European Foundation for the Improvement of Living and Working Conditions

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Foreword

Financial participation, in the form of profit sharing and share ownership, has been a feature of employee participation for many years. While financial participation has been supported in a number of Member States through tax incentives and other forms of legislation, there is a wide divergence in approaches in the Member States. Financial participation has been the focus of interest by the European Commission since the publication of the Pepper I report in 1991 and the Pepper II report in 1996.

In order to fill knowledge gaps regarding the incidence of financial participation, national-level policies and the attitudes of key actors regarding financial participation schemes, the Foundation began a major research project in 1999 which examined recent trends in legislative and financial practices of financial participation in the EU Member States. A second phase of research, initiated in 2000, looked at the incidence and characteristics of share ownership and profit-sharing schemes in the Member States (excluding Luxembourg). A third phase, launched in 2002, analysed the views and policies of the national governments and social partners regarding financial participation.

There is now increasing concern at European policy level that costs and administrative complexities have hampered the large-scale introduction of financial participation schemes. In an effort to move the issue forward, the Commission published a Communication in 2002, 'On a framework for the promotion of employee financial participation'. In this document, the Commission acknowledged the research of the Foundation on this subject and invited them to continue this work. In response to this, and with the encouragement of the social partners, the Foundation started a new research project in 2003 entitled 'Development of indicators for the benchmarking of national policies and practices of financial participation across the EU'. This report presents findings from this latest research.

It is believed that this report could serve as the basis for an EU-wide benchmarking exercise of national financial participation practices planned to commence in 2005 under the auspices of the European Commission. We trust it will provide a useful input into the current debate surrounding the issue of financial participation at European level.

Willy Buschak
Acting Director

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Introduction

Forms of financial participation

Financial participation is a broad term used to describe any system that assigns additional rewards above and beyond basic pay to groups of employees in recognition of good enterprise performance. In practice, there is a huge variety of financial participation schemes. Pendleton *et al* classify these into two types (2001a). First, there are schemes in which bonuses are linked directly to the worker's role as employee – such schemes occur in the 'employment channel' of the enterprise. 'Profit sharing' is the most common of these schemes. As the name suggests, with these schemes, collective bonuses are directly linked to the profits of the enterprise. However, it is increasingly apparent that profit sharing can only apply to a limited group of organisations. By their nature, such schemes exclude employees in the public sector, in voluntary and not-for-profit organisations. Consequently, many organisations use the alternative form: 'gain-sharing'. Rather than linking collective bonuses directly to improved financial performance, gain-sharing schemes reward employees for improvements in operational efficiency.

The second type of financial participation involves share-based schemes. Under these schemes, benefits to employees derive from their role as holders of equity capital, not from their role as workers *per se*. In other words, they occur in the 'ownership channel' of the enterprise. These schemes transfer company shares into the hands of employees, who are then indirectly rewarded for good enterprise performance with enhanced dividends and/or capital appreciation. In practice, this distinction between the employment and ownership channels is blurred in many European countries. For example, in several EU Member States it is common for share-ownership schemes to be funded by profit-sharing arrangements. For this reason, it may be useful to further sub-divide share-based schemes into two groups: 'share purchase schemes', whereby employees have to buy the company shares with their own money, and 'bonus share schemes' whereby employees are rewarded for good company performance with bonus shares. Common examples of the former are 'share option' schemes and 'save-as-you-earn' or 'share save' schemes. The most common types of bonus share schemes are 'employee share-ownership plans' (ESOP) and 'share-based profit sharing'.

Benefits of financial participation

In theory, financial participation can bring about substantial benefits to organisations, employees and the broader macro economy. From the organisation's point of view, financial participation aligns the interests of employees more closely with those of shareholders. In practical terms, it gives employees an incentive to work harder and more effectively because they stand to share in the profits of the company. Not only should this improve operational efficiency, it should also contribute to better financial performance by cutting down on costs such as those arising from the necessity to ensure close supervision. Furthermore, it is argued that financial participation schemes, particularly share-based schemes, may contribute to enhanced employee loyalty, thereby reducing staff turnover and the related recruitment and training costs.

Financial participation is also seen to have benefits for the employee. First and foremost, it should lead to financial rewards as workers can benefit directly from their contribution to improved company performance. In addition to this, financial participation is also claimed to enhance job satisfaction and the quality of working life (see Buchko, 1992). For one thing, it encourages – or even compels – management to share key financial information more fully with employees, thus engendering a spirit of greater openness and transparency in the enterprise. Moreover, financial participation could lead to more meaningful work by involving employees more closely in problem-solving and continuous improvement activities in the company (Festing *et al*, 1999; Poole and Jenkins, 1990). The link between financial participation and this kind of employee involvement is simple: it would be unreasonable for management to offer employees incentives to perform better without allowing them a say in how these performance improvements could be achieved. This is because the employees who do the job day-in-and-day-out often have the most practical ideas about how to solve problems in the workplace (Levine and Tyson, 1990).

Finally, in addition to the micro-level benefits for companies and their employees, it is also argued that financial participation can contribute to favourable macro-economic outcomes. These include lower unemployment levels, reduced inflation and higher economic growth (Jackman, 1988; Weitzman, 1987).

A growing body of empirical evidence appears to back up these claims. Financial participation, particularly profit sharing, has been found to be strongly linked with greater productivity[1] and with higher profits (Festing *et al*, 1999). Research has shown that these effects are strengthened by the presence of employee involvement mechanisms (Kim, 1998). This corroborates the theory that financial participation is most effective in situations where employees, as the most informed local agents, are closely involved in problem-solving and work organisation. In addition to these positive factors, there is also evidence to indicate a positive association between financial participation and improved employee attitudes and job satisfaction.[2]

Financial participation in the European Union

Despite the apparent benefits of financial participation, it is less commonly used in the EU than might be expected. The European Commission's PEPPER I report, *The promotion of participation by employed persons in profits and enterprise results,* gave a picture of the situation regarding financial participation in Europe in the early 1990s (European Commission, 1991). Its main conclusions were that:

a) There was a large degree of variation between the Member States in their provisions for and use of financial participation;

b) Generally, and with the exception of a small number of countries, financial participation was not widely used in Europe.

In the light of this finding, the EU Council of Ministers adopted a Recommendation in 1992 calling on the Member States to actively promote the use of employee financial participation, particularly through social dialogue and fiscal incentives[3]. The recommendation also urged the Member States to ensure that their national legal structures did not inhibit the use of financial participation.

1 See Fernie and Metcalf, 1995; Jones and Kato, 1995; Kruse, 1993; Kruse and Blasi, 1995; OECD, 1995; Wadhwani and Wall, 1990.

2 Improved attitudes and job satisfaction among employees often result in lower levels of absenteeism and reduced employee turnover – see Festing et al, 1999; Hammer et al, 1988; Poole and Jenkins, 1990; Voets and Spear 1995.

3 'Council Recommendation of 27 July 1992 concerning the promotion of employee participation in profits and enterprise results', Official Journal of the European Communities, No. L. 245, 26 August 1992.

In order to assess the impact of this Council Recommendation, a follow-up study, the PEPPER II Report, was commissioned by the European Commission in 1996. This report concluded that only limited progress had been made in the intervening period. While new legislation to support financial participation had been adopted in countries like Finland, Ireland and the Netherlands, and governments in other countries had urged the social partners to implement financial participation schemes, the incidence of financial participation remained uneven and, in general, quite limited within the EU.

In the late 1990s, the European Foundation for the Improvement of Living and Working Conditions (hereafter referred to simply as 'the Foundation') carried out further analysis, aimed at updating the situation regarding the incidence of financial participation in the EU (Poutsma, 2001 and Pendleton *et al*, 2001a). These studies drew to a large extent on data from the EPOC and CRANET E surveys respectively.[4] The conclusion of this research was that, while there was a general increase in the use of financial participation schemes in the EU during the 1990s, there were still huge differences between Member States in terms of the degree of diffusion.

To conclude, the existing evidence suggests that employee financial participation has potential to deliver real benefits for employees, enterprises and national economies. However, despite this potential, it remains under-used in most Member States, and is very unevenly distributed within the EU.

Community-wide action

While it is recognised that individual Member States can initiate actions to stimulate greater use of financial participation in their own jurisdictions, there is also the realisation that some impediments to the use of financial participation are trans-national in nature and therefore can best be tackled on a Community-wide basis. For example, it is clear that the norms and expectations surrounding financial participation differ widely within the EU. As a result, it can be difficult for multinational corporations to transpose their schemes across countries. This situation is exacerbated by differences in the rules governing financial participation within the European Union. Because financial participation lacks a common legal or legislative basis, the tax rules, social security arrangements and corporate governance laws relating to it can differ radically between countries. This constitutes a major obstacle to the diffusion of schemes in an increasingly integrated European economy. Finally, opportunities for Member States to overcome these barriers through a cross-national sharing of information are at present very limited. Given the diversity of expectations, traditions, rules and regulations that currently prevails in Europe, international comparisons tend to be complex and not always transparent.

Following on from the findings of successive PEPPER Reports, and the works of Poutsma (2001) and Pendleton *et al* (2001a), the European Commission adopted a 'Communication on a framework for the promotion of employee financial participation' in July 2002.[5] The objective of the

[4] The EPOC (Employee direct participation in organisational change) survey, carried out by the Foundation in 1996, was a 10-country survey of 5,800 private and public service workplaces with 50 or more employees; the 1999 CRANET study from the University of Cranfield surveyed 2,500 business organisations in 15 Member States with 200 or more employees.

[5] COM (202) 364 final.

communication is to overcome transnational obstacles to the spread of financial participation. Specifically, it identifies three main tasks:

1. To identify a set of general principles that should underpin all financial participation schemes.

Drawing on a detailed consultation with experts, governments and social partners in the Member States, the communication spells out eight key characteristics that should underpin all financial participation schemes. This common approach should greatly help to align norms and expectations about financial participation more closely across the EU.

2. To address the specific legal and legislative obstacles to the transnational diffusion of employee financial participation.

To facilitate this, the Commission has established a Working Group of Independent Experts to identify and analyse these obstacles in more detail, and to bring forward proposals for concrete actions to reduce them.

3. To promote the wider use of employee financial participation schemes by encouraging the sharing of information between the Member States.

To this end, the Commission put forward a three-pronged *'Framework for Community action'*. First, it proposes to include financial participation in the peer review programme under the EU Employment Guidelines. Second, it will continue to support cross-national research into employee financial participation, and to support transnational networks of experts and practitioners. Finally, it proposes to benchmark financial participation policy and practice in the Member States.

The actions proposed by the Commission in their framework should go a long way towards providing greater transparency and comparability of financial participation practice across the EU, as well as assisting in the diffusion of best practice between Member States.

Aim of research

The purpose of the present research is to lay the groundwork for such a benchmarking exercise by identifying a set of concrete indicators of financial participation policy and practice against which a profile of each Member State can be drawn.

It should be emphasised that the present study does not attempt to undertake the actual benchmarking, but merely to lay the foundations by developing an appropriate set of common indicators. Nevertheless, it is still useful to look at the aims and objectives behind the benchmarking exercise, as this constitutes the *raison d'être* for the present study.

Benchmarking financial participation policy and practice will add value in two key ways. First, it will facilitate cross-national comparisons and this should lead to increased dialogue between policy makers, social partners, practitioners and experts in different Member States. Ultimately, this should result in a more widespread use of financial participation, as awareness of the benefits and an understanding of the practicalities inherent in the process become known. In addition to this information effect, a more competitive dynamic is also likely to result from greater cross-national transparency. Theories of 'coercive mimicry'[6] suggest that actors in countries where financial participation is less developed may feel compelled to promote and adopt schemes simply out of the fear of falling behind the competition – either in terms of productivity or in terms of their ability to attract internationally mobile capital. Again, this competitive factor should lead to a greater uptake and more even distribution of financial participation throughout Europe.

But benchmarking will also add value in a second way. As well as stimulating greater use of financial participation, benchmarking based on an appropriate set of indicators can also shape the nature of the financial participation schemes that are promoted and adopted at national level. The Commission's 2002 framework Communication sets out general principles that provide a reference point for good practice in employee financial participation. The purpose of the benchmarking exercise will be not only to develop a profile of individual Member States relative to one another, but also to look at financial participation policy and practice in relation to established norms of best practice.

However, before this benchmarking exercise can be attempted, there is a need to establish the criteria against which the profile of financial participation in each of the Member States will be built up. That is the purpose of this report, which focuses explicitly on the practical issues involved in developing these concrete measures or 'indicators' of financial participation policy and practice across the EU.

Structure of report

Taking a lead from the Foundation's project on comparative indicators, culminating in the report, *Quality in industrial relations: Comparative indicators* (Weiler, 2004), it is proposed to structure this project along three distinct stages:

a) Financial participation practices and policies *(Chapter 1)*

The first chapter comprises a conceptual discussion, based on a detailed literature review, whose purpose is to identify – in broad terms – defining aspects of financial participation policy and practice that need to be reflected in the final indicators. It points to the importance of three broad 'dimensions':

- The level of usage of financial participation;
- The nature of financial participation;
- National policies and characteristics that affect the environment for financial participation.

b) Key themes for benchmarking *(Chapter 2)*

While these three dimensions provide general guidance as to the aspects of financial participation that a benchmarking exercise should cover, they are too broad for elaborating specific indicators.

[6] See Di Maggio and Powell, 1983.

