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## **Financial Participation of Employees in the European Union: Much Ado about Nothing?**

**ABSTRACT** ■ This article updates previous research on financial participation, using employee data from the latest (fourth) edition of the European Working Conditions Survey. This is the first to provide the employee perspective on this subject and to cover all sizes of private company in all sectors across the whole enlarged European Union. The contrast between these new findings and those from previous (company-based) surveys is considerable.

**KEYWORDS:** European Union ■ European Working Conditions Survey

■ financial participation ■ PEPPER ■ profit-sharing ■ share ownership

### **Introduction**

Financial participation (FP), according to the European Industrial Relations Dictionary, is ‘an arrangement operating in some companies whereby employees are able to participate in the company’s financial results. This may take the form of a share in the profits, over and above the remuneration normally paid to employees, or a share in the ownership of the firm’ (European Foundation, 2005a). FP has been a focus of interest of the European Commission since the publication of the two PEPPER reports (1991 and 1996). Its Communication ‘On a Framework for the Promotion of Employee Financial Participation’ (European Commission, 2002) acknowledged the European Foundation’s research on the topic and called on it to continue this work. Subsequent opinions drafted by the European Economic and Social Committee and the European Parliament further underline the importance of collecting information on FP, particularly in relation to small and medium-sized enterprises (EESC, 2003; EP, 2003; European Foundation, 2004b).

While FP has been supported in a number of member states through tax incentives and other forms of legislation, there is a wide variety of approaches. The objective of the Foundation’s research into FP is, *inter alia*, to fill the knowledge gap regarding the incidence of FP and the

national policies and attitudes of key actors to the design, development and implementation of FP arrangements.

## **Policies and Views of Governments and Social Partners**

The main findings of the 2004 research project (Pendleton and Poutsma, 2004) into national frameworks, policies and views of different peak organizations in eight member states (Belgium, France, Germany, Italy, Netherlands, Portugal, Sweden and the UK) are as follows.

### **National Frameworks**

Profit-sharing, in a variety of forms, is an important component of FP in most countries. It is most widespread in France, where it has been compulsory in companies with more than 50 employees since 1958. Profit-sharing systems can also be observed in Belgium, Germany, the Netherlands, Sweden and the UK. But there are variations in these systems: in France and the Netherlands profit shares are channelled into employee savings plans, and in Germany into various forms of asset formation, whereas in other countries profit shares may be acquired more or less directly by individual employees.

The incidence of profit-sharing correlates broadly with legislation encouraging its use (for example, through employer contributions to savings plans). Thus, according to previous Foundation research the incidence of profit-sharing has been high in France, the Netherlands and the UK, and quite high in Sweden and Germany. The spread of FP has also been relatively high in Portugal owing to the status of profit-sharing in tax law, even though there has been little active encouragement of such systems.

All-employee share plans (including all-employee stock options) are rather widespread in France, the Netherlands and the UK. They are least common in Italy and Portugal. A key influence on the incidence of share plans appears to be the provision of mechanisms to facilitate employee acquisitions of shares: all the first three countries have savings plan arrangements to support share acquisition.

### **Governments**

In nearly every EU15 country there now exists an active engagement with FP. This is a change from the position reported by the second PEPPER Report in 1996, when in many member states there was very little activity in the area. In some instances, greater engagement can be attributed, at least in part, to the activities of EU institutions. The reforms in Belgium

appear to have been stimulated by recent debates at EU level, and have taken on board the principles that were developed there.

Governments see their main function in providing the statutory regulatory framework for FP, which may include measures to promote it. However, once provided, the dominant view is that it falls to companies or the social partners to promote FP plans.

### **Employers' Organizations**

Peak employers' organizations tend to have favourable views of FP, though the extent to which they do so reflects the degree of its development in their country: organizations in countries with long-standing frameworks for FP are the most supportive and have the most well-developed views and policies. Their focus of their activities tends to be the prevailing form of FP in use in their country. For instance, the CBI (UK) tends to focus on employee share plans, whereas MEDEF (France) has focused especially on employee savings plan arrangements.

Employers' organizations do express a preference for broad-based FP plans, but are usually adamant that the freedom for companies to implement plans that are most appropriate to their needs should not be unduly restricted by governments and regulatory frameworks, arguing that these should be limited to fiscal and related provisions. Thus, they have lobbied governments in some cases to reform the regulation of executive stock options to facilitate their use. At individual company level, it remains a management prerogative both whether to implement schemes in a broad or narrow manner and to set incentives differently for specific categories of workers. Employers' associations tend to prefer separation between FP and other forms of employee participation and representation, generally believing that employee representatives should not have formal negotiation rights over the design, introduction, and management of FP plans.

