profit-sharing' bonuses

The regular extra payment of a fixed cash-based 'profit-sharing' bonus in the collective agreements of companies has existed for decades in Spain and continues to this day. (The term 'profit-sharing' is a misnomer, since there is no relationship to company profits.) The bonus characteristically takes the form of an extra month's wage, paid annually around March or April; it can also take the form of a percentage of wages, as in shoe-making and repairing (BOE 16/6/99) where the bonus is 9% of wage or metal graphics and manufacturing of metal containers (BOE 29/9/98) and textiles (BOE 3/9/98), 10% of wage. For more details, see, for example, the sectoral agreements of Tabacalera (BOE 19/2/98) and the newspaper *El Comercio* (BOPA 21/8/97). Technically, however, the bonus constitutes an independent complement that is added to the base wage.

No accurate estimate of the extension of this fairly common practice is available, but there are grounds to expect its progressive disappearance through its incorporation in the base wage. Such developments have already been seen in the 1998 bargaining round, where some collective agreements eliminated what was nominally a separate annual component of the base wage, incorporating it instead to the monthly wage. The coherence of this restructuring makes it reasonable to expect that it will be consolidated and extended in subsequent bargaining rounds as part of the reorganisation of wage structures, intended by the social actors since 1994. For some years yet, however, the term 'profit-sharing' will not necessarily mean variable pay in Spain.

Variable cash-based profit-sharing bonuses

The 1994 reform of the labour market (Law 11/1994) has been the main promotion vehicle for variable profit-sharing in Spain. The legislator and the social actors were particularly concerned about adapting the rigid wage structures to the needs of the enterprise. Thus, among other things, the 1994 Law tries to promote the use of variable pay and specifically mentions the use of bonuses connected to the results and situation of the enterprise. This illustrates the intentions of the social actors to develop this type of remuneration. But no clear guidelines are established as yet on the form that profit-sharing will take. All aspects of introducing profit-sharing in a company are left to the partners involved in bargaining. The only restriction that has been placed on those involved in bargaining is that profit-sharing cannot become 'consolidated', meaning the additional payment must remain contingent.

The success of this law remains limited. In 1998, cash profit-sharing bonuses appeared in the collective agreements of about 400 companies and in less than 5% of sectoral agreements (Consejo Económico y Social, 1999a). Typical examples are the agreements in the private banking sector, the social banking sector (similar to building societies in the UK and Ireland) and the insurance sector. However, these figures should be treated with caution since it is possible they include gain-sharing agreements, which are also on the increase in Spain. Although estimates of the extent of profit-sharing before that date are not available, studies of samples of collective agreements indicate that it has become less rare than it was in 1996 (Costa Reyes, 1999). It was in that year that, for the first time, the annual report of the Consejo Económico y Social (Economic and Social Council) considered the extension of these bonuses, giving some idea of their limited importance until then. In considering the slow expansion of this form of profit-sharing in Spain, it should be noted that there is no specific promotion of the scheme through tax incentives; to all intents and purposes, it is considered part of an employee's wages and taxed accordingly. Not even the statistics of the Labour Ministry differentiate between base wage and complements of this nature.

Since the law is silent on the forms of profit-sharing, it can mean matters are open to abuse. Thus, some companies' agreements on profit-sharing are very vague about when and what will be paid (see, for example, Grupo Empresa Mediterráneo, BOE 31/3/98; Gijón Fabril, BOPA 3/3/98). According to Costa Reyes (1999), in most cases the profit-sharing bonus varies with profits or some other measure of performance. But in some cases, it is still a fixed quantity, independent of the degree of achievement of objectives. In any case, it is common to fix a maximum for the bonus and also to operationalise it as a proportion of wages.

Share-based profit-sharing schemes

The interest of the Spanish social actors in promoting standard share-based profit-sharing has been limited until the 1990s. Recent measures promoting it could be easily attributed to the 1992 Recommendation of the EU. Employee share ownership has gained advantageous fiscal treatment since 1996, but this is not the case with cash-based profit-sharing.

Shares given by the company, a parent company or another company of the same group to employees for free, or at a price lower than that in the market, are excluded from income tax assessment if the value of the shares is not greater than ESP 500,000 in one year or ESP 1,000,000 in 5 years, and if the shares are kept for at least 3 years.

For employees to benefit from this exemption, companies must comply with certain conditions imposed by the law (RD 214/1999): firstly, the offer must be part of the company's general remuneration policy and must contribute to increased employee participation in the company, meaning that it must be offered to all employees under the same conditions; and secondly, employees must not already own more than 5% of the company. It should be noted that the law does not necessitate the existence of a connection between the profits of the undertaking and the remuneration in shares.

In addition, income tax law establishes that when the company and employees are in compliance with the terms indicated above, shares given to employees will not be considered as payments in kind. However, it should be made clear that such a distinction refers to taxation only. In labour law terms, shares are payments in kind and, therefore, their value cannot amount to more than 30% of the wage. Payments in kind have an exceptional character and their establishment is only admissible if there is a law, a collective agreement or a pact between the parties authorising it; it can never be unilaterally imposed by the employer.

Regrettably, there is no data available on the extent of share-based profit-sharing, for either the number of companies or employees involved.

Attitude of the social partners towards profit-sharing (share-based)
In its concern about the modernisation of remuneration structures through collective bargaining, government's support for cash-based profit-sharing has been qualitative, yet noticeable. The social actors signed the agreement that was enshrined in the 1994 Law, thereby supporting the development of profit-sharing as a complement to wage. However, the actors were cautious. The general guidelines of the main employers' organisations for the 1996 bargaining round manifested an interest in promoting the use of variable pay connected to productivity, but did not specify a preference for collective, over individual, schemes. The trade unions did not mention the issue at all.

