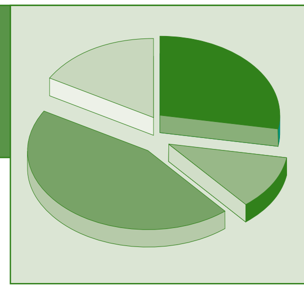

Employee share ownership and profit-sharing in the European Union

EUROPEAN FOUNDATION
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Employee share ownership and profit-sharing in the European Union

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Foreword

As a policy issue for the European Union, financial participation has grown in importance during the past ten years. An important landmark was the passing of a Council Recommendation concerning the ‘promotion of employee participation in profits and enterprise results’, known as the PEPPER report, in 1992. This recommendation called on Member States to ensure that national legislation did not inhibit the use of financial participation arrangements in enterprises and to consider the use of fiscal incentives to promote its dissemination. Since then progress among the Member States in following the recommendation has been uneven, but by the end of the 1990s several countries had introduced new legislation and fiscal incentives, while in other countries debates have been initiated between the social partners.

There is a long tradition of academic research into the nature, causes and consequences of financial participation, but until recently this tended to be at national level rather than at European level. The purpose of this report is to fill this knowledge gap by examining the nature of financial participation across 14 of the EU Member States. The study was commissioned by the European Foundation for the Improvement of Living and Working Conditions within the context of the growing debate about profit-sharing and, in particular, employee share ownership. It is also relevant to the commitment in the European Commission’s *Social Policy Agenda, 2000 to 2005* to ‘launch a communication and action plan on the financial participation of workers’.

This report follows on from the joint publication, by the European Commission and the Foundation, of a comparative overview on the nature and extent of financial participation in the EU. This first report is based on a review of available research findings and publications on the topic, as well as on interviews with national experts in financial participation arrangements and their impact on other forms of employee involvement through direct participation, representative participation and collective bargaining.

This report is complementary to the first report in that its main objective has been to identify the characteristics of business organisations utilising profit-sharing and/or employee share ownership and to determine the extent to which these differ between the Member States studied. The data source is a unique multi-country dataset on human resource management practices, known as Cranet. The Cranet research project is co-ordinated by the Cranfield School of Management, UK, and the data has been collected by academic teams in each of the countries included in the study. Although the Cranet data was not primarily designed to investigate the incidence and characteristics of financial participation, the inclusion of questions on this topic makes it an excellent source of comparative information.

We are confident that this report will further contribute to the debate on financial participation by providing, for the first time, empirical data on the situation in the Member States and also on the relationship between the forms of financial participation and other arrangements and policies in the employment relationship in European enterprises.

Raymond-Pierre Bodin
Director

Eric Verborgh
Deputy Director

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Cranfield School of Management was commissioned by the European Foundation for the Improvement of Living and Working Conditions to analyse the relevant data on financial participation in the Cranet dataset and to prepare this report. Dr. Jos van Ommeren of Cranfield University oversaw the statistical analyses that form the basis of the report's findings. Professor Andrew Pendleton and Dr. Erik Poutsma provided expert advice on financial participation and the interpretation of the findings from the analyses. Professor Chris Brewster was responsible for the co-ordination of the overall project and the final editing of the report.

The authors are grateful to Hubert Krieger and Kevin P. O'Kelly of the Foundation for their support and guidance throughout this project. They also wish to thank the individual Cranet teams who collected data in their respective countries (a full list of Cranet countries is provided in the Appendix). They are also grateful to Karen Taswell of the ILO's Bureau of Statistics for supplying information on national union density rates. Finally, they would like to thank Kim Fitzgerald at Cranfield, who co-ordinated the teams from the different universities and organised the final report.

Contents

Chapter 1 Introduction

This is a report of an investigation into the incidence and characteristics of financial participation schemes across Members States of the European Union. The concept of financial participation involves employees being given the opportunity to participate in the financial results of their company. This may take the form of a share in the company's profits, over and above the normal remuneration paid, or a share in the company's ownership. There are many variants of these two forms of financial participation — profit-sharing and employee share ownership — depending on specific national institutions and practices, but one or both provide the core of all such schemes.

The significance of this form of employee participation is that it provides employees with access to rewards in excess of the typical returns from employment. Furthermore, it directly aligns employee benefits with the performance of the company. For these reasons, financial participation has been seen by many observers as a tool for transforming the employment relationship. It is argued that employees who participate in the financial results and ownership of an enterprise will become more committed to the goals of that enterprise, leading to improvements in individual and organisational performance. At a wider societal level, financial participation may be seen as a tool for redistribution of income and wealth, and may therefore serve as a broader instrument for social integration.

Background

Initiatives to extend employee financial participation were among the most significant developments in human resource management during the 1990s. The Council of Ministers of the European Union passed a Council Recommendation in 1992 calling on Member States to promote the use of financial participation by employees. This recommendation urged Member

States to ensure that national legal structures did not inhibit the use of financial participation and to consider the introduction of fiscal incentives (European Council, 1992).

The 1992 Recommendation was based on the PEPPER Report (1991), the acronym standing for ‘Promotion of Employee Participation in Profits and Enterprise Results’, including equity. The report summarised the incidence, characteristics and effects of profit-sharing and employee share ownership in the EU and found there to be a great divergence between Member States. In some countries, notably the UK and France, financial participation was widespread and supported by extensive and long-standing legislation, while in other countries financial participation schemes were rare.

During the 1990s, there was growing interest and use of financial participation in virtually all EU Member States. New legislation was passed in countries such as Germany, Ireland and the Netherlands. Active debates have been taking place recently about the merits of employee share ownership, particularly in Belgium, France and Germany. The governments of Spain and Italy have called on the social partners to implement financial participation schemes (Poutsma, 2001). Besides the stimulus of legislation and fiscal supports, capital market liberalisation and changes to corporate governance systems in some Member States have generated interest in employee share ownership schemes. The contingent characteristics of financial participation (namely, rewards are linked to company performance) have also been attractive where flexibility and speedy adjustments by companies to market conditions have been of paramount importance. The decentralisation of pay determination, which has occurred in many Member States over the last ten years, has also been supportive of the use of financial participation. Indeed, in some cases such as Italy, the two have been directly linked.

The current level of interest in financial participation in Europe generates an acute need for accurate, practical and comparative information on the subject. Although there has been a long tradition of research into the causes, characteristics and effects of profit-sharing and employee share ownership, much of this research has taken place in the USA. This reflects the considerable interest there in employee share ownership plans (ESOPs) since the mid-1970s (Blasi, 1988; Blasi and Kruse, 1991; Blasi *et al*, 1996; Blinder, 1990; Cheadle, 1989; Kruse, 1993 and 1996).

Since the late 1980s, there have been a number of important research studies carried out in Europe, mainly based on data from individual countries (Fitzroy and Kraft, 1987; Whadhwani and Wall, 1990; Wilson and Peel, 1991). But the current wave of interest suggests the desirability of comparative studies. The 1990s saw a number of useful and important reports. For example, Vaughan-Whitehead (1995) brought together information on several European countries, as did a report commissioned for the Organisation for Economic Co-operation and Development (OECD, 1995). An updated version of the 1991 PEPPER Report was produced by the European Commission in 1996 and summarised the legislative and fiscal practices across the EU, as well as attempting to quantify the use of financial participation (PEPPER II, 1996). Poutsma (2001) has further updated the PEPPER II information in a report for the European Foundation for the Improvement of Living and Working Conditions. Meanwhile, a group of researchers in France, Germany, Italy and the UK (supported by the European Commission Human Capital and Mobility Programme) has attempted to identify and evaluate the use and effects of profit-sharing in these countries (Pendleton and Pérotin, 2001). In addition, data from the Foundation's 1996 EPOC survey (Employee Participation in Organisational Change) has been used to investigate the characteristics of companies using financial participation in 10 Member States (Poutsma and Huijgen, 1999).

The present study, based on Cranet-E surveys, develops the emerging focus on comparative European research into profit-sharing and employee share ownership by drawing on data from 14 Member States (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the United Kingdom). This is the widest geographical scope of any empirical study conducted to date, with all regions of the EU fully represented in the report. It is thus the most comprehensive inquiry yet into the structural, human resource management and participation characteristics of European business organisations involved in financial participation.

The data used has been collected as part of the Cranet project (Cranfield Network on European Human Resource Management). This is a network of academic researchers covering 22 countries in Europe, including 14 of the EU Member States, as well as 12 other countries around the world. Each country team has simultaneously conducted surveys of human resource management practices in 1992, 1995, and 1999/2000. These surveys were not specifically concerned with financial participation, but on each occasion one or more questions on profit-sharing and employee share ownership were included in the survey instrument.

The present report investigates the associations in the data between the presence of profit-sharing and/or employee share ownership, and the structural, human resource management and participation characteristics of business organisations. In so doing, we attempt to discern any systematic differences between companies with and without financial participation. We draw mainly on data from the 1999/2000 survey, but also utilise data from 1992 and 1995 to indicate the growth in incidence of financial participation.

Structure of the report

Chapter 2 considers the dimensions of financial participation and outlines the key characteristics of its two main forms — profit-sharing and employee share ownership. The conceptual similarities and differences between these two forms of financial participation are examined and the critical distinction made between broad-based coverage of all employees and narrow-based coverage of selected employees. Key research questions underlying this study are explored, with a summary of current research and knowledge on each, and a set of propositions is posed, forming the basis for discussion in subsequent chapters.

Chapter 3 provides information on the data source (the Cranet survey) and the nature of the data, together with an explanation on how key variables are dealt with in the report.

Chapter 4 presents results on the incidence of the two main forms of financial participation, broken down into broad- and narrow-based schemes. The overall incidence of schemes in Europe is presented, followed by an analysis of the differences between countries. The development of financial participation during the 1990s is also considered, with reference to data from the 1992 and 1995 Cranet surveys.

Chapter 5 considers the structural characteristics of business units using financial participation. The distribution of profit-sharing and employee share ownership schemes is analysed by size, stock market listing, sector, foreign ownership, company age and composition of workforce, culminating in a profile of the characteristics of business units with each of the main forms of financial participation. Finally, the relative importance of structural and national characteristics in the usage of financial participation is examined.

Chapter 6 explores the relationships between financial participation and other forms of employee participation and representation. Findings are presented on the relationship of financial participation with employee communications procedures, the provision of information to employees, the presence of unions and representative institutions, and the locus of pay determination.

Chapter 7 considers the relationships between financial participation and other instruments of human resource management, with particular focus on HR strategy and policy, appraisal systems, and training and development.

Chapter 8 concludes the analysis by presenting a summary of the determinants of broad-based and narrow-based financial participation schemes, together with profiles of typical business units that use them.

Summary of findings

Arising out of this study, the following are a number of findings which have implications for policy on the promotion and dissemination of financial participation within the EU:

1. The UK and the Netherlands (45% each) have the greatest proportion of business units with narrow-based and broad-based share ownership schemes, with France (41%) close behind. France (87%) has, by far, the greatest proportion of business units which have introduced narrow-based and broad-based profit-sharing schemes. Consequently, France is the country where financial participation is most prevalent. On the whole, there was an increase in the use of schemes in a growing number of countries across the EU during the 1990s. However, there are still large differences in the degree of diffusion. *There is a need to avoid this gap growing further between Member States with high levels of use and diffusion of schemes and those with lower levels and slower diffusion of schemes.*
2. Supportive legislation and tax concessions are important to encourage the introduction of broad-based schemes. On the whole, the higher the incidence of financial participation schemes in a country, the higher the tendency for schemes to be broad-based. In about half of the business units with share schemes, the schemes tend to be broad-based and in about two-

thirds of business units with profit-sharing schemes, they also tend to be broad-based. The opening up of capital markets in many Member States has provided an opportunity to develop employee share ownership schemes. *Therefore, there is an increasing need to promote a greater understanding of financial participation in those Member States with less diffusion and less supportive policies.*

3. There is a link between broad-based schemes and a high density of trade union membership. In fact, there is no evidence that any form of financial participation weakens the representative role of trade unions or works councils within an enterprise. *The research supports the experience that involvement of the social partners tends to make schemes less selective and to broaden the eligibility of financial participation schemes to all employees.*

4. There is a relationship between financial participation arrangements and other forms of employee participation (direct and/or representative) — enterprises that have financial participation are more likely to also have other participation and communications arrangements in place. *This supports research findings that financial participation works best when it is integrated with other participative, information and consultation arrangements, for example, in supporting 'high performance' work organisations.*

5. Size and ownership are key variables — the smaller the enterprise, the less likely it is to have any form of financial participation. Also, family-owned or 'closely held' enterprises do not, generally, have financial participation schemes. This reflects other research results that small companies face more difficulties and barriers to implementing these schemes. *There is a need to identify these barriers and concerns regarding the implementation of participation schemes for small and medium-sized enterprises.*

6. Sector is also important. Broad-based schemes are found to a greater extent in business services and, in particular, in finance. In all other sectors, narrow-based schemes are marginally more common. *It is important, therefore, for any policy initiatives to focus on those sectors where broad-based schemes are weakest.*

7. The level of qualifications of employees is also a key factor. Broad-based schemes tend to be found in companies with a higher qualified workforce in business services. This reflects two determinant factors: first, there is a greater knowledge in the business services sector about financial arrangements and, second, the higher incidence of knowledge among professionals in this sector makes it necessary for enterprises to develop financial participation schemes in order to bind personnel to their company. *There is a need to identify 'good practice' arrangements of financial participation and to disseminate these to other sectors and occupations.*

8. Enterprises that have a written human resource management (HRM) strategy also tend to have broad-based financial participation arrangements. Furthermore, there is a positive link between broad-based schemes and such HRM policies as investment in training and development. This supports the idea that investment in human capital tends to be protected by financial participation, to the benefit of a positive longer term employment relationship. *There is thus a growing need for a more integrated management of human resources, including that of financial participation arrangements.*

Chapter 2

Theories and concepts of financial participation

Instruments of financial participation

Financial participation is participation of employees in profits and enterprise results. It is a form of remuneration additional to an employee's wage or salary. It is usually seen in two main forms: profit-sharing or employee share ownership. Whichever form it takes, it may be provided as an *additional incentive* to generate greater short-term effort than is explicitly or implicitly stipulated in the employment contract. Or it may be introduced to generate greater *long-term identification* or loyalty between the employee and the company. Alternatively, financial participation may be viewed as *a right*: some would argue that employees should have the right to enjoy at least some of the surplus value created from their labour, over and above the price paid to secure this labour.

Whatever the motives for introducing financial participation, its significance resides in the fact that it treats labour as something more than a 'mere' factor of production. Even where it is used by managers mainly as an incentive device (to improve the efficiency of this factor of production), it nevertheless provides benefits to labour which 'normally' accrue to capital — by diverting surpluses from owners to employees. In the case of share ownership schemes, financial participation goes further — by transforming employees into owners, or at least partial owners, of the company.[1] Financial participation, therefore, may not simply be another form of remuneration, but an instrument for bringing about *partnership* of employees and their companies. How far these schemes function as an instrument for social partnership is a key question.

1 In the case of listed companies, it is debatable whether stock ownership gives ownership of the company. Instead, it gives ownership of shares to which are normally attached some limited control rights (in the case of voting shares) and an expectation that a dividend will be paid out of profits.

Profit-sharing

To use the words in the PEPPER II Report (1996), profit-sharing 'implies the sharing of profits by providers of both capital and labour by giving employees, in addition to the fixed wage, a variable part of income directly linked to profits or some other measure of enterprise results'. This bonus would normally accrue to capital as a dividend rather than to labour. Whilst in some circumstances, such as professional partnerships, profit-sharing bonuses may be ad hoc, the presence of a profit-sharing scheme for employees is usually taken to mean that there is a system for regular payments and that bonuses are paid in accordance with some predefined formula.

Profit-sharing can take a number of forms: it can be paid in cash, shares or bonds. Alternatively, profit-sharing bonuses may be invested in company savings schemes (which may invest in the employer's stock). Usually, where shares are paid in some form other than cash, there is a minimum retention period. So far, profit-sharing has been most widely developed in France, where it is obligatory for companies with over 50 employees. The French have two main forms of profit-sharing in use. *Participation*, which is compulsory, requires companies to establish a deferred profit-sharing fund (RSP): on the basis of a legal formula, funds are transferred into the RSP and must be held there for at least 3 years. The other scheme is *Intéressement*, which is voluntary: employees are exempt from income tax on profit share payments in this scheme if they are held in a company savings plan (*plan d'épargne d'entreprise*) for 5 years. Since 1994, profit share bonuses can be taken as time off work, using a time savings account or *compte d'épargne temps* (Fakhfakh and Mabile, 2001; Poutsma, 200l).

Government support for profit-sharing may take the form of legislation, which gives schemes a specific legal identity, and tax concessions to the employee and employer. Usually, the tax concessions to the employee take the form of some exemption from income tax and social security contributions, while the employer may benefit from social security exemptions and a company tax deduction for the money paid as a profit share (in the same way that base wages are treated as a company tax offset). On the whole, tax concessions are not given to cash bonus schemes because they could encourage 'cosmetic' schemes and tax avoidance. An exception was the profit-related pay (PRP) scheme in the UK, where substantial tax concessions were available for the portion of wages classified as profit-related. However, the tax concessions have recently been withdrawn from this scheme, precisely because in many cases the profit share component of wages was entirely artificial (Pendleton *et al*, 2001).

Employee share ownership

Employee share ownership provides for participation in ownership. As a result of share ownership, employees may benefit from the receipt of dividends or the capital gains that accrue to company equity, or a combination of both (PEPPER II, 1996). Whilst share ownership schemes are not necessarily financed out of company profits, they are related to company profitability in that growth in market value of the shares will be a function of profits and performance (at least in part). The size of dividend payments will also be based on company profit performance (although other factors may enter into this).

Employees may acquire shares in one of three main ways: by direct purchase of shares (possibly on favourable terms), by taking out options to buy shares at some point in the future or by transfers financed by company profits (and typically using an employee trust). Shares may take the form of ordinary share capital of the company or a special class of employee shares (such as preference shares, with a prespecified level of interest payments).

The role of government support for share ownership is similar to that for profit-sharing. By legislating schemes, it gives them a distinct legal entity and provides a clear framework for company decisions and actions. It delineates what is possible for companies without attracting sanctions from regulatory, legal and taxation authorities. Tax concessions are usually mainly directed at employees rather than companies and take the form of exemptions from income tax on share acquisition as a benefit from employment. However, tax concessions are not usually available on dividend payments. It is common for the employee's taxation liability to take the form of capital gains tax (CGT) liability on the growth in share value over time (which may be offset by CGT allowances). If the costs of financing share ownership schemes, especially those of options, are put into the profit and loss account, corporation tax deductions may be available to the company. However, where they are recorded as a balance sheet item, share schemes per se do not usually attract tax concessions for the company.

Differences between profit-sharing and employee share ownership

The differences between profit-sharing and employee share ownership reside in several *dimensions* related to:

- the liquidity of 'payments' (cash *versus* shares);
- the timescale of the reward (current *versus* future benefit);
- the immediacy of the link to profits (direct *versus* indirect); and
- the fact that profit-sharing is 'backward-looking', based on company performance in the current or preceding period, whereas share ownership schemes are 'forward-looking', potentially derived from future performance (linked to changes in share value).

These differences are summarised in Table 1. It should be emphasized that 'ideal type' characteristics of each scheme are given. In practice, financial participation schemes may embrace features of both types of scheme; for example, share acquisition schemes resourced by profit-sharing schemes are quite common.

Given the differences between the two types of financial participation, the reasons for introducing such schemes are often rather different. Research studies have shown that, typically, all of the following motives are present in the introduction of financial participation schemes, but their relative importance differs between the two main types of scheme (Poole, 1989).

- The direct and immediate characteristics of *profit-sharing* schemes mean that they may be seen as a useful incentive and reinforcement device. The possibility of receiving additional rewards contingent upon current performance may be an incentive to perform well; in addition, where payments are made in recognition of high levels of past or current performance, this may also act to reinforce appropriate behaviours among employees.

- In contrast, the less direct features of *share ownership* schemes (coupled with access to ownership of the company) result in their being viewed in many instances as more diffuse instruments to build employee commitment and identification with the company.

Table 1 Summary of differences between profit-sharing and employee share ownership

Dimension	**Profit-sharing**	**Employee share ownership**
Liquidity of benefit	Cash. Highly liquid.	Shares. Liquidity depends on presence of equity markets.
Immediacy of benefit (i.e. when employee can use it)	Immediate where profit share paid in cash, except where paid into company savings scheme.	Deferred in most schemes (especially schemes where shares acquired at a future date).
Link to profits	Direct link. Profit share usually directly linked to level or growth in profits.	Indirect link. Value of reward mainly linked to potential growth in share value, which is contingently related to profitability.
Link to performance period	Based on company performance in the most recent or current financial year.	Company performance *after* receipt of shares or grant of options usually most important for value of reward.
Motives for use	Features listed above mean that profit-sharing may be used primarily to provide incentives and/or to reward good performance.	Features listed above mean that share schemes may be used to generate commitment and alignment of interests in the future.
Accounting treatment	Treated as a wages item (though tax/social insurance exemptions may be available). Entered onto profit and loss account.	Separate from wages and salaries. A balance sheet item. ‘Losses’ to company from gains in value of options or discounts on share acquisition not usually recorded on profit and loss account.
Tax treatment	As wages item, subject to income tax and social insurance charges, although exemptions or reductions (for employee and employer) may be granted by statute. Company tax offset usually available to company.	As balance sheet item, share schemes per se do not attract tax concessions for the company (although direct financial support to employees to acquire shares may attract concessions). Employees usually liable to capital gains tax, not income tax, where schemes have statutory basis.
Employee risk	Risk that future payments may fluctuate in value.	Risk that current share holdings/options may fluctuate in value.

There is a more fundamental difference in that profit-sharing, as a form of wages, occurs within the ‘employment channel’ of the company and may be defined in the employment contract. Share ownership occurs in the ‘ownership channel’ of the company and is distinct from remuneration arising from employment. Employee equity schemes provide for (partial) ownership of the company, whereas profit-sharing per se does not. In accounting terms, profit-sharing is a profit and loss account phenomenon, whereas share ownership relates to the company balance sheet.[2]

[2] There is currently a debate in the UK accounting profession as to whether the ‘true cost’ of share options (i.e. the loss incurred by selling shares at past rather than present prices) should be entered onto the profit and loss account.

There is also a fundamentally different level of risk between the two schemes. In the case of profit-sharing, cash bonus payments, once made, are not subject to changes in value. In so far as profit-sharing transfers risk to employees, the risk is that future total remuneration may fluctuate. By contrast, current ‘payments’ of shares to employees may decline in value. For this reason, some people are opposed to employee share ownership schemes on the basis that they encourage employees who would not otherwise purchase equities to invest in just one stock; this is not a sound investment strategy since the absence of portfolio diversification concentrates risk. Indeed, some argue that since employees may be said to invest their human capital in their employing company, the acquisition of shares in that company could be said to double the risk.

