

Global Trends in Human Resource Management

Mila Lazarova; Emma Parry; Eleni Stavrou

ISBN: 9781137304438

DOI: 10.1057/9781137304438

Palgrave Macmillan

Please respect intellectual property rights

This material is copyright and its use is restricted by our standard site license terms and conditions (see

http://www.palgraveconnect.com/pc/connect/info/terms_conditions.html). If you plan to copy, distribute or share in any format including, for the avoidance of doubt, posting on websites, you need the express prior permission of Palgrave Macmillan. To request permission please contact rights@palgrave.com.

9

The Development of Employee Financial Participation in Europe

Erik Poutsma, Paul Ligthart, Andrew Pendleton and Chris Brewster

Introduction

Financial participation is a key human resource management practice, extending democracy at the workplace and, as the success of the organization becomes directly linked to employee rewards, altering the relationship between employees and the organization. In this chapter we discuss the incidence and characteristics of financial participation in eight European Union countries. We address the following questions in the chapter. One, what is the incidence of financial participation schemes in these eight Member States? Two, to what extent are financial participation schemes selective for specific employee groups, such as managers? Three, what was the extent of development of these schemes in the decade 1995–2005? Four, what are the determinants of the use of these schemes? In the chapter we focus on narrow-based schemes targeted at management and broad-based schemes where all employees are eligible to participate. We focus on two types of schemes through which employees and managers participate financially in the performance of their companies: profit sharing and share ownership.

The data used to address these questions are of two types. The first involves qualitative data on the development of financial participation in the selected countries based on reports by national experts (see Pendleton & Poutsma, 2004). These data facilitate interpretation of the results arising from the second data source. This analysis is based on eight countries covered by the Cranet survey: Belgium, Finland, France, Germany, the Netherlands, Spain, Sweden and the UK. We draw on data from the 1995, 1999/2000, and 2004/2005 surveys to consider the incidence, development and determinants of financial participation.

The results show that country-level factors are a key influence on the character and incidence of broad-based employee financial participation and are more important than organizational factors. Tax concessions appear to be a key element of these country-level factors. By contrast, management-only schemes appear to be driven by factors other than regulatory regimes and taxation.

Financial participation schemes: Instruments and concepts

Profit sharing

Profit sharing can take a number of forms: it can be paid in cash, shares or bonds. Alternatively, profit-sharing bonuses may be invested in company savings schemes (which may invest in the employer's stock). Usually, where shares are paid in some form other than cash, a minimum retention period is given. So far, profit sharing has been most widely developed in France, where it is required by law for firms with over 50 employees (see Poutsma, 2001; Mabile, 1998 for further details).

Government support for profit sharing can take the form of legislation, which gives schemes a specific legal identity, and tax concessions to the employee and employer (Pendleton & Poutsma, 2004). Usually, the tax concessions to the employee take the form of some exemption from income tax and social security contributions, while the employer may benefit from social security exemptions and a company tax deduction for the money paid as a profit share. On the whole, tax concessions are not given to simple cash bonus schemes because they can encourage 'cosmetic' schemes and tax avoidance. An exception was the Profit-Related Pay scheme in the United Kingdom in the 1990s, where substantial tax concessions were available for the portion of wages classified as profit-related. However, the tax concessions were withdrawn from this scheme precisely because in many cases the profit share component of wages was being widely used as a means of tax avoidance.

Employee share ownership

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

Employees may acquire shares in one of three main ways: by direct purchase of shares; by taking out options to buy shares at some point in the future; or by transfers financed by company profits. Shares may take the form of ordinary share capital of the firm, or a special class of employee shares (such as preference shares with a pre-specified level of interest payments).

Government support for share ownership can take the form of legislation to give schemes a distinct legal entity and to provide a clear framework for monitoring a scheme (Pendleton & Poutsma, 2004). Tax concessions are usually mainly directed at employees rather than firms and take the form of

exemptions from income tax on share acquisition. However, tax concessions are not usually available on dividend payments. It is common for the employee's taxation liability to take the form of capital gains tax liability on the growth in share value over time (which may be offset by Capital Gains Tax allowances). If the costs of financing share ownership schemes are included on the profit and loss account, corporation tax deductions may be available to the firm.

The coverage of share ownership

A key issue is whether financial participation covers all or most employees, or is highly selective (Pendleton, Poutsma & Brewster, 2003). In other words, what proportion of the workforce is eligible to participate in financial participation schemes? Are all groups of employees offered participation, or is it restricted to certain classes of employee? On the whole, selective schemes are likely to be restricted to executives/managers or senior key professionals.

The distinction between selective (narrow-based) schemes and all-employee (broad-based) schemes is important for several reasons. One, very different motives may lie behind the introduction of selective schemes and broad-based schemes. Whereas broad-based schemes might be introduced to enhance employee identification with the firm, selective schemes might be aimed at improving specific managerial performance or aligning the interests of managers with those of shareholders as a response to the 'agency' problem (Jensen & Meckling 1976; Murphy, 1999). Two, if participation is restricted to management or other sub-groups in the workforce, financial participation may increase rather than reduce existing inequalities of income and wealth.

We predict that the presence of legislation and tax concessions will affect the balance of selective and broad-based schemes at a country level. Where legislation is not present, it is likely that a higher proportion of schemes will take a selective form, based on the agency perspective (Eisenhardt, 1989; Jensen & Meckling, 1976; Murphy, 1999; Tihanyi et al., 2009). The reasoning for this is that the impetus for using schemes will come either from owners concerned to align managerial interests with theirs or from top managers seeking to provide incentives for their subordinate managers.

Financial participation research

Research has a tradition of studying the causes, characteristics and effects of financial participation. Much of this research has taken place in the USA, reflecting the considerable interest in Profit Sharing and Employee Share-Ownership Plans (ESOPs) since the mid-1970s (see Blasi 1988; Blasi, Conte & Kruse 1996; Blinder, 1990; Cheadle 1989; Kruse 1993, 1996; Kruse, Freeman & Blasi, 2010). A number of important research studies have been conducted in Europe also, mainly based on data from individual European

countries (e.g. Fitzroy & Kraft 1987; Wilson & Peel 1991; Fakhfakh & Pérotin, 2000; Pérotin & Robinson, 2003; Kraft & Ugarkovic, 2006; Robinson & Wilson, 2006; Bryson & Freeman 2010; Pendleton & Robinson 2010, 2011).

The current wave of interest, especially in broad-based financial participation in Europe, suggests the desirability of recent comparative research studies, especially studies able to compare nations at the firm level. Vaughan-Whitehead (1995), in a study published by the International Labour Office, brought together information on a number of European countries. An updated version of the PEPPER (Promotion of Employee Participation in Profit and Enterprise Results) Report was produced by the European Commission in 1997, in response to one of the stipulations of the 1992 Council Recommendation. The information in this report has been updated further by Poutsma (2001), in a report for the European Foundation for the Improvement of Living and Working Conditions. Also, the data collected across Europe for the Employee Participation in Organisational Change (EPOC) project of the European Foundation for the Improvement of Living and Working Conditions have been used to investigate the characteristics of firms with broad-based employee share ownership (Poutsma & Huijgen, 1999). A second report for the European Foundation summarized the development of financial participation (including profit sharing) for the European Union (Pendleton & Perotin, 2001). A third report reviewed more recent developments and provided in-depth coverage of the nature and extent of financial participation in Eastern European countries (Lowitsch, Hashi & Woodward, 2009). Despite these pioneering studies, comparative research on financial performance has been scarce. We start with the basic question of the extent of financial participation in different countries.

National incidence of financial participation

A key question for this chapter concerns the incidence of financial participation schemes in different countries and the reasons for the differences between countries. It has been widely observed that government legislation on financial participation, and the availability of tax concessions, are key determinants of national differences in the incidence of schemes (Uvalic, 1991; IPSE, 1997, Poutsma, 2001; Poutsma, Hendrickx & Huijgen, 2003). These studies show that differences exist in cultural attitudes, and in regulatory and fiscal regimes that create variation between countries in the use and incidence of financial participation. As a first step, we examine the incidence of selective and broad-based profit sharing and employee share ownership in eight Western European countries. These countries are selected to provide coverage of various types of fiscal regulatory regimes and business systems within Western Europe.

We use two major data sources. The first is data coming from an investigation of the national frameworks and policies of governing bodies and social partners concerning executives and all employee share ownership. These data come from national reports and excerpts of these are published in Pendleton and Poutsma (2004).

The second data source for the project is the Cranet survey. Eight of the current Member States of the European Union have been included in the survey throughout the time period we analyse: Belgium, Finland, France, Germany, the Netherlands, Spain, Sweden and the United Kingdom. This provides broad coverage of the European Union, with the Mediterranean, Benelux, Scandinavian, northern and western regions of Europe included in the survey. In this research we mainly utilize three consecutive Cranet surveys, namely 1995, 1999/2000 and 2004/2005. Use of the three waves not only allows for replication of results, but also provides some indication of whether results are robust to differing economic conditions, since the first time period (1995/2000) reflects the culmination of a decade of economic growth, while the second (2000/2005) encloses a period of economic downturn. It should be emphasized, however, that the three data sets do not form a panel, although it is likely that some establishments participated in multiple waves. Besides limiting the study to the eight Member States, we also limit it to the private sector. A further criterion for inclusion is that the establishment should employ at least 100 employees, providing us with a total of 5840 cases for all three waves.

We employ the following measures: we distinguish between narrow-based and broad-based plans (Poutsma, Ligthart & Schouteten, 2005). Narrow-based means that the plan applies to management only. Broad-based plans are targeted to include all other employees, and those plans usually include management.

Overview of incidence

What is the average incidence of financial participation in Europe in the period 1995–2005? Table 9.1 presents an overview, based on pooling the data from the three points of observation, for the two forms of financial participation included in this study. Table 9.1 indicates that nearly 31 per cent of establishments of companies with more than 100 employees have a share ownership scheme (ESO) for one or more employee groups (management-only 11 per cent; broad-based 20 per cent). The overall incidence of profit sharing (PS) is much higher, that is, 47 per cent establishments adopted this form of financial participation (management only 10 per cent; broad-based 37 per cent). Furthermore, there is some overlap between the two forms of participation. These large variations of incidence rates across the employee groups underline the relevance of taking these differences into account when studying the diffusion of financial participation in Europe.