Cash profit-sharing is a sensitive topic for both unions and employers. The ideological mistrust that individual employers and shop stewards alike have towards this form of remuneration is also present in other countries. This fact, together with its limited existence, seems to be the main cause for the lack of public debate on the issue of profit-sharing. Symbolically, in recent years, it was mentioned only once in the Spanish press: *El País* reported on 18 August 1996 that one of the main trade unions, Comisiones Obreras, affirmed that the proposal of the Labour Counsellor of Catalonia to connect 30% of wages to profits was plainly 'inadmissible'. While making a serious effort at reforming collective bargaining and modernising the labour regulation stemming from it, people do not seem interested in promoting the debate over a secondary, but conflictual matter.

The General Secretary of a regional employers' association (FADE) stated that, although he was in favour of profit-sharing, it remained 'an unusual topic for conversation among employers'. He pointed to a clear lack of predisposition on the part of employers towards such a complex form of participation. In his opinion, it belonged to the less traditional framework of industrial relations that was emerging in recent years, but it was still an issue for the future. It was also recognised that unnecessary problems could arise with unions over the matter. In summary, he thought the use of profit-sharing was, for the moment, more likely to be adopted in companies with problems than in those with a good performance, excepting perhaps the larger enterprises.

The trade unions' position is that the use of profit-sharing as anything but a small add-on to wages should not be accepted without a greater participation of workers in business matters.

The limitation of governmental financial support for profit-sharing to share-based schemes could very easily result from its sensitivity to these issues. The fact that the schemes do not have to be related to the performance of the company should not obviate the great interest in developing workers' financial participation. In that sense, it is significant that the government considers its fiscal support for share-based profit-sharing as one of its measures favouring small- and medium-sized firms. In fact, the development of companies' pension plans and the pronounced support for labour co-operatives and workers' companies should be looked at in a complementary manner as the main Spanish plans to improve workers' financial participation in enterprises.

The social economy

In Spain, as in other countries, the principles guiding social economy companies are the finality of service to the members or the environment, self-management, democratic decision-making processes and the primacy of persons and work over capital in the distribution of returns. The Spanish Constitution (Article 129.2) obliges the public powers to promote the social economy and, in compliance with this fundamental norm, the commitment of Spanish central and autonomous governments and the social actors to the development of the social economy has been a constant.

However, as revealed by Barea and Monzón (1992), the outdated social concept of the social economy as a temporary and circumstantial solution, enshrined in the law, has made the competitiveness and growth of companies difficult by limiting their access to external funding. This criticism has been accepted by the legislature: a recent law has attempted to make more compatible the ethical values of co-operativism with the achievement of long-term economic success. The Spanish government, as manifested in the 1997 Luxembourg meeting on employment, believes in the social economy potential to create employment and, as a consequence, it occupies a relevant place in the annual plans on employment. Similarly, the motives cited at the beginning of the new general law on co-operatives states the belief that co-operativism both eases economic integration in the labour market and is an efficient and competitive form of economic organisation.

In 1998, the resources budgeted to support the social economy (ESP 1,756 million) increased by 26% compared to the previous year and the incorporation of unemployed people in the social economy was eased by allowing them to capitalise their unemployment benefit in one payment. In 1999, the budget went up again, to ESP 2,021 million (Ministerio de Trabajo y Asuntos Sociales, 1998).

In general, workers' companies (*cooperativas de trabajo* and *sociedades laborales*) have shown a great capacity for job creation (*see Table 17*). Despite the increase of unemployment in the period 1990-95, these companies were able to increase their employment figures by 25% (from 178,000 workers at the end of 1990) and continued with a similar rate of growth during 1995-98. Workers' companies are present in all sectors, particularly in services. They are mostly labour-intensive and frequently absorb workers with insertion difficulties (young, disabled and mature workers). According to Barea and Monzón (1992), employment in these companies is more stable and labour productivity and training provisions are higher, while the reinvestment of profits is superior to that in traditional companies.

Table 17 *Social economy employment figures*

	1995			1998	
	Number of firms	**Associated workers**	**Non-associated workers**	**Number of firms**	**Total employment**
Labour co-operatives	13,101	163,952	19,303	–	–
Total of co-operatives	19,096	–	–	22,155	244,711
Workers' companies	5,413	49,574	3,421	7,079	62,567

Source: Elaborated from data proportioned by CEPES and the Ministry of Labour

Labour co-operatives (*Cooperativas de Trabajo Asociado*)

Labour co-operatives are the most frequent type of co-operative found (about 60% of total co-operatives). Unfortunately, there is no specific aggregate data available on them.

Operation: The distribution of profits between the workers depends on the work done individually. Wages are an early participation on these profits and are not called 'wages' but 'advanced results' (*anticipos societarios*). Some 20% of the profits or co-operative returns and 50% of the extraordinary profits must be incorporated to a reserve fund that can never be distributed between the associates; a further 5% will go to a fund for training and the promotion of the social economy. The number of hours per year done by workers that are not associates cannot be more than 30% of the hours per year done by the associates. The associates have a mercantile relationship (not an employment one) with the co-operative; however, they can apply to themselves the existing incentives for the establishment of permanent labour contracts.

Legislation: Apart from the General Law on Co-operatives (Law 27/1999; before Law 3/1987), labour co-operatives are specifically regulated by each Autonomous Community, which introduces a certain degree of variability. According to the General Law, labour co-operatives are those whose object is giving jobs to their associates, through their personal and direct effort, full-time or part-time, through the common organisation of the production of goods or services for third parties.

The new Law on Co-operatives tries to promote further the development of the social economy by lifting some of the restrictions on the operations of labour co-operatives and assimilating them more to other firms. It also eases the co-operatives' constitution and self-government. This law is applicable to those co-operatives with activities in more than one Autonomous Community. Some of the more important changes are:

- constitution of labour co-operatives: the minimum number of associates is reduced from 5 to 3;
- possible operations with third parties are widened;
- to help the economic regime, obtaining capital funds is made easier, so allowing access to new financial instruments as obligations, special participations and other participatory titles; it is now possible to create reserve funds that can be distributed between the associates in given circumstances; extraordinary profits and some profits obtained outside of the

co-operative activity, as through participation in other firms, may be considered co-operative returns; and

- structural changes include the new rule that any company can become a co-operative and vice versa; fusion of co-operatives with other mercantile companies is now possible.