These differences between the two forms of financial participation may lead to significant differences in the relationship between financial participation and other forms of employee participation. Since profit-sharing occurs within the employment channel, the size, frequency and distribution of profit-based payments may be subject to the same processes of pay determination as ‘base’ salaries. Where base pay is determined by collective bargaining between companies and unions, the concern of unions to influence the level of total remuneration may lead to profit-sharing being incorporated in collective bargaining agendas. Equally, the attraction of profit-sharing to companies may be that it side-steps prevailing methods of pay determination. For example, where pay rates are determined in sectoral or national institutions, profit-sharing may give some autonomy to companies to set total pay without reference to unions or other forms of employee representation. These issues are considered in more detail later (*see Chapter 6*), but for the moment suffice it to note that profit-sharing seems likely to have some relationship (positive or negative) to prevailing forms of employee representation and participation.

Share ownership, in contrast, occurs separately from employment, although the restriction of these schemes to current employees of the company does provide a bridge to employment. In principle, share ownership is distinct from employee remuneration and hence seems unlikely to be governed by the same forms of employee representation and participation as employment-based remuneration. Thus, we might expect there to be no clear relationship between the presence of share schemes and other forms of employee participation. Whether this is, in fact, the case is a question for empirical investigation. An important novelty of employee share ownership schemes, however, is that they give the participants control rights over and above anything they secure as employees. It is common for such schemes to provide employees with ordinary shares with full voting rights[3] and thus they may be seen to expand the employees’ potential to influence corporate governance. Once again, whether they do so is an empirical issue.

There are strong grounds, then, for viewing profit-sharing and employee share ownership as quite distinct forms of financial participation and they are treated as such in this report. We may expect to discover different relationships with other variables of interest and this should be borne

3 This is often required by legislation to ensure that employees are not provided with shares of less value than the main body of company shares. Given that full ordinary shares are usually tradeable on capital markets, this means that information on the market value of employee shares is clear and readily available.

in mind throughout the analysis. In practice, matters can be more complicated in that the two types of scheme may be conjoined. For example, share acquisition may be financed by profit shares, as in the UK Approved Profit-sharing Scheme (and its successor, the All-Employee Share Ownership Plan). In the Cranet survey, the questionnaire designers attempted to distinguish the two types of scheme in each national context.

Coverage of financial participation

The coverage of the two distinct forms of financial participation is also of great importance. The proportion of the workforce eligible to participate in financial participation schemes varies. In some cases, all groups of employees are eligible to participate (broad-based schemes), while in other cases participation is restricted to certain selected employees (narrow-based schemes), generally, managers and/or senior professional and technical employees.

The distinction between broad- and narrow-based schemes is important for two reasons:

- If participation is restricted to subgroups of the workforce, profit-sharing and employee share ownership may add to, rather than reduce, existing inequalities of income and wealth, and hence it is, at the least, questionable whether financial participation is a desirable policy goal.
- It is possible that very different motives may lie behind the introduction of broad- and narrow-based schemes. Whereas broad-based schemes might be introduced to enhance employee identification with the company, narrow-based schemes might be targeted on improving managerial performance.

It seems possible that there will be differences between the kinds of company that are attracted to broad- and narrow-based financial participation schemes, although it is not readily predictable what these differences might be. Furthermore, country differences may be observed. It is possible that the presence of legislation to promote all-employee financial participation will encourage broad-based schemes at the expense of narrow-based ones.

In this report, therefore, the two dimensions of financial participation are examined (profit-sharing/employee share ownership, and broad-/narrow-based schemes), giving us 4 types of financial participation to investigate: narrow-based profit-sharing, broad-based profit-sharing, narrow-based employee share schemes, and broad-based employee share schemes.

Research questions

The most common, and arguably most fundamental, explanation for the use of profit-sharing and employee share ownership is to provide an incentive for employees to work harder and to co-operate with each other, by aligning individual and enterprise goals. Changes in personal performance, induced by the promise of additional rewards, may give rise to collective improvements in performance, as measured by productivity or profitability.

There have been several studies on the performance of companies with financial participation (Bhargava, 1994; Blasi *et al*, 1996; Conte and Svejnar, 1990; Doucouliagos, 1995; General Accounting Office, 1986; Kruse, 1993; Pérotin and Robinson, 1998; Weitzman and Kruse, 1990; Whadhwani and Wall, 1990). However, it is not possible to consider whether financial participation leads to better performance since the data used is cross-sectional in character. A further caveat is that the performance measures are subjective evaluations of performance by respondents rather than objective financial and economic measures of performance. We will, therefore, limit our focus to the determinant factors for the existence of financial participation schemes and the relationships with several structural characteristics.

There are some key questions about financial participation that have been generated by academic research and the concerns of governments and the social partners. These questions are examined below and in subsequent chapters of this report.

Incidence of financial participation

Among the key questions to be asked here are:

- What is the incidence of financial participation schemes in EU Member States?
- In which countries is financial participation most widespread?
- Do countries with a high level of one form of financial participation (such as profit-sharing) have a correspondingly high level of the other main form (employee share ownership)?
- Is government legislation and the availability of fiscal benefits associated with the overall distribution of financial participation schemes?
- Has the incidence of financial participation grown since the early 1990s?
- Are there country differences in such growth and what are the influences on this?

There is a long tradition of research into financial participation, but most analyses have investigated its incidence within specific country contexts. However, there is increasing interest in the comparative incidence of profit-sharing and employee share ownership. For example, the IPSE team conducted a set of studies on profit-sharing in France, Germany, Italy, and the UK[4], while other studies were reported by Festing *et al* (1999), Poutsma and Huijgen (1999) and Poutsma *et al* (1999) in a special issue of *Economic and Industrial Democracy*. Most of this attention focuses on Europe as a result of initiatives taken by the European Commission, and more recently by the European Parliament, to promote the use of financial participation in EU Member States. The incidence and characteristics of financial participation in Europe have been reported in the two PEPPER reports (1991 and 1996) and by Poutsma (2001).

The literature reveals two important findings. Firstly, there are pronounced differences in the incidence of financial participation schemes; the UK and France, for example, have a relatively

4 This set of studies was financially supported by the European Commission through the Human Capital and Mobility Programme. The results are reported in IPSE (1997), Pendleton and Pérotin (2001) and in numerous papers by members of the country teams (Biagioli, 1995; Biagioli and Curatolo, 1997; Carstensen *et al*, 1995; Del Boca and Cupaiuolo, 1998; Del Boca and Ichino, 1993; Pérotin and Fakhfakh, 1993; Mabile, 1998; Pérotin and Robinson, 1998).

high incidence of financial participation, whereas countries such as Spain and Portugal have a low incidence. Secondly, there appears to have been growth in the incidence of schemes in virtually all Member States during the 1990s, admittedly from a very low base in some cases.

A key question for our research concerns the incidence of financial participation schemes and the reasons for this. It has been widely observed that government legislation on financial participation together with the availability of tax concessions are key determinants of national differences in the incidence of schemes (PEPPER Report, 1991). Hence, financial participation is most widely diffused in countries such as the Netherlands, France and UK, where governmental support has been greatest.[5] Thus, in this research we identify differences in the incidence of profit-sharing and share ownership schemes between countries and explore whether the presence of supportive government legislation explains these differences.

We are able to refine this analysis by considering profit-sharing and employee share ownership schemes separately. It may be that a high incidence of profit-sharing co-exists with a low usage of share ownership schemes. Alternatively, the use of one type of scheme may encourage use of the other. We can investigate the effects of the presence of supportive legislation and tax concessions for each type of scheme separately.

Finally, we are able to draw on data from two other points during the 1990s and hence are able to provide a picture of the development of financial participation during the decade. It is expected that the incidence of financial participation will have increased in all countries, although the rate of growth is likely to be uneven. There are several reasons for this. One is the introduction of supportive legislation/tax concessions, or at least the verbal support given to financial participation by governments. The second is the emphasis on wage flexibility that can be observed in many European countries during the 1990s. The third is the perceived need to improve corporate performance and to secure flexibility in the context of intensifying competition in many product markets. Fourth, the opening-up of capital markets in many Member States has provided an opportunity to develop employee share schemes. The development of liquid and open capital markets has also raised anxieties about threats to traditional patterns of corporate control and employee share schemes are sometimes seen as a defence against these threats. (Useem and Gager (1996) argue that share schemes are attractive to managers in US corporations because they provide constraints on the possibility of take-overs.)

Types of financial participation

Among the key questions to be asked here are:

- To what extent are financial participation schemes broad-based (for the benefit of all or most employees) or narrow-based (for the reward of selected groups of employees, such as managers and higher paid staff)?
- Are there country differences in the balance of broad- and narrow-based schemes?
- Does the presence of legislation have any effect on this balance?

[5] It has been argued in relation to the USA that the impact of tax concessions is overstated, at least for employee share schemes. The corporation tax offset for company contributions to share schemes is equally available for wage payments through the wage bill (Blasi *et al*, 1999).

A key issue for policy-makers, managers and trade unions is whether financial participation has a broad coverage of all or most employees, or is highly selective in its coverage. Some observers are critical of selective, narrow-based schemes in that they contribute to the growth, rather than the reduction, of inequalities in income and wealth. Indeed, there has been widespread public hostility to such financial participation schemes in some Member States recently. For example, in the UK a public outcry about executive share schemes in the mid-1990s led to significant changes in the tax treatment of narrow-based schemes.

In this study, we are able to identify the coverage of schemes, both by occupation and by workforce proportions, and hence can distinguish narrow-based from broad-based schemes (*see Chapter 3 for methodology*). This analysis is conducted at EU level as a whole and at the level of individual Member States.

We predict that the presence of legislation and/or tax concessions will affect the balance of narrow- and broad-based schemes at country level. Where legislation is not present, we suspect that a higher proportion of schemes will take the narrow-based form. The reasoning for this is that the impetus for using schemes will come from owners who are concerned to align managerial behaviour with their interests or from top managers seeking to provide incentives for their subordinate managers. Broad-based schemes will not be favoured because of the administrative costs of allocating contingent rewards to the workforce at large. In the case of share schemes, shareholders may be hostile because of the potential wealth-diluting effects of employee share ownership. Profit-sharing schemes may be frowned upon because they eat into the surplus, which is normally either retained within the company, invested or paid as dividends.

The presence of legislation and/or tax concessions supporting broad-based schemes seems likely to change the calculus made by managers/owners. We predict not only that the incidence of these schemes will be higher where legislation/tax concessions are present, but also that the proportion of schemes that take a broad-based form will be higher. It should be emphasized, however, that the complexity of national differences in tax concessions and statutory frameworks is such that it is not possible to directly measure these two dimensions comparatively. Instead, we have to use information on fiscal and statutory frameworks in an interpretative manner when we consider national differences.

Companies using financial participation

Among the key questions to be asked here are:

- What kinds of companies tend to use financial participation?
- Are financial participation schemes prevalent in particular industrial sectors; for example, are they more common in the services sector than in manufacturing?
- Does the composition of the workforce (by gender, skills levels, manual/non-manual) have any relationship to the propensity to have profit-sharing and/or employee share ownership schemes?

There is now quite a large literature on the characteristics of companies with financial participation (Cheadle, 1989; Del Boca and Cupaiuolo, 1998; Kruse, 1996; Pendleton, 1997; Pendleton and Pérotin, 2001; Poole, 1989; Poole and Whitfield, 1994; Poutsma and Huijgen, 1999). This literature draws on a range of theoretical approaches, but a common concern is to extrapolate from the characteristics of these companies features which may predispose companies to introduce financial participation.

One issue concerns the *sectoral distribution* of financial participation. Are profit-sharing and employee share ownership schemes more prevalent in some areas of economic activity than in others? There is some evidence from earlier research in the UK that they are most popular in the financial services sector (Poole, 1989). This is not surprising since managers and employees in companies in this sector are likely to be among the most knowledgeable about these schemes and the administrative procedures to operate them are most likely already in place for clients. There is also some recent evidence from the UK, based on data of the Workplace Industrial Relations Survey (WIRS), that share ownership schemes are relatively less common in manufacturing companies (Pendleton, 1997). The reasons for this are not known, but the composition of the workforce and the degree of diversification within manufacturing companies may well be factors. Where a company is a highly diversified conglomerate, a company-wide financial participation scheme may be unattractive because the performance of constituent business units may vary widely and because there is little perceived need for employee knowledge and identification with the ‘head’ company.

Another issue to be examined is whether the use of financial participation has any relationship to the *size of the company*. There is some grounding in economic theory for investigations in this area. In other than the smallest companies and workplaces, information asymmetries about work processes may inhibit management’s capacity to organise work and production most effectively. Problems can be ameliorated if employees are provided with an incentive to share information with other employees and with management. Remuneration based on collective performance provides an incentive for employees to be more interested in the performance of their subordinates and colleagues. The essence of financial participation, therefore, is inducement of changes in behaviour among colleagues, as well as in one’s personal performance.

It is commonly thought that information asymmetries and monitoring become more problematic as the size of a company increases. Therefore, size may be an important predictor of the adoption and use of profit-sharing. Indeed, many studies find a significant positive association between size and financial participation (Festing *et al*, 1999). However, this observation applies most readily to the adoption or presence of share-based schemes and may be explained by the greater likelihood of share capital and provision of administrative resources to operate financial participation in larger companies (Poole, 1989). Cash-based profit share schemes, by contrast, may be more evenly distributed between small and large companies. Two opposing forces may be at work here. On the one hand, monitoring may be seen to be more problematic in larger companies, with sharing possibly a device to counteract this. Equally, the larger the company, the greater the danger of a ‘free-rider’ effect, and this might counterbalance the monitoring objectives associated with collective-based remuneration systems of this type.

Irrespective of the influence of size, information asymmetries and monitoring problems could be more intense in work situations where individual output and performance is hard to measure because of the complexity and interdependence of work tasks (Alchian and Demsetz, 1972; Ben-Ner *et al*, 2000). These features may be observed in advanced manufacturing contexts, some service activities and in creative occupations (Fama, 1991; Pérotin and Fakhfakh, 1993). In these cases, individual incentive payment systems, such as piecework, are not readily applicable. A range of measures may be used to capture these processes, such as the proportions of various groups of staff, the presence of automated technology, the complexity and/or interdependence of work tasks and the proportion of highly educated staff (on the basis that complex tasks will require more highly educated workers).

Another company-specific predictor often considered in the literature is the *age of the company*. It is suggested that profit-sharing and employee share ownership schemes vary in different stages of a company's lifecycle and that the frequency of use is higher in young growing companies (Poole and Jenkins, 1990). This is explained by the need for higher commitment and performance to support the growth and (in the case of share options) by the need for easy available capital while at the same time reducing the possibility of significant increases in labour costs.

Other forms of employee participation

Among the key questions to be asked here are:

- Is there any relationship between the use of financial participation and other forms of employee participation in the company?
- Do companies with profit-sharing and/or employee share ownership also have various forms of direct employee involvement, such as team briefing? An especially pertinent issue concerns the relationship between financial participation and collective, representational forms of participation through trade unions, collective bargaining institutions and works councils.
- Is there any discernible relationship between the use of financial participation and decentralised pay determination?
- Do companies with profit-sharing and/or employee share ownership tend to have higher or lower-than-average levels of union membership?

An important component of the research is the relationship between financial participation and other forms of employee participation. Following Poutsma and Huijgen (1999), three types of employee participation are viewed as important — the trinity or 'three pillars' of indirect or representative participation, direct participation and financial participation.

Using the Cranet data, we examined the two sides of the triangle that include financial participation — namely, the relationship between financial participation and direct participation, and that between financial participation and representative participation (including union-based). The relationship between direct and representative participation has been dealt with in other projects commissioned by the Foundation (Regalia, 1995 and 1996).

Direct participation

Regarding financial participation and direct participation, it is anticipated that the two will tend to co-exist and that there will be a strong positive relationship between the presence of both forms of participation. There are two possible characterisations of this relationship. The first is that both are introduced for similar reasons and hence are conceptually distinct manifestations of the same phenomenon. Poutsma and Huijgen (1999) point out that both tend to be introduced by management, tend to confer limited decision rights and are often aimed at enhancing flexibility, quality and individual performance so as to improve organisational competitiveness.

The second aspect of the relationship is a symbiotic one, whereby each type of participation stimulates use of the other. It has been noted by several authors that shifts in organisations towards more employee co-operation, interaction and responsibility (rather than strongly specialised routine tasks) lead to a higher use of financial participation schemes (Becker, 1993; Fitzroy and Kraft, 1987; Wächter and Koch, 1993). Financial participation and direct employee participation tend to reinforce each other (Jones and Pliskin, 1991; Poole and Jenkins, 1990). Financial participation may be perceived as the reward for becoming more involved in the company and hence may be seen as a pay-off for direct participation (Levine and Tyson, 1990), while involvement in a financial participation scheme may stimulate demand for greater communication and involvement in work decisions.

Representative participation

Relationships between financial participation and representative participation are likely to be complex because the latter is a complex phenomenon. Representative ‘systems’ are often multifaceted (for example, the triple system of representation in France) and differ considerably between Member States. Our capacity to comment on this area is limited for two main reasons. Firstly, the Cranet data source is a cross-sectional survey and hence it is difficult to capture the dynamism of the relationship between financial and representative participation hypothesised in much of the literature. Secondly, as Cranet was not designed to investigate representative participation, data on these issues is limited.

Focusing on trade union membership, there are long-standing arguments that financial participation is antithetical to representative participation. There are well-documented instances, from several countries over the last 150 years, of the use of financial participation to discourage employee participation in unions (Ramsay, 1977). The argument goes that workers who participate in profits and ownership will come to perceive themselves as an integral part of the company, rather than mere factors of production. They will thus come to identify less with workers’ organisations. This is especially acute in the case of employee share ownership because this blurs the fundamental distinction between capital and labour upon which unionisation is based. Furthermore, provision of these additional forms of remuneration will weaken institutions of collective wage determination because part of remuneration will come to be automatically related to company performance rather than to, for example, the cost of living.

To consider the relationship between financial participation and representative participation, we distinguish between profit-sharing and employee share ownership. Although profit-sharing has often been used in the past to discourage trade union membership and activity, there are good reasons for arguing that profit-sharing and trade union activities can be complementary. Since profit-sharing may be seen as a form of rent-sharing, it is entirely consistent with the typical objectives of trade unions. Furthermore, given that the portion of profits allocated for sharing is usually based on a formula, this practice is consistent with the rule-bound procedures of industrial relations and pay determination.

In addition, since profit-sharing occurs within the ‘employment channel’, 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 in any fundamental way the existing forms of representative participation. If profit-sharing is incorporated in 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 plausible that profit-sharing will be incorporated into the existing recipe of pay determination and collective bargaining rather than undermining, by itself, the prevailing institutions and practices of representative participation.

Share ownership, in contrast, can be seen as occurring in the ‘ownership channel’ of the company. As such, it appears entirely separate to collective institutions organised around employment. On this basis, a couple of possibilities suggest themselves. One is that there are no clear relationships between share schemes and existing forms of representative participation since one occurs in the ownership channel while the other occurs in the employment channel. The second possibility is that share schemes are used precisely because they are *not* in the employment channel. In this context, it is argued that share schemes are used to weaken employment-based collective institutions.

These observations suggest that there may well be a positive relationship between union representation and profit-sharing, but a negative one with share ownership. However, the evidence on this is not at all clear-cut. In fact, some research findings indicate a positive relationship with share ownership, but a negative one with profit-sharing (Pendleton, 1997). This may be because the hypothesised relationship is too simple: it is not impossible to conceive of well-established unions negotiating share ownership arrangements for their members. There is a fundamental practical problem in this area, too, because prevailing union membership levels do not provide any information on the intentions behind the use of financial participation. Thus, a high level of union membership in companies using financial participation may be associated with a managerial concern to reduce union membership or may reflect union involvement in establishing a financial participation scheme. In other words, union membership data captures neither the intentions of the actors nor the dynamism of the process.

There is a further problem with comparative work in this area in that substantial differences between EU Member States in the level of union membership is not fully controlled. The combination of a very high incidence of financial participation in France coupled with the lowest levels of trade union membership in Europe can bias the overall picture, especially if France is over-represented in survey data. In this study, we follow a procedure that takes into account these methodological issues (*see Chapter 6*).

A further aspect to the relationship between financial participation and representative participation concerns collective institutions of pay determination. A widespread tendency across Europe over the last 10 years or so has been a decentralisation of collective bargaining from national, regional or sectoral institutions to company or establishment level. In many instances, this has not led to an abolition of institutions outside the company, but has shifted the main locus of pay determination (beyond the establishment of wage 'floors') to within the company. Since profit-sharing and share ownership are company-level phenomena, we may expect to find a positive relationship between company-level pay determination and the presence of financial participation. However, if bargaining takes place at the establishment level, it is almost by definition disconnected from the company level at which shares are held and this may have a negative impact.

We may also expect a positive relationship between the presence of works councils and financial participation on the grounds that these institutions provide a representation mechanism for introducing company-level pay supplements. More generally, they may encourage a participative climate within the company that is conducive to the use of financial participation.

HRM and financial participation

Among the key questions to be asked here are:

- Are there clear and positive relationships between the use of financial participation and other instruments of human resource management (HRM)? Recent research has noted the use by some companies of 'bundles' of HRM instruments, where there is the possibility that the combined effects of these are greater than the sum of the individual effects.
- Is there a particular relationship between financial participation and training? Are profit-sharing and employee share ownership used by companies with high training expenditures, possibly as a means to ensure positive outcomes from training?

It seems likely for two reasons that financial participation will be associated with well-developed human resource management (HRM) policies and procedures. Firstly, both may reflect the presence of a well-developed HRM function and, secondly, there may be synergies between financial participation and other HRM instruments.

Firstly, a well-developed HRM function may help to provide the administrative resources to introduce and operate a financial participation scheme. Furthermore, a high status HRM function should, other things being equal, be able to inculcate business strategies and high-level decision-making with HRM policies, of which financial participation is one. The higher the organisational level of the HRM function, the more likely it is to be able to bring about the introduction of employee share ownership because of its proximity to the corporate level where decisions about profits and share issues are made.

Secondly, an important strand of the recent literature on HRM views financial participation schemes as part of a high-performance work system, composed of several interacting HRM instruments (Becker and Huselid, 1998). This literature refers to ‘bundles’ of human resource measures that, by interacting positively with each other, lead to performance outcomes that are greater than would be achieved by the sum of each independently. Financial participation schemes are viewed as part of a human resources system that aligns interests and directs behaviour to better performance. All HRM measures (recruitment, selection, training and development, appraisal and compensation) fit together in their goal of enhancing performance.