Chapter 2 focuses on a number of detailed sub-headings under these three general dimensions, the aim being to extract detailed 'themes' and 'sub-themes' arising from the conceptual discussion.

c) Developing financial participation indicators *(Chapter 3)*

Having narrowed the discussion down into smaller topics, the next step is to develop indicators – i.e. concrete measures, for each of the most important themes and sub-themes. Chapter 3 describes the methodology behind this process.

1 Financial participation practices and policies

This chapter aims to identify the dimensions of employee financial participation that define policy and practice in the EU. The conceptual discussion is divided into three parts. First, the scale of financial participation usage is identified as a key dimension and earmarked as an area where concrete indicators are required. Second, the nature of financial participation is highlighted. As mentioned in the Introduction, there is a clear need for indicators in this area, and it is proposed that these should be elaborated primarily on the basis of the European Commission's general principles of financial participation. Third, national policies and characteristics are described in terms of their impact on the nature and extent of financial participation in individual Member States.

Level of usage

A review of the relevant literature points to two main problems regarding financial participation in the EU. First, although the incidence of financial participation has increased during the second half of the 1990s, in general it remains largely under-utilised. Second, the spread of employee financial participation between the Member States is very uneven (Pendleton *et al* 2001a, Poutsma 2001). Consequently, a key policy objective is to stimulate greater, as well as more even, use of financial participation schemes across the EU (European Commission, 2002).

As a starting point, therefore, it would seem logical to include main measures of the usage of financial participation in our set of indicators. There are two distinct aspects to this. On one hand, we can look at the 'incidence' of financial participation schemes in terms of the proportion of organisations that are adopting them. This is instructive, but it will not capture the reality that, even where organisations have such schemes in place, many employees are either precluded from participating or choose not to get involved. To fully reflect this, we also need information on another aspect of usage – the 'coverage' of schemes as defined by the proportion of employees that participate. The precise indicators that should operationalise these two aspects of financial participation usage will be discussed and developed later.

Some commentators have suggested that indicators could also be developed on a third aspect of scale – the value of financial participation bonuses. Unfortunately, developing indicators along these lines presents a number of methodological problems. More importantly, however, even if it were possible to reliably measure financial participation outcomes, there is the question of how this information might be used. Take, for example, the suggestion that it would be useful to measure financial participation bonus payments as a percentage of basic wages. How do we interpret this measure? What is the appropriate ratio? It would seem that no single target is universally desirable. Consequently, if we attempt to establish some 'one-size-fits-all' standard we may unwittingly cause problems for practitioners whose schemes either undershoot or exceed this target level. For these reasons, the idea of including these among our final indicators was rejected.

Nature of schemes

Indicators arising out of the above discussion will enable the incidence and coverage of financial participation schemes in different Member States to be compared. But scale is only one aspect of the overall picture. It is also important to examine the nature of the financial participation schemes that are being used across the EU. In particular, it will be useful to assess these qualitative aspects relative to an agreed view of best practice. In this way, our discussion should help us to develop indicators which encourage not only more widespread and even use of financial participation, but also greater use of the right kind of financial participation.

It is self-evident that this approach requires some consensus about the nature of best practice in financial participation. This consensus can be found in the Commission's recent 'Communication on a framework for the promotion of employee financial participation'. This document sets out eight broad principles that should underlie financial participation schemes (European Commission, 2002, pp. 12–14). These principles are the outcome of an extensive consultation process involving social partners, governments and experts in all EU Member States. Hence they reflect a fundamental agreement about the types of scheme that are sustainable and can deliver on the Lisbon objectives of enhanced competitiveness and economic dynamism along with improved quality of work, greater equity, fairness and social cohesion.[7] These principles are not strictly prescriptive. In keeping with the trend towards 'soft regulation' they represent broad principles which impose some direction and coordination on the development of financial participation across the EU yet at the same time leave enough latitude to accommodate national traditions and needs (EESC 2003, p.5). While it may not be appropriate to develop indicators for all these general principles, it is envisaged that indicators elaborated on the basis of these guidelines will form an important part of the final set of cross-national indicators on financial participation. The general principles set out in the Commission's communication are discussed in detail in the next section.

Eight principles from the framework

1. Voluntary participation

The first general principle is that financial participation should be voluntary for both enterprises and employees, and should be used to meet the actual needs and interests of all the parties involved rather than being imposed. At the same time, this does not exclude the possibility that some elements of financial participation will be introduced on the basis of collective agreements or made mandatory through legislation.

2. Extending the benefits of financial participation to all employees

The text from the Commission's framework is as follows:

> 'Financial participation schemes should in principle be open to all employees. While a certain differentiation may be justified in order to meet the different needs and interests of employees, financial participation schemes should aim at being as comprehensive as possible and treating employees on similar terms.' (2002, p.12)

This passage is clearly informed by two concerns: equity and economic efficiency. Looking first at equity, this principle is designed to ensure that schemes cannot be used to discriminate in favour of one group of workers at the expense of another group.[8] Discrimination in financial participation

[7] See Presidency Conclusions of the Lisbon European Council Summit, 23–24 March 2000.

[8] In discussing this guideline, both the Opinion of the European Economic and Social Committee (26 Feb 2003, p.2, p.5), and the Report of the European Parliament on the Commission's Communication (5 May 2003, pp.7–23) emphasise that all employees must be included without any discrimination.

tends to arise in two ways. It can arise where entry to schemes is restricted to particular groups of employees – i.e. the schemes fail the 'all employees' test. Most commonly, schemes like this take the form of 'executive schemes', which are only open to top management and/or professional employees (Festing et al, 1999 and Noe et al, 1997). But it can also occur in wider schemes that exclude small groups of workers – usually part-time or temporary employees. In both cases, it is important to note that there is a gender dimension at play (Menrad, 2003). As women tend to be under-represented in the echelons of top management, but over-represented in part-time and other atypical work forms, they risk being excluded from any scheme that does not include all employees.

In practice, many schemes have a 'qualifying period' i.e. a minimum time that employees have to be with the organisation before they can receive financial participation bonuses. To the extent that this prevents new recruits from 'free-riding' on performance improvements generated by existing employees this is not in itself a breach of the all-employees clause. However as most financial participation schemes enter a new performance measurement period at least once a year, qualifying periods in excess of 12 months could be interpreted as being discriminatory.

A second way in which discrimination can occur is when selected groups are given disproportionate access to the benefits of a financial participation scheme at the expense of other workers. Therefore, even if all employees are allowed to participate, some can only do so on less favourable terms. These schemes fail the 'similar terms' test. The Commission's general principles may provide for some differentiation in the treatment of different groups of workers. In practice this is usually interpreted as reserving extra benefits for employees with longer service. But a key point is that the formula for differentiating between employees must be transparent and non-discriminatory.

An additional consideration is that the inherent inequities of schemes that fail the all employees and similar terms tests can be compounded if these schemes attract tax relief. Where fiscal incentives apply, reserving preferential access to financial participation benefits also reserves preferential access to the available tax relief. And as the bias usually favours executives or professionals who are already highly paid, it follows that this discrimination undermines the principles of progressive taxation.

In addition to these equity considerations, there is also an argument that broad-based financial participation schemes – those which include all employees on similar terms – are more economically efficient. A common theme in management literature is that organisations should try and tap into the detailed hands-on knowledge of their employees in order to become more productive, more flexible and more innovative (See European Foundation for the Improvement of Living and Working Conditions, 1997; Ichniowski and Shaw, 1995; McCartney and Teague, 1997; OECD, 1999; Osterman, 1994). In practice, this might involve structures such as team-working arrangements, employee communication systems, task forces, quality circles, etc.

It may be very difficult, however, to achieve genuine employee involvement through these mechanisms if certain groups are discriminated against in the area of financial participation. On one hand, this may be because the disadvantaged groups feel resentful at their exclusion from the scheme. This resentment may be manifested by non-cooperation with other 'partnership' activities at enterprise level. On the other hand, the difficulty may arise because the excluded groups are denied an incentive for participating in other employee involvement mechanisms: without a financial stake in the results that can derive from genuine workplace partnership, employees may question why they should get involved (Levine and Tyson, 1990).

3. Clarity and transparency

The third general principle in the Commission's document relates to the need for clarity and transparency in financial participation schemes. This will encourage employees to participate by allowing them to more accurately assess the benefits and potential risks associated with particular schemes. It will also enable them to make more informed decisions once they are actively participating in the schemes.

> 'Financial participation schemes should be set up and managed in a clear and transparent way.' (2002, p.12)

It is obvious from the Commission's wording that transparency is required at two particular stages – during the setting up of the scheme, and during the day-to-day running of the scheme. Looking first at the set-up stage, there are numerous models of financial participation to choose from. Ultimately, the choice should be based on which type of scheme best delivers on the objectives of organisations, employees and their representatives. Therefore it is too crude to say that the simplest scheme should always be chosen. At the same time, the clear intent of the Commission's communication is that, whichever type of scheme is chosen, it should be as simple, open and transparent as possible. Achieving this requires attention to a number of areas detailed below.

Scheme design

Whatever model of financial participation is chosen, companies, employees and trade unions should seek to avoid introducing complications that are not absolutely necessary.

Employee participation and consultation

To ensure that they fully understand and are totally comfortable with the scheme, formal provision should be made from the outset to involve employees and their representatives in choosing and developing the financial participation scheme. Therefore the process by which financial participation models are initially identified, discussed and evaluated should be a structured, joint process, informed by the objectives of each stakeholder group. And once a broad model has been chosen, formal arrangements should be put in place to give employees and their representatives a say in the detailed design of the schemes to be introduced. Notably, as with several of the Commission's other general principles, the recommendation that consultation with employees, works councils and trade unions should take place prior to the introduction of financial participation reflects what is already happening in many countries. For example, this type of consultation is mandatory for profit-sharing schemes in Belgium and France, and it is recommended in many other Member States. Therefore, rather than imposing onerous obligations on companies, the Commission's guidance on this issue is very much about disseminating existing best practice.[9]

[9] In addition to employee participation in the selection and design of financial participation schemes, it is appropriate to establish – in parallel – structured arrangements for broader employee involvement at the time the financial participation scheme is being set up. This is because bonuses may be more effective in stimulating performance improvements when employees are given a channel through which they can contribute practical suggestions about how operational performance can be enhanced.

Training at set-up stage
The Commission Communication concedes that certain forms of financial participation inevitably involve some complexity. Therefore, in order to make the consultation and participation of employees meaningful, companies should also provide training for workers and their representatives. Appropriate subjects for training at the set-up stage might include:

- models of financial participation;
- corporate governance;
- stock markets;
- the company's finances and accounting practice;
- interpreting company accounts, etc.

While simplicity, openness and transparency are essential elements in initially establishing financial participation schemes, this spirit of openness should also persist into the ongoing running of these schemes.

Provision of information
Openness and transparency are required in order to provide continual reassurance for the different stakeholders that they are getting a fair deal from the scheme. Therefore, it is important that organisations adopt a formal and structured system for fully disclosing to their employees all the performance-related information relevant to the financial participation scheme. This should be done in an open, transparent and timely manner. Interestingly, this is another example of the Commission's guidance reflecting existing practice: securities law in several Member States already requires companies to provide employee shareholders with substantial financial information. While some may point out that this imposes certain short-term costs, it should be noted that such transparency is likely to bring significant benefits in the longer term operation of the scheme.

Training on ongoing basis
Disclosure of the relevant information is not sufficient on its own to achieve meaningful clarity and transparency. It should be understood that the key performance indicators underpinning financial participation schemes can be unfamiliar to many employees. This is particularly true where share-based schemes are concerned, or where performance indicators are of a technical or financial nature. Therefore there is also a need for training during the ongoing operational phase of employee financial participation. At this stage, appropriate training subjects might include:

- company finances and accounting practice;
- reading and interpreting company accounts;
- sourcing independent financial information on an organisation's performance;
- sourcing independent sectoral forecasts;
- management information systems;
- production engineering and measurement techniques;
- statistical training, etc.

In addition to the training necessary to ensure the smooth functioning of the financial participation scheme, it should be borne in mind that the greatest benefits from financial participation may occur when employees are empowered to contribute their input into the continuous improvement process. In part, and as discussed above, this requires structures which enable employees to make their contribution on work-related matters. However, it also requires employees to have the skills necessary to develop and articulate their ideas. This suggests that the ongoing success of financial participation may be enhanced not only by training specifically related to the mechanics of the scheme, but also by more general training.

Review mechanism

It is important to note that the effectiveness of schemes can diminish over time. This may be due to exogenous factors, e.g. market conditions, the cost of factor inputs, etc.. It may also be due to endogenous factors such as 'diminishing returns' – the phenomenon whereby schemes which do not adjust over time can be victims of their own success. The crucial point is that, to maintain the relevance and attractiveness of financial participation in the longer term, provision should be made for some regular formal review procedure. As it is imperative that financial participation schemes continue to satisfy the objectives of all stakeholders, it is essential that this review mechanism fully involves employees and their representatives.

4. Predefined formula

The Commission's fourth general principle states that:

> 'Rules on financial participation in companies should be based on a predefined formula clearly linked to enterprise results.' (2002, p.13)

As with the other principles, and in keeping with the Lisbon objectives, this guideline is informed by the dual considerations of equity and efficiency. From an equity point of view, it is vital that employees know up front how their financial participation bonuses will be calculated. Without this certainty, employees may feel vulnerable to exploitation and opportunism, and may therefore be reluctant to enter into financial participation schemes. From an efficiency point of view, schemes with predefined formulae provide a clearer and stronger incentive than those where the bonus is decided *ex-post* on an arbitrary basis. As such, predefined formulae should enhance the bottom line efficacy of financial participation schemes.