Table 9.1 Incidence rates of financial participation in establishments (>100 employees) in the selected countries

| Pooled data | Proportion ¹ |
|---------------------------------|-------------------------|
| Employee share ownership | |
| No ESO | 69% |
| Management ESO | 11% |
| Broad-based ESO | 20% |
| Profit sharing | |
| No profit sharing | 53% |
| Management profit sharing | 10% |
| Broad-based profit sharing | 37% |

Note: ¹ 100% = N = 5840.

An overview of the developments and the main characteristics of financial participation in these countries are summarized in Table 9.2. The proportion of companies with only narrow-based share ownership ranges from 10 to 20 per cent in 2005, with the UK and France having the lowest proportions and Belgium and Spain the highest. In most countries the incidence of these schemes increased between 1995 and 2005, though usually the increase was concentrated in the five years from 1995. The pattern of broad-based employee share ownership schemes is rather different: the UK and France have the highest incidence (38 and 35 per cent respectively in 2005) and Spain the lowest (8 per cent). Belgium, France, Finland, the Netherlands and Sweden display substantial increases in incidence over the period, though mostly the increase is concentrated in the second half of the 1990s, the period of economic growth.

The incidence of profit sharing just for management grades is very low in all countries except Germany throughout the period. Germany has a high incidence of these schemes, with profit-based payments forming part of performance pay schemes for managers. However, the incidence of these schemes declines substantially during the period from 44 to 24 per cent. To some extent this decline is related to the increasing availability of other instruments such as stock options and share ownership, and also to broadening the scheme to all employees.

The pattern of broad-based profit sharing is highly varied between the countries. France has the highest incidence, reflecting the compulsory nature of profit sharing. Profit sharing is also widely used in Finland, the Netherlands and Germany, with substantial increases observed in each from 1995 onwards. The UK is the only country to show a decline between 1995 and 2005, and this is probably owing to the withdrawal of the tax concessions for the Profit-Related Pay scheme in the late 1990s.

Table 9.2 An overview of development and characteristics of financial participation in eight selected countries

| Country | Incidence | | | | | Characteristics of national system |
|------------------------|-----------|-----------|-----------|----------|----------|---|
| | Year | ESO NB | ESO BB | PS NB | PS BB | |
| EUC8 | | | | | | |
| Finland | 1995 | 3% | 7% | 4% | 17% | Elaborate system of personnel funds; tax concessions; employee representatives (unions) involved in plan monitoring |
| | 1999 | 12% | 22% | 4% | 32% | |
| | 2005 | 16% | 18% | 5% | 86% | |
| Sweden | 1995 | 3% | 6% | 2% | 19% | No national incentive policies to promote financial participation; employers against any involvement of employees or unions |
| | 1999 | 14% | 15% | 7% | 20% | |
| | 2005 | 12% | 17% | 8% | 28% | |
| The Netherlands | 1995 | 4% | 10% | 4% | 33% | Tax concessions through wage savings system; no direct involvement of unions, but involvement of works council; outside collective bargaining |
| | 1999 | 19% | 19% | 0% | 53% | |
| | 2005 | 13% | 26% | 8% | 54% | |
| Germany | 1995 | 5% | 9% | 44% | 28% | Regulated tax concessions and benefits for capital savings for low earners, indirectly linked to ESO; outside collective bargaining; unions started discussions but are sceptical |
| | 1999 | 8% | 11% | 33% | 37% | |
| | 2005 | 14% | 11% | 24% | 60% | |
| United Kingdom | 1995 | 15% | 34% | 6% | 34% | Legal framework for ESO, tax concessions; employees and unions not involved |
| | 1999 | 13% | 34% | 6% | 31% | |
| | 2005 | 10% | 38% | 8% | 24% | |
| Belgium | 1995 | 8% | 7% | 8% | 11% | Only in last period legislative initiatives, especially for NB; BB discussed with unions who are critical regarding ESO |
| | 1999 | 15% | 14% | 9% | 11% | |
| | 2005 | 21% | 21% | 7% | 16% | |
| France | 1995 | 8% | 9% | 0% | 81% | State-regulated BB PS, gradually evolved in ESO funds; tax incentives; limited employee representative involvement |
| | 1999 | 18% | 23% | 0% | 88% | |
| | 2005 | 10% | 35% | 0% | 92% | |
| Spain | 1995 | 6% | 7% | 7% | 12% | Minor regulations and developments, some tax exemptions for NB ESO, but tightened after scandals; schemes not discussed in collective agreements negotiations |
| | 1999 | 11% | 10% | 9% | 15% | |
| | 2005 | 20% | 8% | 8% | 30% | |

Note: NB = narrow-based; BB = broad-based; ESO = employee share ownership; PS = Profit sharing.

In the next section we explore these differences by investigating the national frameworks in the eight countries. The frameworks make clear that incidence and developments of financial participation are related to regulations and availability of tax concessions in countries, in some cases with a long history.

National frameworks of share ownership¹

Belgium

In *Belgium* the development of share schemes is quite recent. Unlike many of the other countries, Belgian establishments showed an increase in use the second half of the time period, that is, 1999/2000–2004/5 (Table 9.2). In this period, Belgium acquired a legal framework for financial participation that consolidated earlier diffuse and fragmentary provisions. Moreover, the law in relation to fiscal scheme of values allocated to employees, whether they should be taxed as remuneration and reckonable for social security charges, was unclear.

In general, employers in Belgium are in favour of these schemes while the trade unions had been opposed. Hence it was only in the late 1990s and the early 2000s that important and wide-ranging legislative initiatives were taken in response to factors including European pressure and demands from employers' associations and enterprises themselves. Financial participation became a priority on the agenda of the 'rainbow' government of Liberals, Socialists and Ecologists, and the government reached a compromise in 2001 on a law 'relating to employee share ownership and profit-sharing schemes'.

In Belgium, labour statutes and labour law mean that only trade unions are entitled to negotiate on terms and conditions of employment. Employment relations and labour terms are highly formalized in central labour agreements and labour law, which creates a cooperative situation in Belgian workplaces but limits managerial room for manoeuvre in changing the employment relations and labour terms (Baisier & Albertijn, 1992). Of course, as in other European countries, management has more individualized contracts with owners of companies, which allow space for the use of management-only stock (options) plans. The Belgian government favours this with specific tax provisions in order to raise the competitiveness of enterprises and the incidence of narrow-based share schemes increased in the period of investigation.

Finland²

The Finnish financial participation landscape is dominated by the typical Finnish Personnel Fund (PF). Along with broad-based stock options (Jones, Kalmi & Mäkinen, 2006), PFs represent the major form of financial participation in Finland. The Personnel Funds (PF) law was enacted

in the beginning of the 1990s, inspired by US employee stock ownership plans (ESOPs) and Swedish wage-earner funds. A PF typically distributes its shareholdings quite widely and invests also in other securities, whereas employee share ownership plans invest only in their own firm. Personnel funds are deferred profit-sharing plans, with the capital paid into the fund dependent on the company's financial results, allowing investment into the equity of the company and thus involving an element of employee share ownership. In practice many of the companies invest part of the assets in their own company and the rest in other assets. PFs are company-level agreements, established by a collective decision of the employees in the company, but in Finland both share schemes and profit-sharing schemes are largely developed outside the domain of collective bargaining. The PF is owned by the employees and administers the assets it receives from the company, and hence the Finnish PFs are more participative than schemes in other countries.

The funds do not pay any taxes on their earnings and for the employees, 20 per cent of the payouts from the fund are tax-free. Employers do not have to pay pension or social security contributions for the profit shares paid to the fund. These funds developed gradually in the 1990s, and they boomed in the second period of our investigation, 1995–2000, as a result of the expanding market (see Table 9.2). Share schemes (mainly stock options plans) experienced a similar increase, but when stock market performance plunged, the adoption of broad-based share schemes declined in favour of an increase of narrow-based share schemes and broad-based profit sharing.

France

France has a framework that consists of state-regulated (mandatory) broad-based deferred profit sharing with the aim of enhancing employee savings and achieving a wider distribution of wealth and wage flexibility. Started by President De Gaulle with the aim of bridging the gap between labour and capital, the development of deferred profit sharing (mandatory for companies with 50 or more employees) and voluntary Mutual Fund Savings schemes have been supported by French governments with tax incentives ever since. To secure approval, financial participation systems must be agreed by employees or their representatives. The financial participation system has evolved into a system where employee savings are invested in funds, which in turn either invest in a diversified fund or in the shares of the employer. This development of share-related schemes was supported by new legislation in 1997, and the gradual increase of more share-based systems (PEE) related to the widely used profit-sharing system. The 1997 law promotes more specific investments in the company's own capital, resulting in the very high incidence rate of profit-sharing schemes in France (85 per cent) relative to other European countries (see Table 9.2). In this way employee share ownership has been promoted in the French

system: evidence from 2001 indicates that nearly half of savings plans are used as a means for employee share acquisition (see Incomes Data Services, 2001).

Germany

Share ownership schemes have not been well developed in Germany, though there is a considerable body of regulations designed to encourage employee asset accumulation, and there have been attempts to promote share ownership schemes recently. In the elaborate German system of industrial relations, collective agreements set the standards and, for instance, works councils have a legal right to negotiate on agreements about broad-based financial participation plans. Trade unions appear to have started discussions on plans, but in general they are sceptical, which may explain the slow diffusion of share schemes.

The regulated asset accumulation programmes encourage redistribution of capital and development of employee savings by investment plans. Employees have been encouraged to participate in their own and other companies' capital primarily within specific savings schemes. In most cases these capital savings plans do not take the form of company-related share ownership plans and certainly not share options plans (although there may be elements of share option savings related to the plan). This helps to explain why the incidence of employee share ownership plans in the Cranet survey is low (between 9 and 11 per cent for broad-based, and 5 and 14 per cent for narrow-based schemes). In contrast to share ownership schemes, profit-sharing schemes are more popular in Germany. Relative to the UK, for example, the incidence of broad-based schemes is higher, and the incidence of the narrow-based schemes is much higher.