As with direct participation, there is a reciprocity of relationships between financial participation and other HRM measures. If employees are to accept a range of performance-enhancing managerial initiatives, such as performance appraisal, it is reasonable that they should receive a pay-off from any improvements in performance that might result. Equally, if employees are to share in the performance of the company, it is reasonable that they should actively contribute to performance outcomes. We therefore expect to find companies with financial participation also having a range of other HRM features, such as higher-than-average training expenditure and comprehensive performance appraisal systems.

The relationship between financial participation and training is of particular interest. A body of theoretical work is emerging which argues that employees should have equal rights to owners and investors because employees also make investments and incur potential opportunity costs from their investment (Blair, 1995 and 1999). The argument goes that workers invest their human capital in the companies that employ them. By remaining with one employer and receiving training appropriate for that employment, they suffer opportunity costs in so far as better opportunities may be available in other companies. They also bear risk in that managements or owners may opportunistically capture the benefits resulting from employee investments. The corollary of this is that employees should receive a dividend on their investment in much the same way as private investors.

On the basis of these arguments, there should be a clear relationship between financial participation and training. To encourage employees to receive company-specific training, employees should be guaranteed a pay-off. The presence of financial participation can be viewed as a signal that managerial opportunism (i.e. that managers usurp all the benefits of training) will be constrained. From the company’s point of view, the use of financial participation helps to protect the value of investments made by the company in employee training. In so far as financial participation schemes frequently have deferral periods, the use of financial participation binds the employee to the company at least in the medium term.

Chapter 3

Data and methodology

Cranet data source

The data source for this investigation was the Cranet survey on International Strategic Human Resource Management. This major survey of company human resource management policies and practices has been conducted over a number of years in Europe and further afield, and co-ordinated at the Cranfield School of Management in Cranfield University, UK (Brewster *et al*, 1996 and 2000; Mayrhofer, 2000). Altogether, over 30 countries are represented in the Cranet survey, including 14 EU Member States (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden and the United Kingdom). This provides a wider coverage than either the 1996 EPOC survey, commissioned by the Foundation and covering 10 Member States (Poutsma and Huijgen, 1999; Regalia, 1995; Sisson, 1996), or the 1997 IPSE survey, covering 4 Member States (IPSE, 1997; Pendleton and Pérotin, 2001). Thus, use of the Cranet survey enables us, for the first time, to obtain a picture of financial participation across a substantial part of the European Union.

Since the first survey of 5 countries in 1989, the Cranet survey has now been administered in three full rounds — 1992, 1995 and 1999/2000. This study mainly utilises the 1999/2000 data, although information from the 1992 and 1995 surveys is also used for comparative purposes (*see Chapter 4*). It should be emphasized, however, that the three data-sets do not form a panel. On each occasion, a separate sampling frame was used. (Sweden is an exception. Here, a primary condition for inclusion in the 1999 sampling frame was participation in the earlier surveys. This may help to explain why the response rate in Sweden is very high.) Thus, while we can compare the incidence of financial participation at various points in the 1990s, we cannot trace its development in particular companies.

The survey instrument has been designed in meetings of the national teams administering the questionnaire in each country. The survey is translated (and back-translated as a check) into the relevant language or languages of each country. Minor changes have been made to the wording of certain questions in some countries to reflect the particular use of terminology there or to capture nuances in meaning between languages.

In 1999/2000, the sampling frame used by the constituent surveys in Cranet was organisations with at least 100 employees (in the two previous surveys, it was 200 or more employees). The sampling frames used in each country were designed to produce stratified representative samples and do so in the main for all the countries involved. The results gained from individual countries are consistent with those generated by other studies. However, due to slightly different sampling procedures in each country, the report does not claim to provide a fully representative picture of the European Union. In all but two cases, the survey was conducted using a postal questionnaire; in the other two, the survey was completed using face-to-face interviews with respondents. In most cases, the response rates range from 12% to 20%. The exceptions were Italy, where the response rate was just under 10%, and Sweden, where the response rate was in excess of 60%. In each instance, the respondent was the person with responsibility for human resource management (HRM) in the business organisation.

The issues covered in the survey include the organisation of the HRM function, HR strategies and policies, staffing practices, flexible working practices, employee appraisal, training and development, compensation and benefits, employee relations and communications, and organisational details (such as size and composition of workforce). In general, the investigation of industrial relations procedures and institutions is less developed in the survey than would be ideal for our research, but we judged that there was sufficient information to render an enquiry into this aspect of financial participation worthwhile. On the whole, most questions were fully answered by most respondents. There are, of course, some exceptions. For example, a large number of respondents did not answer the question about the existence of works councils; why this was the case is not clear since the question was posed in a straightforward manner.

Since the survey was not designed specifically to investigate financial participation, it is unlikely that any completion of the survey will be biased towards those companies with schemes. However, as the survey excludes small companies, the incidence of financial participation found in the results is likely to be higher than in the economy as a whole (given a tendency for larger companies to use financial participation). There is a further potential bias in that the objectives and content of the questionnaire survey may have resulted in a disproportionate response from business organisations with relatively sophisticated and well-developed HRM systems and practices. On the basis that financial participation tends to be associated with companies with well-developed HRM, this would also lead to an upwards bias in the incidence of financial participation.

We use only a portion of organisations held in the Cranet database. Besides limiting the study to the 14 Member States, we also excluded public sector organisations. This was partly because these organisations do not usually have a share capital and in many cases are not required to make profits. It is also due to the variation between Member States in the characteristics and objectives of public sector organisations. In the circumstances, it seemed safest to exclude this group altogether in order to maintain comparability between countries. Thus, organisations in education and in central and local government are excluded. We term the resulting units ‘companies’.

A further criterion for inclusion in the analysis for this report is that the companies should employ at least 200 employees so that there would be comparability between the 1999/2000 and earlier surveys. This provides a total of 2,506 cases and their distribution by country is shown in Table 2.

Table 2 Distribution of companies by country

	Number of cases (unweighted)	**Percentage of total (unweighted)**	**Percentage of total (weighted)**
Austria	131	5	3
Belgium	141	6	4
Denmark	151	6	1
Finland	131	5	1
France	264	11	19
Germany	415	17	23
Greece	95	4	1
Ireland	96	4	1
Italy	60	2	11
Netherlands	56	2	4
Portugal	96	4	3
Spain	184	7	9
Sweden	156	6	2
United Kingdom	530	21	18
Total	**2,506**	**100**	**100**

Given the imbalances between numbers of respondents and the desirability of providing a representative pan-European picture, it was deemed appropriate to weight the cases by country. Thus, for each country, the cases were weighted according to the estimated proportion of business organisations with at least 250 employees. (The number of 250 was chosen as the criteria, rather than 200, since this is the category used by Eurostat.) A further weighting procedure was applied to Germany (cases were reduced by a factor of 2) since this country was massively over-represented according to the first procedure if the number of employees would have been used as the criteria.

The unit of response in each country is ‘organisations’. In the survey, it was left to respondents to define the boundaries of the organisation. This contrasts with those surveys that focus on entities which have the same definition across respondents, such as workplaces. The relativism of the Cranet approach can be criticised on methodological grounds (i.e. we cannot be sure that we are comparing like with like), but it does have the merit of focusing on what are perceived to be the reality of organisational structures and functions. Some of these business organisations are ‘self-contained’ subsidiaries of larger business enterprises, while others are the same as the company as a whole.

The unit of analysis is, therefore, organisations, not companies. However, at several points we present some information on the entire company (such as number of employees). To avoid any confusion between the use of the terms ‘organisation’ and ‘company’, we refer to organisations hereafter as ‘business units’.

Financial participation variables

In the Cranet survey, two forms of financial participation are identified — profit-sharing and share ownership schemes. A merit of this distinction is that these are typically recognisable and different forms of financial participation, even where there is some conjuncture of the two. As such, they are likely to be clearly discerned by respondents and, as a result, their answers are likely to be fairly reliable.

An important consideration concerns the extent to which the wording on the questionnaire was modified to suit the specific financial participation contexts of each participating country. This is always an issue in comparative research — should questions be phrased identically, with the danger that differing meanings will be attached in different country contexts, or should the wording be modified to take account of these differences (Brewster *et al*, 1996; Whitfield *et al*, 1998)? In the Cranet survey, each national team may make minor changes to the wording of the questions on financial participation, so that the most important forms are captured and distinguished by the survey. Thus, for example, the UK questionnaire distinguished between profit-sharing and share schemes, while questionnaires in countries without share-based profit-sharing referred to share ownership schemes.

For both types of financial participation, the occupational coverage of the scheme forms part of the question. Thus, companies may indicate the categories of employees the schemes apply to — whether management staff, professional and technical staff, clerical and administrative staff, or manual workers. It is therefore possible to identify which categories of the workforce schemes cover, as well as whether there is a scheme present. This is an advance on many previous studies, where the financial participation variable usually only recorded whether there was a scheme present and not the coverage.

In conjunction with a further question about the occupational composition of the workforce, it is possible to calculate the proportion of the workforce which is covered by financial participation schemes (assuming each category has universal eligibility). From this, it is possible to determine whether schemes are broad- or narrow-based. (This method was preferred to a reliance on just occupational categories since not all occupations are found in each organisation. Correcting for this, so that absence of a financial participation scheme for an occupation can be distinguished from non-presence of an occupation, is a cumbersome procedure.)

The procedure for determining the coverage of a scheme is, in principle, straightforward. First, the composition of the workforce is noted for each company. Then, it is noted whether there is a profit-sharing or employee share ownership scheme that covers each occupational category. Using positive responses to this question in conjunction with the answers on workforce proportions, it is possible to calculate the total proportion of the workforce that is covered by a financial participation scheme. For example, if the workforce is composed of managers (10%), technical staff (10%), white collar staff (30%) and manual staff (50%), and if managers, technical staff and manual staff are covered by a scheme, it can be calculated that 70% of the total workforce is covered by the financial participation scheme.[6]

On this basis, 45% of organisations (weighted) in the study have a profit-sharing scheme and 31% have a share ownership scheme. Most (63%) profit-sharing schemes cover in excess of 80% of the workforce. The distribution is also highly skewed in the case of share ownership schemes, with share schemes covering the entire workforce in 50% of cases. There is, however, a larger group of narrow-based, management-only schemes. In both cases, there are very few schemes that cover occupational groups other than managers but which nevertheless do not cover all employees — defined as 80% or more coverage. (Broad-based, all-employee schemes typically do not have 100% participation at any given time because it is usual to have minimum employment periods before eligibility is granted.) This is particularly so in the case of profit-sharing where very few schemes cover more than 20% but less than 80% of employees. There are very few share ownership schemes with more than 40% but less than 80% coverage. The wider coverage of some selective share ownership schemes is mainly accounted for by the inclusion of technical and professional groups in financial participation.

Faced with this distribution of financial participation schemes, it is clear that the conceptual distinction between narrow-based and broad-based schemes is reflected in actual company practice. We thus split the groups of companies with either type of financial participation into narrow-based and broad-based profit-sharing and/or share ownership schemes. We separated the two subgroups for each type of scheme at the 50% coverage point: schemes with over 50% or more coverage were classified as broad-based. This approach is preferable to making a division at the median point because the skewed distribution would result in schemes with high coverage

[6] Clearly, the information on the composition of the workforce is critical to this calculation of coverage. 68% of respondents provide information for all 4 occupational categories (including zero% where appropriate). Of these companies, 70% provide proportions that add exactly to 100%, while 23% provide proportions that are defined as close to 100 (i.e. above 80% and less than 120%). In the latter cases, the proportions are re-scaled so that they add up to 100%. There is a further 7% of companies where the proportions exceed these limits. In this case, these are treated as missing and new values are substituted, derived from the average workforce composition for that industry and country. This procedure is also adopted where there is no information presented at all on the workforce or where information is presented on only 2 of the 4 categories. Where information is provided for 3 but not 4 occupations, the fourth category is calculated by subtracting the other 3 from 100.

being classed as narrow-based. It is also a strong supposition that schemes covering 50% or more of a workforce cover the majority of the workforce and can hence be said to be broad-based.

Thus, in addition to companies without any financial participation, there are 4 groups of interest and these form the main categories used in this report, with particular emphasis placed on the two broad-based schemes:

- companies with narrow-based profit-sharing schemes;
- companies with broad-based profit-sharing schemes;
- companies with narrow-based share ownership schemes; and
- companies with broad-based share ownership schemes.

Since our primary interest is in broad-based schemes, we have also constructed a further variable that records broad-based schemes. There are 4 categories in this new variable:

- organisations with a broad-based profit share scheme;
- organisations with a broad-based share ownership scheme;
- organisations with both broad-based schemes; and
- organisations with no broad-based schemes (but which may have narrow-based schemes).

Analytical approach

Since the core objectives of the research are to examine the incidence of schemes and the relationships between the presence of schemes and other organisational features, the main statistical methods to be used are frequencies/cross-tabulations (for example, scheme presence by country) and binomial multivariate analysis (for example, logit). The latter will enable us to identify the most important predictors of scheme presence and, in particular, to assess the relative strength of country-specific factors and other features, such as structural characteristics.

In the following chapters, we explore the relationship between the dependent variables and the independent variables of interest. For the most part, this analysis is conducted at the level of Europe as a whole, but we disaggregate the results by country where important national differences are thought to be concealed within the data as a whole. In each chapter, we attempt to present profiles of business organisations with the various forms of financial participation by cross-tabulating schemes with relevant features of business organisations. We then attempt to discern which features are most strongly associated with the presence of financial participation by using multivariate techniques. The characteristics chosen for analysis are those that are thought to provide insights into the reasons why financial participation is used and which enable answers to be provided to the key questions identified in Chapter 2 (*see pp. 12-21*). The approach is somewhat more complex, however, in Chapter 4 since we are able to draw on data from 1992 and 1995, as well as using the cross-sectional data from 1999/2000.

Chapter 4

Incidence and character of financial participation

European incidence

The key objectives of this research project are to analyse the incidence of financial participation across European countries and to consider the reasons for the presence and distribution of financial participation schemes. It will be recalled from Chapter 3 that, in addition to business organisations without financial participation, there are four groups of interest: companies with narrow-based and broad-based profit-sharing schemes, and companies with narrow-based and broad-based share ownership schemes. A key proposition for the research is whether the presence of supportive legislation is related to the use of financial participation and, more particularly, whether the presence of such legislation will tend to encourage broad-based schemes, with a higher proportion of such schemes in countries with this legislation.

The comparison of broad-based and narrow-based schemes is derived from the Cranet data of 1999/2000. However, we are also able to draw on data from the 1992 and 1995 Cranet surveys to provide a picture of the development of financial participation during the decade.

Figure 1 shows the incidence of financial participation in the 14 European countries covered by the 1999/2000 Cranet survey. It can be seen that just under one-third (31%) of business units with more than 200 employees have a share ownership scheme. These are distributed fairly evenly between broad-based (52%) and narrow-based (48%) schemes. Profit-sharing schemes are more common than share ownership schemes, being found in more than 45% of business units. They are more likely to be broad-based than share ownership schemes, with over 80% of profit-sharing schemes being broad-based. Figure 2 gives the breakdown by country for the different schemes.

Figure 1 EU business units (with more than 200 employees) with financial participation schemes in 1999/2000 (%)

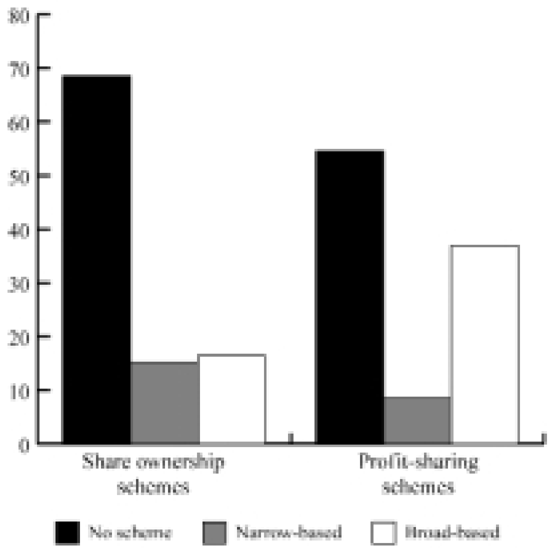
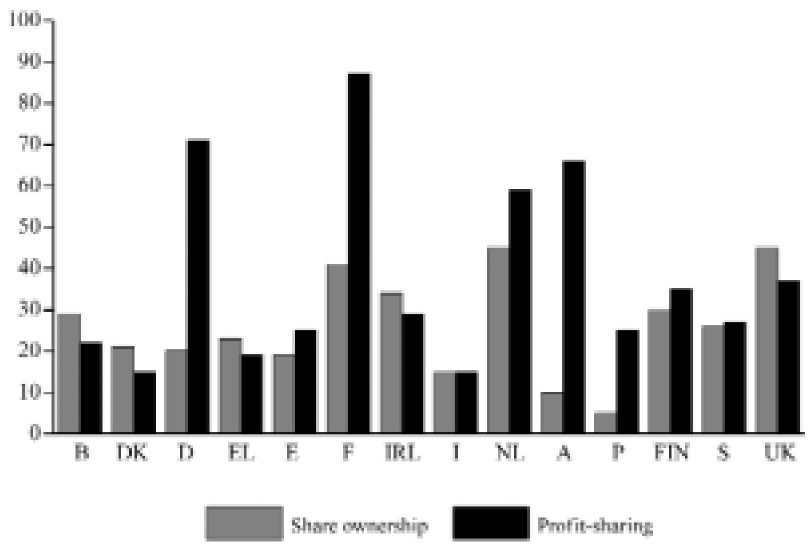


Figure 2 EU business units (with more than 200 employees) with a share ownership or profit-sharing scheme in 1999/2000 (%)



Behind the 'headline' figures for the incidence of share ownership and profit-sharing in Europe as a whole, it is expected that there will be considerable diversity between countries in the nature and use of financial participation schemes. In particular, we anticipate that financial participation will be more widespread in countries where there is support from legislation and tax concessions.

Employee share ownership schemes

Table 3 presents information on the incidence of employee share ownership schemes by country. It shows the proportions of business units with narrow-based schemes and broad-based schemes, and the total of the two. For those business units with share schemes, the final column shows the proportion with a broad-based scheme. Throughout, it should be remembered that those business units with both narrow-based and broad-based schemes are classified as broad-based; thus the overall incidence of narrow-based schemes may well be higher than the findings suggest.

Table 3 Business units in each country with employee share ownership schemes (%)

	Narrow-based schemes	Broad-based schemes	Total	Proportion of broad-based schemes
Austria	5	4	9	41
Belgium	18	11	29	38
Denmark	6	15	21	70
Finland	15	15	30	50
France	18	23	41	56
Germany	10	10	20	50
Greece	16	7	23	23
Ireland	18	16	34	47
Italy	13	2	15	13
Netherlands	24	21	45	47
Portugal	3	2	5	40
Spain	14	5	19	26
Sweden	14	12	26	46
United Kingdom	15	30	45	67
Total	**15**	**16**	**31**	**52**

Notes:
Business units with share schemes have either narrow-based or broad-based share ownership.
Business units with both types of scheme are classified as broad-based.
There are a small number of observations for Denmark, Finland, Greece and Ireland after weighting, so proportions should be treated with caution.

Table 3 indicates that business units with narrow-based schemes are slightly more prevalent than broad-based schemes in most European countries. Broad-based schemes are more prevalent in Denmark, France and the UK. There is an equal distribution in Finland.

The incidence of narrow-based schemes is fairly similar across Europe (the exceptions are Austria, Denmark, Portugal and the Netherlands). In most countries, the proportion of narrow-based schemes is similar to the average for Europe as a whole: for example, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Spain, Sweden, and the UK are within 5 percentage points of the European average of 15%. Given that, in most cases, legislative support and fiscal concessions for narrow-based schemes are not present, the incidence of narrow-based schemes is probably not driven by legislation and tax benefits. It seems likely that the primary ‘driver’ of the use of narrow-based schemes is a concern to link executive rewards to shareholder returns.

By contrast, there is much greater diversity in the incidence of broad-based schemes. Such schemes are most common in the UK, where 30% of business units have a broad-based scheme, followed by France (23%), Netherlands (21%), Ireland (16%), Denmark (15%) and Finland (15%). The southern European countries (Greece, Italy, Portugal and Spain) are notable for their low incidence of broad-based schemes (7% or lower). In Belgium, Germany and Sweden, between 10% and 15% of business units have broad-based schemes. Given that there is little variation between countries in the incidence of narrow-based schemes, much of the variation between countries in the overall incidence of share ownership schemes is accounted for by variations in the incidence of broad-based schemes. Thus, the higher the overall incidence of share ownership schemes in a country, the higher the coverage of schemes (but not necessarily actual participation rates). Denmark is the clear exception here.

The incidence of broad-based schemes broadly corresponds to the presence of legislation and tax concessions for employee share schemes. We infer that legislation/tax concessions are an important, though not the only, influence on the incidence of schemes.

Table 4 indicates that the *United Kingdom* has both the highest incidence of share schemes and the highest proportion of share schemes that are broad-based. This may be attributed to long-standing legislation and tax concessions for share schemes. Briefly, approved profit-sharing schemes (APSS) were introduced in 1978, followed by save-as-you-earn (SAYE) share schemes in 1980. The 1984 Finance Act introduced tax relief for discretionary share schemes (amended to company share schemes in 1996), while statutory employee share ownership trusts (ESOT) were introduced in 1989.

As will be seen, the high incidence of share schemes in France and the Netherlands is recent (*see p. 34 for details of profit-sharing schemes in the French system*). In *the Netherlands*, 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 participation schemes and employees to participate in them (Law *Vermeend/Vreugendenhil*). The main vehicle for financial participation in the Netherlands is a savings scheme or personnel fund. To encourage participation in profit-sharing, the government raised the tax-free benefit and shortened the retention period in 1994. Stock options can be part of a savings scheme and are subject to the same tax incentives as the wage savings scheme.

In *Ireland*, the development of share schemes started in the 1980s and gradually developed to a level of diffusion of 34% of business units with more than 200 employees. The Finance Act of 1982 (and subsequent amendments) marks 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.

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 has been 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 contained provisions to facilitate this outcome, though the legislation can also be applied to privately owned companies. The increasingly favourable tax regulations in Ireland seem likely to boost the development of share-based systems further. It probably also explains the high proportion of broad-based schemes (47%).