Given the variety of financial participation models that exist, and consistent with its aim of encouraging good practice while at the same time leaving room for local flexibility, the Commission is not prescriptive about what type of formula should be adopted – only that it should be clearly outlined at the outset of the scheme, and adhered to thereafter, subject of course to agreed changes arising out of any joint review process.

5. Regularity

The fifth general principle outlined by the European Commission is that:

> 'Financial participation schemes should be applied on a regular basis and should not be a one-off exercise.' (2002, p.13)

The main reason for this is that regular ongoing schemes foster more enduring relationships between organisations and their employees. From the employees' view, regular financial participation schemes that empower employees to contribute to better organisational performance and which reward them accordingly will create a long-term incentive to remain with the firm (Festing et al, 1999). From the company perspective, financial participation will help firms to attract and retain highly productive employees as these individuals will feel confident that they can improve their earnings through financial participation bonuses (McCartney and Teague, 2001).

Establishing this kind of long-term employment relationship has advantages for both enterprises and their workers. From a company point of view, the continuity that it provides should improve productivity, facilitate forward planning, and reduce turnover and recruitment costs. From the employee perspective, long-term relations contribute to stability and reduce dislocation in workers' lives. A key point here, however, is to distinguish between staying with a company because the employee wants to do so, and being trapped in the same company because the costs of leaving are too high. Principle 8 of the Commission framework states that financial participation schemes should not impede worker mobility. In this context, the role of financial participation should clearly be to make their current jobs more rewarding to employees, not to force them into staying.

Another way that regular financial participation, and the long-term employment relations it fosters, can benefit both companies and their employees is the fact that it helps to overcome market failures in the provision of training. Traditionally, employers invest too little in training for fear that their workers will be poached and the company's investment in training will be lost. This means that individual companies have to make do with much less training than they actually need to maximise their performance. This training deficit also means that employees cannot develop their personal human capital, and this reduces their opportunities on the external labour market. However, regular financial participation may offer a solution to this problem.

Recent empirical studies have identified a clear relationship between financial participation schemes and the level of training (European Foundation for the Improvement of Living and Working Conditions, 2001; EESC, 2003; McCartney and Teague, 2001). One possible explanation for this is that, by creating an incentive for employees to remain with the company, regular financial participation schemes make it harder for companies to poach each other's employees. In this sense, financial participation schemes indirectly encourage employers to invest more optimally in in-company training (McCartney and Teague, 2001).

As with the other general principles outlined in the Commission Communication, the call for regularity of financial participation schemes is not prescriptive. In practice, the frequency with which performance is re-measured against pre-defined indicators, and the periods between bonus payments will vary depending on the context. For example, in some cases shorter gaps between bonus payments will create stronger incentives because this makes the link between performance and reward more immediate. However, if more time is required to effect performance improvements, a longer period between payments may be needed to allow decent bonuses to build up. In this case, short gaps between payments could actually reduce incentives (Lawler, 1988). The detail of these issues can only be evaluated at local level. However, the main point of the general principle on regularity is to ensure that, whatever timescales are chosen locally, financial participation schemes are not used as once-off measures, but as ongoing and continuous systems.

6. Avoiding unreasonable risks for employees

All financial participation schemes involve some element of risk. However, the Commission Communication strongly advises that steps should be taken to actively minimise these risks to employees:

> 'Due consideration should in any case be given in the introduction and running of financial participation schemes to the avoidance of any unreasonable risks'. (2002, p.13)

As with our discussion on clarity and transparency, there is a need to consider risk in the context of both scheme design and scheme management. Various aspects of scheme design will influence the level of risk that employees are exposed to. Key dimensions include:

Means of payment

The Commission's document refers to several alternative means of payment, each with different levels of risk attached. Financial participation bonuses received in the form of company shares imply a substantial risk to employees. This reflects several factors:

- Equity values tend to be inherently more volatile than those of other asset classes, e.g. bonds, property and deposits.[10]
- Share-based financial participation schemes usually only reward employees with shares in the company that they work for. This increases risk in two ways. First, it eliminates the scope for portfolio diversification. Second, it exposes employees to risk in two separate channels: the employment channel (if the company underperforms, employees could lose their jobs), and the ownership channel (if the company underperforms, employees could also suffer a depreciation in the value of their shares) (see European Parliament, 2003, pp. 8–23). Clearly normal stock market investors are only exposed to risk in the ownership channel.
- The link between employees' performance and the value of their company's shares is quite indirect, and is largely determined by exogenous factors. Therefore employees who participate in share-based financial participation schemes risk being affected by adverse conditions completely unrelated to their own behaviour.[11]
- Participants in share-based schemes may run into liquidity problems: i.e. they may have trouble converting their shares to cash when they need the money. This is particularly true in the case of companies without a stock market listing (EESC, 2003, p.8).

The second means of payment noted by the Commission is through fund-based schemes. There are several models of fund-based scheme currently in operation. These include savings-related schemes in operation in France, Germany and the Netherlands which generally invest employees' financial participation bonuses in pooled funds (Poutsma, 2001). The advantage of these is that they lessen risk by allowing for greater portfolio diversification. Both the EESC (2003, p.9) and the Parliament (2003, p.9) have called for further use of these pooled schemes, particularly to facilitate financial participation in SMEs.

The third means of payment referred to in the Commission document is through cash-based schemes. Here employees simply receive their financial participation bonuses in the form of cash. However, even these cash based schemes are not without risk. As bonuses are only paid after performance has been measured and verified, there is a time lag. As such they run the risk of being eroded by inflation.

In addition to the abovementioned means of payment, a fourth possibility is alluded to in the introduction to the Commission Communication. In theory, the bonuses deriving from financial

[10] Of course the *quid pro quo* is that, on average, equity investments also tend to deliver the highest rate of return in the long run.

[11] Again the quid pro quo is that exogenous factors can also enhance share price independent of employees' performance.

participation could be allocated to employees in the form of pension contributions. The Commission clearly views this possibility as imposing an unacceptable risk on employees. It is self-evident that, as financial participation bonuses are not guaranteed, using them to fund pensions ultimately jeopardises the level of any associated retirement benefits. The European Parliament asserts this position even more forcefully and calls on the Commission to introduce an additional general principle on this specific issue:

'[The Parliament]… considers that recent developments on the global market call for a clear distinction between financial participation and pension schemes, with strong provisions to protect employees' acquired pension rights to be included in the guiding principles'. (2003, pp. 10–23)

One conclusion from this discussion is that, given the varying levels of risk attending to different forms of payment, flexibility is important. It is highly desirable that employees have some choice over the form in which their financial participation bonuses are paid.

Retention period

The second aspect of scheme design that fundamentally affects risk is the retention period. The legislation governing financial participation schemes often dictates that bonuses must be held in abeyance for a specified period before they become vested in the participants. This can be a positive thing insofar as it helps to establish an appropriate incentive structure – it gives employees and management time to work together on changes which enhance dividends and share value. On the negative side, however, there are two problems with retention periods. Firstly, if they are unduly long, they can discourage employees from participating in schemes. Therefore the positive effect of creating a good incentive structure must be balanced with the need to keep schemes attractive.

A second problem is that, in a number of ways, retention periods may lead to additional financial risks for employees. Firstly, in the case of share-based schemes, they prolong the period in which bonuses must be held in the form of equity which, as we have seen, is the most volatile asset class. While this can work to the advantage of participants in a rising stock market, it can also work to their detriment when markets are falling. Secondly, minimum retention periods imply an opportunity cost. This is the difference between the actual return that is achieved on the financial participation bonus during the holding period and the return that could be achieved by investing this money in the best alternative. To illustrate this, consider a share-based scheme that imposed a three-year holding period on bonuses. If the stock market was falling during that period, employees would loose out from not being allowed to shelter their bonuses in deposit accounts. Finally, there is the risk of inflation. The longer the holding period during which participants cannot touch their bonuses, the more those bonuses are eroded by inflation.

In France, if a retention period is imposed, it is common to compensate employees for inflation through interest payments or similar forms of indexation. This is a good example of how schemes can be designed to minimise risk to employees.

Performance measures

The third aspect of design that affects risk to employees is the choice of performance indicators against which bonus payments are calculated. In general, the closer the link between employees' performance and the level of bonus payments, the lower the risk. Typically, bonuses deriving from profit-sharing schemes are not closely related to workers' performance. This is because profits are often more heavily influenced by exogenous factors e.g. global market conditions, political issues, the price of factor inputs etc., than by the efforts of particular individuals or even groups of individuals within the company. As a consequence, participants in profit-sharing schemes run the risk that, despite working hard and showing flexibility and innovation etc., they may receive no profit-sharing bonus due to adverse external conditions. On the other hand, gain-sharing schemes, which calculate bonuses on the basis of operational performance indicators e.g. productivity, scrappage rates, customer complaints etc., imply less risk to employees insofar as the bonus payments will more directly reflect employees' performance.

Health and safety performance

A more specific point relating to risk and the choice of performance measures arises with regard to health and safety. Occasionally financial participation schemes use measurements of health and safety performance as a factor in calculating bonuses. In most cases higher bonus payments are offered as a reward for fewer health and safety incidents. The problem with this criterion is that it encourages non-reporting of health and safety events as employees naturally try and protect their bonuses. This can result in serious health and safety hazards not being addressed, and therefore in the long run it can expose employees to risks that would not have arisen in the absence of financial participation.

Additional factors

Not only the design of the scheme, but also the way it is run and managed will impact on the risk level that employees are exposed to. In this context, the provision of clear and timely information on current company performance and forecasts of future performance will be vital in enabling employees to protect themselves from excessive risk. Likewise, training for employees in how to understand and interpret financial and technical information on company performance, and training in how to source independent information from third parties should be provided to better enable workers to assess the risks before becoming involved in financial participation. In this sense the general principle of avoiding risk is closely associated with the principle on clarity and transparency discussed above.

7. Distinction between wages and salaries and income from financial participation

The Commission *Communication on a framework for the promotion of employee financial participation* declares that:

> 'A clear distinction has to be made between income from financial participation on the one hand and wages and salaries on the other … In general, however, financial participation cannot be a substitute for pay and fulfills different, complementary roles. Any income from financial participation should therefore be paid in addition and above a fixed wage which is determined by national rules and practices.' (2002, pp. 13–14)

Several factors inform this principle. For tax-relieved schemes, there is a concern that financial participation schemes could be used as a vehicle for tax evasion. The problem here is 'salary substitution' – the practice whereby employers pay lower basic salaries (which are liable to income tax at the normal rate), but compensate for this by paying higher financial participation bonuses (which are taxed at a lower rate). By reducing the 'tax wedge', such deals allow organisations to increase net pay at no additional cost to themselves.[12] There are several problems with this type of salary substitution. Firstly, it inevitably and necessarily breaks the link between bonus payments and performance. This fundamentally undermines the merit of financial participation as an incentive to greater competitiveness. The UK's Profit-Related Pay (PRP) schemes provide a good illustration of this. The level of salary substitution in these schemes was so high that the profit-share component of total remuneration became purely fictitious in many cases (Pendleton et al, 2001b). The second problem is that this abuse of the tax system undermines the tax base. Again, this is well illustrated by the UK case. Describing the practice of salary substitution as 'an expensive tax dodge', Poutsma notes that, 'by the late 1990s PRP was forecast to lose the Exchequer about GBP 1 billion each year in lost tax revenues' (2001).

A second factor underpinning the Commission's recommendation that financial participation should be kept separate from basic pay derives from social partner attitudes to financial participation. Many trade unions have an explicit policy position that financial participation bonuses should be an add-on to basic pay (TUC 1987). Furthermore, empirical evidence suggests that, in the vast majority of cases, financial participation bonuses take the form of extra payments in addition to normal wages (Kardas et al 1998, Scharf et al 2000, Wadhwani and Hall 1990). Despite this, however, there remains a concern among some trade unions that the prospect of receiving financial participation bonuses could weaken their collective bargaining position on basic pay.

This concern is most pronounced where there is little 'distance' between the level of collective bargaining and the level at which financial participation bonuses are paid. Therefore, in countries where collective bargaining is less coordinated – either because it occurs at a lower level (enterprise or sectoral level) and/or because there is little coordination between isolated bargaining units – fears that financial participation bonuses will detract from the unions' ability to negotiate basic pay increases are likely to be greater. Two elements should help to circumvent this problem. First, promotion of the principle outlined in the Commission Communication – that financial participation bonuses are quite distinct from basic pay, and that they should not affect negotiations over the latter – should hammer home the point that financial participation and normal wage bargaining must be kept strictly independent of one another. Second, the recommendation of the European Parliament in its report on the Commission Communication, that negotiations on basic pay and on financial participation should not take place simultaneously, should act as a restraint in this respect(2003, p.8, 12/23).[13]

8. Compatibility with worker mobility

The last of the Commission's general principles addresses the issue of financial participation and worker mobility:

> 'Financial participation schemes should be developed in a way that is compatible with worker mobility both internationally and between enterprises. Policies towards financial participation in particular should avoid creating barriers to the international mobility of workers.' (2002, p.14)

[12] The theoretical underpinnings of this kind of behaviour are described in Wadhwani, 1988.

[13] Indeed, comments on early drafts of this paper confirm that this decoupling of collective bargaining and discussions on financial participation has already been found to be effective by large European multinationals in facilitating trade union buy-in.