It is expected that these new regulations will stimulate a further expansion of this type of co-operative in the same way that the growth of labour companies originated (*see below*).

Incentives for workers buy-outs: Labour co-operatives receive some financial support from the State on condition that there is no continuity with previous ownership (the employer cannot become an associate or shareholder in the newly formed company).

Tax regime: Labour co-operatives are ‘specially protected’ by law (Law 20/1990). They receive exemptions from the capital transfer tax. Also, they only pay 10% corporation tax (35% normally, 20% for other co-operatives) and have a 95% reduction on the tax over economic activities. Further fiscal advantages come from the fact that they can consider as costs those funds constituted as a reserve to compensate future losses.

In the period 1994-98, co-operatives experienced a growth of 24.9% (4,424 new companies). Their geographical distribution is concentrated in 3 Autonomous Communities: Catalonia (5,882), Andalucia (4,498) and Valencia (2,539), with 58% of the total between them.

According to further division of economic activities, the greater employment appears in the manufacturing industry, followed by commerce, and hotels and catering. During the period 1994-98, the building and services sectors showed the greatest dynamism in employment creation (31% and 33.2% rates of growth).

Workers’ companies (*Sociedades Laborales*)

Definition: Workers’ companies are those in which at least 51% of the capital belongs to the workers. None of the associates may own more than one-third of the capital (except for the possible participation of the Public Administration, which can be up to 50%). The number of hours per year done by workers that are not associates cannot be more than 15% of the hours per year done by the associates if the firm has more than 24 workers; if the firm has less than 25 workers, the percentage goes up to 25%. Temporary workers are not considered for this calculation. Participation in capital can be of two types: labour (shares of permanent workers) and general (for the rest). A workers’ company must constitute a Special Reserve Fund, to which 10% of the profits will be incorporated annually. When selling labour-type shares, permanent workers that are not associates have preference over associated workers, general associates and temporary non-associated workers, in that order.

Legislation: Workers’ companies appeared in Spain in the 1960s, although they did not have specific legal regulation until 1986. The Law 15/1986 on workers’ companies was a response to the fact that workers had become owners of companies in crisis without changing their legal form. Thus, the law initially envisaged workers' companies as a solution to crises, as a way in which the workers of bankrupt companies could keep their jobs and become owners of the means of production. However, since 1997, the law considers these companies as a possible legal form of the economic organisation of workers' participation in the company.

The 1997 Law introduced an important novelty: it allowed companies of limited responsibility to become workers' companies. Thus, they can now be:

- *Sociedad Anónima Laboral* (SAL), with a minimum capital of ESP 10,000,000 (previously the only existing type), or
- *Sociedad Limitada Laboral* (SLL), with a minimum capital of ESP 500,000.

Fiscal incentives: Those workers' companies that incorporate 25% of profits to the Special Reserve Fund in a given year may benefit from a 99% tax exemption from capital transfer tax.

Expansion in 1998: At the end of 1998, the number of SALs was 8,867 and of SLLs was 2,212, having shown a joint growth of 26.1% within a year. Such growth was due to the 367.7% growth of the SLL (1,748 new companies), whereas the SAL decreased in the same period by 5.5% (282 companies less).

The number of workers (associates and non-associates) in SALs was 53,993 and in SLLs, 8,574. Thus, their employment presented a net increase of 12.2% in 1997.

According to further division of economic activities, the greater employment appears in the manufacturing industry (30,173 workers), followed by commerce, and hotels and catering (11,928 workers).

A dynamic analysis of workers' companies for the period 1994-98 shows the following:

- 30% increase in the number of companies (*see Table 18*);
- 23.3% increase in employment, with some 11,833 new jobs;
- sectors with the greatest generation of employment were services (5,805 new jobs), followed by industry (2,890 new jobs) and building (2,814 new jobs); and
- the average number of workers in a company decreased from 9.4 in 1994 to 8.8 in 1998, as a consequence of smaller size and growth of the SLLs.

Table 18 *Evolution of workers' companies and their employment (1993-1998)*

	1993	**1994**	**1995**	**1996**	**1997**	**1998**
No. of companies	5,069	5,419	5,413	5,309	5,613	7,079
No. of workers	48,010	50,734	52,857	52,857	55,783	62,567

Source: Base de Datos de la Economía Social, Ministerio de Trabajo y Asuntos Sociales, Madrid

Indirect forms of financial participation: Pension funds

Since 1988 (Law 8/1987), Spanish law has promoted the establishment of a type of company-based pension scheme called 'System of Employment' schemes. These can be considered an indirect form of workers' financial participation in Spanish enterprises. Although the contributions are normally made to the pension fund by the employer, employees may also contribute to it. Although it is not compulsory, the legislation states that the employer's contributions to the fund be related to the results of the undertaking and/or to the employees' contributions (García de Quevedo Ruiz, 1999). For employees, the employer's contribution on their behalf is considered 'payment in kind' as a deferred wage (Parra Martín-Urda, 1999).

Summary

Spain has a pattern of minor regulations for share-based profit-sharing. Developments so far are not substantial, but are expected to increase in coming years. It is significant that the Spanish government considers its fiscal support for share-based profit-sharing as one of its measures favouring small- and medium-sized companies. In fact, the development of companies' pension plans and the pronounced support for labour co-operatives and workers' companies should be looked at in a complementary manner as the main Spanish plans to improve workers' financial participation in enterprises.

Developments in the United Kingdom

There is a long tradition of financial participation in the UK, originating in the 19th century. Since 1978, significant growth has been encouraged by legislation granting tax concessions to schemes of profit-sharing and employee share ownership approved by the Inland Revenue. The legislation is permissive, in that it is designed to offer tax incentives which employers and employees can take up on a voluntary basis.

Briefly, approved profit-sharing schemes were introduced in 1978, followed by save-as-you-earn (SAYE) share option schemes in 1980. The 1984 Finance Act introduced tax relief for discretionary share option schemes and statutory employee share ownership trusts (ESOTs) were introduced in 1989. The 1987 Finance Act introduced tax relief for employees covered by a registered profit-related pay (PRP) scheme. In addition to the initiating legislation, subsequent Finance Acts have amended the original rules, further encouraging the development of the various schemes.