The last observation may also relate to stock options developments. The issue of stock options to management and employees was prohibited by company law until 1998. Since then it has grown for management and selected staff, which explains the increase in narrow-based share schemes in the second period of our investigation, and may have substituted for narrow-based profit sharing. A further interpretation is that the stock market is less extensive in Germany than in some other European countries such as the UK, and many firms are privately owned, which leaves little scope for the development of full employee share ownership. This supports the observation that profit sharing is much more developed in Germany and that gradually the incidence of broad-based profit sharing became substantial.

The Netherlands

As in France and Germany, employee savings schemes are at the centre of financial participation in the Netherlands, though the national philosophy behind financial participation is different. While in France and Germany promoters talk about social objectives such as wealth redistribution, in the

Netherlands part of the philosophy was to find ways to influence collective bargaining outcomes to increase workforce flexibility and to moderate wage increases. Therefore, any incentives for financial participation were regulated within a system that also promoted general wage savings.

Two forms of company savings schemes were introduced in 1994. One (premium savings schemes) provides for employees to subscribe to a savings plan from post-tax salary, with a one-for-one match by the employer. The other scheme provides for employees to subscribe pre-tax pay or the proceeds of a profit-sharing scheme, but without the employer match. In both cases, the employee can withdraw sums from the fund after four years, tax-free. The profit share form is by far the most popular, with nearly 3 million participants in 2000. Savings funds may be used to operate broad-based stock options schemes, with the exercise of shares financed by savings in the fund. This type of stock options scheme allows employees to receive double the amount of options tax-free than is normally permitted. These schemes are required to be open to three-quarters of the workforce and to be approved by the Works Council. This offering of tax concessions explains the gradual increase of financial participation as found in our data (Table 9.2).

Spain

Spain has a limited framework for share ownership and share-based profit sharing. Table 9.2 shows an increase in narrow-based share schemes from 6 per cent to 20 per cent between 1995 and 2005, whereas there has been stable development of broad-based schemes. In the second period, from 1999/2000 to 2004/2005, an increase of broad-based profit sharing was experienced. In fact, the policy on broad-based employee share ownership was much more determined by concerns about the development of the co-operative sector and the social economy. The co-operative movement and the use of labour societies are important in Spain, and are gradually diffusing into small employee-share-ownership companies. The development in this SME sector is not covered by our data, since we have only data from larger (>100 employees) companies.

In the case of (public) joint stock companies there has been not much development in policy concerning employee share ownership or any substantial development in the uses of schemes, despite some upswing owing to the privatization of national bodies. Following a scandal (Telefonica), where top management made use of these tax exemptions from stock options to enrich themselves during the privatization, regulation was tightened by setting a maximum amount on the received benefit.

Spain has a long tradition of negotiations and collective agreements on variable pay. However, stocks (options) were seldom included in the debates. Given the weak institutional structures of industrial relations and a limited countervailing power of trade unions, management is granted much autonomy. An increase of individual contracts 'outside' collective agreements,

mainly for management and higher staff, may boost schemes but, on the other hand, as in France, the terms and working conditions for the main labour force are regulated in detail, and this has set legislative and administrative constraints that leave little scope for broad-based schemes.

Sweden

Sweden has a strong industrial relations framework where trade unions are legally entitled to be consulted on changes in the terms and conditions of work at the workplace level. Although there is some managerial autonomy in the setting of HRM practices, this restricts the possibilities for widespread adoption of financial participation. There are no national incentive policies to promote employee share ownership or stock options in Sweden. In effect, there is some hostility towards collectively instigated financial participation schemes in general in Sweden. This follows painful attempts to do so in the 1980s. The intention of trade unions was to develop Wage Earners Funds, and it was envisaged that a shift would occur in corporate ownership to trade union-led funds. These plans received a lot of criticism and were eventually abolished. This experience has led to important political divisions that prevented a resolution to any debate on financial participation, with the result that no substantial developments took place, as we found in our data (Table 9.2).

The United Kingdom

The UK has a well-developed framework for employee share ownership. A series of schemes have been introduced by statute since the late 1970s, with two new schemes (Share Incentive Plan and Enterprise Management Incentives) introduced in 2000. Most schemes are option-based, with the Share Incentive Plan the main exception. In the Share Incentive Plan, companies can issue shares to employees free of charge, and employees can purchase shares on highly favourable terms. Two of the UK schemes are broad-based and open to all eligible employees. The other two are discretionary and are primarily aimed at managers. However, in some cases (around one-third of Enterprise Management Incentive companies) they are used as all-employee schemes. This explains a substantial level of broad-based share ownership as found in our data (Table 9.2). Profit sharing as such is not equally supported, but since the forms of financial participation correlate, adoption of broad-based profit sharing is also found in the UK.

The introduction of financial participation schemes in the UK is rarely covered by collective bargaining, and the decision to introduce schemes is usually taken solely by management. Although the UK introduced two new schemes during the period, the overall incidence of companies using most of the schemes has remained broadly stable, though there has been a decline since the late 2000s. The main exception to this picture has been the

steep growth in awards of options by small companies under the Enterprise Management Incentives arrangements. This is not captured by the data presented here, which is mainly derived from larger companies.

Developments

What are the developments in financial participation in the 1990s and early twenty-first century?

We find, with some exceptions, common trends for financial participation in the eight countries. The development of selective narrow-based and broad-based Employee Share Ownership (ESO) and Profit Sharing in the eight countries for the three consecutive surveys is presented in Figures 9.1 and 9.2.

For share ownership, broad-based schemes show higher incidence rates in the last two waves compared to the 1995 wave, except for Germany and Spain. Whereas most countries show further increases or stabilization in broad-based ESO in the 2005 wave, the development of narrow-based ESO (i.e. the management-only scheme) shows much more divergence, that is, its incidence rate increases in half of the countries and decreases in the other half. An increase is noticeable in Finland, Germany, Belgium and Spain. A decrease is shown in Sweden, the Netherlands, France and the United Kingdom. It is interesting to see that the developments in narrow-based and broad-based ESO are diametrically opposed in the second period. A change in narrow-based ESO in 2005 is mirrored by a change in the opposite direction of broad-based ESO in 2005 for almost all countries except Belgium. Possibly, the economic downturn around 2000 incited the establishments to adapt more focused ESO schemes whether being a selective narrow-based or a broad-based scheme.

In the case of profit sharing, in most countries there is a stability of incidence rates for the low level of management-only schemes, except for Germany. The higher incidence rate of management-only schemes found in Germany in 1995 decreased in the following periods. Two factors may account for this. Until 1998 stock options to management and employees were prohibited by company law. Since the liberalization of this there is an increase in the use of stock options for management and selected staff, which explains the increase in narrow-based share schemes in the second period of our investigation. Secondly, there is a stronger increase in broad-based profit sharing, suggesting a further broadening of eligibility of these schemes. In fact, most countries show higher incidence rates for broad-based profit sharing in the second period except for the Netherlands and the UK.

After 2005 there was limited further growth in financial participation, and differences between the countries persisted (see, for recent developments, Pendleton & Poutsma, 2012). The UK and France further refined legislation

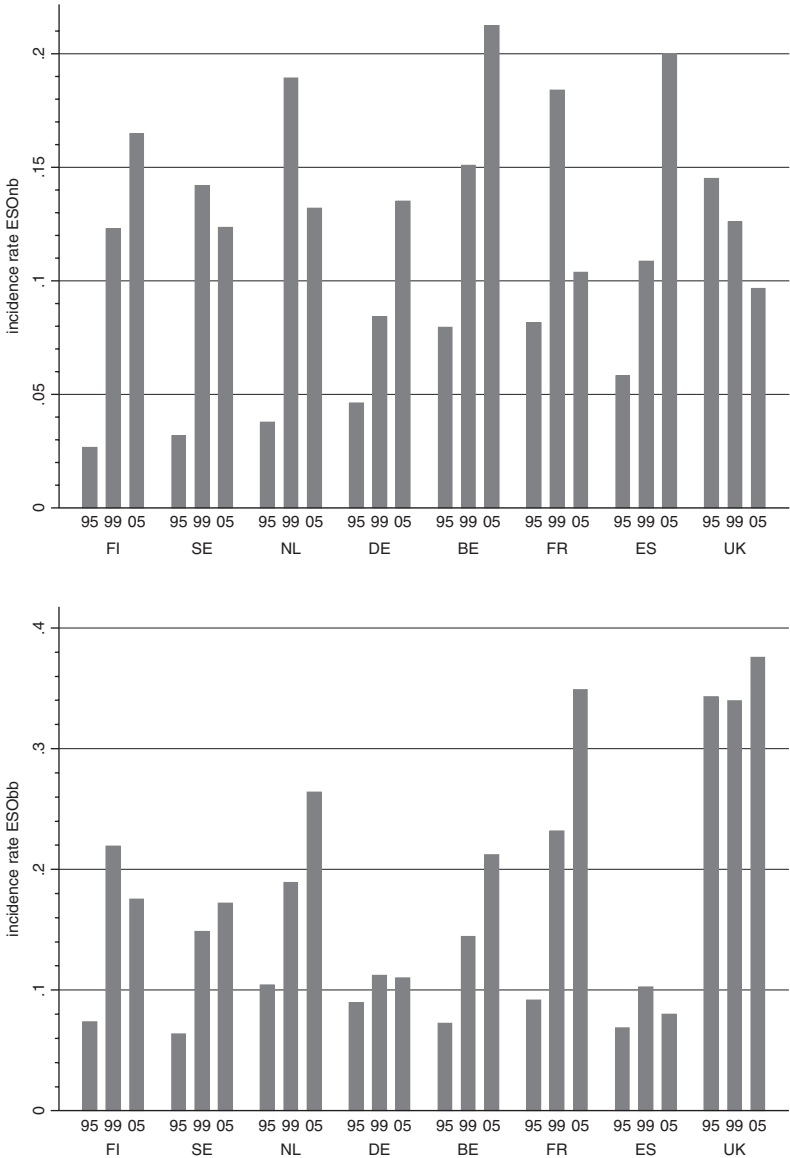


Figure 9.1 Distribution of observed narrow-based (ESOnb) and broad-based (ESObb) employee share ownership for the eight countries and the three consecutive surveys