As mentioned above, one of the benefits of financial participation for both employees and companies is that it can foster greater loyalty and more enduring employment relationships. Indeed, this long-term relationship is actively promoted in the Commission's guideline on regularity. However, as outlined earlier, a balance has to be struck between promoting lasting employment relationships and ensuring that financial participation schemes create no unnecessary obstacles to the mobility of workers between enterprises and between countries (Weiler 2003). In general, the purpose of financial participation schemes is to make employees' current jobs more attractive for employees to stay in, not to trap employees in these jobs by imposing prohibitive exit costs.

One implication of this is that enterprises should not use financial participation schemes to 'lock in' employees. Currently, there is a belief among many experts that companies often use financial participation schemes specifically for this purpose. In themselves, the Commission's general principles should caution against this. Other areas that might be explored in an attempt to discourage 'lock-in' include a review of maximum 'blocking' periods and a consideration of exit exemptions for employees leaving their employment.

National policies and characteristics

In a statistical analysis of the factors that determine a company's decision to introduce employee share-ownership and profit-sharing schemes, Festing et al (1999) discovered that, even controlling for company specific differences, e.g. size and sector, country location is an important predictor of financial participation usage. This country effect is due to a range of cross-national differences that make some Member States more welcoming environments for financial participation than others.

These differences fall into two categories. On the one hand, there are differences between countries in the specific area of financial participation policy. Illustrating the importance of specific policy factors in 'driving' financial participation, previous research commissioned by the Foundation established that supportive legislation and tax concessions were a very strong influence on the incidence of broad-based financial participation (Pendleton et al, 2001a). On the other hand, there are differences in areas of broader policy, e.g. securities law, corporate governance legislation, etc., and in the socio-cultural climate. Cultural factors that drive financial participation include employees' attitudes to risk, the culture of citizen share ownership, financial literacy levels, and the social partners' attitudes to financial participation.[14] These factors will have a less direct, but a no less important, effect on the uptake of financial participation.

This section examines these differences in some detail. The objective is to develop indicators relating to the national context for financial participation. First, differences between countries in the area of financial participation policy are examined.

Taxation policy

There are two ways in which the taxation of financial participation schemes differs between Member States. First, there is the substantive tax treatment of financial participation. Some Member States promote employee financial participation through a range of tax incentives, while

[14] Recent research commissioned by the Foundation also explores the role of social partner attitudes as a 'driver' of financial participation (see Pendleton, A. and E. Poutsma, 2004.

other countries offer little or no fiscal support (see Poutsma 2001, pp. 57–58). Within these two extremes, countries vary along a number of important dimensions, such as the following:

- The rate of tax applied – for example, Bouin (2002) notes that the tax rate applied to share schemes ranges from 0% in some EU countries to more than 50% in others.
- The type of tax applied – for example, some Member States apply income tax to gains from share schemes, while others apply capital gains tax.
- The types of financial participation scheme eligible for tax relief – for example, in Ireland, tax relief is available for various share-based schemes but notably not for cash-based schemes, e.g. gain-sharing.
- Tax advantages for companies, employees or both.
- Minimum retention periods – for example, the UK's new Share Incentive Plan (SIP) requires employees to leave their shares in trust for a minimum of five years to avail of tax relief. By contrast, the Irish Approved Profit-Sharing Scheme imposes only a three-year blocking period before employees can receive their shares tax free.
- Qualifying criteria for tax approval.

These differences can create formidable practical difficulties in extending financial participation schemes across national boundaries, and they clearly make some Member States more hospitable than others for the introduction of financial participation.

The second tax inconsistency between Member States relates to the timing of taxation. Essentially, the date at which tax liabilities on financial participation bonuses impact on participants differs between Member States. *Inter alia*, this means that employees who move across borders may be taxed twice on the same benefits, or may face no tax at all on their bonuses. To illustrate this, consider the taxation of share options. In Belgium, these are taxed on the date that they are granted to an employee, whereas in many other Member States tax only becomes due when the options are exercised. Therefore an employee who received options while working in Belgium, but later moved to, say, France, could be taxed twice on the same options.

Social security contributions

There are significant differences between Member States regarding the level of social security contributions levied on financial participation bonuses. In some countries, no social security contributions are deducted from the proceeds of financial participation. For the remaining Member States, the levels of social security contribution that apply vary widely. The Commission notes that this can be a particularly serious impediment to the cross-national diffusion of employee financial participation: because bonus payments are linked to performance, the social security contributions associated with these bonuses cannot be accurately forecast. This makes the cost of financial participation uncertain and may act as a strong disincentive for companies to introduce schemes.

Legal differences

Currently, the Member States differ significantly in their legal frameworks for employee financial participation. Some Member States (and most of the EU accession countries) have no legal provisions at all. In these countries, it may be quite unclear which legislation and tax rules would apply to any financial participation schemes that might be introduced. Ultimately, this may depend on legal interpretations and court rulings. This creates uncertainty, raises the cost of schemes, and makes it more difficult for multinational companies to transpose uniform schemes across borders. Therefore, an absence of legislation can, in itself, be detrimental to the use of financial participation.

At the same time, other countries have quite elaborate and well-established legislative structures in place (Poutsma, 2001). Where this legislation is supportive e.g. in France, this can encourage adoption. But where it is restrictive (as in Greece, for example), it may impede it. Furthermore, even where a Member State has well developed and supportive national legislation, this may only serve to distance it from countries with less developed structures in place. This inconsistency could make it harder for companies based in the financial participation friendly country to export uniform schemes across borders.

Aside from legislation relating specifically to financial participation, broader legislation in the areas of securities law, corporate governance, employment law, etc. may differ between the EU countries. These areas fundamentally affect the overall context for financial participation schemes and can have strong, albeit indirect, effects on the use of financial participation.

Cultural differences

In addition to inconsistencies in the legal, tax and social security rules governing financial participation, idiosyncrasies of national cultures are a further factor that may check the spread of financial participation schemes between Member States.

Several aspects of cultural variation might affect the openness of individual countries to financial participation. One of these is simply the history and tradition of financial participation in each country. Inertia suggests that the incidence of financial participation will be lower in countries where it is a relatively new phenomenon, and higher in countries where there is a longer tradition of employee financial participation. This seems to be borne out in practice. In France, where the government has supported cash-based profit sharing since 1959, the percentage of companies using profit sharing is the highest in Europe. By contrast, in countries such as Italy and Portugal where systematic interest in financial participation only developed in the late 1980s, the incidence of financial participation is much lower (Poutsma 2001, Pendleton et al 2001a).[15]

A second cultural variable that might affect financial participation use is the degree to which broader employee participation is the norm in different Member States. Theory suggests that financial participation will be easier to introduce and more effective where it can co-exist with other enterprise-level participation mechanisms such as task forces, suggestion schemes, semi-autonomous teams, etc. The argument is that these parallel forms of worker involvement both reinforce and are reinforced by financial participation. On the one hand, financial participation will be more effective if incentives to achieve better performance are matched with structures that allow the people who do the job every day to contribute freely to problem solving. On the other hand, structures which provide for employees' input into problem-solving will be more effective when workers are given a financial incentive to make their contribution (Levine and Tyson 1990). This

[15] However, Fernie and Metcalf (1995) note that financial participation can spread very rapidly in response to attractive tax incentives.

theory appears to be supported by the empirical evidence. Many studies have discovered strong statistical associations between the use of financial participation schemes and other forms of employee participation, often characterised as ‘high performance work organisation’ or ‘high involvement workplaces’ (Ichniowski and Shaw 1995, McCartney and Teague 1997, 2004, OECD 1999, Osterman 1994, Pil and MacDuffie 1996).

Given the apparent strength of this link, it is reasonable to suggest that, all other things being equal, countries which enjoy a stronger tradition of direct workplace participation in other areas – through the use of high performance work organisation, etc. – will provide a more welcoming environment for financial participation. The reverse of this point is that financial participation will be harder to introduce in countries which do not have a tradition in other forms of employee involvement.

A third cultural variable that might affect the use of financial participation is the incidence of citizen participation in stock markets. In Anglo-Saxon countries, such as the UK, it is quite common for ordinary employees to ‘play the stock market’ and to hold some of their personal wealth in direct equities. This familiarity is expected to dispose workers in these countries more favourably to share-based forms of financial participation. However, in most other European economies, stock markets are dominated by large institutional investors such as pension funds, and retail share investment is relatively limited. Here we might expect the lower rate of citizen participation in stock markets to act as a barrier to the spread of share-based schemes.

The fourth aspect of national culture that might, albeit indirectly, affect the diffusion of financial participation across countries is in-company training. The discussions above indicated that the effectiveness of financial participation can be enhanced by training. To begin with, appropriate training in the practicalities of financial participation itself will encourage employee ‘buy-in’, and will enable workers to operate and monitor schemes more effectively. But more general skills training should also make financial participation more effective because it increases the expected returns to companies and employees alike. This suggests that, all other things being equal, financial participation may be more enthusiastically received by management and employees in countries where there is greater in-company training activity.

Institutional differences

Institutional differences will also affect the diffusion of financial participation. To begin with, differences in the national institutions and practices of collective bargaining can make it more or less difficult to introduce financial participation in the different Member States. Notwithstanding the Commission’s clear guidance that basic pay and financial participation should be kept strictly separate, one concern of trade unions has been the fact that financial participation bonuses could undermine their bargaining position on basic pay. In countries like Ireland, where collective bargaining is highly coordinated through national level pay deals, these concerns have been less pronounced. This is because the disbursement of financial participation bonuses in any individual company is most unlikely to influence national level pay negotiations which must take a broader view. This space has allowed the Irish trade unions to adopt a relatively positive, and in some cases a proactive, attitude to employee financial participation. By contrast, in countries where it is normal to conduct collective bargaining on a sector-by-sector basis, or on a company-by-company basis – and especially where this type of bargaining is not closely coordinated through established patterns of bargaining – financial participation may be more difficult to introduce. In these countries, trade unions may have valid concerns that gains in take-home pay achieved through financial participation will undermine the gains that can be achieved in bargaining for basic pay.

A second source of institutional inconsistency that may affect the spread of financial participation is the nature of capital markets. It is clear that share-based schemes are much more difficult to introduce and manage in enterprises that are not listed on a stock exchange (Festing et al 1999, Pendleton et al 2001). In this context, Poutsma (2001) notes:

> 'There is a striking difference between the capital markets of typical Anglo-Saxon countries such the UK and USA, and those of continental Europe. In the UK and USA, the stock market tends to represent a larger percentage of the total number of corporations and total corporate employment than in Europe … in other words, the incidence of widespread share ownership is also related to the development of stock markets' (p.55).

It is clear that the underdevelopment of capital markets in some European countries may represent a cross-national impediment to the spread of share-based financial participation schemes.

A final and related institutional consideration is the average size of corporations. Many empirical studies point to a strong relationship between the size of a company (as measured by the number of employees) and its use of financial participation. For example, Pendleton et al (2001a) finds a significant association between establishment size and, particularly, broad-based financial participation schemes, while Festing et al (1999) finds that the incidence of both employee-share ownership and profit-sharing increases strongly with company size. There may be several explanations for this.

One theory is that, as company size increases, it becomes more difficult to monitor employees' performance. It is commonly suggested that this will make financial participation schemes more useful to large companies, because by rewarding employees for better company performance, it reduces the incentive to 'shirk'. In addition, Pendleton et al (2001a) suggests that financial participation may be particularly attractive to larger organisations because of the greater social distance between management and workers in these companies, and the threat of larger employee numbers, creates a stronger imperative for management to deliberately align employee interests with those of the company.

Arising from this is the possibility that in countries where the average business unit is smaller (e.g., the Mediterranean countries), restricted company size will be a barrier to the adoption of employee financial participation.

Key themes for benchmarking 2

This wide-ranging conceptual discussion provides important insights into the nuances of financial participation in Europe. But in order to use this discussion for the purposes of developing indicators, it is necessary to extract and highlight the key points. This section identifies the main arguments in the conceptual discussion and catalogues them under the headings 'broad dimensions', 'specific themes' and 'detailed sub-themes'. The final indicators will be directly defined by these narrowly focused units.

Broad dimensions

The following represent the broad areas of variation in financial participation policy and practice across Member States:

- The level of usage of financial participation;
- The nature of financial participation;
- National policies and characteristics which affect the environment for financial participation.

Specific themes

Each of the broad dimensions incorporates several underlying themes. For example, from the conceptual discussion emerged the finding that the second broad dimension – the nature of financial participation – contains eight 'themes' corresponding to each of the Commission's general principles. Therefore, within this broad heading, 'the nature of financial participation, specific themes would relate to 'regularity of financial participation schemes', 'clarity and transparency', etc. In all, a detailed analysis of the conceptual discussion enables 13 separate themes to be extracted from the general discussion. These are listed in Table 1 below.

Detailed sub-themes

In some cases these 'themes' may be sufficiently focused to allow us to elaborate concrete indicators directly. In other cases, however, the themes remain too broad for developing specific indicators. This is because some of the 13 themes identified contain further 'sub-themes'. For example, the discussions on the 'clarity and transparency' theme identified the following distinct sub-themes:

- Employee participation in financial participation scheme design;
- Provision of training;
- Provision of information;
- Joint review mechanism.

Therefore, in addition to the 13 'themes', the conceptual discussion identified 17 further sub-themes. These are listed alongside the main themes in Table 1 below, and they form the primary basis for drawing up clear indicators of financial participation policy and practice in the EU.