Share schemes are less well developed in *Germany*, although there is a considerable body of regulations designed to encourage employee asset accumulation. This encourages redistribution of capital and employee savings via investments plans. Part of this acts to encourage profit-sharing, albeit not very strongly. These schemes are regulated through a series of Capital Formation Laws (*Vermögungsbildungsgesetz*) and the Income Tax Law. Minor changes in these laws between 1992 and 1994 covered regulations on investments in building and housing (*Bausparen*) and the way premiums were paid. Major changes are found in the latest Capital Formation Law of September 1998. Employees have been encouraged to participate in their own company's capital and that of other companies, primarily within specific savings schemes (comparable to the Netherlands). The regulations offer incentives related to individual workers' savings, to employer contributions to these savings and in cases where the employers' contribution is the only one made. 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.) In most cases, these capital savings plans do not take the form of company-related share ownership plans and certainly not share plans (although there may be elements of share option savings related to the plan). This helps to explain why the incidence of share ownership plans recorded for Germany in the Cranet survey is low (20%). However, the long-standing regulations encouraging participation by all groups of employees in capital accumulation may explain why a high proportion of schemes (50%) are broad-based. Further influences on the balance between narrow- and broad-based schemes may be the co-operative nature of the German industrial relations system and the prohibition on the issue of stock options until relatively recently (Bernhardt, 1999).[7]

Profit-sharing schemes

Table 4 shows the distribution of profit-sharing schemes in Europe. The incidence of these schemes varies quite considerably between countries. Very high incidence is found in France (87%), Germany (71%), Austria (especially for white collar workers or *Angestellten*, 66%) and the Netherlands (59%). There is a second group where profit-sharing is present in about one-third of business units: United Kingdom (37%), Finland (35%) and Ireland (29%). Portugal and Spain have profit-sharing in one-quarter of business units, while Sweden has it in 27%. The lowest incidences are found in Denmark (15%), Italy (15%) and Greece (19%).

7 Convertible bonds have similar features to stock options. Bonds can be converted to shares at par value.

Table 4 Business units in each country with profit-sharing schemes (%)

	Narrow-based schemes	Broad-based schemes	Total	Proportion of broad-based schemes
Austria	41	25	66	38
Belgium	10	12	22	55
Denmark	7	8	15	52
Finland	8	27	35	77
France	3	84	87	97
Germany	53	18	71	25
Greece	12	7	19	39
Ireland	5	24	29	83
Italy	7	8	15	53
Netherlands	4	55	59	93
Portugal	8	17	25	67
Spain	12	13	25	52
Sweden	8	19	27	70
United Kingdom	7	30	37	81
Total	**9**	**36**	**45**	**63**

Notes:
Business units with share schemes have either narrow-based or broad-based schemes.
Business units with both types of scheme are classified as broad-based.
There are a small number of observations for Denmark, Finland, Greece and Ireland after weighting, so proportions should be treated with caution.

The distribution of narrow-based profit-sharing schemes is not dissimilar to that of share ownership schemes. Most countries are close to the European average of 9% of business units with narrow-based profit-sharing. The clear exceptions are Austria (41%) and Germany (53%), where the use of narrow-based profit-sharing is considerably higher than elsewhere in Europe.

Unlike the case of share ownership schemes, a high incidence of profit-sharing schemes is not necessarily related to a high proportion of broad-based schemes. Thus, although France and the Netherlands have a very high proportion of broad-based schemes, most profit-sharing schemes in Germany and Austria are narrow-based. In all other countries, except Greece, most schemes are broad-based. It is noticeable that a high proportion (over 70%) of schemes in the second group of countries (UK, Finland and Ireland) are broad-based.

In *France*, more or less continuous government support for employee financial participation has existed since the end of the 1950s. As a result, French legislation offers a legal framework and generous tax advantages to several forms of financial participation: voluntary cash-based profit-sharing (*intéressement*), deferred profit-sharing (*participation*, compulsory for companies with more than 50 employees) and company savings plans for stock ownership (*PEE*). The latest schemes do not restrict ownership of stock to the company where the employee works. In most cases, the main vehicle is a company savings plan, which invests in assets of other companies as well. Besides the already substantial tax benefits, the participation law of 1994 increased the tax advantages for deferred profit-sharing and share-based company savings plans. The beneficial tax treatment in these schemes has without a doubt contributed to the spread of financial participation in France. The statistics on *participation* in France show considerable growth in savings and investments plans. This means that share ownership increased, albeit mainly in an indirect way. Due to this well-developed system of financial participation in France, there is high coverage of these profit-sharing based systems throughout French companies.

In *Germany*, the proportion of business units with a profit-sharing scheme is 71%, although only 18% of these are broad-based. Parallel to the lower diffusion of share-based schemes, narrow-based profit-sharing schemes are more developed. Incentive systems for management and higher staff in Germany tend to use profit-linked systems instead of share schemes (possibly because many large companies have traditionally not been listed on the stock market). There has been some modest fiscal support for broad-based profit-sharing, but this has been counter-balanced by key features of the German industrial relations system. Pay determination traditionally took place at sectoral level, with little bargaining activity at company level. German trade unions were wary of company-level contingent pay systems. This is now changing as large companies increasingly are attempting to align reward systems with company-level performance so as to achieve greater flexibility.

Broad-based share ownership and profit-sharing

In this report, we are especially interested in the incidence and distribution of broad-based financial participation. Accordingly, we present findings in Table 5 on the proportion of business units with either form of broad-based financial participation or with both. From these findings, we can create an index of the proportion of business units in each country with some form of broad-based financial participation (*see final column of Table 5*).

As can be seen, there are wide disparities between countries in the incidence of broad-based financial participation. France clearly has the highest usage of broad-based financial participation (84% of business units), followed by the Netherlands (60%) and the UK (48%). These 3 countries are followed by Finland and Ireland, where over one-third of business units have some form of broad-based financial participation. Next comes Austria, Germany and Sweden, with broad-based financial participation in about one-quarter of business units. Approximately one-fifth of business units in Belgium, Denmark, Portugal and Spain have a broad-based scheme. Finally, Greece (14%) and Italy (9%) have the lowest incidence among the 14 countries studied.

It is clear from Table 5 that very few business units in most countries have *both* broad-based profit-sharing and broad-based employee share ownership. The exceptions are France, the Netherlands and UK, where between 10% and 20% of business units have both types of scheme. In the case of France and the Netherlands, this is because share ownership schemes tend to be options within personnel savings funds, into which profit shares are paid. It is notable that very few business units in France and the Netherlands have just a broad-based share ownership scheme. In contrast, a substantial proportion of UK cases have a share ownership scheme without any profit-sharing arrangements. Where both profit-sharing and share ownership are present, they operate separately; those business units with both schemes may be viewed as being especially committed to financial participation.

Table 5 Business units in each country with either broad-based share ownership or broad-based profit-sharing schemes, or both (%)

	Broad-based share schemes only	**Broad-based profit-sharing schemes only**	**Both broad-based schemes**	**Total proportion of business units with broad-based financial participation**
Austria	0	25	3	28
Belgium	10	9	1	20
Denmark	13	6	2	21
Finland	10	23	5	38
France	2	64	18	84
Germany	6	15	4	25
Greece	7	7	0	14
Ireland	13	21	2	36
Italy	2	7	0	9
Netherlands	4	38	18	60
Portugal	1	16	1	18
Spain	5	12	1	18
Sweden	9	15	4	28
United Kingdom	18	18	12	48

Note: There are a small number of observations for Denmark, Finland, Greece and Ireland after weighting, so proportions should be treated with caution.

Developments in Europe during 1990s

Developments in financial participation in individual EU Member States over the last ten years must be seen against a background of differing traditions and especially large differences in practice concerning financial participation schemes. The PEPPER II Report (1996) observed that there were not any substantial changes in governmental support for financial participation since the first PEPPER Report (1991). However, PEPPER II expected an increase in the use of schemes, based primarily on the observation that some countries had extended legislation and taken initiatives to promote the use of schemes, especially in the 1994-96 period. In the Netherlands, Finland and Ireland, new legislation was enacted for tax relief. Throughout the 1990s in Germany, Spain, Italy and Ireland, there were strong appeals from governments to the social partners to promote these schemes in the course of their negotiations. In 1999, Germany improved tax concessions for employees and employers, while new legislation was passed in Belgium in 2001.

Incidence by occupational group

From the Cranet surveys for 1992, 1995 and 1999/2000, we can find the incidence of share ownership and profit-sharing schemes for 4 occupational groups (managers, professionals, clerical staff and manual staff) for each country for each year. We are unable to present comparisons of narrow-based and broad-based schemes based on 1992 and 1995 data for technical reasons. It should be borne in mind that the number of observations is low in some countries in some years. In fact, not all countries have data for the 3 years of observation. It should also be emphasized that the 3 surveys do not form a panel — thus we cannot say, for example, how many business units used financial participation for the first time or how many ceased to use it during the decade.

Table 6 presents the overall picture for share ownership schemes for Europe as a whole. It is clear that the largest increase in incidence during the 1990s was found among managers, with incidence increasing from 23% in 1992 to 29% in 1999, an increase of over 25%. Both the overall incidence and the rate of increase in incidence were more modest for other occupational groups. The rate of increase ranged from about 6% in the case of professional staff to about 10% for manual staff. For most groups of staff, the increase in incidence took place between 1995 and 1999.

It must be noted that for 1995 there was no data available for 3 countries that generally have lower scores for share option schemes: Portugal, Greece and Austria. This means that the overall 1995 figure in this data is estimated to be higher than in practice. This also gives ground for the observation that in the late 1990s the increase was higher than in the early 1990s.

Table 6 Business units in Europe with share ownership schemes during the 1990s (%)

	Share ownership schemes for			
Year	**Management**	**Professionals**	**Clerical**	**Manual**
1992	23	16	14	11
1995	24	16	14	12
1999/2000	29	17	15	12

Table 7 presents the results for profit-sharing schemes for Europe as a whole. As with share ownership schemes, there was an increase in the incidence of schemes over the 1990s. In other respects, however, there are some interesting differences with share schemes. First, over the decade as a whole, there was no increase in the incidence of profit-sharing schemes for managers (although there was a dip in the mid-1990s which recovered to its former level by the end of the decade). Secondly, the rate of growth was higher for other occupational groups — 14% for professionals, 17% for clerical staff and 28% for manual staff over the decade as a whole. Thirdly, the bulk of the increase in incidence took place in the first half of the decade, compared with the second half in the case of share ownership schemes. (This may be influenced by the fact that for 1995 there is no data for the countries with generally lower levels of profit-sharing: Portugal and Greece.)

Table 7 Business units in Europe with profit-sharing schemes during the 1990s (%)

	Profit-sharing schemes for			
Year	**Management**	**Professionals**	**Clerical**	**Manual**
1992	42	28	24	18
1995	40	30	28	24
1999/2000	42	32	28	23

From this overview of 14 EU Member States, we may conclude that financial participation became more widespread in business units during the 1990s. The growth is larger in the case of profit-sharing and this growth is concentrated among non-management staff. By contrast, the growth in share ownership schemes is especially evident among managers. The latter may reflect the development of capital markets in Europe, as well as promotion of financial participation by legislation. However, these findings conceal considerable variations between countries, so it is important to focus on the individual countries in the ensuing analysis (*see Tables 8-15*).

Share schemes for management

From Table 8, it is clear that the general increase in the use of share schemes for management in 14 EU countries is supported by strong increases in a number of countries compensating for the stabilisation, or even decrease, in a number of other countries (most notably the UK and Ireland). The table also shows that the increase in most countries was in the second half of the decade. In general, supportive legislation and the opening-up of capital markets in many Member States has provided an opportunity to develop share schemes and probably accounts for the increase in many countries.

The stabilisation of these schemes in the *UK and Ireland* may be explained by some changes in the favourable tax terms for executive share schemes. In the UK, income tax relief on the grant and exercise of approved executive share schemes was withdrawn with effect from July 1995. It was reinstated shortly afterwards, but with much smaller limits on the size of options. The numbers of approved schemes decreased accordingly.

From 1992 to 1999, schemes covering managers increased most in France, the Netherlands and Greece (from a very low base), followed by Austria (from a low base) and Germany, and then Sweden, Spain and Finland.

In the *Netherlands*, the proportion of business units with management share schemes increased from 19% in 1992 to 43% in 1999/2000. The development is most probably also supported by new legislation in the Netherlands in 1994 and subsequent years, and by the booming capital market. Financial participation schemes in the Netherlands are based largely on a wage savings system. By means of fiscal incentives, workers, including salaried staff and management (and directors of limited companies), are encouraged to save money and employers to set up schemes. Savings can be converted to shares and can be based on a profit-sharing system. Tax relief on the use of savings schemes related to profit-sharing and share schemes are more profitable than wage savings as such. In general, more interest in the use of more performance-related payments to management and higher staff has led to an increase in the use of share schemes in the Netherlands. The sharp increase to the level of 43% in 1999 may also be due to an announcement of new tax legislation on share options, making schemes less profitable when introduced after 2000.

Table 8 Development of business units with share schemes for management in Europe (%)

	1992	**1995**	**1999/2000**
United Kingdom	54	47	45
France	14	16	39
Sweden	19	9	27
Spain	13	14	20
Denmark	*n/a*	19	22
Netherlands	19	20	43
Italy	–	6	15
Ireland	41	33	34
Portugal	9	–	5
Finland	19	9	30
Greece	6	–	23
Austria	5	–	9
Belgium	–	15	30
Germany			
East	5	*n/a*	11
West	12	13	22
United	11	13	20
Total	**23**	**24**	**29**

In *France*, the proportion of business units with management share schemes increased from 14% in 1992 to 39% in 1999/2000. The French financial participation system is dominated by a deferred profit-sharing system. The development of share schemes was supported by legislation in 1997 and the gradual increase of share-based systems related to the general widely used profit-sharing system. The PEE system consists of a personal savings account where the amounts are re-invested in capital assets, not limited to investments in capital of the own company but also in other companies' assets. The 1997 law promotes more specific investments in capital of the own company.

A second group of countries that experienced large increases consists of Greece (from 6% in 1992 to 23% in 1999/2000), Belgium (from 15% in 1995 to 30% in 1999/2000), Finland (from 19% in 1992 to 30% in 1999/2000), Sweden (from 19% in 1992 to 27% in 1999/2000) and the united Germany (from 11% in 1992 to 20% in 1999/2000).

The development in *Greece* reflects the change in the number of companies listed on the stock exchange. This number has increased dramatically during the past 4 years and a parallel market with smaller companies has been established. Many family companies have entered the stock exchange and have distributed shares to their employees during the entry phase. Similar developments took place in the other countries.

In *Belgium*, the development of share schemes is quite recent. Since 1997, the most widespread scheme is a deferred preferential share scheme where shares are offered at a discount to employees (in practice, mainly management and higher staff). If the shares are blocked for 5 years, the discount is free from income tax and future social security contributions. A new stock option legislation, introduced in March 1999, offered other favourable terms to stock schemes. Since then, a growing number of companies in Belgium offer stock option plans to their staff (both broad- and narrow-based). The Government formed in 1999 promised to create a legal framework to encourage more general forms of broad-based financial participation in addition to wages by collective agreement.

The use in *Finland* of stock options is very probably related to the sharp increase in trading volume in the Helsinki Stock Exchange (HSE). This increase in trading is, in turn, associated with the sharp increase of foreign investors in HSE, clearly related to legislative changes at the beginning of the 1990s. Previously, it was not possible for foreign investors to invest in HSE or at least it was heavily regulated. In the Finnish case, there is an argument that since many of the foreign investors (or potential investors) are American, the companies have structured their compensation practices so that they attract US investors. Whether increased awareness or support of this argument has directly contributed to the use of options is difficult to assess.

The situation in *Germany* seems to be explained by similar developments on the stock exchange. Traditionally, the German Stock Exchange market has been quite small. Most companies, even large ones, are still closely held, private businesses. However, a number of new enterprises have recently entered the stock market, mostly high-tech services companies. This might have provided the impetus for the large increase in the number of share schemes because such companies, research tells us, are particularly likely to offer their personnel stock options. A large proportion of the largest publicly held companies, traditionally covered by co-determination, have also implemented stock options or related share-based profit-sharing plans for their personnel.

Share schemes for professional staff

The development of share schemes for professional staff (*see Table 9*) in 14 EU countries appears to follow the same pattern as that of management-oriented schemes (*see Table 8*), with the exception of Sweden and Greece where there was little growth during the decade. During the period 1992-1999/2000, large increases in the number of schemes covering professional employees occurred in France (from 4% to 21%), the Netherlands (from 12% to 27%) and Finland (from 15% to 21%). Smaller increases occurred in countries such as Germany (from 8% to 11%). As in the case of schemes covering management, the UK showed a decrease in the number of schemes covering professional staff during the 1990s; again, this may be due to a decline in the number of discretionary schemes.

Table 9 Development of business units with share schemes for professional staff in Europe (%)

	1992	**1995**	**1999/2000**
United Kingdom	42	33	33
France	4	8	21
Sweden	13	5	14
Spain	5	8	9
Denmark	*n/a*	17	17
Netherlands	12	14	27
Italy	–	4	2
Ireland	21	19	22
Portugal	9	–	2
Finland	15	6	21
Greece	5	–	5
Austria	1	–	5
Belgium	–	8	14
Germany			
East	3	–	4
West	10	9	13
United	8	8	11
Total	**16**	**16**	**17**

Share schemes for clerical personnel

Share schemes for clerical personnel (*see Table 10*) follow a similar pattern of development to those of management and professional staff (*see Tables 8 and 9*) in the second half of the 1990s, albeit at lower levels. Next to France (with an increase from 4% in 1992 to 20% in 1999/2000), the Netherlands, Belgium and Sweden show large increases in the use of these schemes. In the UK and Ireland, the proportion of business units using share schemes for clerical staff fell during the decade (especially between 1992 and 1995). In the UK case, the number of new share-based profit-sharing schemes in the early to mid-1990s was lower than at the start of the decade.

Share schemes for manual personnel

The development of share schemes for manual personnel (*see Table 11*) is similar to that of clerical workers (*see Table 10*). Again, the UK and Ireland experienced a decrease in the course of the decade, particularly during 1992-95. Meanwhile, there were large increases in the Netherlands (from 10% in 1992 to 20% in 1999/2000), France (from 4% in 1992 to 16% in 1999/2000) and Germany (from 0% in 1992 to 8% in 1999/2000), with Sweden and Belgium both showing similar increases (from 4% in 1995 to 10% in 1999/2000). Spain, Denmark and Finland appear to have approximately constant coverage over the course of the decade.

Table 10 Development of business units with share schemes for clerical personnel in Europe (%)

	1992	1995	1999/2000
United Kingdom	37	29	29
France	4	7	20
Sweden	*n/a*	5	13
Spain	5	7	7
Denmark	*n/a*	17	16
Netherlands	10	13	21
Italy	–	4	2
Ireland	16	14	15
Portugal	8	–	2
Finland	14	5	14
Greece	2	–	8
Austria	1	–	5
Belgium	–	6	11
Germany			
East	2	*n/a*	3
West	8	9	13
United	10	9	10
Total	**14**	**14**	**15**

Table 11 Development of business units with share schemes for manual personnel in Europe (%)

	1992	1995	1999/2000
United Kingdom	33	25	25
France	4	7	16
Sweden	*n/a*	4	10
Spain	5	6	5
Denmark	*n/a*	12	10
Netherlands	10	12	20
Italy	–	4	2
Ireland	16	12	12
Portugal	8	–	2
Finland	13	5	14
Greece	2	–	4
Austria	*n/a*	–	2
Belgium	–	4	10
Germany			
East	2	*n/a*	1
West	0	7	10
United	0	7	8
Total	**11**	**12**	**12**

Profit-sharing schemes for management

The development of profit-sharing schemes for management in business units with more than 200 employees (*see Table 12*) shows a slightly different pattern to that of management share schemes. Whereas the proportion of business units with share schemes covering managers grew by about 25% during the 1990s, the incidence of profit-sharing schemes covering managers was more or less constant.

As expected, France had very high numbers of schemes throughout the decade, with most growth between 1992 and 1995, and a slight decline from 1995 onwards. This pattern of growth is also observed in the UK and Ireland. Most other European countries experienced increases in the use of management profit-sharing during the period 1995-99, with the largest growth found in Spain, Denmark, Finland and the Netherlands. Both Austria and Germany have extensive use of management profit-sharing schemes in business units with more than 200 employees. In Austria, the proportion of business units with these schemes increased from 52% in 1992 up to a level of 64% in 1999, while the increase in Germany was from 58% in 1992 to 68% in 1999.

Table 12 Development of business units with profit-sharing schemes for management in Europe (%)

	1992	**1995**	**1999/2000**
United Kingdom	34	39	36
France	79	86	84
Sweden	26	21	26
Spain	19	16	24
Denmark	10	8	15
Netherlands	39	38	48
Italy	–	17	7
Ireland	20	29	25
Portugal	29	–	23
Finland	13	17	30
Greece	13	–	19
Austria	52	–	64
Belgium	–	20	20
Germany			
East	18	23	53
West	68	73	73
United	58	71	68
Total	**42**	**39**	**42**

Profit-sharing schemes for professional staff

Profit-sharing schemes for professional staff (*see Table 13*) show a similar development to those of management (*see Table 12*). Again, there was a slight fall in incidence in France and the UK. There was substantial growth in the number of schemes in Ireland, Finland, Austria, the Netherlands, Germany and Spain. The rapid diffusion in Finland after 1995 (from 18% to 33%) may be due to new legislative arrangements and agreements between the social partners. In the Netherlands, the development is linked to the effect of new legislation offering tax relief. In Spain, the growth could be the consequence of governmental support for more variable profit-sharing systems.

Table 13 Development of business units with profit-sharing schemes for professional staff in Europe (%)

	1992	**1995**	**1999/2000**
United Kingdom	27	34	31
France	77	85	83
Sweden	15	17	19
Spain	11	10	15
Denmark	6	6	9
Netherlands	38	36	55
Italy	–	13	12
Ireland	14	22	24
Portugal	20	–	19
Finland	18	18	33
Greece	11	–	8
Austria	17	–	39
Belgium	–	11	12
Germany			
East	4	*n/a*	24
West	22	30	39
United	18	29	35
Total	**28**	**30**	**32**

Following France, the Netherlands has most coverage, with more than 55% of business units having profit-sharing schemes for professional staff. A second group consists of Austria, Germany, Finland and the UK, with a diffusion level of about one-third of business units with more than 200 employees applying these schemes. Ireland follows, with 24% of business units implementing schemes for professional staff. A third group consists of Sweden, Portugal, Belgium and Greece, where 20% or less of business units have a profit-sharing scheme for their professional employees.

Profit-sharing schemes for clerical personnel

Across Europe as a whole, the number of schemes covering clerical personnel increased by just over 15% between 1992 and 1995, but then remained constant for the remainder of the decade (*see Table 14*). With the exception of Spain and Finland, all countries (where data is available) showed growth in the number of schemes between 1992 and 1995 (especially Sweden, Ireland and Germany). In the second half of the decade, from 1995 to 1999/2000, there was a small decline in incidence in the UK and France. But most other countries experienced an increase, with the Netherlands, Finland and Spain, in particular, showing substantial growth.