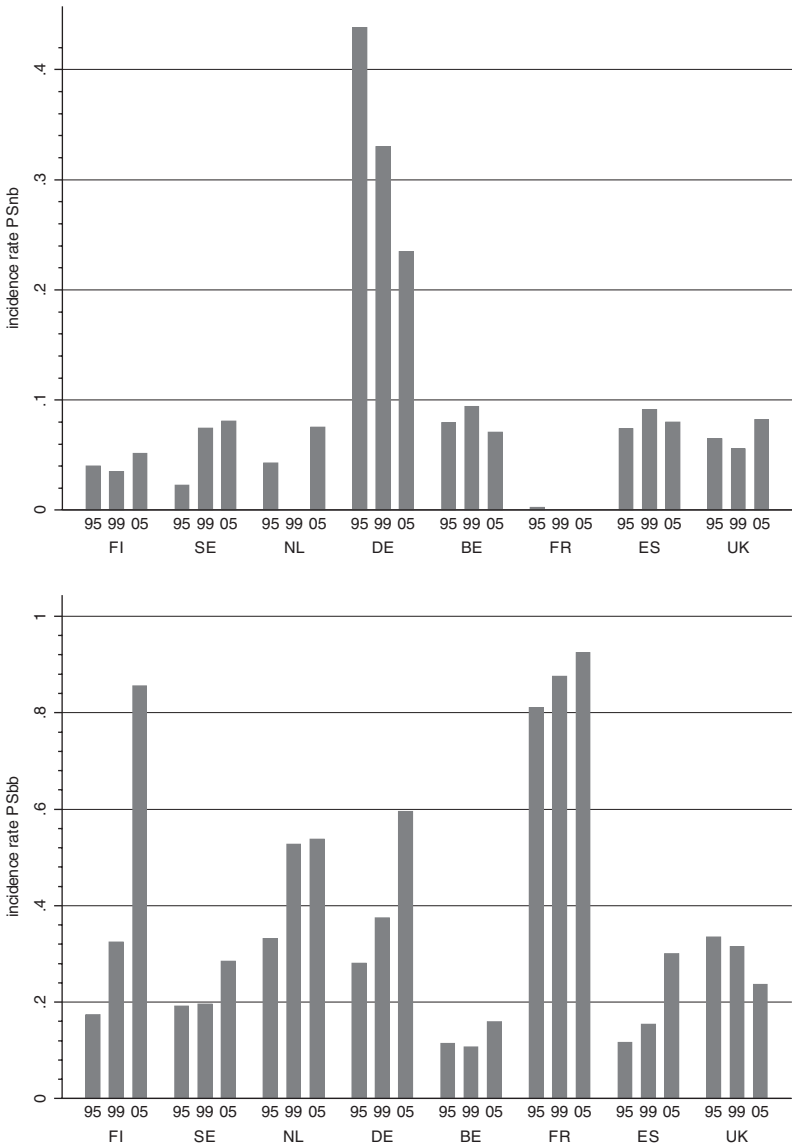


Figure 9.2 Distribution of observed narrow-based (nb) and broad-based (bb) profit sharing schemes for the eight countries and the three consecutive surveys

and continued to promote their specific national systems of financial participation. In Belgium there were recent government initiatives to promote financial participation. In Germany the tax concessions on acquiring employer shares have been increased, as have the size of the bonuses on savings arrangements. Eligibility to receive these benefits has also been widened somewhat. The concessions and benefits remain relatively small compared with those in other countries. Most recently in the Netherlands the tax concession for the savings arrangement, which covers also shares, options and profit shares, was abolished in January 2012 and, as a consequence, a decrease of broad-based financial participation is expected.

Determinants of financial participation

In this section we consider the influences upon the use of financial participation schemes. Why do companies do it? We ran a multi-nomial logistic regression analysis with the data of the eight countries. These regressions included most of the determinants found in the relevant literature, as will be presented and discussed below. Each regression has a dependent variable where the values are either no share ownership (or profit sharing) scheme, or a narrow-based scheme, or a broad-based scheme. For ease of presentation the results are presented separately for narrow-based and broad-based schemes within the table. Below we summarize the literature briefly and compare the results with the outcomes of our multiple wave-analysis in Table 9.3. In this analysis we controlled for the year when the data were collected. Beside year, the following independent variables are used (Appendix Table 9.1): country dummies with UK as the reference category; industry with manufacturing as the reference category; if the firm is listed on the stock exchange; is the firm part of a multinational company and where is the headquarters (HQ) located, in the United States of America or Europe, US-based HQ and EU-based HQ (national firm is the reference category); unionization degree with 0% as the reference category; joint consultative committee at the firm, with no the reference category; and communication practices (see later for scale explanation). Since unionization and joint consultative committee had a substantial amount of missing values we added missing as a separate category. The odds ratios reported in the tables indicate a positive effect if higher than 1 and a negative effect if lower than 1. In the Appendix information is provided on the analysis per year of observation (Appendix Table 9.3a, b for employee share ownership and 4 a, b for profit sharing).

In general, the analysis confirmed the importance of country as a determinant of financial participation. This was especially relevant for broad-based schemes. The analysis per year (see Appendix Tables 9.3 and 9.4) showed that the importance of country for management-only schemes diminished in later periods whereas this remained for broad-based schemes.

Table 9.3 Determinants of the use of narrow-based (i.e. management only) and broad-based financial participation in establishments (>100 employees) (employee share ownership (ESO) and profit sharing (PS)) (multi-nomial logistic regression, refcat = No ESO or No PS, N = 5480)

| Financial participation | ESO Narrow-based | Robust SE | ESO Broad-based | Robust SE | PS Narrow-based | Robust SE | PS Broad-based | Robust SE |
|----------------------------------|------------------|-----------|-----------------|-----------|-----------------|-----------|----------------|-----------|
| Country | | | | | | | | |
| Finland | 0.526** | [0.120] | 0.237** | [0.048] | 1.045 | [0.321] | 1.920** | [0.295] |
| Sweden | 0.611* | [0.132] | 0.224** | [0.043] | 0.862 | [0.229] | 0.851 | [0.130] |
| Netherlands | 0.420** | [0.092] | 0.244** | [0.043] | 0.998 | [0.287] | 2.072** | [0.292] |
| Germany | 0.356** | [0.066] | 0.185** | [0.029] | 13.545** | [2.207] | 5.271** | [0.669] |
| Belgium | 0.802 | [0.140] | 0.232** | [0.039] | 1.196 | [0.245] | 0.412** | [0.066] |
| France | 0.418** | [0.075] | 0.227** | [0.035] | 0.109* | [0.110] | 18.493** | [2.621] |
| Spain | 0.370** | [0.076] | 0.102** | [0.021] | 1.314 | [0.299] | 0.568** | [0.095] |
| United Kingdom (refcat) | | | | | | | | |
| Industry | | | | | | | | |
| Construction | 1.266 | [0.285] | 1.072 | [0.213] | 1.775* | [0.406] | 1.941** | [0.324] |
| Transportation | 1.385 | [0.292] | 1.183 | [0.219] | 0.445** | [0.126] | 0.524** | [0.086] |
| Banking, Finance | 1.113 | [0.183] | 1.511** | [0.193] | 0.906 | [0.174] | 1.478** | [0.170] |
| Chemicals | 1.403* | [0.217] | 1.516** | [0.208] | 0.662* | [0.115] | 0.985 | [0.115] |
| Other industries (e.g. services) | 1.032 | [0.133] | 1.031 | [0.107] | 0.796 | [0.104] | 0.740** | [0.066] |
| Manufacturing (refcat) | | | | | | | | |
| Year | | | | | | | | |
| 1995 | 0.401** | [0.048] | 0.412** | [0.042] | 0.955 | [0.143] | 0.894 | [0.080] |
| 1999 (refcat) | | | | | | | | |
| 2005 | 1.24 | [0.162] | 1.498** | [0.165] | 1.297 | [0.185] | 1.498** | [0.142] |
| Stock listing | | | | | | | | |
| | 2.798** | [0.308] | 5.292** | [0.510] | 0.802 | [0.092] | 1.227** | [0.096] |
| Lnsize | | | | | | | | |
| | 1.343** | [0.050] | 1.347** | [0.041] | 1.118** | [0.046] | 1.128** | [0.033] |
| Headquarters company | | | | | | | | |
| Nationals (refcat) | | | | | | | | |
| EU-based HQ | 1.903** | [0.226] | 1.611** | [0.160] | 1.298* | [0.158] | 1.173 | [0.099] |
| US-based HQ | 3.552** | [0.488] | 1.826** | [0.231] | 1.295 | [0.222] | 0.814 | [0.090] |

(continued)