Table 1 Summary of broad dimensions, specific themes and detailed sub-themes

Dimension	Theme	Sub-theme
Level of usage of FP	1. Incidence	—
	2. Coverage	—
Nature of FP	3. Voluntary participation	—
	4. Extending benefits to all employees	1. All employees test
		2. Similar terms test
	5. Clarity and transparency	3. Employee participation in FP scheme design
		4. Provision of training
		5. Provision of information
		6. Joint review mechanism
	6. Pre-defined formula	—
	7. Regularity	—
	8. Avoiding unreasonable risks	7. Means of payment
		8. Minimum retention period
	9. Distinction between wages and salaries and income from FP	—
	10. Compatibility with worker mobility	—
National policies and characteristics	11. Taxation	9. Tax treatment of FP
		10. Social security treatment of FP
	12. Cultural differences	11. History and tradition of financial participation
		12. Other direct participation
		13. Citizen participation in stock markets
		14. In-company training
	13. Institutional differences	15. Co-ordination of wage bargaining systems
		16. Development of capital markets
		17. Enterprise size

Developing financial participation indicators

3

Having identified the specific themes and sub-themes that should be targeted by a benchmarking exercise, the next step is to 'operationalise' these concepts by elaborating concrete measures or indicators. These indicators will form the blueprint for creating a comprehensive and cross nationally comparable picture of the financial participation situation in each Member State.

Strategy for developing indicators

The indicators contained in this report have been developed through a multi-stage process. In the first instance, an initial list of 39 draft indicators was developed. The strategy was to elaborate at least one draft indicator for each of the themes or sub-themes listed in Table 1 (see previous chapter).[16]

The second step was to evaluate these draft indicators through an intensive consultation process. In some cases, it was necessary to add new indicators to cover gaps in the initial list, or to replace initial draft indicators with improved measures. In other cases, items from the original draft list were discarded. The result of this exercise was a revised draft list containing more than 40 possible indicators. This represented an exhaustive catalogue from which all of the final indicators would be selected.

The third step was to cut this list down to manageable proportions. From a logistical perspective, it was deemed wise to restrict the number of indicators to around 15. Therefore, it was necessary to prioritise between the measures contained in the revised draft list and to select only the most important ones. This chapter examines the methodology used to develop the initial list of draft indicators, to refine this into a 'revised draft list', and finally to cut this down to a 'lean' set of final indicators.

Drawing up a first list of draft indicators

(A number of horizontal factors had to be systematically considered in deriving the initial draft indicators from first principles).

Relevance and validity

The most important criterion in selecting any indicator is that it is relevant – i.e. that it provides a useful measure of some key aspect of financial participation policy and practice. First and foremost, therefore, the draft indicators had to provide information that was pertinent to the key themes and sub-themes identified through the earlier conceptual discussion. A second, and closely related consideration, is that the indicators are valid. Not only must they address the correct issues, but the indicators must also fulfil the technical requirement that they measure what they purport to measure. In some cases, the draft indicators were 'triangulated' through having been used in previous research, and therefore relevance and validity were not a problem.[17] In other cases, relevance and validity were affirmed through the consultation phase of this project. However, in a

[16] Where disaggregation only went as far as the theme level, these themes formed the basis of the draft indicators. However, in some cases disaggregation went below this level to sub-themes. Here, indicators were elaborated on the relevant sub-themes.

[17] For example, the EPOC and CRANET studies used similar measures to our draft indicators of the incidence and coverage of financial participation schemes.

smaller number of cases, the consultation process cast doubt on the relevance and/or validity of some of the draft indicators. As we shall see below, where this occurred, the appropriate action was to drop that indicator from the list.

Unit of analysis

Mohr (1993) defines the unit of analysis as ‘the kind of individual described by a variable or a set of variables’. Therefore, the unit of analysis could be an employee, an enterprise, a country, etc. In some cases, it is quite clear which unit of analysis should be used. For example, in addressing the ‘Coverage of financial participation schemes’, it is obviously appropriate to take the employee as the unit of analysis (e.g. the percentage of employees in an organisation that are covered by a profit-sharing scheme). However, in relation to the ‘tax treatment of financial participation’ it would be more appropriate to look at the nation state as the unit of analysis (e.g. does a particular country provide fiscal incentives for profit sharing?).

Often it is possible to develop several indicators for a particular sub-theme, each based on a different unit of analysis. For example, we could look at provision of information through the lens of the enterprise (e.g. what percentage of enterprises provide employees with information on financial performance?). Alternatively, we could examine this using the employee as the unit of analysis (e.g. what percentage of employees receive information on financial performance?). Using multiple units of analysis can have distinct advantages. In this example, the supplementary employee-based indicator would complement data on the number of enterprises that provided information by also telling us whether or not all grades of employee had equal access to this information. Therefore, at the draft stage, multiple indicators based on different units of analysis were provisionally included for some themes and sub-themes.[18]

Types of scheme covered

As outlined in the introduction to this study, financial participation is an umbrella term that incorporates a wide variety of different schemes. In the broadest sense, these can be classified as profit-sharing and share-ownership schemes (Pendleton et al 2001a). A more detailed breakdown is suggested by Poutsma (2001) who distinguishes between cash-based profit sharing, deferred profit sharing and employee savings plans as well as share-ownership schemes. Within the latter class, it may be useful to differentiate between share purchase schemes and bonus share schemes. To give as detailed a profile of financial participation policy and practice within the EU as possible, our draft indicators were elaborated to cover as many of these forms of financial participation as possible.

Gender issues

Under the gender mainstreaming approach set down in the Amsterdam Treaty, two considerations were taken into account when developing the draft indicators. First, indicators which related to sub-themes that have a particular gender dimension were prioritised. Therefore, given the earlier discussion, it was especially important to include indicators of the ‘all employees’ and ‘similar terms’ sub-themes. Second, where possible, indicators were chosen that can yield gender disaggregated information.

[18] At the later stages of this project, the need to reduce our indicators to a final ‘lean’ set led to an ‘either/or’ choice between the enterprise and employee-based measures. Where possible, the preference was for employee-based indicators because these allow disaggregation of results by personal characteristics e.g. sex and occupational grade.

Using existing data

In conducting a practical benchmarking exercise, it is more convenient and cost effective to use indicators which are supported by existing data than to use those that require the collection of new data. To maximise the opportunities for using existing data, an audit of extant cross-national databases on financial participation and related fields was undertaken.[19] All else being equal, where data for a relevant indicator were already available, this indicator was placed on the draft list in preference to those for which no data already existed. In other cases, the decision was more complicated. Often the existing data were not ideal. However, where they were 'good enough' to support a useful indicator, pragmatism dictated that this measure was included in preference to indicators that would require new data. At the same time, however, where no data were available, or where the extant data were too flawed to support an important indicator, there was no hesitation in recommending an indicator that required new data to be generated. Therefore, the most important criterion in selecting indicators was always that they provided a useful measure of some salient aspect of financial participation policy and practice.

Limitations of existing data

Where indicators are supported by existing datasets, it is important to understand the limitations of these sources. A key purpose of financial participation indicators is to capture the experience of employees. However, some of the most commonly quoted sources of cross-national data on financial participation focus on the organisation rather than the individual. For example, the EPOC survey takes the workplace as the unit of analysis. In general, employee-based measures are preferable to company-based measures as these can be disaggregated by personal characteristics, e.g. gender and occupation for the purposes of comparison.

Compounding this, both the EPOC and the widely cited CRANET surveys are based exclusively on information provided by management respondents, raising the possibility of bias. In addition, we must be aware that, for all their strengths, the EPOC and CRANET data sources are incomplete in terms of geographical coverage as they only relate to 10 and 14 Member States respectively.

To some extent these weaknesses are overcome by the Foundation's European Working Conditions Survey. As well as providing coverage of all 25 Member States, this source takes individual employees as the unit of analysis, and is based on the responses of workers rather than company representatives.

Finally, where indicators are based on existing data sources, it is also important to take into account that the timing and periodicity of these data sources may vary. This causes two problems. First, in cases where datasets are not updated regularly, but are once off or occasional in nature, it can be difficult to monitor progress or to make accurate statements about the financial participation situation between updates. Second, where data are not updated at the same time in each Member State, cross-national comparisons become more complicated and less transparent.

However, although the existing datasets are not perfect, they should still be taken into account as in many cases they provide the best data that is currently available. However, it is important to present and interpret indicators based on these sources with appropriate caution. Key differences

[19] The outcome of this exercise is summarised in Table 2 below.

between the main cross-national data sources in terms of coverage, periodicity, timing and respondent identity are shown in tabular form in Appendix 1.

Having considered these factors, an initial set of 39 draft indicators was proposed to accompany the first draft of this paper. In keeping with the earlier discussion, they were presented under the following headings:

- Indicator – description of the indicator;
- Dimension – the broad dimension of financial participation policy and practice it refers to;
- Theme – the theme it refers to;
- Sub-theme – the narrow sub-theme it refers to (where applicable);
- Unit of analysis – e.g. the employee, the enterprise, the State etc;
- Gender breakdown – is this available, or at least possible? Only applies where the employee is the unit of analysis;
- Source – only applies where existing data are available;
- Remarks/limitations – following the example of Weiler (2003), more detailed notes are provided and each indicator is briefly evaluated regarding its shortcomings and limitations.

The initial list of draft indicators is included in Appendix 2.

Revising the draft list: The consultation process

Although the initial list of 39 draft indicators was a good starting point, it only represented a first attempt at deriving concrete measures of financial participation policy and practice. These measures had to be further developed and refined, and, if necessary, added to with additional measures. In practice, this was achieved through an extensive consultation process which involved the steps described in this section.

Workshops and meetings

In addition to ongoing discussions and meetings with the project manager, other staff from the Foundation, and the author's colleagues and contacts, a number of formal workshops provided opportunities to discuss the progress and trajectory of the project with experts in employee financial participation.

a) Meeting of the Foundation's financial participation research group, Brussels, 9 October 2003.

The author presented a draft version of this report, together with the 39 draft indicators to a 25 person expert group. The paper and appended draft indicators were then intensively discussed in an open workshop. In addition, the participants at the workshop were invited to make any further comments in writing to the author. Some valuable perspectives were gathered during this meeting, and in follow-up submissions. Where appropriate, these have been incorporated into this report and the final indicators.

b) Meeting of the Foundation's advisory committee on industrial relations, Dublin, 21 October 2003.

Again, the author presented a brief outline of the report and the 39 draft indicators to a small group of industrial relations experts, followed by a workshop discussion. As before, interesting and valuable comments were gathered during this process and, where appropriate, these have been incorporated into this report and the final indicators.

Mini-survey

On 29 October 2003, the draft indicators were e-mailed to 96 people on the Foundation's financial participation contact list. To assist with the process of refining our indicators, respondents were asked to prioritise the 39 draft measures on a 1–5 scale. In addition, they were also asked to contribute more general comments.[20] In analysing the survey returns, an average score was computed for each of the proposed indicators. This gives a good indication of the importance that experts placed on each of the draft measures. However, we could not rely on this measure only. Despite making the survey extremely user-friendly, the response rate was a disappointing 6%. Therefore, while this exercise gave some feel for which measures were most important, it was not sufficiently robust to be the only criterion for evaluating indicators.

Consultation with the Foundation's Industrial Relations Advisory Committee

On 11th November 2003 the first draft of this report was circulated, along with the 39 draft indicators, to these representatives. Responses were incorporated into this report and the final indicators.

New indicators arising out of consultation

This consultation process played a crucial role in generating improvements to the existing draft measures, and in bringing forth new indicators that were required to fill important gaps. Inevitably, this meant that the number of draft indicators actually increased as a result of the consultation process.

Two of the new indicators that were suggested during the consultation phase of the project have found their way into the final list of measures. First, there is a new indicator which assesses the risks associated with financial participation schemes by examining whether employees have a choice about the form in which bonuses are paid (Indicator No.10 in the table in Appendix 2). This was suggested by an experienced practitioner on the basis that a menu of payment options allowed employees to manage their own risk within schemes. Secondly, a synthetic index has been introduced which measures Member States' legislative and fiscal supports for financial participation schemes (Indicator No. 12). This was initially suggested by the author on the basis that regulations and tax incentives fundamentally determine whether individual countries provide a friendly or a hostile environment for financial participation. However, this measure was greatly developed and refined through the consultation process.

In contrast to the above, however, the consultation process threw up other suggestions that could not be taken on board. First, a number of commentators suggested that 'performance indicators'

[20] The mini-survey instrument is included as Appendix 3.

should be included in our list. Effectively these are measures of the outcomes associated with financial participation, e.g. the value of bonuses paid to employees as a percentage of basic pay. As alluded to above, developing these performance indicators is fraught with methodological and technical difficulties. In addition, there is the problem of how we should use these indicators. For example, can we say that a bigger bonus is always better than a smaller one? If not, what is the optimum level of bonus that we should aim for? Cooke (1994) notes that: 'The optimal ratio of variable earnings to fixed earnings … must provide sufficient income stability on one hand, and sufficient incentive to induce greater effort on the other hand'. But there is little agreement on where the correct balance lies. To illustrate this, one US academic suggests 12% as the appropriate ratio of bonuses to normal pay.[21] On the other hand, one practitioner who commented on early drafts of this report suggests that the optimum rate should be around 8%. But empirical evidence indicates that, in practice, bonus payments are often less than either of these benchmarks (Wadhwani and Hall, 1990).

A further question is whether it is really possible or useful to set a 'one-size-fits-all' target for bonus payments:

> 'No easy to apply formula exists whereby a financial participation measure connects incentives to motivation. Even a rule of thumb guide appears quite unsuitable. For example, McKersie (1996) has argued that an ESOP needs to provide employees with a 12% stake in the company before any discernible change in their expectations and behaviour can be realistically expected. To apply this rule to parts of the petrochemical industry, for example, would turn employees into multimillionaires overnight. Thus no golden formula exists to guide the instalment of pay innovations' (Teague, 2002).