In the 1995 Finance Act, significant changes were made to the eligibility criteria for all 5 of the UK tax-relieved employee financial participation schemes. The changes were intended to remove the previous restrictions on the inclusion of part-time employees from the schemes and to ensure that the tax relief gave equal treatment to part-time employees, most of whom are women. The new rules ensure that part-time employees are, for the future, eligible to participate in these schemes.

There are several types of statutory profit-sharing, share ownership and share option schemes, as well as many non-statutory schemes. There follows a brief description of some.

Profit-related pay (PRP) schemes

Profit-related pay (PRP) schemes link a part of employees' pay to changes in the profits of the business they work for. Since PRP is concerned with wage substitution, generous tax benefits were an integral part of the scheme to overcome understandable reluctance on the part of employees to make this concession. The 1987 Finance Act introduced income tax relief for employees covered by a registered PRP scheme. The 1989 Finance Act made further improvements to the tax relief available. Following the 1991 Finance Act, all PRP is eligible for tax relief up to the point where it is either 20% of employees' total pay or GBP 4,000, whichever is the lower. The tax relief is available to employees of private sector employers who must register their PRP schemes with the Inland Revenue before they come into operation. The improvement in 1991 was developed due to a lack of interest of employers. Since then, the number of PRP schemes has increased ten-fold.

The costs of setting up a registered scheme are tax-deductible. Separate schemes can be set up for any unit producing separate profit and loss accounts, but must cover 80% of those employed in any unit covered by PRP. All eligible employees must benefit on similar terms. By March 1996, there were 12,740 live registered PRP schemes, covering 3,569,000 employees.

The evidence to date suggests that companies have used PRP in three ways, allowing employee pay to be maintained at stable levels whatever the movements in profits (Pendleton, 1999a, 1999b):

- *To provide a profit share to supplement existing levels of remuneration*. Most early PRP schemes took this form and involved conversions of prior-existing profit-sharing schemes. PRP therefore made little impact on the overall incidence of profit-sharing in the UK in the early years.
- *As a substitute for an annual pay increase*. Net employee pay may be increased at no cost to the company.
- *Known as 'salary sacrifice'*, this form substitutes PRP for part of current pay while maintaining net take-home pay at pre-scheme levels. In effect, the company rather than the employee benefits from the tax concessions. In practice, the benefits tend to be shared, with employees receiving a net increase in take-home pay and the company getting a reduction in wage costs.

Initially, most schemes took the form of profit bonus schemes, but after the improvement in tax concessions 'salary sacrifice' became the most popular. Since the degree of risk and flexibility in employee salaries in these types of schemes was minimal in practice, PRP functioned as a blanket tax subsidy for any company that cared to set up a scheme. At around the same time as public criticism of executive share option schemes mounted, PRP schemes came to be seen as an expensive tax 'dodge'. By the late 1990s, PRP was forecast to lose the Exchequer about GBP 1 billion each year in lost tax revenues. In November 1996, it was announced that PRP would be phased out from 1998. The size of the PRP payment attracting tax relief was to be reduced in GBP 1,000 steps, so that by 2000 no tax relief would be allowable.

Employee share schemes

Employee share schemes approved by the Inland Revenue provide significant advantages. They allow employees to receive shares free or at a reduced price from their employer without paying income tax on the value of the shares. The costs a company incurs in setting up approved schemes are also tax-deductible.

There are three types of approved share schemes:

- Save-as-you-earn (SAYE) share option schemes;
- Approved profit-sharing schemes (share-based); and
- Company or discretionary share option schemes.

The first two schemes provide that all employees of a company with over 5 years' service must be allowed to participate by the employer. If the employer wishes, new employees or employees with fewer years' service may be able to participate on similar terms. In the 1995 Finance Act, a significant change was made to the rules governing eligibility to these schemes. The legislation aimed to ensure that part-time workers were not excluded. Previously, the rules stated that all full-time employees with 5 years' service had to be allowed to participate in the schemes. The new rules require that all employees with 5 years' service must be permitted to join, regardless of hours worked. The third scheme allows a company to restrict participation to selected employees (also known as discretionary share options schemes).

Save-as-you-earn (SAYE) share option schemes

Save-as-you-earn (SAYE) share option schemes were introduced in the 1980 Finance Act. Employees are offered an option to buy shares, at a fixed price and often at a discount (up to 20%), in 3, 5 or 7 years' time. Employees wishing to participate in the scheme pay fixed monthly contributions for 5 years to a SAYE savings contract. Upon maturity of this contract, the proceeds may be used to purchase the shares at the price fixed under the option. Alternatively, the savings, which will have earned tax-free bonuses or interest, may simply be paid out in cash if the employee so wishes. In the 1991 Finance Act, maximum monthly savings were increased to GBP 250 (from GBP 150 a month). The bonus earned on the savings is tax-free, as is the benefit of the discount and any gain realised on the option when it is exercised. Proceeds from the sale of shares, however, could be subject to capital gains tax if the gains in any one year cross the individual's threshold (currently GBP 6,000).

The main benefit of the SAYE scheme for employees is that they are not required to pay income tax on the favourable purchase price of the shares. Nor are they required to pay income tax on any increase which may occur in the value of those shares during the period from the granting of option to the actual purchase of shares. The 1991 Finance Act made it possible for shares to the value of GBP 3,000 obtained in this way to be transferred directly into a single company Personal Equity Plan (PEP). A PEP is a way of investing in shares without paying tax on the dividends or capital gains. Single company PEPs are a type of PEP which invests only in the ordinary shares of a single UK or EU company.

By 1996, there were 1,500 approved SAYE schemes in the UK. The total number of employees with options is not known, but the figure must be considerable since in 1996 some 550,000 employees were granted options with an initial value of GBP 1.6 billion in that year. The yearly numbers seem to have stabilised in the last decade. As of November 1998, there were 1,201 live schemes, with a total of 1.25 million participants. The average grant of shares per employee was GBP 2,700.