Table 14 Development of business units with profit-sharing schemes for clerical personnel in Europe (%)

	1992	**1995**	**1999/2000**
United Kingdom	25	32	30
France	77	85	84
Sweden	0	19	19
Spain	9	8	13
Denmark	5	6	9
Netherlands	32	32	54
Italy	–	10	10
Ireland	14	20	23
Portugal	20	–	19
Finland	19	15	28
Greece	12	–	8
Austria	14	–	28
Belgium	–	11	11
Germany			
East	1	–	14
West	13	19	22
United	10	19	20
Total	**24**	**28**	**28**

Profit-sharing schemes for manual personnel

Profit-sharing schemes for manual personnel (*see Table 15*) followed a similar pattern of diffusion to that of clerical staff (*see Table 14*). Again, there was not much development in Sweden, Portugal, Belgium or Greece, nor, in this case, in Denmark. Stable development or even a slight decrease in the second half of the decade was experienced in the UK and France. There were strong increases in the use of schemes for manual personnel in the Netherlands, Finland, Austria and Spain from 1995 to 1999/2000, while Germany showed only a moderate increase. France (with 65%) and the Netherlands (55%) experienced high levels of diffusion, followed by Finland (25%) and the UK (24%). Then came Germany, Sweden, Austria, Ireland and Portugal, with a range of 16%-19% of business units increasing their use of such schemes.

Table 15 Development of business units with profit-sharing schemes for manual personnel in Europe (%)

	1992	1995	1999/2000
United Kingdom	20	26	24
France	66	71	65
Sweden	*n/a*	16	17
Spain	8	6	11
Denmark	3	6	5
Netherlands	30	31	55
Italy	–	10	5
Ireland	13	16	18
Portugal	19	–	17
Finland	16	15	25
Greece	10	–	7
Austria	9	–	19
Belgium	–	10	10
Germany			
East	1	*n/a*	13
West	*n/a*	14	16
United	0	14	16
Total	**18**	**24**	**23**

Chapter 5

Characteristics of business units with financial participation

The starting point for this analysis of the relationship between business unit characteristics and the use of financial participation is that, distinct from the influence of legislation and tax concessions, there may be certain characteristics which are systematically related to the use of financial participation. If these associations are found to be present in the data, it could be inferred that there is a relationship between these characteristics and financial participation, and that there is something about these characteristics that encourages decision-makers to use financial participation. Alternatively, these characteristics may be substituted for deeper processes within the company, which lead decision-makers to favour financial participation.

The characteristics to be examined in relation to the use of financial participation are size of business unit/company, stock market listing, sector, ownership, age, and composition of workforce. There is a theoretical literature on each of these subjects and we draw upon these accounts in our analysis. The results are then used to develop a profile of the characteristics of business units with each of the main forms of financial participation. Multivariate methods are used to determine which of these structural features are most important in explaining the incidence of financial participation.

Size

Literature on financial participation over the last 20 years has indicated that there is likely to be a relationship between organisational size and the use of financial participation. The starting point for these discussions has been the possible incentive effects of profit-sharing and employee share ownership. Theoretically, it has been argued that monitoring and co-ordination costs are likely to be greater in larger companies. Alignment of employee interests with those of the company may also be more problematic where larger workforces mean greater ‘social distance’ between employees and managers, and where ‘strength in numbers’ may tip the balance of power towards employees. Providing employees with a stake in the results of their enterprise may help to secure co-operation, facilitate information-sharing and encourage favourable attitudes and behaviour. (There is, of course, a powerful counter-argument that says that potential incentive effects of financial participation will be counter-balanced by a ‘free-rider’ effect and that this phenomenon will be directly related to the size of the workforce.) The size implications of these propositions have been supported by most, though not all, empirical studies. Research into employee share ownership schemes has without fail found positive relationships between size and use of share schemes, but the evidence is more mixed in the case of cash profit-sharing.

Using the results from the Cranet survey, we will first examine the relationship between company size and financial participation, and then between business unit size and financial participation.

Company size

Table 16 shows that broad-based profit-sharing is more prevalent in larger organisations and that there is a positive association between scheme use and size. Whereas 20% of companies with less than 1,000 employees have a broad-based profit-sharing scheme, just over one-third of large companies (5,000 or more employees) have such a scheme. The median size of broad-based profit-sharing companies is considerably larger than that of companies without profit-sharing.

Table 16 Size of company and profit-sharing schemes (%)

Size	**Without profit-sharing**	**With narrow-based profit-sharing**	**With broad-based profit-sharing**
200 – 999 employees	61	19	20
1,000 – 4,999 employees	57	16	27
5,000+ employees	49	17	34
All companies	56	17	27
Average size	18,954	23,534	26,183
Median size	1,339	1,300	4,500

Note: The size categories refer to total company employment. The presence of profit-sharing is observed at business unit level. Company-level information is derived from business unit data.

However, this picture conceals some differences between countries. The median size of profit-sharing business units is similar to that of business units without profit-sharing in the UK, Netherlands (where it is smaller) and Austria. This might be a legislation effect: where there are extensive statutory supports and fiscal concessions for profit-sharing, the tendency for larger companies to use profit-sharing may be overridden. The provision of tax breaks may overcome the reluctance of smaller companies to use profit-sharing.

The incidence of narrow-based profit-sharing schemes varies little with company size. In fact, the incidence of these schemes is slightly lower in the largest companies. This is not surprising.

If this form of profit-sharing is adopted by owners as a corporate governance device to align the interests of top managers with their own, there is no reason to expect that this would be affected by company size (assuming some separation of ownership and management, broadly defined, at all size levels). Equally, in so far as profit-sharing might be a device to distribute surpluses to partners in professional partnerships (as in law and accountancy companies), this seems likely to occur in all sizes of companies of this sort.

Share ownership schemes provide interesting similarities and contrasts with profit-sharing schemes. It is apparent from Table 17 that companies with broad-based share schemes are, on average, considerably larger than companies without any schemes. Whereas just under 10% of companies with less than 1,000 employees have a broad-based share scheme, twice this proportion of companies with 5,000 or more employees have one.

Table 17 Size of company and share ownership schemes (%)

Size	**Without share ownership**	**With narrow-based share ownership**	**With broad-based share ownership**
200 – 999 employees	82	9	9
1,000 – 4,999 employees	72	13	15
5,000+ employees	60	20	20
All companies	71	14	15
Average size	17,711	30,620	35,447
Median size	1,200	8,000	8,331

Note: The size categories refer to total company employment. The presence of employee share ownership is observed at business unit level. Company-level information is derived from business unit data.

There is no variation between countries in this size effect: in all countries, the median size of businesses with share ownership schemes is considerably larger than that of those without share ownership schemes. However, unlike the case of profit-sharing, companies with narrow-based share schemes have more in common with companies with broad-based share schemes than with companies without any schemes — the median size is similar and the incidence of schemes in the three size categories is almost identical.

Business unit size

As a number of previous studies, including EPOC (1997), have used the size of sub-corporate units (usually establishment size) as a key variable, this analysis examines the incidence of profit-sharing and share ownership schemes by business unit size. Unlike company size, however, there are no clear theoretical predictions about the nature of these relationships. There might be a case for financial participation to bind together a mass of small workplaces in a large organisation and hence there may be a negative relationship between workplace size and financial participation. However, the connection between the characteristics of workplaces and corporate-level decision-making is tenuous since top decision-makers may be unaware or disinterested in those workplace events or features that might suggest financial participation is desirable. Thus, there is no clear or simple reason to expect that workplace size is related to the use of financial participation, which is typically introduced by corporate headquarters (especially so in the case of share schemes).

Not surprisingly, there are mixed results in relation to workplace size in the literature. The UK Workplace Industrial Relations Survey (WIRS) indicates a positive relationship in the case of share options, but a negative one in the case of cash profit-sharing, although neither is statistically significant (Pendleton, 1997). In a previous Foundation study using EPOC data, Poutsma and Huijgen (1999) found no clear relationships between workplace size and profit-sharing, but significantly negative relationships between most small workplaces and significantly positive relationships with larger workplaces.

Table 18 shows that the relationships between business unit size and the incidence of profit-sharing is similar to that with company size (*see Table 16*). The incidence of narrow-based profit-sharing varies little with business unit size. In fact, the incidence of this form of profit-sharing is the same in small business units as it is in large business units (18%). In contrast, the incidence of broad-based profit-sharing schemes is positively correlated with business unit size — it increases from 22% for small business units to 33% for large business units.

Table 18 Size of business unit and profit-sharing schemes (%)

Size	Without profit-sharing	With narrow-based profit-sharing	With broad-based profit-sharing
200 – 499 employees	59	18	22
500 – 999 employees	59	14	27
1,000+ employees	49	18	33
All business units	56	17	27

Table 19 shows that the distribution of share ownership schemes in business units differs from that of profit-sharing schemes (*see Table 18*). The incidence of narrow-based share schemes is higher in large business units (1,000 or more employees), whereas narrow-based profit-sharing schemes were fairly constant across size categories (in fact, there was a U-shaped distribution, with narrow-based schemes more prevalent in small and large business units than in medium-

Table 19 Size of business unit and share ownership schemes (%)

Size	Without share-ownership	With narrow-based share-ownership	With broad-based share-ownership
200 – 499 employees	75	13	12
500 – 999 employees	76	10	14
1,000+ employees	60	20	20
All business units	71	14	15

sized units of 500-999 employees). On the other hand, broad-based share schemes are similar to broad-based profit-sharing schemes in that they are more common in large business units. However, a clear contrast with profit-sharing is that the incidence of narrow-based and broad-based share ownership schemes is similar in each size category, whereas most profit-sharing schemes in each category are broad-based.

Summary of size

Overall, the results so far indicate that there is a clear and positive relationship between company size and the use of broad-based profit-sharing and share ownership schemes. This is consistent with most previous studies and suggests that the potential for 'free-rider' effects does not discourage the use of these schemes. (To recap, one aspect of economic theory suggests that the greater the size of the company, the smaller, proportionally, the benefits accruing to individual employees from financial participation. Hence, a negative relationship between size and use of financial participation might be expected. However, our results, like many others, are not consistent with this view.)

In the case of share ownership schemes, it is noteworthy that the positive relationship between size (at both company and business unit level) and financial participation occurs for both broad-based and narrow-based schemes. In contrast, the incidence of narrow-based profit-sharing does not seem to vary consistently or substantially with the size of company or business unit. This implies that similar factors (such as stock market listing) may be supportive of the use of either type of share scheme, whereas different factors may underlie the two forms of profit-sharing scheme.

The relationships between business unit size and financial participation are similar to those between company size and financial participation. It is not clear why this is so, but could be explained by the tendency for larger companies to have larger business units. (The correlation between business unit size and company size is positive and significant, at 0.01 two-tailed.) In other words, the same processes that encourage the use of financial participation in larger companies could also encourage its use in larger business units.

Stock market listing

One explanation for the size effect observed, especially in relation to employee share ownership schemes, could be due to stock market listings. Larger companies are more likely to have a traded share capital and hence are more readily able to use share schemes of whatever type. In the case of narrow-based schemes, it is likely that their greater presence in large companies reflects their use as a corporate governance tool in listed companies. In other words, share schemes are an instrument for managing the relationship between owners and managers. Share options are a method of aligning executive rewards with company performance and are thus widely perceived as a way of encouraging managers to pursue the interests of shareholders. In the case of broad-based schemes, stock market listings mean that share ownership is a form of reward with a degree of liquidity.

This supposition about share ownership schemes is confirmed by an examination of stock market listings. It has been found that 65% of business units with broad-based share schemes and 61%

of units with narrow-based share schemes are part of companies that are listed on stock markets, compared with 32% of business units without schemes. These differences are much less pronounced in the case of profit-sharing, where 45% of business units with broad-based profit-sharing schemes are market-listed, compared with 35% of those with narrow-based profit-sharing schemes and 41% of those that do not have schemes.

It is also worth examining this issue from the other angle: namely, what proportion of listed businesses have financial participation schemes as compared with their unlisted counterparts? There is an important policy dimension since, if listed business units are more likely to use financial participation and as the number of listed companies is growing in many European countries, we could expect further increases in financial participation over the next few years. Equally, an issue for policy-makers is how to increase the take-up of financial participation among unlisted businesses.

Table 20 provides country-level information for stock market listings and share ownership schemes. It can be seen that the proportion of businesses that are listed does not vary much between countries. Germany and Austria have relatively low proportions of listed companies, while the UK has a relatively high proportion as would be expected. The one surprise is Spain, where a high proportion of businesses (70%) belong to listed companies; an explanation for this might be that there is a high proportion of foreign-owned companies in the Spanish sample and many of these may be listed on overseas exchanges. (Listed businesses in the survey are not necessarily listed on the exchange in the country of observation.)

By comparing the last two columns in Table 20, it can be seen that share ownership schemes are much more common in listed businesses than in unlisted ones. Typically, share schemes are 2-3 times as likely to be found in listed businesses.

One noteworthy feature is that share ownership schemes are more common among unlisted businesses in France, the Netherlands and UK than among unlisted businesses in other countries. This may well be a legislation effect: the presence of extensive statutory supports and fiscal concessions may counter-balance somewhat the tendency for share schemes to be more common in listed companies. There is no clear picture, however, regarding the proportion of schemes that are broad-based. The balance between narrow-based and broad-based schemes in listed and unlisted businesses varies considerably between countries and it is difficult to discern any clear patterns.

Table 21 provides country-level information for stock market listings and profit-sharing schemes. It is evident that the differences between listed and unlisted business units are much smaller in the case of profit-sharing schemes than share ownership (*see Table 20*). In most countries, the incidence of profit-sharing is higher among listed businesses, but not by very much. This is not surprising since profit-sharing is generally less reliant on capital markets and is often paid in cash or in contributions to employee savings funds. It is also noticeable that the proportion of profit-sharing schemes that are broad-based does not vary much between listed and unlisted businesses in countries where there is extensive statutory support for profit-sharing. For example, the proportion of broad-based profit-sharing schemes in France is in excess of 90% for both listed and unlisted business units.

Table 20 Stock market listed/unlisted business units in each country with share ownership schemes (%)

	Proportion of business units that are listed	Proportion of listed business units with share ownership (proportion that are broad-based)	Proportion of unlisted business units with share ownership (proportion that are broad-based)
Austria	30	13 (85)	8 (13)
Belgium	43	51 (31)	13 (62)
Denmark	40	33 (76)	14 (64)
Finland	41	50 (44)	15 (60)
France	40	55 (56)	29 (41)
Germany	24	43 (49)	12 (50)
Greece	43	32 (31)	17 (35)
Ireland	46	57 (47)	14 (29)
Italy	40	23 (0)	11 (27)
Netherlands	43	71 (41)	25 (64)
Portugal	47	4 (0)	6 (67)
Spain	70	23 (35)	11 (0)
Sweden	36	54 (46)	18 (33)
United Kingdom	49	66 (67)	25 (60)

Sector

Previous research into financial participation has suggested that there are sectoral differences in the incidence of financial participation. In the UK, for example, Poole (1989) found that broad-based, all-employee financial participation schemes are most common in the finance sector, followed by the services sector more generally, then manufacturing and finally retail and distribution. In three of these sectors (services, manufacturing, and retail and distribution), there were approximately twice as many broad-based schemes as narrow-based ones, but in finance the proportion of broad-based schemes was much higher.

There is no clear and unambiguous set of theoretical predictions concerning the effects of sector on the incidence of financial participation. There are, however, various characteristics that are contingently associated with sectors that may be related to the use of financial participation. For example, it may be predicted that financial participation will be relatively widespread in financial services because of the greater knowledge about these schemes among both their architects and their beneficiaries. Also, sectors with higher concentrations of non-manual employees may be more likely to use share ownership schemes since the recipients could be more favourably inclined to non-cash forms of savings than manual workers.

Table 21 Stock market listed/unlisted business units in each country with profit-sharing schemes (%)

	Proportion of business units that are listed	Proportion of listed business units with profit-sharing (proportion that are broad-based)	Proportion of unlisted business units with profit-sharing (proportion that are broad-based)
Austria	30	79 (37)	61 (46)
Belgium	43	29 (45)	13 (68)
Denmark	40	17 (59)	14 (47)
Finland	41	69 (60)	23 (79)
France	40	89 (94)	84 (95)
Germany	24	79 (33)	68 (23)
Greece	43	34 (29)	7 (75)
Ireland	46	39 (100)	20 (50)
Italy	40	21 (60)	11 (25)
Netherlands	43	63 (93)	56 (95)
Portugal	47	24 (65)	25 (70)
Spain	70	27 (43)	21 (68)
Sweden	36	29 (74)	27 (63)
United Kingdom	49	40 (82)	33 (80)

It has also been found that once financial participation is common in a sector, it encourages further use in that sector because of imitation effects (Cheadle, 1989). Companies copy the actions of similar companies on the grounds that schemes may provide a source of competitive advantage or may be perceived to be necessary for employee recruitment and retention reasons.

To examine the sectoral distribution of schemes, 4 sectoral classifications are used. (These classifications are created from various sectoral categories, shown in parentheses below, that are used in the Cranet survey and retained in the database for this research.)

- *Manufacturing* (metal manufacturing; other manufacturing)
- *Other industry* (agriculture; energy and water; chemicals and mineral extraction/processing; building and civil engineering)
- *Finance and business services* (financial and business services)
- *Other services* (retail, distribution and hospitality/catering; transport and communications; personal and recreational services; health services; other services)

Note that education, local government and central government are excluded from the analysis throughout.

Figures 3 and 4 show the distribution of profit-sharing and employee share ownership schemes, respectively, in the 4 sectors identified. The following observations can be made:

- Broad-based profit-sharing and share ownership schemes are more common in finance and business services than in any other sector.
- In all sectors other than finance and business services, narrow-based share ownership schemes are slightly more common than broad-based schemes. In finance and business services, broad-based schemes are more widespread.
- Broad-based profit-sharing schemes are more prevalent than narrow-based schemes in all sectors. However, the gap between them is considerably smaller in manufacturing than in any other sector. The gap is largest in the case of the finance and business services sector, where there are 3 times as many broad-based schemes as narrow-based ones.

Figure 3 Sectoral distribution of profit-sharing schemes (%)

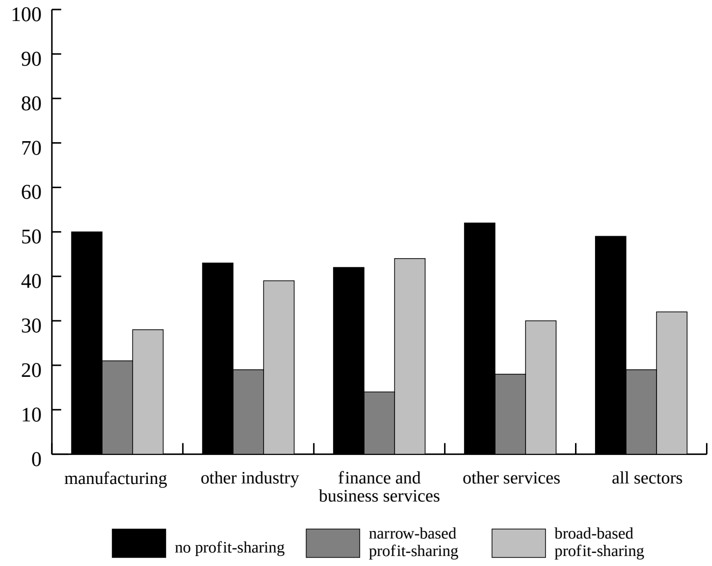
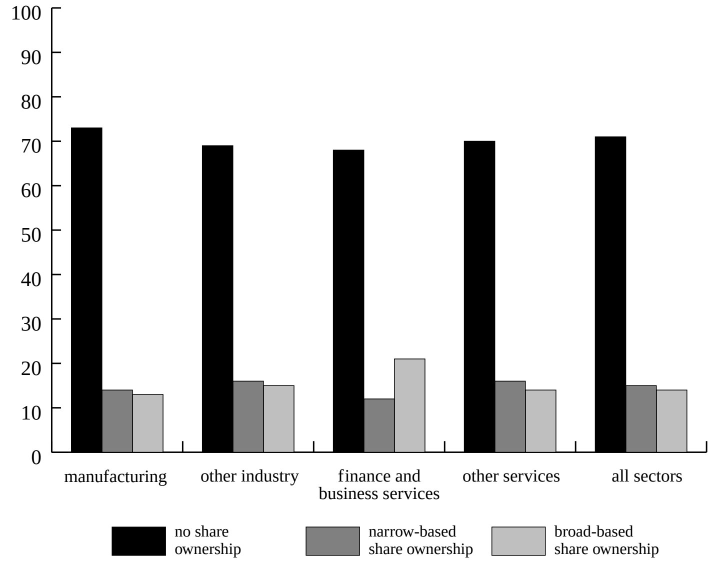


Figure 4 Sectoral distribution of share ownership schemes (%)



Ownership

The incidence of financial participation schemes may be related to whether business units are owned by companies based overseas or by companies in the same country. In a study using the UK Workplace Industrial Relations Survey (WIRS), Pendleton (1997) found that the vast majority of workplaces covered by broad-based share schemes were domestically owned. In contrast, there was no clear difference in ownership between workplaces without any financial participation and those with cash profit-sharing schemes.

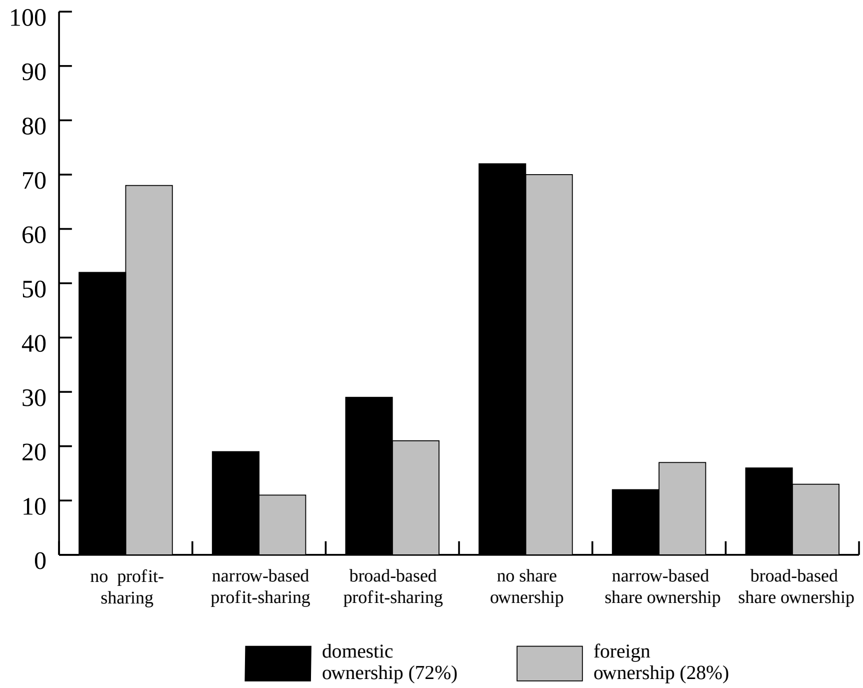
There are a number of predictions that can be made about the relationship between ownership and financial participation. Broad-based profit-sharing and share ownership schemes may be less common in foreign-owned companies since overseas owners may be less inclined to share residual earnings and ownership on such grounds as sentiment or solidarity. Furthermore, in the case of share schemes, there is an administrative complexity in that shares would most likely be traded on an exchange outside the country where the business unit is located and hence may be unattractive to employees. (An exception would be where the subsidiary has a traded share capital and is majority-owned by the overseas parent company.) In countries with legislation on share schemes, there may well be a requirement that schemes are limited to companies registered in the country of activity. In contrast, in countries without such legislation, it is feasible that financial participation will be more prevalent in foreign-owned companies, at least where the parent company is located in a country with legislation on share schemes or a well-established tradition of financial participation.