The clear danger of establishing a universal target in a diverse economic context is that practitioners would be held to this, even if the target was not appropriate for their circumstances. For example, in companies where the bonus payments fell below any one-size-fits-all target – perhaps for perfectly valid reasons – employees and their representatives would inevitably press for the bonuses to be raised into line with this benchmark. At the other extreme, where companies were paying bonuses in excess of the universal target – again for valid reasons – management may seek to cut back on bonuses to comply with this norm. Ultimately, therefore, benchmarking the value of financial participation benefits could be counterproductive and unhelpful, and so calls to include these in the list of final indicators were rejected.

It was also suggested that the views and attitudes of social partners affect the diffusion of financial participation, and that some indicator should be developed to reflect the positions of these peak-level organisations. However, two concerns prevent us from including a measure of this in the list of indicators. First, the link between social partner attitudes and actual practice is still unclear. Pendleton and Poutsma have recently described the attitudes of social partner organisations to financial participation (2004). However they do not attempt to evaluate the influence of these attitudes on practice. Therefore, while we might assume a direct relationship between positive social partner attitudes and the use of financial participation, this assumption remains untested.[22]

[21] See reference to McKersie below.

[22] To illustrate the dangers of taking for granted this presumed relationship, consider that in some countries (e.g. Ireland) where trade unions are comparatively positive about employee financial participation, the incidence of profit sharing and share ownership is only mid-ranking in the European league table.

The second concern is that the Pendleton and Poutsma's research is currently restricted to a small number of Member States. Therefore, while it may be possible to incorporate additional indicators of social partner attitudes at a later date, for now it is considered that more research has to be undertaken in this area.

A third suggestion was to develop an indicator that illustrated the relationship between financial participation schemes and improved corporate governance, e.g. through the use of worker directors. This is an interesting and evolving area and it sits comfortably within 'the nature of financial participation heading. However, given the strict tender specifications for this project, and the need to restrict our final number of indicators, it was decided that measures of corporate governance were less of a priority than the indicators that have been included. This notwithstanding, it is important to highlight this area as one which should be further monitored and researched in the future.

Drawing up a 'lean' set of final indicators

The tender specification for this project does not explicitly state how many indicators should be produced to underpin the benchmarking of financial participation. However, it does state that:

> 'The development of a set of indicators should take as a starting point the eight principles of the Communication of the Commission.'

In addition, it states that:

> 'The conceptual development of the indicators should also take stock of the transnational obstacles as analysed by the Commission in the same communication: taxation, social security contributions, legal differences, lack of mutual recognition of financial participation schemes, lack of information.'

These statements imply that, at a minimum, the final set of indicators must include a sufficient number of measures to do justice to the Commission's eight general principles, plus additional measures to reflect differences between national policies and characteristics in the area of financial participation. On top of this, it is taken for granted that a comprehensive set of indicators should include some metrics of scale – i.e. measures of the incidence and coverage of financial participation.

These requirements impose a minimum number of indicators below which we cannot go without violating the terms of reference for this project. At the same time, however, the financial participation experts that were consulted during this project were clear that the final list of indicators should be kept quite small, at around 15 measures. This is argued for three reasons. First, the purpose of the project is to capture the big issues relating to financial participation. In this context, too many indicators could distract attention from the most important points. Second, it is argued that, since the project is being undertaken to facilitate a benchmarking exercise, it must show some sensitivity to the practicalities of fieldwork. Clearly it is less expensive and less onerous to collect data on 15 key indicators than it would be to collect data on 40 measures. Finally, it is suggested that, with fewer indicators, there are less likely to be problems of data incompatibility between Member States.

The initial list of draft indicators included 39 measures of financial participation policy and practice. This figure unavoidably grew to over 40 draft indicators after the consultation process. The final task was to edit this list down to a parsimonious set of around 15 final indicators. This required a systematic set of criteria for prioritising between draft indicators.

A system for selecting final indicators

For the sake of transparency and cogency it was important that a formal system was applied to distilling the revised list of draft indicators down to a lean set of around 15 measures. Therefore, the following criteria were used to deselect draft indicators:

Relevance

As outlined above, the most important characteristic of any indicator is that it is relevant – i.e. that it measures some salient aspect of financial participation policy and practice. In deriving the draft indicators, the aim was to be as comprehensive and inclusive as possible. Therefore, at the initial stages and during the consultation phase, all indicators that could possibly yield useful measures of financial participation were considered. This inclusive approach ensured that our draft list did not leave gaps which could result in important facets of financial participation being omitted from the final set of indicators. At the same time, it inevitably led to the inclusion of some indicators that were less pertinent than others. Given the necessity of reducing the draft list to a lean set of final measures, it was important to remove these low priority items at this stage.

In practice, any decision to remove an indicator on the grounds of relevance was informed by the consultation process. This is illustrated in a number of examples. Early drafts of this paper postulated that in-company training facilitated the introduction of financial participation schemes. While this was accepted in principle, many experts felt that training only had a marginal effect on the extent and nature of financial participation. Indeed, this scepticism is reflected in the mini-survey which assigned below-average priority ratings to the in-company training indicators in our draft list.[23] Accordingly, these measures were cut from the list of final indicators.

Another example relates to the hypothesis that countries which have a longer tradition of financial participation provide a more welcoming environment for schemes. While it is true that financial participation seems to have its strongest foothold in countries with a long history of employee financial involvement (e.g. France), many experts suggested that tradition was much less relevant than supportive legislation. Consistent with this, our draft indicator on the history of financial involvement also received a very low rating in the mini survey, and was ultimately discarded.[24]

Validity

Even where the indicator is relevant, in order to be useful it must also be valid – i.e. it must measure what it purports to measure. The consultation process cast doubt on the validity of some of our draft measures. Two examples are given below to illustrate this.

First, an early hypothesis was that, all else being equal, countries which enjoyed conciliatory relationships between the peak-level social partners would provide a more welcoming environment

[23] See draft indicators 33–35 in Appendix 1.

[24] See item 31 in the draft list (Appendix 1).

for financial participation. However, several experts questioned the theoretical underpinnings of this hypothesis. Furthermore, they pointed to counterfactual examples that actually suggest the opposite relationship. For instance, Sweden is well known for its system of social corporatism and yet empirical evidence suggests that it is a laggard in the adoption of financial participation. In the light of this, the validity of using social partner relations as an indicator of the environment for financial participation was unproven. Accordingly, this measure (no. 37 in the initial draft list) could not be included in our final list of indicators and was deselected.

A further hypothesis suggested that it was easier to introduce financial participation in countries where wage negotiations are remote from the local workplace. The argument is that, where wage bargaining is centralised or heavily patterned, trade unions will be less concerned that negotiations on basic pay could be interfered with by financial participation. While this hypothesis is theoretically appealing, and may be supported by anecdotal evidence (e.g. in Ireland), we must accept that it is, as yet, untested. Furthermore, some counterfactuals also cast doubt on this supposed relationship. For example, the UK is at the forefront of financial participation, yet wage formation is quite decentralised in this jurisdiction. In the light of these considerations, the validity of using bargaining level to measure the environment for financial participation was uncertain. Therefore this indicator (no. 27 in the initial draft list) was also deselected pending further research.

Unit of analysis

As outlined earlier, the draft list of indicators often included alternative measures of the same sub-theme – each based on a different unit of analysis. Ideally, these multiple measures would have been retained as they are complimentary and they provide useful cross-checks on one another. However logistics dictated that only around 15 final indicators could be kept. Therefore, the list was strictly limited to one indicator per theme or sub-theme, and the remainder were reluctantly discarded.

In many cases, this rule forced a choice between alternative indictors based on different units of analysis. In these situations, the policy was to favour employee-based indicators over enterprise-based measures. This was partly because the primary purpose of our indicators is to capture the experience of ordinary workers, and employee-based measures do this more directly. But there was also an important technical reason. Employee-based indicators lend themselves to disaggregation between groups, e.g. managers and non-managers, males and females, etc., while enterprise-based indicators do not. This is easily illustrated by means of an example:

> Imagine we are interested in whether financial participation schemes are supported by the sharing of information on company performance. To measure this, we could develop an enterprise-based indicator from the following survey question: *'Does this enterprise provide employees with information on company performance?'* While this might yield interesting information, it will not allow us to determine whether individuals within enterprises are treated differently by virtue of their sex or occupational status. On the other hand, an alternative measure could be developed from a question directed at employees: *'Do you receive information on company performance?'* Using this employee-based measure, we could disaggregate and compare the results for each type of employee.

Individual employee-based measures are more easily derived from employee surveys than from company surveys. As a pure workplace study, the EPOC survey does not support employee-based indicators at all. The CRANET survey is also company based, although it does indirectly support employee-based indicators.[25] Much better in this regard, however, is the Foundation's European Working Conditions Survey. As an employee survey, its natural focus is on the individual worker as the unit of analysis.

By choosing employee-based indicators where appropriate, and by deselecting overlapping enterprise based measures, it was possible to reduce the number of indicators considerably.

Based on these criteria, and informed by the various steps of the consultation process, the revised list of draft indicators – which included over 40 suggested measures – was distilled down to the 16 measures presented in Appendix 2 below. These represent the final indicators that are recommended for undertaking a benchmarking exercise on financial participation policy and practice in the EU.[26]

[25] A detailed explanation is given in Appendix 2, Indicator Nos. 2 & 8.

[26] Note that, due to this editing down, the final indicators only refer specifically to 11 of the 13 themes originally identified in Table 1. In a context where the total number of indicators had to be controlled, including specific measures of the 'voluntary participation' and 'compatibility with worker mobility' themes was not considered a priority.

Conclusions 4

The purpose of this project was to develop a set of indicators that would allow benchmarking of financial participation policies and practices across the EU. These indicators are now presented below in Appendix 2. As required by the project's terms of reference, the indicators originate in a detailed conceptual discussion of financial participation which was based on a wide-ranging review of the current literature. They incorporate the general principles outlined by the European Commission in its July 2002 Communication. In addition, they address the scale of financial participation usage, and differences in national policies and characteristics that may act as barriers to the cross national diffusion of financial participation schemes.

Great attention has been paid to the availability of existing data in developing the final indicators. And given the imperfect sources from which we inevitably have to draw, detailed notes are provided for each of the 16 final indicators on geographical coverage, timing and periodicity.

Next steps

The purpose of this project was to develop indicators which will pave the way for benchmarking. The purpose was not to undertake a benchmarking exercise itself – this will be a separate and discrete project. Having said that, it is useful to finish by considering some issues that might arise when the time comes for using these indicators to benchmark financial participation policy and practice.

Validating the final bundle of indicators

The indicators have been developed deductively: they originate from theory and the hands-on experience of experts in this field. Each individual indicator is directed at a discrete and quite distinct sub-theme, but they are combined in such a way that, together, they cover all the key facets of financial participation policy and practice. In this respect the 16 final indicators form a coherent and intuitively appealing bundle.

This notwithstanding, some people may see a value in empirically validating the final indicators to see how well they 'hang together' in a coherent set or bundle. It would be possible to use some form of latent variable analysis to do this. However, such an exercise is not attempted in this project. This sort of statistical analysis would require a body of empirical data on each indicator across the EU. This data has not yet been collected, and doing so would not only exceed the terms of reference for this project, it would actually pre-empt the benchmarking exercise itself.

Assigning weights to individual indicators

It is implicitly assumed in this paper that each of our indicators should be given an equal weighting in describing financial participation policy and practice. Certainly there is no obvious conceptual justification for emphasising one indicator over another, and therefore it is more prudent at this stage to assume equal weights. However, it is recognised that the weighting issue will arise again when the results of benchmarking are being interpreted. At that stage, empirical data would be available, and it may be possible to assign weights to each variable from a factor analysis or similar statistical procedure. For now, however, it would be incorrect to assume that any of our 16 indicators is more or less important than another.

Limitations of current data

As explained above, there are currently three key sources of cross-national information on employee financial participation: the CRANET and EPOC surveys, and the Foundation's European Working Conditions Survey. The usefulness of these surveys for providing information on financial participation is somewhat limited by their design. First, none of these surveys provide much detail on financial participation: in all three cases, information on financial participation derives from a single question in the survey instrument. This clearly limits the amount of detail that they can produce on this complex and evolving subject

Additional problems arise as a result of the specific limitations of the CRANET and EPOC surveys in particular. Firstly, they are company surveys, and therefore they do not directly support employee-based indicators. Secondly, they only provide part of the picture as they draw their responses only from management representatives. Thirdly, they are limited by incomplete geographical coverage. Finally, in the case of EPOC, the survey was a once-off study conducted in 1996, and its relevance will gradually diminish with the passing of time.

Despite efforts made to maximise the use of existing data, it should be very clearly emphasised that these data limitations currently make it impossible to fully benchmark financial participation within the EU on the basis of information that already exists (7 of our 16 final indicators would require the generation of new data). There are several options to deal with this harsh reality.

One option would be to conduct a new survey specifically dedicated to employee financial participation. This would capture much greater detail, and it could be designed from first principles to ensure full coverage, regularity, and a focus on both employee and management respondents. However, one danger of such a specific approach is that financial participation could come to be viewed in isolation. We are interested in how financial participation fits with other aspects of workplace industrial relations. Therefore, it is essential for analytical purposes that any new survey on financial participation would also carry questions on its key correlates, e.g. flexible working practices, new forms of work organisation etc. And this throws up a dilemma. If these measures of the broader industrial relations and human resource management context must be included, would we not just end up replicating what is already covered in existing surveys e.g. CRANET and EPOC?