Table 9.3 Continued

| Financial participation | ESO Narrow-based | Robust SE | ESO Broad-based | Robust SE | PS Narrow-based | Robust SE | PS Broad-based | Robust SE |
|-------------------------------------|------------------|-----------|-----------------|-----------|-----------------|-----------|----------------|-----------|
| Joint Consultative Committee | | | | | | | | |
| No JCC (refcat) | | | | | | | | |
| JCC | 0.893 | [0.120] | 0.881 | [0.099] | 1.062 | [0.169] | 1.084 | [0.106] |
| JCC (missing) | 0.63 | [0.167] | 0.902 | [0.182] | 1.452 | [0.325] | 0.877 | [0.142] |
| Unionization (proportion) | | | | | | | | |
| 0% (refcat) | | | | | | | | |
| 13% | 1.195 | [0.201] | 1.006 | [0.132] | 0.933 | [0.194] | 0.95 | [0.114] |
| 38% | 1.046 | [0.214] | 0.945 | [0.153] | 1.019 | [0.226] | 0.680** | [0.099] |
| 63% | 0.995 | [0.207] | 0.829 | [0.136] | 0.917 | [0.219] | 0.782 | [0.114] |
| 88% | 0.67 | [0.154] | 0.654* | [0.119] | 0.786 | [0.197] | 0.672* | [0.106] |
| missing unionization | 0.873 | [0.174] | 1.096 | [0.170] | 0.919 | [0.207] | 0.813 | [0.114] |
| Financial participation | | | | | | | | |
| Narrow-based PS | 2.487** | [0.395] | 1.498** | [0.218] | | | | |
| Broad-based PS | 2.418** | [0.262] | 1.945** | [0.179] | | | | |
| Narrow-based ESO | | | | | 2.536** | [0.411] | 2.389** | [0.260] |
| Broad-based ESO | | | | | 1.500** | [0.217] | 1.873** | [0.174] |
| Communication practices | | | | | | | | |
| Constant | 1.070** | [0.020] | 1.104** | [0.017] | 0.992 | [0.018] | 1.106** | [0.015] |
| Model statistics | 0.007** | [0.002] | 0.014** | [0.003] | 0.043** | [0.014] | 0.057** | [0.013] |
| | ES0x3c | | | | PS3c | | | |
| Cragg-Uhler (Nagelkerke) R2: | 0.411 | | | | 0.402 | | | |
| log likelihood (model) | -3913 | | | | -4342 | | | |
| log likelihood (intercept) | -4780 | | | | -5472 | | | |
| chi2 (df_m) | 1260 (56) | | | | 1637 (56) | | | |
| p-value | 0.000 | | | | 0.000 | | | |
| Cragg-Uhler (Nagelkerke) R2 | 0.319 | | | | 0.379 | | | |

Note: ** p < 0.01, * p < 0.05.

The literature on determinants of financial participation focused mainly on those determinants that may represent indicators for the principal–agency problem. For instance, the argument for adoption of narrow-based schemes is that the performance-based pay contract, which links pay to share prices, provides a powerful way of incentivizing managers to pursue shareholders' objectives (Conyon & Leech, 1994). Share options and equity-based pay provide the direct performance link to shareholder wealth. According to Hall (1998), much of the increase in executive pay can be attributed to the explosion of share options over the period of stock market growth. Most stock markets in Europe experienced considerable growth in the late 1990s, and we expect that this is a strong determinant of narrow-based share schemes in the first half of the period 1995–2004. Our analysis shows that stock listing is a strong determinant of narrow-based share schemes. This holds for all periods of investigation.

National differences in corporate organizations and ownership also appear likely to influence the incidence of schemes. For instance, share ownership schemes seem likely to be facilitated by the extensive use of stock market performance in countries such as the UK, and limited by cross-ownership structures and stakeholder performance in continental European countries such as Sweden and Germany (Gospel & Pendleton, 2004). Our analysis shows that most continental countries have lower adoption of narrow-based financial participation compared with the UK. However, this seems to disappear in the later periods, as is shown in Table 9.3a in the Appendix. In addition, MNCs originating from the USA appear to adopt more share schemes for management of its subsidiaries in Europe than European MNCs and local companies, which suggests a transfer of shareholder-focused practices. This holds for all periods.

However, the sometimes enormous self-enrichment of top management has created public debate and may have had the effect of limiting the narrow-based schemes. This will be the case especially when other stakeholders publicly announce their intention to vote against or try to influence government to take preventive measures. One of these stakeholders is the trade union. Probably, with strong union influence the internal pay settlement may be set within limitations. Our analysis shows no significant influence of unionization on narrow-based schemes and some inhibiting effects on broad-based schemes.

The literature on the determinants of broad-based participation (Poole, 1989; Poole & Whitfield, 1994; Kruse, 1996; Pendleton, 1997; Poutsma & Huijgen, 1999; Festing et al., 1999; Kato & Morishima, 2002) uses also a set of predictions drawn from principal–agent/optimal contracting theory. For instance, it is widely thought that information asymmetries and monitoring become more problematic as firm size increases. Therefore size may be an important predictor of the adoption and use of share ownership, and indeed many studies find this to be the case. However, the problem with interpreting

this evidence is that size of firm is likely to be inversely related to the incentive effects of employee share ownership, because of 'free-rider' effects. Thus, the effects of size are likely to be ambiguous. A strong positive relation with size is less commonly found with profit sharing than share ownership, possibly because profit sharing is more targeted at providing direct incentives than share ownership (and hence the free-rider limitations of its use in large firm settings are more relevant). Most of the above literature finds a positive relationship with size. We also find this positive relationship. An additional interpretation is that smaller companies are constrained in adoption owing to the higher set-up and monitoring costs of these schemes.

The analysis for broad-based share schemes showed also the importance of stock market and (US/EU) MNCs for the incidence, suggesting a similar development of stronger emphasis on stock market performance and share value for adopting these schemes. The effects were especially strong in the second period (2000–5), as is shown in the Appendix Table 9.3b and 4b.

An important strand of the HRM literature views financial participation schemes as part of a high-performance work system, composed of several, interacting HRM instruments (see Kaarsemaker & Poutsma, 2006 for an overview). This literature identifies 'bundles' of human resource measures, which, by interacting positively with each other, lead to performance outcomes that are greater than would be achieved by the sum of each measure independently. In a similar vein, the financial participation literature focuses especially on the complementarities thesis, combining several other participative practices with financial participation. If employees are to share in the performance of the firm, it is arguable that they should actively contribute to performance outcomes. We therefore expect to find firms with financial participation also having a range of other human resource management practices directed to increase participation, such as an explicit policy for employee communication, with briefing of the firm's strategy for different employee groups. We calculated from the Cranet survey such a policy with a set of communication practices. The selected practices are listed in the Appendix Table 9.2 and appeared to form a reliable scale (KR-20 coefficient: 0.793). Our analysis (Table 9.3) shows some proof of the complementarities thesis where participative practices such as communication and briefing with employees are positively related to broad-based financial participation.

Evidence on linkages between indirect representative participation, such as consultation committees and works councils, and financial participation is mixed, with some studies finding that financial participation is more prevalent in unionized environments (Gregg & Machin, 1988; Pendleton, 1997) and others finding the opposite (Heywood, Hubler & Jirjahn, 1997; Festing et al., 1999). Trade unions and other representative bodies generally do not resist collaborative practices, but they may put pressure on management to have strategy talks through channels such as works councils and/or collective bargaining bodies. We find no evidence of any relationship between works councils and financial participation, and some evidence of

negative influence on broad-based employee share ownership in the case of moderate to high levels of unionization. However, for profit sharing the significant negative effects of unionization disappeared in 2005 with even positive signs and a significant positive effect of high unionization.

Conclusions

In this chapter we have addressed some key issues concerning the development of financial participation of employees in Europe. We were able to compare the incidence of the two forms of financial participation in 1999 with data from 1995 and 2005. Because the data sets do not form a panel we cannot say, for instance, how many business units use financial participation for the first time, or how many cease to use it during the decade. Caution should be exercised in interpreting these results since this is based on cross-sectional data and not longitudinal data, although we cannot exclude the possibility that an unknown number of establishments participated in multiple waves. On the other hand, by ensuring that the surveys were representative of the economy at each stage of data-collection, rather than being a panel survey, we can have more confidence that our findings show a true picture of the developments in each country over time and a true representation of the comparative position.

The chapter shows clear differences in the character and incidence of financial participation between countries. The differences are related to the presence, nature and extent of legislation and tax concessions, to ownership structures (presence of well-developed stock market), trade union influence and industrial relations arrangements, and broader ideological considerations. In other words, the institutional environment in which firms operate is likely to structure and influence the decision to adopt or not to adopt financial participation. The findings provide support for the critical importance of legislation and tax concessions, especially for broad-based financial participation schemes. Selective narrow-based schemes appear to be less influenced by institutional factors and more by corporate characteristics. Trade unions and industrial relations arrangements have a limited and mainly legitimizing effect on specific financial participation arrangements. Left-wing unions tend to oppose these schemes in most countries, while other unions have a sceptical attitude but find themselves in a position of very low influence since most of these schemes are negotiated outside the bargaining institutions. It is typical that in the two countries with ample profit-sharing arrangements, Finland and France, employee representatives and trade unions are involved in schemes.

The findings show also that US-owned multinational companies and EU-owned multinationals to a lesser degree have a positive influence on employee share ownership, especially narrow-based schemes, in all countries. They may be considered as outsiders who challenge the existing employment practices and norms.

Financial participation is also related to major changes in institutions, especially in systems of collective bargaining. In many of the more regulated and centralized national systems of collective bargaining, such as Germany, the Scandinavian countries and the Netherlands, collective bargaining has been decentralized. Alongside these changes, pay systems have become more individualistic. Financial participation is often seen as being a key component of these trends. These trends relate also to alternative ways to commit employees and align their interest with that of the company in the development of so-called high performance work systems (Kaarsemaker & Poutsma, 2006). This perspective of the use of financial participation is supported with our last finding: communication practices in the firm affected financial participation positively.

This chapter has shown how different financial participation practices are all embedded in their national context and, using a rare longitudinal analysis, has developed the institutional explanation for the differences between countries. Overall, our analysis confirms some of the findings in the extant literature on financial participation and adds others, particularly concerning the changes in extent and type of scheme over time. A practical implication is that although those involved have some scope to introduce and vary schemes, that scope is not unbounded: a detailed knowledge of the opportunities and constraints in the national approach to pay and rewards and the fiscal and other legal rules applying in each country will be necessary if the benefits of such schemes are to be realized.

Clearly, there is much more that we need to understand. Further research bringing this evidence up to date and extending it to a wider range of countries is necessary. The evidence here has examined the extent and antecedents of these practices, but our understanding would be enhanced by more knowledge of specific decisions to introduce, withdraw or amend such schemes and the views of the relevant parties to such changes.