It can be hypothesised that foreign ownership may have opposite effects in the case of narrow-based financial participation schemes. It is widely argued in the literature on executive compensation that contingent reward schemes are adopted to resolve conflicts of interest between shareholders and managers. There may well be informational asymmetries between the two parties, with managers possessing better information about the company and its prospects than shareholders. To align managerial interests and to encourage the release of relevant information, shareholders or parent companies may institute contingent compensation packages that include share options or profit-sharing. On the grounds that informational asymmetries may be especially pronounced in the case of foreign ownership, narrow-based financial participation schemes may be more prevalent in foreign-owned companies, all other things being equal. However, the costs to managerial employees of receiving shares traded on a foreign exchange and without the tax benefits available in the host country may counteract this. These effects may be less powerful in the case of profit-sharing, where the liquidity costs are lower.

The suggestion, then, is that the relationship between ownership and financial participation might be diverse and complex, with opposite relationships observed between narrow-based and broad-based schemes, and with variation between countries. Figure 5 presents the findings.

Figure 5 indicates that foreign-owned business units are less likely to have either narrow-based or broad-based profit-sharing schemes than domestically owned business units. This is consistent with the prediction above for broad-based schemes, but not for narrow-based schemes.

Figure 5 Ownership distribution of business units with profit-sharing and share ownership schemes (%)



As can be seen in Figure 5, there is little overall difference in the incidence of share ownership schemes between domestic and foreign-owned business units. Narrow-based schemes, however, are relatively more prevalent in those that are foreign-owned. Broad-based schemes are more common in domestically owned business units. These findings are consistent with the predictions outlined at the beginning of this section.

We looked in more detail at the distribution of schemes by ownership in each country. The results are not conclusive (in many instances because of a small number of cases) and hence are not reported here. In the case of profit-sharing, the country results are broadly similar to those for Europe as a whole. But, in the case of share schemes, the country results are more suggestive (though not conclusive): there is some evidence that countries with legislative and policy support for share ownership (such as the UK and France) have a broadly similar incidence of narrow-based share schemes between domestic and foreign-owned companies. By contrast, in countries with little support for share ownership (such as Spain, Italy, Greece and Germany), the incidence of narrow-based schemes is higher in foreign-owned companies. We presume that foreign-owned companies bring the share ownership practices of their home countries with them in these instances.

Age

There are grounds for thinking that the age of a business unit is related to its propensity to use financial participation. Much attention has been paid recently to the use of share schemes among young companies in the information technology and communications industries. It is suggested that share options provide a useful form of reward for companies that have considerable potential, but have not yet secured a steady income stream (to pay ‘conventional’ wages and salaries). Furthermore, the success of these young companies is highly dependent on employee knowledge and share schemes provide a way of ‘locking-in’ key employees. In contrast, profit-sharing schemes are not likely to be so attractive to these companies since many are not yet earning profits.

An alternative perspective suggests that financial participation may be attractive to older companies in declining markets (Pérotin and Robinson, 1998). Financial participation may form a component of turn-around strategies since it may be perceived to have a useful role in bringing about employee co-operation with organisational changes.

Table 22 indicates there is very little difference in the average age of formation between business units with and without financial participation schemes. Thus, we conclude that lifecycle effects (in so far as these are reflected by the longevity of the business unit) are not important in explaining the incidence of financial participation.

Table 22 Age of business units with financial participation (average year of formation)

Financial participation	Without a scheme	With a narrow-based scheme	With a broad-based scheme
Profit-sharing scheme	1942	1935	1939
Share ownership scheme	1939	1944	1940

It should be borne in mind, however, when interpreting these results that the restriction of the analysis to business units with 200 employees or more will tend to exclude recently formed businesses, which will typically have a small number of employees. Thus, ‘dot.com’ companies, in which share schemes appear to be widespread, will not be captured by this survey.

Composition of workforce

The composition of a business unit’s workforce has been widely identified as an influence on the decision to use financial participation. An agency theory perspective, which provides the theoretical starting point for much of the research in this area, suggests that agency costs between the company and its employees may well be higher in some work environments than in others. In particular, collective reward systems may be beneficial in companies where the nature of production is such that individual output and performance is hard to monitor and control. Thus, on the basis that it is more difficult to identify the output of white collar workers, it is often predicted that financial participation will be more prevalent in white collar work environments. Much the same argument applies to professional employees. In a similar vein, Ben-Ner *et al* (2000) propose that financial participation may be useful in work environments characterised by complex and interdependent work tasks. Measures of workforce characteristics and composition, therefore, act as proxies for structural features of production organisation.

It is also possible to argue that other structural features of the workforce may be related to the use of financial participation, although the theoretical basis for these arguments is much weaker. The gender composition of the workforce may be negatively related to the use of profit-sharing and share ownership on the basis that employers view financial participation as less relevant to females. Some employers may view females as being less likely to remain in medium to long-term employment with the company and hence may doubt the utility of providing additional medium-term rewards.

In Tables 23 and 24, we examine the proportion of manual, clerical and professional staff in relation to financial participation schemes. We predict that these schemes will be less widespread in business units with a relatively high proportion of manual employees (blue collar), while they will be more widespread in business units with a relatively high proportion of clerical and professional employees (white collar). Results are also given for the proportion of females and of university graduates in the workforce, the latter on the basis that this provides a measure of the importance of knowledge-based production in the business units' activities.

Overall, the differences between business units with and without financial participation are not striking. Perhaps the clearest result is that business units with broad-based financial participation, whether profit-sharing or share ownership, have a lower proportion of manual employees than either business units without schemes or with narrow-based schemes. There is also a higher proportion of graduates and professional/technical employees in business units with broad-based schemes. There is virtually no difference in the gender composition of the workforce between any of the categories of business unit. Nor are there major differences in the proportion of clerical workers.

Table 23 Composition of workforce in business units with profit-sharing (average percentages)

Composition of workforce	Without a scheme	With narrow-based profit-sharing	With broad-based profit-sharing
Manual employees	51	51	43
Clerical employees	21	19	21
Professional/technical employees	21	22	24
Graduates	21	20	25
Female employees	34	34	33

Table 24 Composition of workforce in business units with share ownership (average percentages)

Composition of workforce	Without a scheme	With narrow-based share ownership	With broad-based share ownership
Manual employees	49	49	43
Clerical employees	21	19	20
Professional/technical employees	22	22	26
Graduates	21	24	27
Female employees	33	34	34

These results are consistent with theoretical predictions, although they cannot be viewed as proof of them. The differences in the proportion of graduates and professional employees are consistent with the argument that knowledge-based companies, where output is costly to monitor, are more likely to use financial participation. The lower proportions of manual employees in business units with broad-based financial participation may reflect characteristics of production processes, but may also reflect (in the case of share ownership) a lack of familiarity with equity-based rewards. These results may also indicate sectoral differences in the composition of the workforce and it will be important to control for this.

Determinants of the use of financial participation

Now that we know the main structural characteristics of business units with financial participation, we need to examine the relative importance of these characteristics in explaining the incidence of financial participation. To do this, a multivariate analysis is employed, using logistic regressions, which enables us to discern which structural characteristics are most important. In addition, it allows us to address two key policy questions:

- Are there key structural characteristics that influence the use of financial participation over and above country-specific factors?
- Are country-specific factors the most important determinants of the use of financial participation?

To address these questions, we ran a series of logistic regressions in which the dependent variable is the presence of the various types of financial participation scheme (*see Table 25*). The dependent variables are created by coding each of 4 new variables as 1 where the specified scheme is present, while all other cases are coded as 0. The assumption in this procedure is that narrow-based and broad-based schemes are fundamentally different, as are profit-sharing and employee share ownership. The main independent variables inserted in the regressions are dummies for country (with the UK being the reference country), foreign ownership, size, stock market listing, sector and a continuous variable measuring the proportion of blue collar (manual) employees.

The results from the 4 regressions in Table 25 are striking. It is clear that in the case of broad-based schemes, *country-specific factors* are extremely important. Ten of the 13 country dummies are significantly negative for share ownership in relation to the UK. Eight of the 13 are significantly related in the case of profit-sharing, with the dummies for France and the Netherlands showing positive signs. Overall, these results are strongly supportive of the argument that nationality, most probably through the influence of national legislation, is a very strong influence on the incidence of broad-based financial participation.

In contrast, the association between the country dummies and narrow-based schemes is much weaker. Most country dummies are not significantly related to the presence of narrow-based profit-sharing and share ownership. These results tend to support the argument that narrow-based and broad-based financial participation are distinct and separate phenomena.

Foreign ownership is significantly negatively related to the use of broad-based profit-sharing and employee share ownership, as predicted earlier in this chapter. However, foreign-owned companies are significantly more likely than domestically owned companies to use narrow-based share schemes. We cannot fully explain this, but two possibilities are that corporate governance problems are more acute in the case of foreign-owned companies and that foreign companies bring narrow-based practices with them from their country of origin.

Table 25 Determinants of the use of financial participation (summaries of logistic regression results)

	Narrow-based profit-sharing	**Broad-based profit-sharing**	**Narrow-based share ownership**	**Broad-based share ownership**
France	-	+***	+*	-***
Germany	+***	-***	-	-***
Sweden	+	-	+	-*
Spain	+*	-***	-	-***
Denmark	-	-*	-	-***
Netherlands	-	+***	+	-
Italy	+	-***	-	-***
Ireland	-	-	+	-
Portugal	+	-	-*	-**
Finland	+	-	+	-
Greece	+	-*	+	-*
Austria	+***	-	-	-***
Belgium	+	-***	+	-***
Foreign ownership	+	-***	+***	-***
Employees (business unit) log	-*	+*	+***	-
Employees (company) log	+	+	+	+***
Stock market listing	+	+**	+***	+***
Sector 1 — Industry	-	+	+	-
Sector 2 — Services	+	-	+	-
Sector 3 — Finance and business services	+	+	-	+
Proportion of manual employees	+	-***	+	-*
-2 log likelihood	1832.576	2251.769	1903.676	1683.354
Chi-square	600.557***	863.580***	158.759***	366.596***

Key:
+ = positive coefficient; - = negative coefficient; * = significant at 0.05
** = significant at 0.01; *** = significant at 0.001

The results for *company size* are broadly consistent with those in earlier literature. There is a strong positive relationship between the presence of broad-based share ownership schemes and overall company size. While the relationship with size is positive for other schemes, it is not significant. There is no theoretical reason to expect a positive size effect for narrow-based share schemes since the purpose of these schemes is probably to ally managerial interests with those of owners. This is not likely to vary with size (once stock market listing is controlled for). As for profit-sharing, where provision of direct incentives may be more important than in the case of share schemes, it seems possible that incentive-based reasons for using profit-sharing may be counter-balanced by the possibility of ‘free-rider’ effects.

The results for *business unit size* are not at all clear-cut, but this is to be expected since there is no clear theoretical reason for associating business unit size with the use of financial participation schemes.

As anticipated, a *stock market listing* is positively and significantly associated with the use of share ownership schemes. In fact, this is the most powerful single ‘determinant’ of the use of share schemes (as measured by the Wald statistic and odds-ratio), with listed companies being 3 times more likely to use share schemes than other companies. There is also a significant positive relationship with broad-based profit-sharing, which may reflect the fact that profit-sharing takes an equity-based form in some countries and circumstances.

The results for *sector* show that none of the sectoral dummies are significant in any of the 4 regressions, despite earlier cross-tabulation results which suggested that financial participation tends to be prevalent in the finance and business services sector. However, the proportion of manual employees is significantly lower in business units with broad-based financial participation and this possibly cancels out any sectoral influences.

Summary

When we use descriptive statistics, the following broad observations may be made on the structural characteristics of business units with financial participation:

- Business units with broad-based share ownership schemes seem to have similar characteristics to those with narrow-based schemes, as compared with business units without any share schemes.
- In contrast, business units with narrow-based profit-sharing schemes seem to have more in common with business units without profit-sharing than with those with broad-based schemes.

When we mount a multivariate analysis of the antecedents of the use of financial participation schemes and incorporate a variable recording countries, the picture is somewhat different. Nationality (location) is the single biggest ‘explanatory’ factor:

- The presence (or absence) of supportive legislation and tax concessions would appear to be very important in explaining the use of broad-based profit-sharing and share ownership schemes, but not narrow-based financial participation schemes, given the signs and significance of coefficients of country dummies.

- Domestic ownership is strongly associated with the use of broad-based schemes.
- Stock market listing is associated with share ownership schemes and broad-based profit-sharing.
- Activity sectors do not appear to be important.
- In the overall composition of the workforce, relatively small proportions of manual employees are associated with the use of broad-based schemes.

Chapter 6

Financial participation and other forms of employee participation

A word of caution is needed before exploring the Cranet data on the structures and processes of employee participation, both direct and representative, in business units with and without financial participation. Ideally, participation should be analysed in its institutional and cultural context, and in relation to the interests and objectives of those actors involved in introducing, operating and benefiting from them. A problem with comparative research (especially where quantitative approaches are used) is that apparently similar institutions or processes may have very different implications and meanings in different contexts and hence may have different relationships with other institutions. A good case in point here is union density: the very low levels of union density in France, for example, cannot necessarily be interpreted in the same way as in the UK (i.e. as a simple proxy for union power in the enterprise) because in the French system low density is combined with very high bargaining coverage (due to the presence of industry agreements). Thus, the relationship between union density rates and the presence of financial participation in comparative research would need to be treated with extreme caution.

Direct participation

The hypothesis guiding this part of the project is that financial participation and direct participation will tend to co-exist and that there will be strong positive relationships between them. The proposition is that procedures for employees to communicate to management and for the provision of information to employees will be more widespread in business units with financial participation. The findings on these two aspects are reported below.

Studies of direct participation usually distinguish between participation that is essentially informative and participation that gives employees some rights to influence management decisions. Thus, the EPOC study distinguishes between *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 — and *delegative participation* — in which management gives employees some decision-making powers, with increased discretion and responsibility to organise and do their jobs without immediate feedback (EPOC Research Group, 1997; Regalia, 1996). Other studies talk of 'upwards problem-solving' and 'downwards information' provision.

In the Cranet survey, there are questions concerning institutions and procedures for communication to employees, the institutions and procedures for employees to communicate to management, and the release of information on strategy, finance and work organisation from the company to employees. (Since virtually all of the business units in Cranet provided positive answers to questions on institutions and procedures for communication to employees, the value of reporting these results is limited.) Though there is no direct parallel in Cranet to delegative participation, these questions can be used to assess consultative participation.

Employee communications procedures

Tables 26 and 27 show the presence of employee communications procedures in business units with profit-sharing and share ownership schemes, respectively. The following findings are evident:

- There is a very high incidence of all forms of employee communications in all business units. (This probably arises from a response bias in Cranet which means that more 'sophisticated' business units are slightly over-represented.)
- In relation to profit-sharing, it is noticeable that attitude surveys and suggestion schemes are more common in business units with narrow-based schemes than in business units without schemes or in business units with broad-based schemes.
- On the whole, there is little difference in the incidence of communication procedures between business units without profit-sharing and those with broad-based profit-sharing.
- In contrast, business units with narrow-based and broad-based share ownership schemes are more similar to each other than to business units without schemes.
- The incidence of team briefing and attitude surveys is noticeably higher in workplaces with share schemes than in those without share schemes.

Table 26 Business units with profit-sharing schemes and procedures for employees to communicate views to management (%)

Communication procedure	Without profit-sharing	With narrow-based profit-sharing	With broad-based profit-sharing
Directly to senior managers	92	94	92
Regular workforce meetings	85	91	92
Team briefings	85	86	91
Attitude surveys	51	60	53
Suggestion schemes	55	73	54

Table 27 Business units with share ownership schemes and procedures for employees to communicate views to management (%)

Communication procedure	Without share ownership	With narrow-based share ownership	With broad-based share ownership
Directly to senior managers	92	93	96
Regular workforce meetings	88	91	88
Team briefings	85	93	93
Attitude surveys	57	62	60
Suggestion schemes	49	65	64

Whilst it is clear that most forms of direct participation and communication are used by most business units, irrespective of whether they have financial participation, it is interesting to consider the range of communication devices used by each business unit. This can provide a measure of the commitment of the business unit to employee communications (*see Tables 28 and 29*). To do this, we created a new variable, the value of which was achieved in each case by summing the presence of each of the individual forms of communication. (This has been a common approach to measuring the extent of human resource management practices in the recent ‘bundles’ literature.) The constituent items of the scale are the forms of communication reported in Tables 26 and 27 (e.g. team briefings, attitude surveys). A high value indicates the presence of a range of forms of communication and, therefore, suggests a high commitment to employee communications.

Table 28 Business units with profit-sharing schemes and a range of forms of employee communications (%)

Communication procedure	Without profit-sharing	With narrow-based profit-sharing	With broad-based profit-sharing
All types of communication	30	38	28
All minus 1	24	33	31
All minus 2	23	15	28
All minus 3	23	15	14

Note: The types of communication are direct communications to senior managers, regular workforce meetings, team briefings, attitude surveys and suggestion schemes.

Table 29 Business units with share ownership schemes and a range of forms of employee communications (%)

Communication procedure	Without share ownership	With narrow-based share ownership	With broad-based share ownership
All types of communication	27	41	38
All minus 1	28	26	31
All minus 2	24	21	19
All minus 3	21	13	12

Note: The types of communication are direct communications to senior managers, regular workforce meetings, team briefings, attitude surveys and suggestion schemes.

The results in Tables 28 and 29 are supportive of those in Tables 26 and 27. Business units with broad-based profit-sharing schemes have a similar distribution of communication procedures as business units without profit-sharing, whereas those with narrow-based profit-sharing are more likely to have all (or all bar one) forms of communication. In contrast, business units with both narrow- and broad-based share ownership schemes have more in common with each other than with business units without share schemes.

Overall, our tentative interpretation of this set of findings on employee communications is that broad-based profit-sharing may be used by business units as an 'automatic' mechanism to provide employee incentives and hence may even be used as a substitute for other ways of harnessing employee commitment and co-operation, such as employee direct participation. In contrast, the higher incidence of employee communications procedures in business units with narrow-based profit-sharing may be the outcome of managerial attempts to tap the knowledge of employees for their own enrichment. The evidence in relation to profit-sharing is, therefore, not consistent with the hypothesis advanced at the outset.

On the other hand, looking at the evidence in relation to share ownership schemes, the results are more consistent with the hypothesis. Business units with share ownership schemes seem to be more likely to have various forms of employee communications. There are a number of possible reasons for this. One is that, since share schemes operate separately from employment, business units tend to see them as a complement to employment-related initiatives (such as employee communications) rather than as a substitute. A second reason is that both share schemes and employee communications are separate outcomes from enlightened or sophisticated management practice. A third reason is that the implementation and administration of share schemes require extensive employee communications (to meet regulatory requirements) and this encourages the use of other forms of employee communication.

Provision of information to employees

A further set of questions in the Cranet survey asks respondents whether information on business strategy, financial performance and work organisation is provided to 4 occupational groups of employees (managers, professional/technical staff, clerical staff and manual staff). The responses to these questions were cross-tabulated with the financial participation categories to see whether there are differences in the provision of information between business units with and without financial participation. The results are presented in Tables 30 and 31.

The following observations can be made on Table 30:

- There is little difference between business units in relation to provision of information to managers. As would be expected, a very high proportion of managers are provided with information on business strategy, financial performance and work organisation.
- In all types of business units (whether with or without financial participation), managers are most likely to be briefed, followed by professional/technical staff, clerical staff and manual staff. Since this distribution might be said to reflect the traditional hierarchy in business organisations, it may be concluded that financial participation is not associated with radical restructuring of status relationships in companies and business units.

- Professional, clerical and manual groups are less likely to be briefed on business strategy in business units with narrow-based profit-sharing than in business units without profit-sharing. This is consistent with the perspective put forward by Alchian and Demsetz (1972): where some employees (typically managers) have remuneration linked to performance, they may be unwilling to involve employees since they believe this might weaken their capacity to exert control (which might worsen organisational performance and hence reduce their rewards).
- Professional, clerical and manual groups are more likely to be provided with information on financial performance in business units with any form of profit-sharing than in those without. This is especially the case with broad-based profit-sharing.
- There is little difference between business units in the provision of information on work organisation issues to all groups of staff. This is not surprising since work organisation might be viewed as being concerned with direct job and task issues.

Table 30 Business units with profit-sharing schemes which provide information to specified groups on specified topics (%)

Content type (employee group)	**Without profit-sharing**	**With narrow-based profit-sharing**	**With broad-based profit-sharing**
Management			
Strategy	91	96	97
Financial performance	90	96	96
Work organisation	83	83	89
Professional/Technical			
Strategy	56	49	59
Financial performance	66	79	82
Work organisation	78	80	85
Clerical			
Strategy	33	27	39
Financial performance	51	65	69
Work organisation	72	73	78
Manual			
Strategy	25	14	30
Financial performance	39	47	54
Work organisation	64	60	67

The results in Table 31 in relation to share ownership are not dissimilar to those for profit-sharing (*see Table 30*), but with the following qualifications:

- The provision of information to professional, clerical and manual staff is more similar between business units with narrow-based and broad-based share ownership than between business units with narrow-based and broad-based profit-sharing.

- Professional, clerical and manual staff are considerably more likely to be provided with information on financial performance in business units with broad-based share ownership schemes than in business units without share schemes.

Table 31 Business units with share ownership schemes which provide information to specified groups on specified topics (%)

Content type (employee group)	**Without share ownership**	**With narrow-based share ownership**	**With broad-based share ownership**
Management			
Strategy	93	98	97
Financial performance	91	96	97
Work organisation	83	87	90
Professional/Technical			
Strategy	53	66	58
Financial performance	69	83	85
Work organisation	79	83	84
Clerical			
Strategy	29	44	43
Financial performance	54	71	75
Work organisation	73	77	77
Manual			
Strategy	21	32	33
Financial performance	42	49	60
Work organisation	65	61	64

The following interpretative comments can be made about these results, in conjunction with those for the presence of employee communications procedures (*see Tables 26-29*).