An alternative approach, therefore, would be to expand the existing surveys to capture more detail on financial participation. The indicators presented in the table in Appendix 2 were derived with this approach in mind. For example, where necessary, they outline precisely how the existing surveys could be extended to cover the necessary themes and sub-themes. However, it should be understood that this approach requires more than just adding new questions to existing surveys. In particular, the EPOC and CRANET surveys are fundamentally limited by design. To be useful sources of information for a comprehensive benchmarking exercise, they would need not only to be extended, but also to have their coverage expanded, to provide more information on gender, and to be updated more frequently and more regularly.

One further possible option would be to examine opportunities for generating financial participation data from existing statutory surveys e.g. the European Community Household Panel Survey (ECHP), or the Labour Force Survey (LFS). These surveys have the advantage of referring to the individual rather than the organisation, and would potentially yield more useful data.

Finally, perhaps a combination of these approaches could be used to provide data in support of the 16 final indicators – for example it may be possible to undertake benchmarking based on upgraded data from the existing surveys, supplemented with new data from national Labour Force Surveys. Ultimately, however, these choices are beyond the remit of this project. Our task was to produce a set of indictors which would support a benchmarking exercise. The indicators herein represent a lean set of measures that would comprehensively characterise the financial participation situation in each of the EU Member States.

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Appendix 1
Cross-national data sources on financial participation

Table A Key existing cross-national data sources on financial participation and related subjects[27]

Survey Name	Source	Respondent Details[28]	Geographical Coverage	Sectoral Coverage	Size Coverage	Financial participation Schemes Covered	Periodicity Update	Latest
Survey on European Working Conditions	Paoli and Merllié (2001), Paoli and Parent-Thirion (2003)	Individual Workers (employees and self-employed) aged 15-64.	EU (15) Member States + Norway (2000), 10 new Member States + Bulgaria, Romania (2001), Turkey (2002)	Household survey covering all sectors	N/A	Profit sharing (broadly defined, Share ownership, Group based performance bonuses.	Occasional: 1990, 1995, 2000, 2001, 2002.	2000 for EU (15), 2001 for new Member States.
EPOC (Employee Direct Participation in Organisational Change Survey)	EPOC Research Group (1997), Poutsma (2001)	'Workplace': The local site. Within this the respondent was the general manager or the most appropriate respondent as decided by the general manager	10 Member States	Non-agricultural sector	50+ employees	Profit sharing (broadly defined), Share ownership (broadly defined), Limited data on Gainsharing (see Q.19, Q.41, Q.56).	Once-off: 1996	1996
CRANET E (Cranfield Survey on International HRM)	Pendleton et al (2001a)	'Organisation': The relevant policy-making unit as defined by respondent Within this the respondent was the person responsible for HRM	30 countries in last round, including 14 Member States		100+ employees in latest round. Previously 200+	Profit sharing (broadly defined), Share Options, Group Bonus.	Occasional: 1989, 1992, 1995, 1999/2000	1999/2000
CVTS (Continuing Vocational Training Survey)	European Commission (1997) Eurostat, (2002a, 2002b, 2002c), Fox (1998, 2002)	'Company'	15 Member States in last round, plus 9 candidate countries and Norway	Manufacturing, construction, private services and public utilities. Does not include agriculture, public administration, education, health and defence.	10+ employees	Not directly covered, although information is provided on training in related fields e.g. accounting, finance, machinery operation, and quality control.	Occasional: 1994, 1999	1999

[27] Reference documents for the listed data sources are: CRANET UK Questionnaire (1991/1992, p.1), EPOC Research Group (1997), Survey of Continuing Vocational Training in Ireland 1999 (FAS, 1999).

[28] In developing indicators from the non-individual based surveys, we describe the respondent using the generic term 'enterprise'. However, where the indicators are supported, or could be supported, by existing surveys, we use the specific form used by the relevant sources. Therefore when using data from EPOC we refer to 'workplaces', when using data from CRANET we refer to 'organisations', and when using data from CVTS we refer to 'companies'. Where no previous surveys support our indicators, we adhere to the term 'enterprises'.

Table B Key questions From existing surveys

Survey on European Working Conditions, Q. EF.22.
What does your remuneration include?

Basic fixed salary/wage
Piece rate or productivity payments
Extra payments for additional hours of work/overtime
Extra payments compensating for bad or dangerous working conditions
Extra payments compensating for Sunday work
Other extra payments
Payments based on the overall performance of the company (profit sharing scheme) where you work
Payments based on the overall performance of the group
Income from shares in the company you work for
Advantages of other nature (for instance medical services, access to shops etc.)
Other (spontaneous)
Don't Know
Refusal

CRANET, Section IV, Q. 3

Do you offer any of the following incentive schemes? (please tick as many as are available for each category of staff).

	Management	Professional/Technical	Clerical/Administrative	Manual
A. Employee Share Options	☐	☐	☐	☐
B. Profit-sharing	☐	☐	☐	☐
C. Group Bonus	☐	☐	☐	☐
D. Merit/Performance Related Pay	☐	☐	☐	☐

EPOC Q. 20

Please indicate if employees in the largest occupational group are eligible for membership of the following:

— profit-sharing schemes ☐

— share-ownership schemes ☐

— none of the above ☐

Appendix 2

Summary of initial draft indicators of financial participation policy and practice in the European Union

Dimension	Theme	Sub-Theme	Indicator No.	
Level of	**Incidence**		**1**	Workplaces or organisations using FP as % of those surveyed
usage of FP	**Coverage**		**2**	Organisations using 'broad-based' FP as % of all those surveyed
			3	Employees covered by FP as % of all employees in the organisation
Nature of FP	**Extending benefits to all employees**	**All employees test**	**4**	Organisations using FP schemes with 90% coverage as % of all organisations
			5	% of enterprises extending FP to management compared to % extending FP to manual or clerical grades
			6	Enterprises using any FP scheme which is not open to all employees as % of all enterprises
			7	Employees excluded from any of the enterprise's FP schemes as % of all employees in the enterprise
		Similar terms test	**8**	Enterprises applying FP schemes which calculate bonuses for different grades of participant on the basis of different formulae: expressed as % of all surveyed establishments.
			9	Employees whose bonuses are calculated on the basis of a less favourable formula than that applying to other participating employees: expressed as a % of all employees in the enterprise.
	Clarity and Transparency	**Employee participation in FP scheme design**	**10**	Enterprises with formal structures for involving employees in the choice and design of FP scheme, as a % of all enterprises.
			11	Employees who have actively participated in the choice and design of a FP scheme in their enterprise, expressed as % of all employees in the enterprise.
		FP related training	**12**	Enterprises which have provided training specifically related to FP as % of all enterprises surveyed
			13	Number of training hours (days) spent per employee on FP specific courses
			14	Employees who received training specifically related to FP as % of all employees in enterprise or as % of all employees in enterprises that have adopted FP
		Provision of information	**15**	Enterprises which have formal structures for regularly informing employees about all performance measures relevant to the FP scheme as % of all enterprises surveyed.
			16	Employees receiving regular information on all performance measures relevant to the FP scheme, as % of all employees in the enterprise.
		Joint review mechanism	**17**	Enterprises which regularly involve employees and management in formally reviewing the operation and performance of the FP scheme, as % of all enterprises surveyed
			18	Employees who regularly participate in a formal joint review mechanism of their FP schemes, as % of all employees in the enterprise.

Dimension	Theme	Sub-Theme	Indicator No.	
	Pre-defined formula		**19**	Enterprises that adhere to a pre-defined formula for calculating all FP bonuses, as % of all enterprises
			20	Employees participating in FP schemes where bonuses are calculated on basis of a pre-defined formula as % of all employees in the enterprise
	Regularity		**21**	Enterprises whose FP schemes measure performance and disburse bonuses at regular and pre-defined intervals as % of all enterprises
			22	Employees participating in FP schemes which measure performance and disburse bonuses at regular and pre-defined intervals as % of all employees in the enterprise
	Avoiding unreasonable risks	**Cash or share-based?**	**23**	Enterprises with cash-based FP schemes as % of all enterprises surveyed
			24	Employees participating in cash based FP schemes as % of all employees in the enterprise
		Minimum retention period	**25**	Minimum length of time (in years) that employees must retain their FP bonuses before they become available to them
	Distinction between wages and salaries and income from financial participation		**26**	Enterprises which describe FP as completely distinct and separate from bargaining over normal pay as % of all enterprises
			27	The extent to which pay bargaining systems are centralised or adhere to a 'pattern'
	Compatibility with worker mobility		**28**	Enterprises which allow employees to retain entitlement to their FP bonuses when they leave the enterprise
Trans-national barriers	**Taxation**	**Tax treatment of FP**	**29**	Is tax relief available to: a) employees b) enterprises on the following forms of FP: [insert different forms of FP]
		Social security contributions	**30**	Is social security levied on: a) employees b) enterprises on bonuses from the following forms of FP: [insert different forms of FP]
	Cultural differences	**History**	**31**	Year in which legislation and/or tax relief was first introduced for FP
		Other direct participation	**32**	Workplaces using direct participation mechanisms as % of all workplaces surveyed.
		In-company training	**33**	Enterprises providing any training as % of all enterprises surveyed, AND/OR Enterprises providing structured training courses as % of all enterprises surveyed
			34	Training course (days/hours) per employee
			35	Employees participating in training courses as % of all employees in the enterprise
		Citizen participation in stock markets	**36**	Adults holding equities directly (i.e. not as part of a fund) in one or more companies as % of all adults.
	Institutional differences	**National partnership**	**37**	Is there a partnership agreement between trade unions, employers' organisations and Governments at national or regional level?
		Stock market listing	**38**	Enterprises with a stock market listing as % of all enterprises surveyed
		Enterprise size	**39**	Average number of employees in each enterprise

Appendix 3

Indicators of financial participation policy and practice in the European Union

1. Percentage of enterprises using financial participation

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of enterprises using FP	Level of usage of FP Level of usage of FP	Incidence	—	Organisation	Not available directly, but occupational breakdown may proxy for gender differences.	CRANET	• See CRANET characteristics (Appendix 1, Table B) • Measured as the percentage of organisations offering financial participation *to any of* the 4 occupational grades specified in Section IV, Q.3.
Percentage of enterprises using FP		Incidence	—	Workplace	EPOC Q.14 & Q.15 establish the percentage of women in the largest occupational group. This could be cross referenced with our indicator	EPOC	• See EPOC characteristics (Appendix 1, Table B) • Measured as the percentage of workplaces offering financial participation to employees in the largest occupational group, Q.20.

2. Percentage of employees covered by financial participation schemes

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of employees covered by FP schemes	a) Level of usage of FP	Coverage,	—	Employee	Directly available from indicator based on Survey on European Working Conditions	Survey on European Working Conditions	• See Survey on European Working Conditions (Appendix 1, Table B). • More sensitive indicator than the percentage of enterprises that have 'broad-based' schemes (i.e. offer financial participation to >50% of their employees), as that measure does not differentiate between enterprises that offer financial participation to 51% of employees and those that offer financial participation to 100%. However, the percentage of enterprises with 'broad-based' schemes can be derived as a secondary measure from this indicator.
	b) The nature of FP	Extending the benefits of FP to all employees	All employees test			CRANET	• Does not detect failure of similar terms test – i.e. all employees may be able to participate, but not necessarily on similar terms. • See CRANET characteristics (Appendix 1, Table B) • CRANET tells us whether financial participation is offered to 4 separate occupational grades (Section IV, Q.3). It also tells us what percentage of each organisation's workforce falls into each occupational grade (Section VI, Q.4). Putting these two pieces of information together we can calculate the percentage of employees in each organisation that are offered financial participation. • Assumes that all employees within each occupational category are treated similarly • Only provides information on employee coverage (i.e. are employees offered schemes?). Does not provide information on employee take up rates – an important indication of the attractiveness of schemes to workers.

3. Percentage of enterprises offering financial participation to different occupational grades

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of enterprises offering FP to different occupational grades	The nature of FP	Extending the benefits of financial participation to all employees	All employees test	Organisation	Not available directly, but the occupational breakdown may proxy for gender differences	CRANET	• See CRANET characteristics (Appendix 1, Table B) • Measured as the percentage of organisations offering financial participation *to each of* the 4 occupational grades specified in Section IV, Q.3. • To be a 'hard' test of the all employees criterion, we must assume that organisations that offer financial participation to a particular grade do so for all employees within that grade. The wording of CRANET Section IV, Q.3 could be more explicit.

4. Percentage of enterprises that use the same formula to calculate financial participation bonuses for all occupational grades

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of enterprises that use the same formula to calculate FP bonuses for all occupational grades	The nature of FP	Extending the benefits of financial participation to all employees	Similar terms test	Organisation	N/A	No known source, CRANET could be extended	• See CRANET characteristics (Appendix 1, Table B) • Requires additional question in CRANET e.g. 'For each of the specified incentive schemes, does your organisation apply the same formula to calculate the financial participation bonuses for all occupational grades? (tick yes/no)' • Directly addresses the similar terms issue • Will not measure 'how badly' organisations fail similar terms test

5. Percentage of enterprises where employees and their representatives can actively participate in the choice and design of financial participation scheme

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
The percentage of enterprises where employees and their representatives can actively participate in the choice and design of a FP s cheme.	The nature of FP	Clarity and transparency financial	Employee participation in participation scheme design	Workplace	EPOC Q.14 & Q.15 establish the percentage of women in the largest occupational group. This could be cross referenced with our indicator	No known source, EPOC could be extended	• See EPOC characteristics (Appendix 1, Table B) • Requires additional section in EPOC Q.28a e.g. 'On what issues and how often are the views of employees in the largest occupational group sought on a group basis … the design and introduction of financial participation schemes? (tick regularly/sometimes/never)' • Directly addresses the issue of employee participation in the choice and design of financial participation schemes • Rather than measuring whether they can participate it asks whether their participation is actually sought – a stronger test • Unlike Survey on European Working Conditions and CRANET, the EPOC survey does not allow us to distinguish between employees. Therefore we can only have an enterprise based measure.