Appendix Table 9.1 The descriptive statistics of the determinants and the two schemes of Financial Participation in establishments (>100 employees)

| Financial participation and determinants | Per cent ¹ | Mean (stdev) |
|--|-----------------------|--------------|
| Financial participation | | |
| Employee share ownership | | |
| no_ESO (refcat) | 69.1% | |
| Management ESO | 10.8% | |
| Broad-based ESO | 20.1% | |
| Profit sharing | | |
| no_Profit Sharing (refcat) | 53.2% | |
| Management Profit Sharing | 10.3% | |
| Broad-based Profit Sharing | 36.5% | |

(continued)

Appendix Table 9.1 Continued

| Financial participation and determinants | Per cent ¹ | Mean (stdev) |
|--|-----------------------|--------------------|
| Determinants | | |
| Country | | |
| United Kingdom (refcat) | 31.9% | |
| France | 12.8% | |
| Germany | 16.3% | |
| Sweden | 9.5% | |
| Spain | 7.1% | |
| Netherlands | 6.7% | |
| Finland | 6.2% | |
| Belgium | 9.6% | |
| Industry | | |
| Construction | 4.6% | |
| Transportation | 4.9% | |
| Banking, Finance | 11.3% | |
| Chemicals | 9.2% | |
| Other industries (e.g., services) | 24.8% | |
| Manufacturing (refcat) | 45.1% | |
| Year | | |
| 1995 | 43.3% | |
| 1999 (refcat) | 32.6% | |
| 2005 | 24.1% | |
| Stock listing | | |
| Stock Listing | 39.4% | |
| Lnsize | | |
| size (median) | | 6.47 (1.23) 500 |
| Headquarters company | | |
| Nationals (refcat) | 55.8% | |
| EU-based HQ | 32.9% | |
| US-based HQ | 11.3% | |
| Unionization (proportion) | | |
| 0% (refcat) | 12.3% | |
| 13% | 31.9% | |
| 38% | 11.5% | |
| 63% | 12.6% | |
| 88% | 17.6% | |
| missing unionization | 14.1% | |
| Joint Consultative Committee | | |
| No (refcat) | 21.8% | |
| Yes | 67.5% | |
| missing jcc | 10.7% | |
| Communication practices | | |
| | | 8.18 (2.85) |

Note: ¹ 100%; N = 5840.

Appendix Table 9.2 Share of companies using a communication practice

| Communication practice | Label | Mean |
|--|--------------|-------------|
| Financial briefing: managers | FBmg | 0.96 |
| Strategy briefing: managers | SBmg | 0.96 |
| Workforce meetings | E2Mwm | 0.87 |
| Financial briefing: professionals | FBpr | 0.80 |
| Communication policy employees (written) | Wcos | 0.72 |
| Mission statement (written) | Wmis | 0.71 |
| Financial briefing: clerks | FBcl | 0.69 |
| Strategy briefing: professionals | SBpr | 0.65 |
| Financial briefing: manuals | FBma | 0.57 |
| Attitude Employees assessment | E2Mas | 0.56 |
| Strategy briefing: clerks | SBcl | 0.46 |
| Strategy briefing: manuals | SBma | 0.37 |

Note: Kuder-Richardson coefficient of reliability: 0.793.

Appendix Table 9.3a Determinants of the use of Management (a) and Broad-based (b) Employee Share Ownership (ESO) per year (multi-nomial logistic regression, refcat = No ESO)

| Financial participation | ESO 1995 Narrow-based | Robust SE | ESO 1999 Narrow-based | Robust SE | ESO 2005 Narrow-based | Robust SE |
|-----------------------------------|--------------------------|--------------|--------------------------|--------------|--------------------------|--------------|
| Country | | | | | | |
| Finland | 0.185** | [0.108] | 1 | [0.373] | 1.086 | [0.443] |
| Sweden | 0.130** | [0.087] | 1.215 | [0.413] | 0.858 | [0.292] |
| Netherlands | 0.119** | [0.053] | 1.218 | [0.441] | 0.879 | [0.369] |
| Germany | 0.108** | [0.064] | 0.469* | [0.139] | 0.815 | [0.266] |
| Belgium | 0.424** | [0.129] | 1.063 | [0.319] | 2.059* | [0.702] |
| France | 0.139** | [0.040] | 1.068 | [0.310] | 0.852 | [0.374] |
| Spain | 0.224** | [0.085] | 0.431** | [0.136] | 0.758 | [0.327] |
| United Kingdom (refcat) | | | | | | |
| Industry | | | | | | |
| Construction | 1.281 | [0.504] | 1.558 | [0.555] | 0.837 | [0.389] |
| Transportation | 1.36 | [0.556] | 1.662 | [0.568] | 1.253 | [0.477] |
| Banking, Finance | 1.099 | [0.294] | 1.195 | [0.325] | 0.95 | [0.341] |
| Chemicals | 1.098 | [0.280] | 1.491 | [0.395] | 1.693 | [0.544] |
| Other industries (e.g., services) | 1.061 | [0.255] | 1.256 | [0.249] | 0.881 | [0.222] |
| Manufacturing (refcat) | | | | | | |
| Year | | | | | | |
| 1995 | 1 | [0.000] | | | | |
| 1999 (refcat) | | | 1 | [0.000] | | |
| 2005 | | | | | 1 | [0.000] |
| Stock listing | 2.363** | [0.470] | 3.185** | [0.539] | 4.582** | [0.883] |
| Lnsiz | 1.480** | [0.090] | 1.166* | [0.074] | 1.339** | [0.104] |
| Headquarters company | | | | | | |
| Nationals (refcat) | | | | | | |
| EU-based HQ | 1.816** | [0.359] | 2.217** | [0.400] | | |
| US-based HQ | 5.206** | [1.327] | 3.039** | [0.748] | 2.987** | [0.745] |

(continued)

Appendix Table 9.3a Continued

| Financial participation | ESO 1995 Narrow-based | Robust SE | ESO 1999 Narrow-based | Robust SE | ESO 2005 Narrow-based | Robust SE |
|-----------------------------------|--------------------------|--------------|--------------------------|--------------|--------------------------|--------------|
| Joint Consultative Council | | | | | | |
| No JCC (refcat) | | | | | | |
| JCC | 0.798 | [0.167] | 1.023 | [0.243] | 0.93 | [0.262] |
| JCC (missing) | 1.108 | [0.562] | 1.078 | [0.721] | 0.000** | [0.000] |
| Unionization (proportion) | | | | | | |
| 0% (refcat) | | | | | | |
| 13% | 1.711 | [0.482] | 0.747 | [0.202] | 1.456 | [0.521] |
| 38% | 0.945 | [0.328] | 0.851 | [0.286] | 1.326 | [0.546] |
| 63% | 1.185 | [0.404] | 0.596 | [0.212] | 1.299 | [0.552] |
| 88% | 0.893 | [0.358] | 0.439* | [0.160] | 0.768 | [0.352] |
| missing unionization | 0.979 | [0.390] | 0.585 | [0.180] | 1.056 | [0.417] |
| Financial participation | | | | | | |
| Narrow-based PS | 3.596** | [0.999] | 1.893* | [0.509] | 2.044* | [0.639] |
| Broad-based PS | 4.084** | [0.770] | 1.677** | [0.306] | 1.479 | [0.328] |
| Narrow-based ESO | | | | | | |
| Broad-based ESO | | | | | | |
| Communication practices | 1.012 | [0.031] | 1.070* | [0.032] | 1.128** | [0.045] |
| Constant | 0.003** | [0.002] | 0.016** | [0.008] | 0.004** | [0.002] |
| Model statistics | | | | | | |
| Observations | 2531 | | 1903 | | 1406 | |
| log likelihood (model) | -1419 | | -1372 | | -987.8 | |
| chi2 | 52 | | 52 | | 50 | |
| P | 615.9 | | 413.5 | | 2177 | |
| p-value | 0.000 | | 0.000 | | 0.000 | |
| Cragg-Uhler (Nagelkerke) R2 | 0.342 | | 0.300 | | 0.411 | |

Note: ** p < 0.01, * p < 0.05.

Appendix Table 9.3b Determinants of the use of broad-based employee share ownership (ESO) per year – see Table 3a for the model statistics

| Financial participation | ESO 1995 Broad-based | Robust SE | ESO 1999 Broad-based | Robust SE | ESO 2005 Broad-based | Robust SE |
|-----------------------------------|-------------------------|--------------|-------------------------|--------------|-------------------------|--------------|
| Country | | | | | | |
| Finland | 0.090** | [0.033] | 0.601 | [0.209] | 0.382* | [0.153] |
| Sweden | 0.109** | [0.059] | 0.465* | [0.147] | 0.422** | [0.136] |
| Netherlands | 0.128** | [0.037] | 0.394** | [0.142] | 0.449* | [0.146] |
| Germany | 0.205** | [0.104] | 0.270** | [0.060] | 0.202** | [0.068] |
| Belgium | 0.096** | [0.027] | 0.381** | [0.118] | 0.585 | [0.197] |
| France | 0.091** | [0.024] | 0.416** | [0.104] | 0.715 | [0.252] |
| Spain | 0.096** | [0.032] | 0.127** | [0.038] | 0.072** | [0.047] |
| United Kingdom (refcat) | | | | | | |
| Industry | | | | | | |
| Construction | 1.327 | [0.397] | 0.912 | [0.309] | 0.75 | [0.307] |
| Transportation | 1.186 | [0.391] | 1.121 | [0.337] | 1.3 | [0.496] |
| Banking, Finance | 0.918 | [0.196] | 1.676* | [0.386] | 2.239** | [0.556] |
| Chemicals | 1.192 | [0.257] | 1.314 | [0.327] | 2.847** | [0.883] |
| Other industries (e.g., services) | 0.915 | [0.161] | 0.991 | [0.175] | 1.263 | [0.259] |
| Manufacturing (refcat) | | | | | | |
| Year | | | | | | |
| 1995 | 1 | [0.000] | | | | |
| 1999 (refcat) | | | 1 | [0.000] | | |
| 2005 | | | | | 1 | [0.000] |
| Stock listing | 4.019** | [0.689] | 5.476** | [0.805] | 8.292** | [1.383] |
| Lnsiz | 1.352** | [0.070] | 1.220** | [0.064] | 1.456** | [0.091] |
| Headquarters company | | | | | | |
| Nationals (refcat) | | | | | | |
| EU-based HQ | 1.350* | [0.190] | 1.594** | [0.239] | | |
| US-based HQ | 1.188 | [0.276] | 1.869** | [0.432] | 2.480** | [0.565] |