- Business units with narrow-based profit-sharing are more likely to provide procedures to tap employee knowledge, but are unwilling to share information on business strategy with employees. They are, however, relatively willing to disclose information on financial performance. This set of results is consistent with a ‘Machiavellian’ interpretation — managers use information from employees for their own ends, but are reluctant to adopt procedures that might impede their ‘right to manage’.
- Business units with broad-based profit-sharing are more willing to share information on business strategy and financial performance than other business units, even though procedures for employee communications are not more developed than in other business units.
- Business units with either type of share ownership scheme tend to have more procedures for employee communications and to be more likely to disclose information to employees than business units without share schemes. The provision of information tends to be slightly more marked in the case of business units with broad-based schemes, especially in the case of information on financial performance to manual employees.

Representative participation

Relationships between financial participation and representative participation are likely to be complex because the latter is a complex phenomenon. Representative 'systems' are often multifaceted (such as the triple system of representation in France) and differ considerably between Member States. The Cranet survey asked for fairly limited information in this area since this was not a primary interest of the original research programme. There is a question on trade union density and two questions on the presence of works councils or other representative institutions for employee communications (one of which we are able to utilise). There is also a question on pay determination which links in with representative participation.

Trade union membership

Focusing on trade union membership, there are long-standing arguments that financial participation is antithetical to representative participation. Over the last 150 years, there are well-documented instances from several countries of the use of financial participation to discourage employee participation in unions. The argument goes that workers who participate in profits and ownership will come to perceive themselves as an integral part of the company, rather than mere factors of production. They will thus come to identify less with workers' organisations. This is especially acute in the case of employee share ownership because this blurs the fundamental distinction between capital and labour upon which unionisation is based. Furthermore, provision of these additional forms of remuneration will weaken institutions of collective wage determination because part of remuneration will come to be automatically related to company performance rather than, for example, to the cost of living.

To consider the relationship between financial participation and representative participation, we continue to distinguish between profit-sharing and employee share ownership. Although profit-sharing has often been used in the past to discourage trade union membership and activity, there are good reasons for arguing that profit-sharing and trade union activities might be complementary (*see Chapter 2*). Broad-based profit-sharing may be incorporated into the existing recipe of pay determination and collective bargaining rather than undermining, by itself, the prevailing institutions and practices of representative participation. However, there is no reason to expect such a relationship with narrow-based profit-sharing, where managers and higher executives are the main beneficiaries.

Employee share ownership, in contrast, can be seen as occurring in the 'ownership channel' of the company. As such, it appears entirely separate to collective institutions organised around employment. Share schemes might be used to weaken employment-based collective institutions by providing an alternative focus for employee attachments. As with profit-sharing, it is not clear whether there should be any relationship between unions and narrow-based share ownership.

These observations suggest that there may be a positive relationship between union representation and broad-based profit-sharing, but a negative one with broad-based share ownership.

In the Cranet survey, there is a single question on union membership. It asks 'What proportion of the business unit's employees are members of a union?' Six categories of answer are provided: 0%, 1-10%, 11-25%, 26-50%, 51-75% and 76-100%, plus a 'don't know' category. In the following analysis, we utilise a ranking procedure to convert these category variables into country-specific relative fractions. This has two benefits. Firstly, it enables a single union density variable to be entered into multivariate models without the use of dummies. Secondly, it controls for differences in average union density between each Member State, thereby enabling systematic cross-country comparisons. This overcomes the problem often found with comparative work in this area that substantial differences between Member States in the level of union membership are not fully controlled for.

In Table 32, we present summaries of the relationships between the processed variable for union density and the 4 forms of financial participation. The country-level results are derived from country-specific logistic regression models, where the financial participation scheme is the dependent variable. In addition to trade union density, variables are inserted to control for size, sector, ownership, stock market listing and composition of workforce. These control variables are the same as those independent variables utilised in the regressions reported in Table 25, with the exception that country dummies are not used in the country-specific regressions. The 'all countries' results, at the bottom of Table 32, record the relationship where a single regression is run for all countries combined (with controls for country included).

Table 32 Relationship between union density and forms of financial participation (summaries of logistic regression results)

	Average union density 1997 (ILO data)	**Broad-based profit-sharing**	**Narrow-based profit-sharing**	**Broad-based share schemes**	**Narrow-based share schemes**
Austria	39	-	+	-	-
Belgium	60	-	-	-	-
Denmark	76	+	+	+	-
Finland	78	+	+	+	-
France	10	-	-	-	-*
Germany	27	-	-*	-*	+
Greece	24	+	+	+	-
Ireland	44	+	-	-	-
Italy	37	+	-*	*n/a*	+
Netherlands	24	-	*n/a*	-*	-
Portugal	*n/a*	-	+	*n/a*	+
Spain	16	-	-	-*	-
Sweden	95	-	+	+	-
United Kingdom	33	+	-	+**	-**
All countries	***n/a***	**-**	**-*****	**+**	**-*****

Key:
\+ = relationship is positive - = relationship is negative * = relationship significant at 0.05
** = relationship significant at 0.01 *** = relationship significant at 0.001

The data presented in Table 32 indicates the following:

- There are no clear differences in union density between those business units with and without *broad-based profit-sharing* at country level. In no country is the relationship significant. Nor is the relationship significant when explored across countries at European level.
- On the whole, there are no significant relationships between union density and *narrow-based profit-sharing*. The exceptions are Germany and Italy, where there is a significant negative relationship (at 0.05) with union density.
- At European level, however, there is a highly significant negative relationship (at 0.001) between union density and narrow-based profit-sharing when the country-level data is combined.
- In most countries, the relationships between union density and *broad-based share schemes* are not significant. The exceptions are Germany, the Netherlands and Spain (where the relationship is negative, at 0.05) and the UK (where the relationship is positive, at 0.01).
- At European level, the relationship between union density and broad-based share schemes is not significant.
- In most countries, the relationships between union density and *narrow-based share schemes* are mainly insignificant, although France and the UK record significant negative relationships (at 0.05 and 0.01, respectively).
- At European level, there is a strong negative relationship between union density and narrow-based share schemes (at 0.001).

Overall, the results for broad-based profit-sharing or share ownership schemes indicate that union density levels are neither consistently nor strongly related to the use of either type of scheme. There is no clear support here for those arguments that broad-based financial participation will weaken trade union representation (at least as measured by density levels). Nor are there clear differences between the two types of financial participation, contrary to the suggestions at the start of this section.

In contrast, the results for narrow-based profit-sharing and share ownership schemes are striking. While significant relationships between scheme presence and union density are not observed in most countries, there is a very significant negative relationship between scheme presence and union density across Europe as a whole. If union membership levels are assumed to proxy for union strength, this suggests that strong unions are antithetical to narrow-based profit-sharing and share ownership schemes.

Our interpretation is that strong unions can inhibit managers from introducing performance-based remuneration that benefits only a small or narrow group of employees (typically managers themselves). In some instances, strong unions may encourage those managers seeking to use financial participation to widen participation to all or most employees. Certainly, the findings for share schemes in the UK are consistent with this interpretation (strong positive relationships for broad-based schemes, strong negative relationships for narrow-based schemes). A corollary explanation is that selective or narrow-based schemes are extensively used in those types of company that tend not to have trade union representation (such as start-ups or high-technology companies).

A different approach might point to a cultural explanation: managers in countries with high levels of union membership are more likely to be union members themselves, to accept a more partnership-oriented view of the work relationship, to be prepared to accept strong unions and to share the results of the organisation's activities with the workforce. We cannot fully explore this possibility with our data, but overall the results do not appear to be consistent with such a view. The highest proportions of broad-based schemes are found in those countries with the highest incidence of financial participation. These countries tend to have low (France) or medium levels (UK and Netherlands) of union density.

Representative institutions for employee communications

We may expect a positive relationship between the presence of works councils (or other representative institutions) and financial participation on the grounds that these institutions provide a representation mechanism for introducing company-level pay supplements. More generally, they may encourage a participative climate within the company that is conducive to the use of financial participation.

Unfortunately, there are a large number of missing responses in the Cranet survey to the question specifically on the presence of works councils, so we are unable to distinguish works councils from representative participation more generally. However, there is information available from two other questions, asking whether works councils or other representative institutions (such as unions) are used for employee communications, and these answers were cross-tabulated with the financial participation categories. As Tables 33 and 34 show, there is virtually no difference in the incidence of representative participation as far as share ownership schemes are concerned, but it is somewhat more common in business units with broad-based profit-sharing.

Table 33 Presence of representative institutions in business units with profit-sharing schemes (%)

Use of representative institution	Without profit-sharing	With narrow-based profit-sharing	With broad-based profit-sharing
Use of works councils/trade unions for receiving employee views	83	84	91
Use of works councils/trade unions to communicate to employees	85	87	92

Table 34 Presence of representative institutions in business units with share ownership schemes (%)

Use of representative institution	Without share ownership	With narrow-based share ownership	With broad-based share ownership
Use of works councils/trade unions for receiving employee views	86	86	87
Use of works councils/trade unions to communicate to employees	88	88	86

Most European countries in the study have 90% or more business units using representative institutions, such as works councils and trade unions, to communicate information about change to employees. The exceptions are the UK (69%), Denmark (86%), Ireland (60%), Portugal (50%), Greece (36%) and Austria (87%).

Pay determination

A further aspect to the relationship between financial participation and representative participation concerns collective institutions of pay determination. A widespread tendency across Europe over the last 10 years has been a decentralisation of collective bargaining from national, regional or sectoral institutions to company or establishment level**.** In many instances, this has not led to an abolition of institutions outside the company, but has shifted the main locus of pay determination (beyond the establishment of wage 'floors') to within the company. Since profit-sharing and share ownership are essentially company-level phenomena, we might expect positive relationships between company-level pay determination and the presence of financial participation.

The pay determination variable was created by collapsing several categories of a variable about the locus of pay determination into two — external and internal. Respondents could select more than one of the original categories (industry level, regional level, company level, establishment level, etc), reflecting the typical reality that pay determination occurs at more than one level. Where respondents indicated that pay was determined at several levels, including internally, this was coded as internal.

Most business units with broad-based profit-sharing determine pay internally, in whole or in part, for both clerical and manual staff (*see Table 35*). In contrast, 50% or less of business units without profit-sharing determine pay internally. In the case of broad-based share ownership schemes (*see Table 36*), the incidence of internal pay determination among business units is identical to that among those with broad-based profit-sharing, suggesting perhaps that similar processes are at work. The incidence of internal pay determination among the group without any share schemes is very similar to that of business units without profit-sharing.

Table 35 Internal pay determination in business units with profit-sharing schemes (%)

Occupational groups	Without profit-sharing	With narrow-based profit-sharing	With broad-based profit-sharing
Clerical staff	50	38	60
Manual staff	45	35	61

Table 36 Internal pay determination in business units with share ownership schemes (%)

Occupational groups	Without share ownership	With narrow-based share ownership	With broad-based share ownership
Clerical staff	49	54	61
Manual staff	45	52	61

The findings for broad-based profit-sharing may reflect several scenarios (*see Table 35*). One is that since profit share payments and rules are negotiated or set unilaterally within companies, business units or workplaces, this necessarily implies that at least some part of pay determination takes place internally to the company. Another scenario is that as pay determination is internalised to companies from external institutions (as has occurred widely in Europe), companies take the opportunity to attempt to link pay contingently to performance. In a similar vein, companies may perceive the need to provide additional payments to workers to justify and generate support for moving away from industry- or national-level institutions. Equally, the fact that 40% of business units with broad-based profit-sharing have remuneration set by external institutions suggests that profit-sharing may be used to create greater pay flexibility or to boost remuneration above prevailing industry levels (without generating 'fixed' future claims against the company).

It is interesting to note that most business units with narrow-based profit-sharing have remuneration for clerical and manual staff set externally and that the incidence of internal processes of pay determination is much lower than in business units with broad-based profit-sharing. In other words, those business units that provide profit-linked remuneration to managers (mainly) tend to have remuneration for most of their employees set externally. It is possible that this use of narrow-based profit-sharing is motivated by a desire to boost managerial remuneration without challenging the overall structure of current industry/national pay norms and relativities.

The main difference on pay determination between business units with either type of financial participation resides in the narrow-based schemes. Business units with narrow-based share ownership schemes are much more likely to have internalised pay determination than those business units with narrow-based profit-sharing. It is not clear why this is the case. One possibility is that there is a size effect at work. As discussed in Chapter 5, business units with share schemes typically belong to large companies. On the whole, larger companies tend to be more likely to bring pay determination in-house.

Chapter 7

Human resource management practices and financial participation

Financial participation may be associated with well-developed human resource management (HRM) policies and procedures for several reasons. This is partly because both may reflect the presence of a well-developed HRM function and partly because there may be synergies between financial participation and other HRM instruments. HRM instruments may have the same functions as the financial participation schemes. Appraisal systems may be directed towards better performance and career development, while training systems may focus on career development with impact on retention and commitment.

An important strand of the recent literature on HRM views financial participation schemes as elements of high-performance work systems, which are composed of several interacting HRM instruments (Becker and Huselid, 1998). This literature talks of 'bundles' of human resource measures which, by acting positively on each other, lead to performance outcomes which are greater than would be achieved by the sum of each measure independently. Financial participation schemes are viewed as part of a human resources system that aligns interests and directs behaviour to better performance. In this view, all HR measures (recruitment, selection, training and development, appraisal and compensation) may fit together and work towards attaining enhancement of performance.

HRM strategy and policy

A precondition for HR instruments, including financial participation, may be the degree of development and the status of the HR function. A well-developed HR function may help to provide the administrative resources to introduce and operate a financial participation scheme. Furthermore, a high status HRM function should be able to inculcate business strategies and high-level decision-making with HRM policies, of which financial participation is one. The higher the organisational level of the HR function, the more likely it is to be able to bring about the introduction of employee share ownership because of its proximity to the corporate level where decisions about profits and share issues are made.

The research results make clear that if a company has a written HR strategy, it tends to have a financial participation scheme, whereas in companies with no HR strategy there is less diffusion of either profit-sharing or share ownership schemes. Other elements, such as an HR presence on the board, were not statistically correlated with either type of scheme.

Training

One might expect a reciprocity of relationships between financial participation and other HRM measures. If employees are to accept a range of performance-enhancing managerial initiatives, such as performance appraisal, it is arguable that they should receive a pay-off from any improvements in performance that might result. Equally, if employees are to share in the performance of the company, it is arguable that they should actively contribute to performance outcomes. We therefore expect to find companies with financial participation also having a range of other HRM features, such as higher-than-average training expenditure and comprehensive performance appraisal systems.

The relationship between financial participation and training is of particular interest. A body of theoretical work is emerging which argues that employees should have equal rights to owners and investors because employees also make investments and incur potential opportunity costs from their investment (Blair, 1995 and 1999). On the basis of these arguments, we expect that there will be a positive relationship between the presence of financial participation schemes and training. To investigate this, we used two main variables: the proportion of employees receiving training in the last year and the proportion of the annual wages bill spent on training employees.

Tables 37 and 38 present the results for share ownership schemes. As can be seen, the associations between the variables and the presence of financial participation are as predicted. Those business units that either train more employees or spend a higher proportion of the wages bill on training tend to have broad-based share schemes. In the case of business units where more than 60% of employees received training last year, the proportion of business units with broad-based share schemes is 19%. The percentage of business units with schemes where less than 30% received training is 10%. Equally, in the case of business units that spent more than 4% of the wages bill on training, the proportion of business units with broad-based schemes is 20%, whereas the percentage for business units that spent less than 2% of the wages bill is 10%.

It is interesting to note that the association between narrow-based schemes and the two measures of training is less strong. Business units that do most training are more likely to have narrow-based schemes than business units that do least, but the difference in incidence is not as marked as in the case of broad-based schemes. It is also worth noting that business units that train least are more likely to have a narrow-based scheme than a broad-based scheme, but this is reversed among high-training business units.

Table 37 Employees receiving training in the last year in relation to share ownership schemes (%)

Percentage of employees receiving training	Share ownership schemes		
	No schemes	**Narrow-based**	**Broad-based**
<30%	77	13	10
30% – 60%	67	17	16
>60%	64	17	19
Average	69	16	15

Note: Kendall's tau-b significant for <.001

Table 38 Proportion of annual wages bill spent on training in the last year in relation to share ownership schemes (%)

Training budget as percentage of wages bill	Share ownership schemes		
	No schemes	**Narrow-based**	**Broad-based**
<2%	75	15	10
2% – 4%	69	16	15
>4%	63	17	20
Average	69	16	15

Note: Kendall's tau-b significant for <.001

Tables 37 and 38 report the results for the 14 countries combined. When we disaggregate by country, these relationships continue to be significant. The main exception is Spain, where there is a negative relationship between the proportion of the wages bill spent on training and the presence of broad-based share schemes. We are unable to tell from the data why this is the case.

Turning to profit-sharing schemes (*see Tables 39 and 40*), we find similar positive relationships between training and these schemes as we found with share ownership schemes. When the proportion of employees receiving training is high or the annual budget devoted to training is relatively high, business units are more likely to have broad-based profit-sharing schemes than when there is less commitment to training. This is especially marked when the training variable is the proportion of budget spent on training. It is interesting to note that the proportion of business units with narrow-based profit-sharing varies little in relation to the training measures.

Again, Tables 39 and 40 show the results for the 14 countries combined. When we disaggregate them, the relationships between financial participation and training are similar to those presented in Tables 37 and 38. The exceptions are the Netherlands and France, where there is a negative relationship between the proportion of employees receiving training and profit-sharing systems.

In these countries, the higher the proportion of employees of the business units receiving training, the less likely is profit-sharing to be found in these organisations. It is notable that both countries have a high incidence of profit-sharing, supported by extensive legislation and tax concessions, and that France is one of the few countries with legislation affecting company spending on training. We believe that the presence of the legislation and tax concessions distorts the relationship between financial participation and training.

Table 39 Proportion of employees receiving training in the last year in relation to profit-sharing schemes (%)

Percentage of employees receiving training	**Profit-sharing schemes**		
	No schemes	**Narrow-based**	**Broad-based**
<30%	63	9	28
30% – 60%	46	9	45
>60%	55	9	36
Average	55	9	36

Note: Kendall’s tau-b significant for >.001

Table 40 Proportion of annual wages bill spent on training in the last year in relation to profit-sharing schemes (%)

Training budget as percentage of wages bill	**Profit-sharing schemes**		
	No schemes	**Narrow-based**	**Broad-based**
<2%	68	12	20
2% – 4%	48	7	45
>4%	34	10	56
Average	50	10	40

Note: Kendall’s tau-b significant for >.001

Overall, the results from this part of the investigation are consistent with the predictions outlined at the beginning of this section. Business units that do most training are most likely to have a broad-based financial participation scheme. This indicates that managers do not attempt to capture exclusively the benefits of training (via narrow-based schemes), but rather share them with the workforce.

We attempted to explore the relationship between training and financial participation more precisely by using multivariate methods. We mounted logistic regressions with the presence of broad-based schemes as dependent variables and training variables as independent variables. In addition to the two measures of training used above, we used two other measures of a business unit’s commitment to training and sophistication in training activity. One variable is a simple measure (yes = 1; no = 0) of whether business units actively monitor the effectiveness of training. The other is a ‘yes/no’ measure of whether business units evaluate training in terms of its impact on organisational performance. The results are presented in Table 41.

Table 41 Predictors of broad-based share ownership and profit-sharing schemes in relation to training (logistic regression)

Dependent variable: Broad-based share ownership schemes	
Proportion of employees receiving training	n.s
Annual budget spend (% wages bill)	+**
Monitor effectiveness of training	+**
Analyse training for performance appraisal	+**

Dependent variable: Broad-based profit-sharing schemes	
Constant	+***
Proportion of employees receiving training	n.s.
Annual budget spend (% wages bill)	+***
Monitor effectiveness of training	n.s.
Analyse training for performance appraisal	n.s.

Key:
+ = relationship is positive – = relationship is negative * = relationship significant at 0.05
** = relationship significant at 0.01 *** = relationship significant at 0.001

Most training variables have a significant relationship with the presence of broad-based share schemes, the exception being the proportion of employees receiving training. This set of results may be interpreted as indicating that not only do business units with share ownership schemes do more training, but they also are more 'sophisticated' in their HR policies (i.e. they evaluate their activities). In the case of broad-based profit-sharing, the only variable that is significant is the proportion of the wages bill devoted to training. This suggests a complementarity between profit-sharing and the extent of training, but implies that business units with profit-sharing are not as sophisticated as those with share schemes in their approach to HRM. This finding is consistent with earlier findings on employee participation and communication (*see Chapter 6*).

Appraisal systems

A question linked to the company-specific investment argument is whether companies that use financial participation are more inclined to monitor the development and behaviour of employees so as to secure high levels of performance. In this investigation, we looked into the use of appraisal systems in business units with and without financial participation. More specifically, we investigated the relationship between the objectives of appraisal systems and financial participation. Respondents were asked whether performance appraisal was used to determine a range of outcomes. Each question was posed separately as a 'yes/no' question, with the questions referring to individual training needs, organisational training needs, career development and individual performance-related pay.

The results show no clear relationships with the objectives of 'career development' and 'organisational training needs', and hence are not reported here. The use of appraisal systems for determining individual training needs and individual performance-related pay do appear to be associated with financial participation. The results are given in Tables *42-45*.

Tables 42 and 43 show that, in the case of share ownership schemes (both narrow- and broad-based), there is a tendency towards the use of appraisal systems to determine individual training needs. We may conclude that for such schemes, there is more emphasis on HR development. In the case of profit-sharing, this relationship only holds for broad-based schemes.

Table 42 Share ownership schemes and use of appraisal systems to determine individual training needs (%)

Use of appraisal to determine training needs	Share ownership schemes			
	None	**Narrow**	**Broad**	**Average**
No	33	15	16	21
Yes	67	85	84	79

Table 43 Profit-sharing schemes and use of appraisal systems to determine individual training needs (%)

Use of appraisal to determine training needs	Profit-sharing schemes			
	None	**Narrow**	**Broad**	**Average**
No	31	40	16	29
Yes	69	60	84	71

Tables 44 and 45 show that the tendency to use appraisal systems to determine individual performance-related pay is linked to the use of financial participation. This is especially the case with broad-based schemes. In other words, in business units that implemented broad-based financial participation schemes, the appraisal system is more often used to determine performance-related pay.