6. Number of training hours provided by companies that are specifically related to financial participation

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Number of training hours enterprises provide that are specifically related to FP	The nature of FP	Clarity and transparency	financial participation related training	Company	No	No known source, CVTS could be extended	• See CVTS characteristics (Appendix 1, Table B) • Part 2, Q.4 asks 'What was the total paid working time in hours spent on CVT courses by subject of training?' 10 options are specified, plus an open category entitled 'other training subjects'. To find total hours committed to financial participation specific training, this subject could be included as an extra category. Alternatively, the open category 'other training subjects' could be post coded to measure financial participation specific training. However, it may be that, without the prompt of a specific category, many companies would not think of including financial participation of training in their responses. Therefore a post coding exercise could understate financial participation training.

7. Percentage of employees regularly receiving information on performance measures relevant to the financial participation scheme

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of employees regularly receiving information on performance measures relevant to the FP scheme	The nature of FP	Clarity and transparency	Provision of information	Employee	Not available directly, but the occupational breakdown may proxy for gender differences	CRANET	• See CRANET characteristics (Appendix 1, Table B) • Measured by cross referencing question on whether organisations brief each occupational category (Section V, Q.5) with question on the percentage of employees in each occupational category (Section VI, Q.4). • Note that the type of briefing covered by this measure is not necessarily directed specifically at supporting the financial participation scheme. • Captures information on the extent to which these structures are actually accessible to employees. However, does not capture the quality of the information, nor the regularity of provision. • Note that EPOC Q. 24(a,b), Q. 25(a), and Q.28 (a) may also provide useful data, but that these would be based on the percentage of 'workplaces' providing information rather than the percentage of employees receiving information.

8. Percentage of employees whose financial participation bonuses are based on a pre-defined formula

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of employees whose FP bonuses are based on a pre-defined formula	The nature of FP	Pre-defined formula	—	Employee	Would be directly available	No known source, European Survey on Working Conditions could be extended.	• See European Survey on Working Conditions characteristics (Appendix 1, Table B) • Requires additional question in European Survey on Working Conditions e.g. 'Are the FP bonuses you receive based on a pre-defined formula? (tick yes/no)'.

9. Percentage of employees participating in regular ongoing schemes

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of employees participating in FP schemes which measure performance and disburse bonuses at regular and pre-defined intervals	The nature of FP	Regularity	—	Employee	Would be directly available	No known source, Survey on European Working Conditions could be extended	• See Survey on European Working Conditions characteristics (Appendix 1, Table B) • Requires additional question in Survey on European Working Conditions e.g. 'Are the FP bonuses you receive regular? (i.e. do performance measurements and bonus payments occur at regular, pre-defined intervals?) Tick yes/no'.

10. Percentage of employees that can choose to take their financial participation bonuses in a variety of different forms

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of employees who have a choice about the form in which They receive FP bonuses	The nature of FP	Avoiding unreasonable risks	Form of payment	Organisation	Would be available directly	No known source, Survey on European Working Conditions could be extended	• See Survey on European Working Conditions characteristics (Appendix 1, Table B) • Requires additional question in European Survey on Working Conditions e.g. 'Can you choose to take your FP bonuses in a variety of different forms? (tick yes/no).'

11. Percentage of enterprises in which financial participation and normal pay bargaining are kept separate and distinct.

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of enterprises where FP is completely distinct and separate from normal pay bargaining	The nature of FP	Distinction between wages and salaries and income from financial participation	—	Organisation or workplace	If CRANET data are used, could be proxied by cross referencing with occupational breakdown	No known source, EPOC and CRANET could be extended	• See characteristics of EPOC and CRANET (Appendix 1, Table B) • Requires an additional question in EPOC or CRANET e.g. 'For each type of FP, is the method and timing of bonus calculations completely separate and distinct from normal pay bargaining? Please tick yes/no'. • Danger of respondent bias – employers will be reluctant to give any information which could suggest salary substitution.

12. Scale measuring legislative and fiscal support for financial participation

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Scale measuring legislative and fiscal support for FP	National policies and characteristics	Taxation of financial	Tax treatment system participation	National tax	N/A	Poutsma (2001 pp 57-58) summarises legislative and fiscal supports for FP in the EU(15) Member States.	• Possible to construct a synthetic index e.g. 0-5 scale, one point for: a. Existence of FP legislation? (y/n) b. Tax relief for enterprises on profit-sharing? (y/n) c. Tax relief for employees on profit-sharing? (y/n) d. Tax relief for enterprises on share-ownership schemes? (y/n) e. Tax relief for employees on share-ownership schemes? (y/n) • Scale may need to be empirically validated. • This example does not measure the level of tax relief, only its existence.

13. Percentage of employees engaged in direct employee participation

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of employees engaged in direct workplace participation.	National policies and characteristics	Cultural differences	Other direct participation	Workplace	Directly available	Survey on European Working Conditions	• See Survey on European Working Conditions characteristics (Appendix 1, Table B) Questions 22 & 27 provide information on delegative and consultative employee participation respectively

14. Citizen participation in stock markets

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of adults holding company shares directly (i.e. not as part of a fund)	National policies and characteristics	Cultural differences	Citizen participation in stock markets	Nation state	Yes	National household budget surveys	• Household Budget Survey is not compulsory, but all Member States and accession countries do one. • Some of the questions are harmonised and collated by Eurostat. However, this does not include the relevant questions on equity holdings. • Q.16 on form HB2 of the Irish survey asks 'Do you have money invested in stocks and shares?' (tick yes/no). This enables us to directly derive the percentage of citizens that hold direct equities. Note, however, that the relevant question may differ between Member States. • Periodicity of Household Budget Surveys differs between Member States.

15. Structure of capital markets

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Percentage of enterprises with a stock market listing	National policies and characteristics	Institutional differences	Stock market listing	Nation state	N/A	Total no. of enterprises: Observatory of European SMEs. No. of listed enterprises: Federation of European Securities Exchanges.	• Total No. of enterprises (non primary industries) from Observatory of European SMEs ‘SMEs in Europe’, Table 2.5. • No. of listed enterprises from Federation of European Securities Exchanges ‘European Securities Exchange Statistics’, Table 3 (Listed Companies and Investment Flows). • Simply express latter as a percentage of the former.

16. Average enterprise size

Indicator	Dimension	Theme	Sub-Theme	Unit of Analysis	Gender Breakdown	Source	Remarks/Limitations
Average number of employees per enterprise	National policies and characteristics	Institutional differences	Enterprise size	Nation state	N/A	Eurostat New CRONOS Database: Structural Business Statistics	• Eurostat New CRONOS database measures the number of enterprises in each Member State, and the number of employees. The average size of each enterprise can be derived by dividing the latter by the former. • Statistics only available for ‘the business sector’ – therefore forestry, agriculture, education, health and other community, social and personal services are excluded. • Annual data, but most recent year is 2001.

Appendix 4
Mini survey

Dear Colleague,
The European Foundation has recently contracted The IDEAS Institute to develop indicators for the benchmarking of financial participation policy and practice in the EU.

The objective is to develop a common set of measures which will enable us compare the financial participation situation in each Member State on a consistent basis.

The IDEAS Institute has developed 39 draft indicators. These aim to cover three dimensions of financial participation policy and practice:

- the level to which financial participation is used in each member state
- the nature of the financial participation schemes that are used in the different member states
- cross-national inconsistencies that might prevent the diffusion of financial participation schemes between Member States

As an expert, and as a member of the European Foundation's contact list on financial participation, you are now invited to rate and comment on these draft indicators.

To do so, please follow these simple steps:

1. Click on the reply button.
2. Go into the table below.
3. To rate the indicators - in the right hand column assign a score from 1–5 for each indicator, based on how important you think that indicator is in illustrating an important facet of financial participation in practice. Assign 1 to the indicators that you feel are least important, and 5 to those that you feel are most important.

To comment on the indicators - please type any comments you may have (optional) in the section at the bottom of the table. First put in the number of the draft indicator you wish to comment on in the box on the left hand side. Then type your comment in the box to the right.

Please send on your input by **Friday November 21st** at the latest.

Your input would be most appreciated and will be treated on the strictest confidence. Many thanks for your help,

John McCartney
The IDEAS Institute

Draft indicators of financial participation policy and practice

Indicator No.	Indicator	Importance (1–5)
1	Workplaces or organisations using FP as % of those surveyed	
2	Organisations using ‘broad-based’ FP as % of all those surveyed	
3	Employees covered by FP as % of all employees in the organisation	
4	Organisations using FP schemes with 90% coverage as % of all organisations	
5	% of enterprises extending FP to management compared to % extending FP to manual or clerical grades	
6	Enterprises using any FP scheme which is not open to all employees as % of all enterprises	
7	Employees excluded from any of the enterprise’s FP schemes as % of all employees in the enterprise	
8	Enterprises applying FP schemes which calculate bonuses for different grades of participant on the basis of different formulae: expressed as % of all surveyed establishments.	
9	Employees whose bonuses are calculated on the basis of a less favourable formula than that applying to other participating employees: expressed as a % of all employees in the enterprise.	
10	Enterprises with formal structures for involving employees in the choice and design of FP scheme, as a % of all enterprises.	
11	Employees who have actively participated in the choice and design of a FP scheme in their enterprise, expressed as % of all employees in the enterprise.	
12	Enterprises which have provided training specifically related to FP as % of all enterprises surveyed	
13	Number of training hours (days) spent per employee on FP specific courses	
14	Employees who received training specifically related to FP as % of all employees in enterprise or as % of all employees in enterprises that have adopted FP	
15	Enterprises which have formal structures for regularly informing employees about all performance measures relevant to the FP scheme as % of all enterprises surveyed.	
16	Employees receiving regular information on all performance measures relevant to the FP scheme, as % of all employees in the enterprise.	
17	Enterprises which regularly involve employees and management in formally reviewing the operation and performance of the FP scheme, as % of all enterprises surveyed	
18	Employees who regularly participate in a formal joint review mechanism of their FP schemes, as % of all employees in the enterprise.	
19	Enterprises that adhere to a pre-defined formula for calculating all FP bonuses, as % of all enterprises	
20	Employees participating in FP schemes where bonuses are calculated on basis of a pre-defined formula as % of all employees in the enterprise	
21	Enterprises whose FP schemes measure performance and disburse bonuses at regular and pre-defined intervals as % of all enterprises	
22	Employees participating in FP schemes which measure performance and disburse bonuses at regular and pre-defined intervals as % of all employees in the enterprise	
23	Enterprises with cash based FP schemes as % of all enterprises surveyed	
24	Employees participating in cash based FP schemes as % of all employees in the enterprise	
25	Minimum length of time (in years) that employees must retain their FP bonuses before they become available to them	
26	Enterprises which describe FP as completely distinct and separate from bargaining over normal pay as % of all enterprises	
27	The extent to which pay bargaining systems are centralised or adhere to a ‘pattern’	
28	Enterprises which allow employees to retain entitlement to their FP bonuses when they leave the enterprise	
29	Is tax relief available to: a) employees b) enterprises on the following forms of FP: [insert different forms of FP]	

Indicator No.	Indicator	Importance (1-5)
30	Is social security levied on: a) employees b) enterprises on bonuses from the following forms of FP. [insert different forms of FP]	
31	Year in which legislation and/or tax relief was first introduced for FP	
32	Workplaces using direct participation mechanisms as % of all workplaces surveyed.	
33	Enterprises providing any training as % of all enterprises surveyed, **AND/OR** Enterprises providing structured training courses as % of all enterprises surveyed	
34	Training course (days/hours) per employee	
35	Employees participating in training courses as % of all employees in the enterprise	
36	Adults holding equities directly (i.e. not as part of a fund) in one or more companies as % of all adults.	
37	Is there a partnership agreement between trade unions, employers' organisations and Governments at national or regional level?	
38	Enterprises with a stock market listing as % of all enterprises surveyed	
39	Average number of employees in each enterprise	
Comments		
Indicator Comments		
No.		

European Foundation for the Improvement of Living and Working Conditions

Financial participation in the EU: Indicators for benchmarking

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Financial participation, in the form of profit-sharing and share-ownership, has been the focus of European Commission initiatives since the early 1990s, culminating in the adoption of a 'Communication on a framework for the promotion of employee financial participation' in 2002. This report is based on recent Foundation research into financial participation, incorporating the eight general principles outlined by the Commission in its framework Communication. It outlines the scale of financial participation across the European Union, highlights differences in national policies and pinpoints characteristics that could act as barriers to the widespread uptake of financial participation schemes. The overall objective is to develop a set of indicators to facilitate benchmarking of financial participation policies and practices across the EU.

The European Foundation for the Improvement of Living and Working Conditions is a tripartite EU body, whose role is to provide key actors in social policymaking with findings, knowledge and advice drawn from comparative research. The Foundation was established in 1975 by Council Regulation EEC No. 1365/75 of 26 May 1975.

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