(continued)

Appendix Table 9.3b Continued

| Financial participation | ESO 1995 Broad-based | Robust SE | ESO 1999 Broad-based | Robust SE | ESO 2005 Broad-based | Robust SE |
|-----------------------------------|-------------------------|--------------|-------------------------|--------------|-------------------------|--------------|
| Joint Consultative Council | | | | | | |
| No JCC (refcat) | | | | | | |
| JCC | 0.86 | [0.155] | 0.911 | [0.183] | 0.96 | [0.204] |
| JCC (missing) | 0.602 | [0.271] | 1.39 | [0.735] | 2.9 | [2.176] |
| Unionization (proportion) | | | | | | |
| 0% (refcat) | | | | | | |
| 13% | 1.082 | [0.237] | 1.101 | [0.258] | 0.781 | [0.196] |
| 38% | 1.178 | [0.294] | 0.883 | [0.272] | 0.517* | [0.165] |
| 63% | 0.809 | [0.214] | 0.951 | [0.281] | 0.53 | [0.174] |
| 88% | 0.97 | [0.269] | 0.612 | [0.202] | 0.265** | [0.103] |
| missing unionization | 1.878* | [0.538] | 0.978 | [0.247] | 0.619 | [0.191] |
| Financial participation | | | | | | |
| Narrow-based PS | 1.869** | [0.442] | 1.065 | [0.268] | 1.444 | [0.431] |
| Broad-based PS | 2.135** | [0.340] | 1.974** | [0.302] | 1.533* | [0.301] |
| Narrow-based ESO | | | | | | |
| Broad-based ESO | | | | | | |
| Communication practices | 1.110** | [0.027] | 1.067* | [0.029] | 1.149** | [0.038] |
| Constant | 0.010** | [0.004] | 0.025** | [0.010] | 0.006** | [0.003] |

Note: ** p < 0.01, * p < 0.05.

Appendix Table 9.4a Determinants of the use of management (a) and broad-based (b) profit sharing (PS) per year (multi-nomial logistic regression, refcat = No PS)

| Financial participation | PS 1995 Narrow-based | Robust SE | PS 1999 Narrow-based | Robust SE | PS 2005 Narrow-based | Robust SE |
|-----------------------------------|-------------------------|--------------|-------------------------|--------------|-------------------------|--------------|
| Country | | | | | | |
| Finland | 0.859 | [0.428] | 0.703 | [0.426] | 7.233** | [4.265] |
| Sweden | 0.25 | [0.192] | 1.231 | [0.512] | 1.321 | [0.530] |
| Netherlands | 1.002 | [0.418] | 0.000** | [0.000] | 1.997 | [0.927] |
| Germany | 12.424** | [7.276] | 14.256** | [3.670] | 14.655** | [4.445] |
| Belgium | 1.273 | [0.423] | 1.315 | [0.486] | 0.86 | [0.377] |
| France | 0.202 | [0.211] | 0.000** | [0.000] | 0.000** | [0.000] |
| Spain | 1.1 | [0.400] | 1.471 | [0.527] | 1.505 | [0.900] |
| United Kingdom (refcat) | | | | | | |
| Industry | | | | | | |
| Construction | 1.576 | [0.590] | 1.884 | [0.736] | 1.835 | [0.883] |
| Transportation | 0.459 | [0.236] | 0.725 | [0.302] | 0.198* | [0.129] |
| Banking, Finance | 0.92 | [0.266] | 0.977 | [0.356] | 0.83 | [0.322] |
| Chemicals | 0.65 | [0.168] | 0.684 | [0.203] | 0.536 | [0.242] |
| Other industries (e.g., services) | 0.569* | [0.127] | 1.07 | [0.229] | 0.795 | [0.209] |
| Manufacturing (refcat) | | | | | | |
| Year | | | | | | |
| 1995 | 1 | [0.000] | | | | |
| 1999 (refcat) | | | 1 | [0.000] | | |
| 2005 | | | | | 1 | [0.000] |
| Stock listing | 0.919 | [0.175] | 1.008 | [0.203] | 0.694 | [0.171] |
| Lnsiz | 1.172* | [0.078] | 1.025 | [0.071] | 1.146 | [0.101] |
| Headquarters company | | | | | | |
| Nationals (refcat) | | | | | | |
| EU-based HQ | 1.262 | [0.218] | 1.289 | [0.247] | | |
| US-based HQ | 1.412 | [0.406] | 1.144 | [0.364] | 1.222 | [0.365] |

(continued)

Appendix Table 9.4a Continued

| Financial participation | PS 1995 Narrow-based | Robust SE | PS 1999 Narrow-based | Robust SE | PS 2005 Narrow-based | Robust SE |
|-----------------------------------|-------------------------|--------------|-------------------------|--------------|-------------------------|--------------|
| Joint Consultative Council | | | | | | |
| No JCC (refcat) | | | | | | |
| JCC | 1.038 | [0.270] | 1.265 | [0.379] | 0.97 | [0.262] |
| JCC (missing) | 1.8 | [1.012] | 2.225 | [1.600] | 1.422 | [1.286] |
| Unionization (proportion) | | | | | | |
| 0% (refcat) | | | | | | |
| 13% | 1.212 | [0.479] | 0.664 | [0.252] | 1.001 | [0.347] |
| 38% | 1.208 | [0.483] | 0.779 | [0.318] | 1.082 | [0.430] |
| 63% | 0.686 | [0.289] | 0.836 | [0.373] | 1.519 | [0.649] |
| 88% | 1.032 | [0.448] | 0.619 | [0.280] | 0.719 | [0.346] |
| missing unionization | 1.294 | [0.572] | 0.677 | [0.257] | 0.783 | [0.310] |
| Financial participation | | | | | | |
| Narrow-based PS | | | | | | |
| Broad-based PS | | | | | | |
| Narrow-based ESO | 3.890** | [1.064] | 1.840* | [0.512] | 2.091* | [0.639] |
| Broad-based ESO | 1.902** | [0.457] | 1.02 | [0.261] | 1.574 | [0.449] |
| Communication practices | | | | | | |
| Constant | 0.996 | [0.030] | 0.989 | [0.033] | 0.982 | [0.037] |
| Constant | 0.023** | [0.013] | 0.072** | [0.038] | 0.057** | [0.036] |
| Model statistics | | | | | | |
| Observations | 2531 | | 1903 | | 1406 | |
| log likelihood (model) | -1751 | | -1427 | | -1023 | |
| df_m | 52 | | 52 | | 50 | |
| chi2 | 846.5 | | 32674 | | 12140 | |
| p-value | 0.000 | | 0.000 | | 0.000 | |
| Cragg-Uhler (Nagelkerke) R2 | 0.433 | | 0.398 | | 0.402 | |

Note: ** p < 0.01, * p < 0.05.

Appendix Table 9.4b Determinants of the use of broad-based profit sharing (PS) per year – see Table 9.4a for the model statistics

| Financial participation | PS 1995 Broad-based | Robust SE | PS 1999 Broad-based | Robust SE | PS 2005 Broad-based | Robust SE |
|-----------------------------------|------------------------|--------------|------------------------|--------------|------------------------|--------------|
| Country | | | | | | |
| Finland | 0.581 | [0.162] | 1.065 | [0.299] | 32.777** | [13.509] |
| Sweden | 0.796 | [0.393] | 0.632 | [0.178] | 1.29 | [0.335] |
| Netherlands | 1.345 | [0.291] | 2.690** | [0.773] | 4.171** | [1.170] |
| Germany | 4.238** | [1.998] | 4.024** | [0.742] | 14.192** | [3.877] |
| Belgium | 0.341** | [0.084] | 0.358** | [0.106] | 0.597 | [0.194] |
| France | 13.088** | [2.749] | 17.455** | [4.307] | 51.906** | [22.945] |
| Spain | 0.348** | [0.097] | 0.460** | [0.121] | 1.645 | [0.621] |
| United Kingdom (refcat) | | | | | | |
| Industry | | | | | | |
| Construction | 1.753* | [0.437] | 2.244** | [0.686] | 1.731 | [0.609] |
| Transportation | 0.466** | [0.131] | 0.598 | [0.178] | 0.388** | [0.138] |
| Banking, Finance | 1.758** | [0.314] | 1.331 | [0.271] | 1.501 | [0.380] |
| Chemicals | 1.137 | [0.193] | 0.743 | [0.158] | 1.017 | [0.288] |
| Other industries (e.g., services) | 0.686* | [0.101] | 0.987 | [0.151] | 0.648* | [0.121] |
| Manufacturing (refcat) | | | | | | |
| Year | | | | | | |
| 1995 | 1 | [0.000] | | | | |
| 1999 (refcat) | | | 1 | [0.000] | | |
| 2005 | | | | | 1 | [0.000] |
| Stock listing | 1.466** | [0.199] | 1.423* | [0.199] | 1.254 | [0.207] |
| Lnsize | 1.129* | [0.053] | 1.014 | [0.053] | 1.242** | [0.077] |
| Headquarters company | | | | | | |
| Nationals (refcat) | | | | | | |
| EU-based HQ | 1.294* | [0.154] | 1.016 | [0.136] | | |
| US-based HQ | 0.906 | [0.164] | 0.68 | [0.142] | 0.823 | [0.171] |

(continued)

Appendix Table 9.4b Continued

| Financial participation | PS 1995 Broad-based | Robust SE | PS 1999 Broad-based | Robust SE | PS 2005 Broad-based | Robust SE |
|-----------------------------------|------------------------|--------------|------------------------|--------------|------------------------|--------------|
| Joint Consultative Council | | | | | | |
| No JCC (refcat) | | | | | | |
| JCC | 1.193 | [0.190] | 1.153 | [0.197] | 0.91 | [0.183] |
| JCC (missing) | 0.957 | [0.425] | 0.823 | [0.376] | 1.515 | [1.020] |
| Unionization (proportion) | | | | | | |
| 0% (refcat) | | | | | | |
| 13% | 0.733 | [0.141] | 0.83 | [0.171] | 1.493 | [0.393] |
| 38% | 0.552** | [0.123] | 0.506* | [0.134] | 1.136 | [0.353] |
| 63% | 0.518** | [0.116] | 0.538* | [0.143] | 2.023* | [0.643] |
| 88% | 0.532** | [0.129] | 0.572* | [0.160] | 1.041 | [0.372] |
| missing unionization | 0.697 | [0.174] | 0.698 | [0.160] | 1.009 | [0.309] |
| Financial participation | | | | | | |
| Narrow-based PS | | | | | | |
| Broad-based PS | | | | | | |
| Narrow-based ESO | 3.841** | [0.720] | 1.634** | [0.306] | 1.524 | [0.339] |
| Broad-based ESO | 2.076** | [0.324] | 1.884** | [0.294] | 1.509* | [0.297] |
| Communication practices | | | | | | |
| Constant | 1.097** | [0.023] | 1.125** | [0.027] | 1.111** | [0.033] |
| Constant | 0.064** | [0.023] | 0.130** | [0.049] | 0.022** | [0.011] |

Note: ** p < 0.01, * p < 0.05.