Table 44 Share ownership schemes and use of appraisal systems to determine individual performance-related pay (%)

Use of appraisal to determine performance-related pay	Share ownership schemes			
	None	**Narrow**	**Broad**	**Average**
No	54	45	44	51
Yes	46	55	56	49

Table 45 Profit-sharing schemes and use of appraisal systems to determine individual performance-related pay (%)

Use of appraisal to determine performance-related pay	**Profit-sharing schemes**			
	None	**Narrow**	**Broad**	**Average**
No	55	52	44	50
Yes	45	48	56	50

As before, we mounted logistic regressions of all selected primary objectives of appraisal systems in relation to broad-based financial participation schemes. The results in Table 46 show that the use of appraisal to determine individual training needs has a significant effect. This means that in companies where the appraisal system is more used to determine individual training needs, the chance of finding broad-based share ownership schemes and broad-based profit-sharing schemes is larger than in other companies. Again, this is consistent with the use of financial participation to support and protect investments in training.

Table 46 Predictors of broad-based share ownership and profit-sharing schemes in relation to appraisal systems (logistic regression)

Dependent variable: Broad-based share ownership schemes	
Appraisal for individual training needs	+***
Appraisal for organisational training needs	n.s.
Appraisal for performance-related pay	n.s.

Dependent variable: Broad-based profit-sharing schemes	
Appraisal for individual training needs	+***
Appraisal for organisational training needs	n.s.
Appraisal for performance-related pay	+**

Key:
+ = relationship is positive – = relationship is negative * = relationship significant at 0.05
** = relationship significant at 0.01 *** = relationship significant at 0.001

From Table 46, it is also clear that broad-based profit-sharing schemes are supported by the use of appraisal systems for performance-related pay. This relationship is not shown in the case of broad-based share ownership schemes. This points to the embeddedness of profit-sharing in a system of performance-related HR measures. It may also suggest a culture of linking pay to performance.

Chapter 8 Conclusions

Incidence of financial participation

Generally, during the 1990s, financial participation became more widespread in European business units with more than 200 employees. During this period, companies implemented profit-sharing and employee share ownership schemes for management and, to a lesser extent, for other categories of personnel. About half of the share ownership schemes are broad-based, all-employee schemes and the other half are narrow-based, selective schemes, implemented for management and higher graded staff only. In the case of profit-sharing schemes, more than 80% are broad-based.

Viewing the developments within 14 EU Member States, the pattern is that a number of countries experienced sharp increases in the proportion of companies using these schemes, especially in the second half of the 1990s, while within others there was not much change or even a slight decrease. In the UK, the development of both schemes seems to have slowed down or stabilised; indeed, for some categories there is even a decrease in the proportion of companies using financial participation schemes (especially for management). France has high levels of profit-sharing schemes and seems to have experienced a stable development or slight decrease in diffusion. On the other hand, French companies appear to be adopting share schemes: the proportion of companies with such schemes more than doubled during the 1990s. Strong diffusion of most schemes was found in the Netherlands and Finland. Most other European countries experienced strong increases in the use of financial participation for management and professional staff, with lesser or no increases for clerical and manual personnel.

These findings provide support for the argument advanced in the literature (PEPPER reports, 1991 and 1996; Vaughan-Whitehead, 1995) that legislation and tax concessions have a powerful impact on the use of financial participation schemes. As we have seen, schemes are most common where there is extensive legislation and/or tax concessions. For example, the incidence of profit-sharing in France is especially high due to it being compulsory for companies with more than 50 employees. Similarly, the incidence of share ownership schemes is highest in the UK, with its extensive raft of legislation and fiscal concessions. Thus, the introduction of legislation seems to encourage the growth of financial participation schemes. This has been clearly demonstrated in the case of the Netherlands, where strong growth in profit-sharing and share ownership schemes in the 1990s mirrored the passing of legislation on these topics.

When we mount a multivariate analysis of the ‘determinants’ of the use of financial participation schemes and incorporate a variable recording countries, the picture is somewhat different. The presence (or absence) of supportive legislation and tax concessions would appear to be very important in explaining the use of broad-based profit-sharing and employee share ownership schemes, but not narrow-based financial participation schemes, given the signs and significance of coefficients of country dummies.

Characteristics of business units with financial participation

It is clear that in the case of broad-based schemes, *country-specific factors* are extremely important. Overall, the results are strongly supportive of the argument that nationality, most probably through the influence of national legislation, is a very strong influence on the incidence of broad-based financial participation. In contrast, the association between the country dummies and narrow-based schemes is much weaker. Most country dummies are not significantly related to the presence of narrow-based profit-sharing and share ownership. These results tend to support the argument that narrow-based and broad-based financial participation are distinct and separate phenomena.

Foreign ownership is significantly negatively related to the use of broad-based profit-sharing and employee share ownership. However, foreign-owned companies are significantly more likely than domestically owned companies to use narrow-based share schemes. We cannot fully explain this, but two possibilities are that corporate governance problems are more acute in the case of foreign-owned companies and that foreign companies bring narrow-based practices with them from their country of origin.

The results for *company size* are broadly consistent with those in earlier literature. There is a strong positive relationship between the presence of broad-based share ownership schemes and overall company size. While the relationship with size is positive for other schemes, it is not significant. There is no theoretical reason to expect a positive size effect for narrow-based share schemes since the purpose of these schemes is probably to ally managerial interests with those of owners. This is not likely to vary with size (once stock market listing is controlled for). As for profit-sharing, where provision of direct incentives may be more important than in the case of share schemes, it seems possible that incentive-based reasons for using profit-sharing may be counter-balanced by the possibility of ‘free-rider’ effects.

The results for *business unit size* are not at all clear-cut, but this is to be expected since there is no clear theoretical reason for associating business unit size with the use of financial participation schemes.

As anticipated, a *stock market listing* is positively and significantly associated with the use of share ownership schemes. In fact, this is the most powerful single 'determinant' of the use of share schemes (as measured by the Wald statistic and odds-ratio), with listed companies being 3 times more likely to use share schemes than other companies. There is also a significant positive relationship with broad-based profit-sharing, which may reflect the fact that profit-sharing takes an equity-based form in some countries and circumstances.

None of the *sector* variables are significantly related to financial participation. However, the proportion of manual employees is significantly lower in business units with broad-based financial participation and this possibly cancels out any sectoral influences.

To sum up, the main structural characteristics of companies using financial participation are broadly as follows:

Larger companies: There is a strong positive relationship between the use of broad-based share ownership schemes and overall company size. However, while the relationship with size is positive for other schemes, it is not significant. As expected, where a company has a stock market listing, this has a significant association with the use of share schemes. There is also a strong positive relationship to broad-based profit-sharing, which may reflect the fact that profit-sharing takes an equity-based form in some countries and under certain circumstances.

Better employee communications: Companies with either broad-based or narrow-based share ownership schemes tend to communicate information on corporate strategy and financial issues more than companies without any scheme. Companies with broad-based profit-sharing are also relatively more willing to release such information. In contrast, companies with only narrow-based profit-sharing are less communicative and relatively less keen to share information on strategic issues.

More training: There is a clear relationship between forms of financial participation and the human resource management measure of training. From the company's point of view, the use of financial participation helps to protect the value of its investment in the training of its workforce. The results show that employee training and subsequent appraisal of employee development get a greater level of attention and investment in companies with share ownership schemes. This supports the notion that companies are interested in protecting their investment in the workforce and human capital development through a combined use of training, appraisal and share schemes.

Higher qualified workforce: Related to the findings on training, companies with broad-based financial participation schemes tend to have a higher qualified workforce than companies without any share scheme. The proportion of graduates among the workforce in companies with broad-based schemes is more than 25%, whereas the proportion is 21% in companies with no schemes. Furthermore, the proportion of professional staff is also higher in companies with broad-based schemes, with a lower proportion of manual personnel in these companies.

Employee participation and communication

The proposition guiding the analysis of employee participation and communication was that business units with financial participation would be more communicative and participative than other business units. This was partially borne out. To summarise the findings:

- Business units with either broad-based or narrow-based share schemes tended to communicate more than business units without a scheme. This might be due to sophisticated management, the need (often legally required) to impart information on share schemes or a perceived complementarity between the two forms of participation.
- In contrast, business units with broad-based profit-sharing tended to be less communicative. We speculated that this might be due to the use of profit-sharing as an ‘automatic’ mechanism to improve employee performance in lieu of direct participation and communication.
- On the other hand, business units with narrow-based profit-sharing schemes were more communicative. This might be due to managerial strategies to tap employee knowledge for their own gain.

In terms of the content of *information provision to employees*:

- Business units with any type of share scheme are more likely to release information on strategy and finances to employees than business units without schemes.
- Business units with broad-based profit-sharing are also relatively willing to release this information.
- In contrast, business units with narrow-based profit-sharing are relatively less keen to share information on strategy.

In terms of *trade union membership*:

- There do not appear to be consistent or strong relationships between union density and broad-based financial participation.
- However, negative relationships may be observed between broad-based share ownership and density in Germany, the Netherlands and Spain, while there is a positive relationship in the UK.
- In the case of narrow-based financial participation, the results are far more suggestive. Across Europe as a whole, there are significant negative relationships between narrow-based schemes and union density, suggesting that union power (as measured by density) discourages selective financial participation.

In terms of *pay determination*:

- Business units with broad-based financial participation are more likely to have internalised pay determination than business units without schemes.

- This is also true of business units with narrow-based share schemes, but not for those with narrow-based profit-sharing schemes.
- This implies that the development of financial participation is broadly consistent with the trend towards internalised pay determination in many European countries in recent years.

HRM and financial participation

The final part of the analysis consisted of an investigation into the relationships between HR instruments and financial participation. This analysis was guided by the proposition that there is a reciprocity of relationships between financial participation and other human resource management (HRM) measures. If employees are to accept a range of performance-enhancing managerial initiatives, such as performance appraisal, it is arguable that they should receive a pay-off from any improvements in performance that might result. Equally, if employees are to share in the performance of the company, it is arguable that they should actively contribute to performance outcomes. We therefore expect to find companies with financial participation also having a range of other HRM features, such as higher-than-average training expenditure and comprehensive performance appraisal systems.

The relationship between financial participation and training is of particular interest. A body of theoretical work is emerging which argues that employees should have equal rights to owners and investors because employees also make investments and incur potential opportunity costs from their investment (Blair, 1995 and 1999). The argument goes that workers invest their human capital in the companies that employ them. By remaining with one employer and receiving training appropriate for that employment, they suffer opportunity costs in so far as better opportunities may be available in other companies. They also bear risk in that managements or owners may opportunistically capture the benefits resulting from employee investments. The corollary of this is that employees should receive a dividend on their investment in much the same way as private investors.

On the basis of these arguments, there should be a clear relationship between financial participation and training. To encourage employees to receive company-specific training, employees should be guaranteed a pay-off. The presence of financial participation can be viewed as a signal that managerial opportunism (i.e. that managers usurp all the benefits of training) will be constrained. From the company’s point of view, the use of financial participation helps to protect the value of investments made by the company in employee training. In so far as financial participation schemes frequently have deferral periods, the use of financial participation binds the employee to the company at least in the medium term.

The results show that training of employees and the subsequent appraisal of their development is indeed related to share ownership schemes. This supports the notion that companies try to protect human capital development through the combined use of training, appraisals and share schemes. The results also show that profit-sharing schemes are related to individual performance-related pay measures, which points to the possible embeddedness of profit-sharing in a system of performance-related HR measures.

Profiles of business units with financial participation

Based on the characteristics of business units using financial participation, we can now produce stylised profiles of typical business units likely to have profit-sharing and share ownership schemes, with the different types of coverage (narrow- or broad-based). These can be portrayed as follows and are summarised in Table 47:

Narrow-based profit-sharing: Business units with narrow-based profit-sharing do not differ much in size to those without profit-sharing. This form of profit-sharing is very slightly less common among very large companies than small companies. There are no clear sectoral differences in the distribution of narrow-based profit-sharing, but it is somewhat less common in the finance and business services sector and slightly more common in manufacturing. Business units are likely to be domestically owned rather than foreign-owned. The composition of the workforce is virtually identical to business units without narrow-based profit-sharing.

Broad-based profit-sharing: On the whole, companies with broad-based profit-sharing are substantially larger than those without profit-sharing or with narrow-based profit-sharing. Broad-based profit-sharing is much more common among large companies than it is among small or medium-sized ones. These companies are more likely to be in the finance and business services sector than in manufacturing or other services. They are highly likely to be domestically owned. They tend to have a lower proportion of manual employees and slightly higher proportions of professional/technical staff and university graduates.

Narrow-based share ownership: Companies with narrow-based share ownership are substantially larger on average than those without share schemes. Narrow-based share ownership is about twice as common among very large companies than among those classed here as small. Companies are more or less equally distributed between business sectors, although they are slightly less common in finance and business services. Narrow-based share schemes are relatively more common in foreign-owned companies than in domestically owned ones, but overall most companies are owned domestically. The composition of the workforce in these companies is almost identical to that in companies without any share schemes.

Broad-based share ownership: The average size of companies with broad-based share ownership schemes is almost the same as those with narrow-based share ownership schemes, and considerably larger than companies without share schemes. They are distributed more or less equally among business sectors, with the exception that they are more widespread in finance and business services. They are much more likely to be domestically owned than foreign. They have a lower proportion of manual employees than companies without share schemes or with narrow-based schemes. They have a higher proportion of professional/technical employees and university graduates.

Table 47 Summary of characteristics of business units with financial participation

Characteristic of business unit	Narrow-based profit-sharing	Broad-based profit-sharing	Narrow-based share ownership	Broad-based share ownership
Median size	1,300	4,500	8,000	8,331
Proportion of ‘manufacturing’	21	28	14	13
Proportion of ‘other industry’	19	39	16	15
Proportion of ‘finance and business services’	14	44	12	21
Proportion of ‘other services’	18	30	16	14
Proportion of manual employees	51	43	49	43
Proportion of professional/ technical employees	22	24	22	26
Proportion of graduates	20	25	24	27
Proportion of female employees	34	33	34	34

Note: The financial participation categories are not exclusive (i.e. an individual business unit may be found in more than one financial participation category), thus rows do not add up to 100%.

Overall, these results suggest that there are important differences between profit-sharing and share ownership. In terms of key structural characteristics (company size and sector), business units with narrow-based profit-sharing are more similar to business units without profit-sharing than to those with broad-based profit-sharing. Here, then, the dividing line is between business units with broad-based profit-sharing schemes and the rest.

In contrast, business units with narrow-based share ownership schemes are very similar to those with broad-based share schemes, so here the main divide is between business units with no share schemes and those with any form of share scheme.

When we examine the characteristics of the workforce in business units with financial participation, the differences between those with share ownership schemes and those with profit-sharing schemes are very small. However, business units with broad-based profit-sharing seem to be more similar in a number of dimensions to business units with share ownership schemes than to business units with narrow-based profit-sharing.

Next steps

The obvious next step is to develop a model of the main determinants of financial participation schemes and to test it using appropriate multivariate techniques. The authors hope to have the opportunity to do this in the near future.

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Appendix

Cranfield Centre for European Human Resource Management

Background

Cranfield Centre for European Human Resource Management (HRM) is the co-ordinator of a global network (Cranet-E/G) of expert universities and business schools in over 30 countries who have been co-operating over several years to produce cross country research providing comparative evidence and data on all aspects of human resource management policies and practices.

In the past, Cranfield Centre has done evaluations and project assignments at a European level for FORCE, the Anglo-German Foundation, World Federation of Personnel Management Associations (WFPMA), the European Association of Personnel Management, the Multi-National Business Forum (sourced for ILO), the Employment and Research DGs of the European Commission, and the European Foundation for the Improvement of Living and Working Conditions.

The Cranfield Network on European HRM was established in 1989, with 5 of the founder countries co-ordinating the initial organisational survey on 'International Strategic Human Resource Management'. Since then, the Network has grown over a 12-year period and has 28 member countries producing comparative sets of data (and 3 associate members in Central and Eastern Europe). In 1995, 15 countries contributed to the fourth round of the survey, a further 4 contributed in 1996 and 3 more ran the survey in 1997. A 1999/2000 survey was completed in 28 of the countries, with over 8,000 organisations participating. Since its inception, more than 29,000 employing organisations worldwide have contributed to the Cranet data.

Co-ordination of this work is carried out at the Centre for European HRM in Cranfield School of Management, which is part of Manchester's Cranfield University. Five people in the Centre have responsibility for the survey and its dissemination. Cranfield also holds overall responsibility for the liaison and general database access across the Network.

The survey has been funded by various methods. The start-up costs were covered by the management consultants, Price Waterhouse. Institutional support, contract research income and grants from foundations have enabled the survey to continue.

The core content of the survey covered:

- The human resource function
- Human resource management strategy

- Recruitment and selection
- Training and development
- Pay and benefits
- Employee relations and communication
- Flexibility
- Equal opportunities

Longitudinal data is held for a number of countries.

France, Germany (w), Spain, Sweden and the UK have 4 rounds of data. Denmark, Germany (e), the Netherlands and Norway have 3 rounds of data. Finland, Ireland, Italy, Switzerland and Turkey have 2 rounds of data. Belgium has been in the Network since 1990, but completed its first survey in 1995. Greece and the Czech Republic ran the survey in 1996 to complete 2 rounds, with Bulgaria and Hungary participating during that year for the first time. Poland, Australia, New Zealand and Cyprus ran the survey for the first time in 1997. In 1999, countries participating for the first time included Israel, Japan, South Africa, Taiwan and Tunisia, with the USA, Russia, India, Estonia and Slovakia in the process of carrying out their first Cranet survey. Austria and Portugal finished their second round of the survey in 2000.

Several member organisations are also involved in the Centre for Strategic Trade Union Management, a closely related network of expertise.

The Cranfield Network

A major value of Cranet-E/G is the Network itself. This is now an established research collaboration with a proven track record of collecting powerful representative data on a continuing basis, undertaking rigorous analysis and disseminating high-quality results. The insistence on having a significant academic institution handling the research in each country (even if many of them work closely with practitioners) has ensured that the Network includes extensive language skills and has a detailed understanding of the situation in each country, thereby ensuring not only that the survey instrument is not ethnocentric, but also that the analysis is informed by careful understanding of context. The members of the Network have now worked together over many years, collaborating on a number of research projects — the most substantial of which remains the Cranet survey — as well as on teaching and the dissemination of research results.

The Network has unique data. This is the most substantial, comparative, continuing research programme of its kind, producing factual evidence from across Europe. It is the only major survey of this kind, focused on the organisational level rather than the workplace or overall economy level.

The Network has an excellent track record on dissemination of research findings through newspapers, practitioner press, academic journals and books, as well as through conferences and seminars and in teaching. Cranfield has its own publishing house.

The Network is composed of public universities in each country. Though many of them work closely with practitioner associations, employers and trade unions, or liase closely with government specialists, the Network is independent. Funding is raised separately in each country and, although this has created difficulties in resourcing, the Network’s independence is clear.

As independent academic institutions, the members of the Network are acceptable to all the social partners and frequently work with both managerial groups and trade unions. The Centre for European HRM at Cranfield School of Management, in particular, also houses a unit for the Strategic Management of Trade Unions, providing managerial skills to trade unions and to trade unions confederations in the UK, Sweden, Finland, the Netherlands and Italy.

In summary, the Network has a proven ability to deliver robust analysis and policy-centred intelligence on the basis of unique evidence of actual practice.

Cranfield Network on European HRM (Cranet-E)

EU countries

Austria	Vienna University of Economics and Business Administration (Professor Wolfgang Mayrhofer)
Belgium	Vlerick Leuven Gent Management School (Professor Dirk Buyens)
Denmark	Copenhagen Business School (Professor Henrik Holt Larsen)
Finland	Helsinki School of Economics (Dr Sinikka Vanhala)
France	École de Management de Lyon (Dr Françoise Dany)
Germany	University of Paderborn (Professor Dr Wolfgang Weber)
Greece	Athens University of Economics and Business (Dr Nancy Papalexandris)
Ireland	University of Limerick (Dr Patrick Gunnigle)
Italy	Universita Luigi Bocconi (Dr Francesco Paoletti)
Netherlands	Erasmus Universiteit (Drs Jacob Hoogendoorn)
Portugal	Universidade Nova de Lisboa (Professora Rita Cunha)
	Associação Portuguesa dos Gestores e Técnicos dos Recursos Humanos (Maria-João Safara)
Spain	ESADE (Professor Ceferí Soler)
Sweden	The IPF Institute (Drs Bo Manson)
United Kingdom	Cranfield University (Professor Chris Brewster)

Note: Luxembourg is not included in Cranet-E.

Cranfield Network on HRM (Cranet-G)

Non-EU countries

Australia	Macquarie University (Dr Robin Kramer)
	University of Melbourne (Professor Helen de Cieri)
	Queensland University (Professor Greg Bamber)
	University of Tasmania (Professor Peter Dowling)
Bulgaria	International Business School (Dr Elizabeth Vatchkova)
Canada	University of Toronto (Professor Dan Ondrack)
Estonia	Estonian Business School (Dr Ruth Alas)
Cyprus (Southern)	Cyprus University (Dr Eleni Stavrou-Costea)
	Cyprus Productivity Centre (Maria Mikellides)
Cyprus (Northern)	Eastern Mediterranean University (Cem Tanova)
Czech Republic	Katedra Personalistiky (Doc.Ing. Josef Koubek CSc)
Hungary	Institute for Political Science of Hungarian Academy of Sciences (Dr András Tóth)
India	International Management Institute, New Delhi (Professor Venkata Ratnam)
Israel	Bar llan University (Professor Amnon Caspi)
Japan	Niigata University (Professor T. Yamanouchi)
New Zealand	University of Auckland (Dr V. Suchitra Mouly)
Norway	Norwegian School of Economics and Business Administration (Professor Odd Nordhaug)
Poland	Technical University of Lódz (Professor Dr Czeslaw Szmidt)
Russia	State University, Higher School of Economics (Professor Igor Gurkov)
South Africa	University of South Africa (Professor Pieter A. Grobler)
Switzerland	University of St. Gallen (Professor Dr Martin Hilb)
Taiwan	National Central University (Dr Tung-Chun Huang)
Tunisia	University of Sfax (Professor Riadh Zghal)
Turkey	Istanbul University Isletme Fakültesi (Doç Dr Ayse Can Baysal)
USA	State University of New Jersey (Professor Randall Schuler)

European Foundation for the Improvement of Living and Working Conditions

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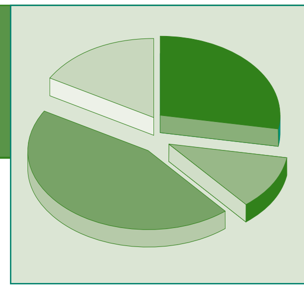

Employee share ownership and profit-sharing in the European Union

Participation by employees in the financial results of their companies has grown in importance across the European Union since the 1990s. This report investigates the scope and characteristics of employee share ownership and profit-sharing schemes in 14 EU Member States. It follows on from the joint publication, by the European Commission and the Foundation, of a comparative overview of the nature and extent of financial participation in the EU. Based on survey data from the Cranfield School of Management, it examines the structural, HR management and participation features of business organisations having one or both types of scheme. The report represents the most comprehensive inquiry to date of the incentives and benefits behind financial participation schemes.

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