Approved profit-sharing schemes (share-based)

In the case of approved profit-sharing schemes (APSS), a company sets up a trust and makes payments to it, typically from profits. Shares are appropriated to individual employees free of charge, but are held by trustees appointed by the company. The employees must agree to leave the shares with the trust for at least 2 years; if the shares are left with the trust for a total of 5 years, there is no income tax to pay. Employees may take their shares out of trust after the first 2 years and sell them, but in this case there may be income tax to pay. Special rules reduce this tax charge where shares are taken out of trust because of 'compassionate' reasons (such as retirement or ceasing to work for the company because of injury, disability or redundancy).

Shares obtained in this way can also be transferred directly into a single company PEP. All employees who meet the statutory requirements must be able to participate in the scheme on similar terms. The definition of 'similar terms' will ultimately depend on the rules of the scheme, but, in short, employers can vary the level of share allocation according to the length of service or in proportion to earnings.

The company can set the payments it makes to trustees against profits, providing the payments are used by the trustees to buy shares or are necessary to meet the expenses of the scheme.

Since APSSs were introduced in the late 1970s, about 1,200 schemes have been approved by the Inland Revenue. Of these, about three-quarters are thought to be still 'live'. The number of employees benefiting from share allocations during the 1990s ranged from just over 600,000 to nearly 900,000, and the average value of shares distributed per employee was between GBP 400-500 (Inland Revenue, 1997). As of November 1998, there were 859 live schemes with 1 million participants, with average distribution per employee of GBP 680. Not surprisingly, this form of profit-sharing is found in companies with issued share capital and thus tends to be found in larger companies. In fact, this type of scheme is especially prevalent in the financial sector: one survey conducted in the mid-1980s found that 50% of companies in the financial sector had such a scheme (Poole, 1989).

Company or discretionary share option schemes

In addition to the all-employee schemes, the 1984 Finance Act introduced tax relief for approved company or discretionary share option schemes (also known as executive share option schemes). This type of scheme allows a company to offer employees, selected at its discretion, an option to buy shares in the company at a fixed price. Where an option is held for more than 3 years, but less than 10, employees are not liable for income tax on the gains they realise when the option is exercised. There must be an interval of 3 years between the exercise of options to qualify for tax relief. If employees decide to exercise the option within 3 years, they are liable to pay income tax on any increase in the value of the shares. Capital gains tax is liable on growth in value at the time of exercising the options. These schemes are implemented by companies to recruit and retain key managers and employees, and to provide an effective incentive to working for the prosperity of the company.

By the end of March 1996, more than 6,000 discretionary share option schemes had been approved and were still being used. Income tax relief on the grant and exercise of approved executive share options was withdrawn with effect from July 1995. The numbers of approved schemes decreased accordingly. As of November 1998, there were 3,769 live schemes with 300,000 participants, with an average grant of GBP 5,700 per employee.

Non-statutory profit-sharing and share option schemes

In addition to the statutory schemes described above, there are many profit-sharing and share option schemes in existence in the UK which are not approved by the Inland Revenue. In the case of such schemes, any bonuses paid in cash are subject to income tax and national insurance payments in the same way as ordinary salary payments. In those cases where employees receive company shares, the value of the shares is taken into account as salary for income tax and national insurance purposes.

Assessment of the development of share option schemes

Comparison of the growth rates of the two main types of share option schemes provides interesting insights into company priorities in remuneration policy. SAYE schemes are more common than deferred share-based profit-sharing schemes, but the pattern of development is not substantially different. By contrast, discretionary schemes have grown at a much higher rate. Over 6,500 schemes have been introduced since 1984, an average of over 540 new schemes each year. The average initial value of discretionary options has been much higher. In most years, this figure has exceeded GBP 24,000, compared with GBP 2,000-3,000 in SAYE schemes. The participation rates of eligible employees is much higher in discretionary schemes — over 90% compared with 20% (Pendleton and Robinson, 1999). However, the proportion of eligible employees is much smaller in discretionary schemes — 9% compared with over 80% in SAYE schemes. The inference that might be gained from this comparison is that many companies have attached rather more importance to executive reward packages than developing broad-based employee share ownership schemes.

The characteristics of companies with SAYE option schemes are clear. Besides having a share capital, they tend to be large, multi-site, domestically owned UK companies with strong positions in their product markets (Poole and Whitfield, 1994). They also tend to be more participative than companies without stock option schemes and have a variety of mechanisms for employee involvement (Pendleton, 1997; Poole, 1988). SAYE schemes tend to be more evenly distributed between sectors than deferred profit-sharing, although they are especially common in financial services. Less is known about the distribution of discretionary schemes since research interest has focused upon all-employee schemes. However, the distribution between size of company seems to be similar to all-employee share-based schemes (Baddon *et al*, 1989).

Employee share ownership trusts (ESOTs)

Employee share ownership trusts (ESOTs) provide a further means in which shares can be transferred to employees. There can be statutory or non-statutory (‘case-law’) employee share ownership plans (ESOPs). Under the statutory scheme, companies set up a trust which acquires and distributes shares to employees. The trust is responsible for buying and selling the shares and for distributing them to employees, either directly or through an approved profit-sharing scheme. Important changes were introduced in the 1994 Finance Act, easing two of the conditions applying to statutory ESOTs (sometimes known as ESOPs). These are described below.

Payments by a company to an ESOT qualify for corporation tax relief provided certain conditions are met. In addition, the sale of shares to an ESOT may also qualify for capital gains tax relief and the costs incurred by an employer in setting up an ESOT are deductible for corporation tax.

‘Case-law’ employee share ownership trusts

Some companies prefer to implement non-statutory or ‘case-law’ ESOTs. While company contributions under such schemes may qualify as deductions for corporation tax purposes (if the contributions fulfil certain conditions), they do not attract all the reliefs which are available to a statutory ESOT. ‘Case-law’ ESOTs are much more numerous than statutory ESOTs. Their rules are negotiated with the tax inspector, giving employers the flexibility to adapt schemes to the particular needs of the company and its employees.