Notes

1. This section is based on Poutsma (2001) and Pendleton & Poutsma (2004). We refer the reader to these sources for further details about legislative arrangements, policies of governments and social partners.
2. The information on Finland is based on Sweins & Jussila (2010) and on Jones, Kalmi & Mäkinen (2006).

References

- Baisier, L. & Albertijn, M. 1992. *Werken in Kringen, Kwaliteit in Overleg*. Brussels: Stichting Technologie Vlaanderen.
- Blasi, J. 1988. *Employee Ownership: Revolution or Ripoff?* New York: Harper Collins-Ballinger.
- Blasi, J.R., Conte, M. & Kruse, D. 1996. 'Employee ownership and corporate performance among public corporations'. *Industrial and Labor Relations Review*, 50(1): 60–79.
- Blinder, A. (ed.). 1990. *Paying for Productivity – A Look at the Evidence*. Washington DC: The Brookings Institute.
- Bryson, A. & Freeman, R.B. 2010. 'How does shared capitalism affect economic performance in the United Kingdom?' In D.L. Kruse, R.B. Freeman & J.R. Blasi (eds), *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options*. Chicago: University of Chicago Press, 201–24.
- Cheadle, A. 1989. 'Explaining patterns of profit sharing activity'. *Industrial Relations*, 28(3): 398–400.
- Conyon, M.J. & Leech, D. 1994. 'Top pay, company performance and corporate governance'. *Oxford Bulletin of Economics and Statistics*, 56(3): 229–47.
- Eisenhardt, K.M., 1989. 'Agency theory: An assessment and review'. *Academy of Management Review*, 14(1): 57–74.
- Fakhfakh, F. & Pérotin, V. 2000. 'The effects of profit-sharing schemes on enterprise performance in France'. *Economic Analysis*, 3(2): 93–111.
- Festing, M., Groening, Y. Kabst, R. & Weber, W. 1999. 'Financial participation in Europe – determinants and outcomes'. *Economic and Industrial Democracy*, 20(2): 295–329.
- FitzRoy, F.R. & Kraft, K. 1987. 'Cooperation, productivity and profit sharing'. *The Quarterly Journal of Economics*, 102: 23–35.
- Gospel, H. & Pendleton, A. 2004. *Corporate Governance and Labour Management*. Oxford: Oxford University Press.
- Gregg, P. & Machin, S. 1988. 'Unions and the incidence of performance linked pay schemes in Britain'. *International Journal of Industrial Organisation*, 6(1): 91–109.
- Hall, B.J. 1998. *The Pay to Performance Incentives of Executive Stock Options*. NBER Working Paper Series, 6674.
- Heywood, J., Hubler, O. & Jirjahn, U. 1997. 'Use of variable payment schemes: Evidence from Germany'. *Kyklos*, 51(2): 237–58.
- Incomes Data Services. 2001. *Pay and Conditions in France 2001*. London: IDS.
- IPSE. 1997. *Le partage de profit en Europe: Institutions et effets comparés*. Paris: Cahier Travail et Emploi.
- Jensen, M. & Meckling, W. 1976. 'Theory of the firm: Managerial behavior, agency costs and ownership structure'. *Journal of Financial Economics*, 3: 305–60.
- Jones, D.C. Kalmi, P. & Mäkinen, M. 2006. 'The determinants of stock options: Evidence from Finland'. *Industrial Relations: A Journal of Economy and Society*, 45(3): 437–68.

- Kaarsemaker, E. & Poutsma, E. 2006. 'The fit of employee ownership with other human resource management practices: Theoretical and empirical suggestions regarding the existence of an ownership high-performance work system, or Theory O'. *Economic and Industrial Democracy*, 27(2): 669–85.
- Kato, T. & Morishima, M. 2002. 'The productivity effects of participatory employment practices: Evidence from new Japanese panel data'. *Industrial Relations*, 41: 487–520.
- Kraft, K. & Ugarković, M. 2006. 'Profit sharing and the financial performance of firms: Evidence from Germany'. *Economic Letters*, 92: 333–8.
- Kruse, D. 1993. *Profit Sharing: Does it Make a Difference?* Kalamazoo, MI: Upjohn Institute.
- Kruse, D. 1996. 'Why do firms adopt profit sharing and employee ownership plans?' *British Journal of Industrial Relations*, 34: 515–38.
- Kruse, D.L., Freeman, R.B. & Blasi, J.R. (eds), 2010. *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options*. Chicago: University of Chicago Press.
- Lowitsch, J., Hashi, I. & Woodward, 2009. *The PEPPER IV Report: Benchmarking of Employee Participation in Profits and Enterprise Results in the Member and Candidate Countries of the European Union*. Institute for Eastern European Studies, Free University of Berlin, Berlin.
- Mabile, S. 1998. 'Intéressement et salaires: Complémentarité ou substitution?' *Economie et statistique*, 67(316–17): 45–61.
- Murphy, K.J. 1999. 'Executive compensation'. In O. Ashenfelter & D. Card (eds), *Handbook of Labor Economics*. Amsterdam: North-Holland, Vol. 3, 2485–563.
- Pendleton, A. 1997. 'Characteristics of workplaces with financial participation: Evidence from the WIRS'. *Industrial Relations Journal*, 28: 103–19.
- Pendleton, A. & Perotin, V. 2001. *Profit Sharing in Europe: The Characteristics and Impact of Profit Sharing in France, Germany, Italy and the United Kingdom*. Cheltenham: Edward Elgar.
- Pendleton, A. & Poutsma, E. 2004. *Financial Participation: The Role of Governments and Social Partners*. Luxembourg: Office for the Official Publications of the European Communities.
- Pendleton, A. & Poutsma, E. 2012. 'Financial participation'. In C. Brewster & W. Mayrhofer (eds), *Handbook of Research in Comparative Human Resource Management*. Cheltenham: Edward Elgar.
- Pendleton, A. & Robinson, A. 2010. 'Employee stock ownership, involvement, and productivity: An interaction-based approach'. *Industrial & Labor Relations Review*, 64(1): article 1.
- Pendleton, A. & Robinson, A. 2011. 'Employee share ownership and human capital development: Complementarity in theory and practice'. *Economic and Industrial Democracy*, 32(3): 439–57.
- Pendleton, A.D., Poutsma, E. & Brewster, C. 2003. 'The incidence and determinants of employee share ownership and profit sharing in Europe'. In T. Kato & J. Pliskin (eds), *The Determinants of the Incidence and Effects of Participatory Organisations*. Advances of the Economic Analysis of Participatory and Labor-Managed Firms, Vol. 7. Oxford: Elsevier Science.
- Pérotin, V. & Robinson, A. 2003. *Employee Participation in Profit and Ownership: A Review of the Issues and Evidence*. Luxembourg: European Parliament.
- Poole, M. 1989. *The Origins of Economic Democracy*. London: Routledge.
- Poole, M. & Whitfield, K. 1994. 'Theories and evidence on the growth and distribution of profit sharing and employee shareholding schemes'. *Human Systems Management*, 13(3): 209–20.

- Poutsma, E. 2001. *Recent Trends in Employee Financial Participation in the European Union*. Luxembourg: Office for the Official Publications of the European Communities.
- Poutsma, E. & Huijgen, F. 1999. 'European diversity in the use of participation schemes'. *Economic and Industrial Democracy*, 20(2): 197–224.
- Poutsma, F., Hendrickx, J.A.M. & Huijgen, F. 2003. 'Employee participation in Europe: In search of the participative workplace'. *Economic and Industrial Democracy*, 24(1): 45–76.
- Poutsma, E, Ligthart, P.E.M. & Schoutete, R. 2005. 'Employee share schemes in Europe: A case of Anglo-Saxonisation'. *Management Revue*, 16, (1): 99–122.
- Robinson, A. & Wilson, N. 2006. 'Employee financial participation and productivity: An empirical reappraisal'. *British Journal of Industrial Relations*, 44(1): 31–50.
- Sweins, C. & Jussila, I. 2010. 'Employee knowledge and the effects of a deferred profit-sharing system: A longitudinal case study of personnel funds in Finland'. *Thunderbird International Business Review*, 52(3): 232–47.
- Tihanyi, L., Hoskisson, R.E., Johnson, R.A. & Wan, W. 2009. 'Technological competence and international diversification: The role of managerial incentives'. *Management International Review*, 49: 409–31.
- Uvalic, M. 1991. 'Pepper Report: Promotion of employee participation in profits and enterprise results'. In *Social Europe*, Supplement 3/91, Commission of the European Communities.
- Vaughan-Whitehead, D. 1995. *Workers' Financial Participation: East-West Experiences*. ILO Labour Management Series No. 80. Geneva: ILO.
- Wilson, N. & Peel, M.J. 1991. 'The impact on absenteeism and quits of profit-sharing and other forms of employee participation'. *Industrial and Labor Relations Review*, 44(3): 454–68.