A significant development since 1989 has been the growth of the use of ESOTs in medium-scale privatisation. It is estimated that about 40 of these have been established.

Assessment of the development of ESOPs

The merit of employee share ownership plans (ESOPs) is that they provide a low-cost, low-risk method for employees to acquire substantial portions of equity in their employer. However, few companies have gone down this route. A variety of reasons can be found for this, such as unwillingness of owners to pass on their companies to their employees and the reluctance of banks to provide financial assistance to employee-owned enterprises. A further problem with statutory ESOPs, in particular, is the perceived inflexibility of the requirements for Inland Revenue approval (though these were relaxed somewhat in 1994). Recently, however, there has been an increase in numbers. This emanates from the relaxation of ESOP legislation, which now allows companies to use a statutory ESOP (or QUEST) to support SAYE schemes in conjunction with a revision to accounting regulations. In certain circumstances, this means that companies can set internal financial transfers against corporation tax. The companies taking advantage of this are large public companies. This is viewed as a loophole and is likely to be closed by the government soon. Currently there are about 300 statutory ESOPs.

Precise numbers of case-law ESOPs are difficult to calculate since these schemes do not have a specific legal identity and most are subsumed in the figures for approved profit-sharing schemes. Most observers believed there to be between 50 and 100 ESOPs in the mid-l990s, although this number is now likely to be smaller because many ESOPs have now been sold to ‘conventional’ companies. The situation is complicated further by the establishment of employee benefits trusts by many large companies to buy shares on the open market to support existing SAYE and discretionary share option schemes. These are sometimes referred to as ‘unapproved ESOPs’ since no tax breaks are sought. Whether they should be viewed as ESOPs at all is open to question; their operation is primarily focused on meeting insurance and legal requirements rather than extending industrial or economic democracy per se (Pendleton *et al*, 1995).

In addition to initiatives involving the government, a myriad of independent organisations and private companies provide information, advice, guidance, consultation, education and research on financial participation schemes, as well as promotion and publicity. In the UK, with certain exceptions, the provision of information to, and consultation with, employees is not determined by legislation, but by voluntary agreement between employers and their employees.

Recent developments and perspectives

All but one form of financial participation currently in operation in the UK has been supported by legislation passed by the Conservative Governments of 1979-1997. Clearly, these governments were strong supporters of profit-sharing and financial participation. Although the other main political parties in the UK did not share the same sentiments, they have nevertheless been broadly sympathetic to the financial participation programme. The Liberal Party has long advocated profit-sharing and the 1978 deferred profit-sharing legislation owed much to Liberal pressure on the minority Labour government of the day.

In the past, the Labour Party has displayed agnostic attitudes towards financial participation (neither strongly for or against it), although those on the left of the party have been suspicious of company motives for using profit-sharing and share ownership schemes. More recently, the logic of the Party’s flirtation with ‘stakeholder capitalism’ has implied more positive support for financial participation. Providing employees with a share in company profits seems a good way of rewarding this particular group of ‘stakeholders’ and, indeed, a key member of the Labour Government elected in 1997 has argued that ‘ideally all employees should have shares’ (Pendleton *et al*, 1999). However, three features of the Labour Party’s recent approach have differed in tone, if not in substance, from that of Conservative governments.

- more reluctance displayed towards selective financial participation schemes and ‘soft’ incentive schemes for top executives;
- critical of the level of tax relief for profit-related pay (PRP) schemes and for executive share options (and as such, these schemes are not profitable any more); and
- suggestion that greater use should be made of collective employee trusts to counteract the current tendency for employees to sell their shares once they acquire full ownership of them; a further suggestion is that lower rates of capital gains tax might be linked to long-term ownership of shares, although this is unlikely to affect most employee shareholders (Pendleton and Robinson, 1999).

Employers' organisations have been broadly supportive of profit-sharing and share ownership initiatives by government, although on occasions they have been critical of a perceived lack of flexibility in scheme design. Most managers have also supported the use of profit-sharing and employee share ownership. Mansfield and Poole (1991) found that 70% of managers believed SAYE share option schemes to be a good idea, while even higher proportions supported the use of cash-based and deferred profit-sharing schemes.

Trade unions, in contrast, have traditionally been suspicious of financial participation on the grounds that it transfers risk to employees, undermines collective bargaining and provides little scope for employee involvement in decision-making. Most unions, however, have no specific policies on profit-sharing and employee share ownership, and their general approach has been viewed as one of disinterest (Baddon *et al*, 1989). Recently, the main union confederation, the Trades Union Congress (TUC), has taken a more positive view of financial participation, noting that it 'welcomes moves to give employees a means of sharing in company prosperity', with the provision that schemes are open to all employees and that their design and introduction are subject to consultation with the workforce and its representatives. This follows a policy shift in some constituent unions towards a more favourable view of financial participation. At the TUC's 1987 annual meeting, the unions representing staff in the Post Office and British Telecom successfully proposed a motion recognising the merits of employee share schemes as a form of 'social ownership' (Pendleton, 1993). On the whole, white-collar unions have been more receptive to the introduction of financial participation than predominantly manual unions. Some have even taken the initiative in proposing schemes.

In this context, it is noteworthy that the UK Workplace Industrial Relations Survey (WIRS) data suggests not only an association between trade union-based participation and financial participation, but also with other forms of employee involvement and participation, such as quality circles (Pendleton, 1997). However, the evidence overall suggests that there is little *direct* relationship between trade union participation and profit-sharing and share ownership. The positive relationship between trade unionism and employee financial participation stems from the broad tendency for companies with collective bargaining also to be those in which other ideas for extending employee involvement are encouraged (Poole, 1989).

Summary

The UK has a pattern that consists mainly of deferred share option schemes, with the principal aim of medium-term employee incentive. The main actors are employers and government. An elaborated stock market provides ample space for share-based investments. Developments in the UK are heavily supported by governmental policy and measures.

There is little evidence that either the design of the UK schemes or their operation in practice spread risk to employees to any significant degree. Participation in share option schemes and deferred profit-sharing schemes is voluntary and, in the case of SAYE schemes, employees can choose not to exercise their option should share value fall after the option has been taken out. On the surface, profit-related pay (PRP), which can link a portion of 'core' pay to profits, appears to transfer risk to employees, but in practice this tends not to occur. Many schemes are introduced to provide tax-free pay and to achieve reductions in the rate of growth of labour costs, rather than to link remuneration levels to variability in profits. To secure employee consent to changes in their terms and conditions of employment, it is often necessary for the degree of risk to be minimised.

The UK approved schemes appear to be more flexible in operation than in France, where legislation provides strict formulae on the calculation of the share of profits to be passed to employees, or in Italy, where management – union agreements use a range of performance indicators to allocate profit shares. This reflects the emphasis in the UK on the use of financial participation as a management tool, rather than as a mechanism for income or capital redistribution. Accordingly, within the statutory frameworks, the operation of schemes is reserved to companies themselves. In most cases, financial participation schemes are not negotiated with trade unions and it is not required that the consent of employee representatives be secured before schemes are introduced.

Direction of future research

Since the phenomenon of financial participation is not well diffused in Europe, there is only minor research into the subject or research is concentrated in a limited number of countries. Studying a new phenomenon generally starts with theoretical and descriptive work, moving gradually towards more testing research and research directed towards assessments and action-oriented research. Most European research to date has followed the path of description, the contingencies and research on the main theoretical impacts. The majority of these studies have been done in the UK. The IPSE study (1997) on the performance effects of profit-sharing combined studies in the UK, France, Germany and Italy. Typical European research concerns the relationship with industrial relations and the study of co-operatives, both areas of research being more developed than that of profit-sharing and share ownership.

In contrast, research in the USA started earlier than in Europe and has now moved from impact studies on performance to impact studies on such topics as ownership culture and conditions for performance.

During the last two decades, employers in Europe have increased their experimentation with employee financial participation. France and the UK are the most obvious examples of this. In these two countries, profit-sharing, gain-sharing, savings plans, share-based plans and employee share ownership have become relatively widespread on a voluntary basis, with some government encouragement through the tax laws. In other European countries, employee financial participation has been influenced by government policies which attempt to encourage asset accumulation, a wider distribution of the ownership of capital or profit-sharing.

The degree of research is, of course, also dependent on the availability of data. In Europe, only France and the UK seem to have developed polls and statistics on financial participation.

However, a full investigation of available surveys and databanks has not yet been undertaken and these secondary sources could be a valuable research option.

At the joint Foundation/Nijmegen Business School seminar, held in Leiden in September 1999, experts made the following observations:

- There is a growing awareness on both sides of industry that employee financial participation is an important new employee benefit.
- A growing number of trade unions are developing a pragmatic attitude towards employee financial participation and are involved in discussions.
- There is an increase in the use of employee financial participation schemes in the EU.
- The overall incidence of financial participation schemes is limited and developments are occurring in isolation.
- There is a growing need for a sharing of information and models, and for an exchange of experiences on best practices and problem-solving.

More knowledge should be acquired on the relationship between financial participation and other participation practices (direct participation, representative or indirect participation, and collective bargaining).

Research priorities

Table 19 lists the areas and focus of research to date and makes suggestions for future topics of research.

Focus of research

Since research typically follows societal attention, most research on financial participation has been done in countries where there is a deliberate policy and where active actors are dealing with the matter (*see Table 19*). Thus, there has been an overemphasis on experiences and research results from the USA and UK, with some input from France, Germany and, most recently, Italy. The focus of most of this research has been on existing schemes, with only minor research on diffusion patterns (population ecologist viewpoint). Any international comparative participation research has generally focused on the importance of differences in industrial relations, while corporate governance differences and differences in capital markets are important areas for attention.

The research to date has generally dealt with hard structural factors. Only recently has the focus shifted towards business cultural factors (Winther, 1995, 1999). Similarly, the contents of schemes and their impacts have received much attention, while research needs to be conducted on process and implementation problems. Another area which has been well studied is that dealing with the advantages and objectives of companies, while understanding of the disadvantages and solutions is limited. Finally, most research has focused on specific schemes (often country-specific). More research is needed on the comparison of different schemes and combinations of schemes, as well as the difference in participation between categories of employees.

Table 19 *Research priorities*

Topics already researched	Topics for future research
Research focus	
Experiences in USA, UK, France, Germany and Italy	Other European States
Industrial relations differences	Corporate governance differences
Financial participation	Differentiation between schemes
Existence of schemes	Diffusion patterns
Structural factors	Business cultural factors
Impacts of profit-sharing and ESOPs	Impacts of other financial participation plans
Content and impacts	Process and implementation problems
Advantages	Disadvantages and solutions
Objectives in companies with financial participation	Reasons for not putting financial participation into practice
Large public quoted companies	Small closely held family businesses
Determinant factors	
Determinants of the use of financial participation schemes by companies (company characteristics)	Determinants of employee participation and choices made (employee variables)
Structural on company level	Social structure and work-related characteristics
Employees' attitude and some indicators of behaviour	Employees' opinions and determinants of their choices
Trade unions' attitudes (negative) and determinant factors	Employee representatives' opinions and determinants of their choices
Management objectives	Other stakeholders' attitudes and opinions
Relationships	
Relationship with economic and financial performance	Relationship with organisational performance and industrial relations performance
Relationship with job satisfaction	Relationship with extrinsic commitment and other intrinsic commitments
Relationship with external factors determining impacts	Relationship with the other pillars of participation; interactive effects
Relationship with general human resource management strategies	Interaction with other human resource management instruments
Research strategies	
Cross sectional; state of the art	Longitudinal; dynamics of financial participation
Surveys	Case-studies Action-oriented research
Partial relationships	Integrated model testing

Thus, to summarise, there is a need for research to focus on:
- corporate governance differences;
- business cultural factors;
- attitude of companies towards the phenomenon, diffusion patterns;
- succession problems of small business owners and family businesses;
- process and implementation problems, and solutions to existing problems; and
- differentiation between plans and their impacts.

Determinant factors

Much research has been done on the characteristics of companies that use financial participation schemes, but little is known about companies that have no schemes. (Chapter 3 shows some of these contingencies.) Also, employee variables on a lower than company level need more attention.

Knowledge is limited on the determinant factors stemming from task structures, social structure, employee relations, and work-related variables. Similarly, little is known about the opinions of employees on different schemes and the factors that determine their decision to participate. Finally, there is limited knowledge on the attitudes and behaviour of trade unions and employee representatives, and their assessment of schemes in their companies.

The following dimensions seem to be most important for the research of practices:

- coverage of participation schemes, whether broad-based or only eligible for certain categories of personnel;
- dependency on the effort made by employees and the reflection of this in the performance of the company, referring to the impact of direct participation as a likely spin-off or as an adjacent organisational mechanism of share ownership;
- the influence of trade unions, collective bargaining and other representative institutions on whether schemes are negotiated and agreed with employee representatives.

Thus, to summarise, there is a need for research to focus on:

- employee participation and choices made, for example, through a EU-wide survey of individuals about employee share ownership, profit-sharing and participation;
- social structure and work-related characteristics, for example, the differences between categories of personnel; between broad-based schemes and executives' plans; between team-based workplaces and conventional workplaces;
- responses and experiences of trade unions and employee representatives with different types of scheme in different settings; and
- other stakeholders' attitudes and opinions about financial participation.

Relationships

Most research seems to have concentrated on the impact on improved financial and economic performance. Blasi *et al* (1999) question this preoccupation. They state that it is unfair to raise the simplistic question of better performance, while to prove it implies an elaborate and complex research design that will probably never be realised. They go on to state that research has shown that employee ownership companies have, at the minimum, the same financial performance as non-employee ownership companies. Thus, research should not focus on the simple question of better performance. Blasi *et al* also suggest a distinction between ‘push and pull’ employee ownership, where ‘push’ refers to employee ownership starting the business and developing the intended objectives, while ‘pull’ refers to employee ownership that is pulled along with the company’s performance but does not create it. This valuable difference has an impact on research design and focus.

Little research has been done on the relationships between financial participation, organisational performance and industrial and employee relations. Where research exists, the focus has been mainly on job satisfaction. Little is known about other variables. In general, more knowledge is needed on employee choices and how financial participation has influenced behaviour.

As mentioned for determinant factors (*above*), the relationships with external factors have received more attention than the theoretical proposition of the interaction between the pillars of participation and the subsequent human resource management (HRM) instruments. The limited research that does exist suggests that this may entail the key factors for reaching the stated expectations. Thus, the possible relationship with HRM strategies needs more attention. Further research needs to move beyond measuring financial participation, non-financial forms of participation, company performance and the presumption that a direct connection can either be established or otherwise. Fruitful areas of research would be in the direction of measuring a wide variety of elements of the employer-employee relationship, the culture and competitive strategy of companies and the high-performance workplace (Becker and Huselid, 1998).

Thus, to summarise, there is a need for research to focus on the relationship between different financial participation schemes and the following:

- organisational performance (employee involvement and flexibility);
- industrial relations performance (conflict and levels of absenteeism, recognition of employee influence);
- levels of intrinsic and extrinsic commitment;
- the other pillars of participation (direct participation, representative or indirect participation, and collective bargaining) and their interactive effects on performance (the high-performance workplace); and
- other human resource management instruments (compensation, appraisal, competence development, recruitment and selection) and their interactive effects on performance.

Research strategies

Research covering the dynamics of financial participation is needed, which is, of course, more complex to develop. But it should be noted that most research does not test integrated models, which is important for a fuller understanding. Testing partial associations and correlations presents an incomplete picture. Testing relationships is dependent on the availability of reliable and valid data. It may be difficult to acquire data on some of the suggested research topics in Table 19, which could explain why the focus to date has been on certain topics.

More empirical evidence is needed to identify the relationships of financial participation and their impacts, with a focus on the salient organisational mechanisms that help to explain the phenomenon. The following point of view could be helpful in this connection.

Introduction and sustaining financial participation schemes, and developing and enhancing their positive and desired objectives, is a matter of social construction in which the interests, perceptions and interpretations of those who define the schemes play a significant role. When the social dimension of these schemes is made the focus of study, it becomes obvious that the process of financial participation and its effects is socially controlled and subject to social influences. From this point of view, the process of financial participation is not simply a matter of procedures and measuring facts, but also of discussing, interpreting, negotiating and, perhaps, even awakening a demand for financial participation. It is clear from the summary of research to date that data is only partial and has not yet revealed these processes. There is a need, most likely, for different approaches in order to develop greater insight.

Empirical research strategies on financial participation can roughly be divided into:

- surveys to test expected determinants of financial participation schemes and expected relationships for a large group (surveys have had the most attention to date);
- longitudinal panel research for the relationships with several performance indicators;
- case studies to deepen understanding of the important relationships of financial participation with other selected topics (for example, the other pillars of participation), how it eventually effects the desired results and what problems might interfere with the desired results; and
- more action-oriented research to deepen understanding of best practices and bench-marking.

The survey and panel approaches could be used to cover the determinant factors and relationships mentioned above. Policy orientation requests could discover the diffusion patterns of different schemes, based on the most important determining factors. Survey and panel research could also focus on objectives and impacts, such as the views and responsiveness of employees and trade union representatives.

The strategies of case studies and action-oriented research could gain insight into the following areas:

- interests of actors involved;
- relationships with other participative mechanisms;
- process of implementation;
- problem-solving;
- organisational mechanisms and human resource practices that helped to reach objectives;
- eventual impacts of schemes; and
- ways in which processes are embedded in prevailing business regimes.

For policy purposes at EU level, the main case study research strategy could be focused on an exchange of experiences between Member States.

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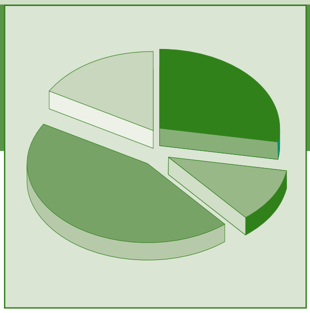

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