There is considerable similarity in different countries in the perceived benefits of FP. Employers' associations emphasize the role of profit-sharing and share plans in motivating better performance and results, loyalty and commitment of staff, and associated with this their function in assisting recruitment and retention. The main differences relate to pay flexibility and collective bargaining arrangements. Some associations (e.g. in Italy and in Sweden) emphasized the potential of FP to contribute to decentralization of pay determination and to enhance flexibility, but others did not highlight this factor.

A primary limitation of FP arrangements highlighted by employers' associations concerns the difficulty of their use by small firms. This is most clearly so in the case of employee share plans but can also be the case with profit-sharing.

## Trade Unions

Union confederation involvement in policy discussions tends to mirror the extent to which FP is developed in each country. But within countries, union views tend to differ between confederations according to their political philosophies and constituencies. Socialist and (former) communist federations (as in France and Italy) tend to be more hostile to FP than liberal, social democrat, or catholic federations. Unions which mainly represent manual workers tend to be less enthusiastic than those which represent non-manual and professional employees (as in Sweden). However, ideological positions do not equate straightforwardly to the activities and policies adopted by unions: some that are critical of FP nevertheless engage pragmatically in its development.

Several major confederations, such as the German DGB and the British TUC, have become more favourable towards FP in recent years; and in general, union positions are shifting from outright opposition to qualified acceptance. In November 2002 the ETUC Executive Committee endorsed FP provided that it was embedded in an integral system of worker participation (ETUC, 2002). Typically, it is argued that FP is acceptable as long as certain safeguards are met, including equality of participation, protection of employees from unreasonable risk, prohibition of wage substitution, and the consent of employees and their representatives to company FP plans.

## Past European Foundation Findings (1999–2005)

In 1999 the Foundation began a major research project on the nature and extent of FP in the EU. The first phase, culminating in the report 'Recent Trends in Employee Financial Participation in the EU', updated the legislative and financial practices in the member states and the information contained in the Commission's Pepper reports. The second phase looked at the incidence and characteristics of share ownership and profit-sharing schemes in the member states. The report 'Employee Share Ownership and Profit-sharing in the European Union' gave a comprehensive overview of the structural and human resource management characteristics of companies with FP. The third phase, launched in 2001, analysed the views and policies of national governments and social partners. The fourth phase laid the ground for a benchmarking exercise across the EU: the Foundation developed 16 indicators based on the eight principles of the 2002 Commission Communication, and tested these using the country example of Slovenia (European Foundation, 2004a, 2005b). In 2007, the most recent phase of Foundation research was concluded with the EIRO comparative study on 'Employee Financial Participation in the New Member States' (European Foundation, 2007). The key findings of these research projects are summarized as follows.

## **Increase in FP**

Overall, during the 1990s FP became more widespread in European business units with more than 200 employees. During this period companies implemented share schemes and profit-sharing schemes for management, and to a less extent, for other categories of personnel. About half of the share schemes are all-employee schemes and the other half are selective, implemented for management and higher graded staff only. In the case of profit-sharing schemes more than 80 percent are broadly based.

The findings support the argument advanced in the literature that legislation and tax concessions have a powerful impact on the use of FP schemes. For instance, the incidence of profit-sharing in France, where profit-sharing is compulsory for firms with more than 50 employees, is especially high. Similarly, the incidence of share ownership schemes is the highest in the UK, where there is an extensive raft of legislation and fiscal concessions.

## **Company Size**

There is a clear and positive relationship between company size and the use of broad-based schemes. This is consistent with most previous studies and suggests that the potential for ‘free-rider’ effects – whereby, according to some economists, employees lack incentives to increase effort and cooperative behaviour if they will receive only a small fraction of any additional profit – does not discourage the use of these schemes.

## **Communication and Employee Participation**

The proposition guiding the analysis of employee communications and participation was that business units with FP would be more communicative and participative than others. This was partially borne out. Business units with broad or narrow share schemes tended to communicate more than those without a scheme. This might reflect sophisticated management, the need (often legally required) to impart information on share schemes, or a perceived complementarity between the two forms of participation.

## **HRM and FP**

The last part of the analysis consisted of an investigation into the relationships between HR instruments and FP. If employees are to accept a range of performance-enhancing managerial initiatives, such as performance appraisal, it is arguable that they should receive a pay-off from any improvements in performance that might result. Equally, if employees are to share in the performance of the firm, it is arguable that they should actively contribute to performance outcomes. We therefore expected to

find firms with FP also having a range of other human resource management features, such as higher than average training expenditure and comprehensive performance appraisal systems. The results confirm this. This supports the notion that companies try to protect human capital development through the combined use of training, appraisal and share schemes.

### **Benchmarking FP**

The purpose of this project was to develop a set of indicators that would allow benchmarking of FP policies and practices across the EU, incorporating the general principles outlined by the Commission in its July 2002 Communication. In addition, they address the scale of FP usage, and differences in national policies and characteristics that may act as barriers to the cross-national diffusion of FP schemes.

There are currently three key sources of cross-national information on employee FP: the CRANET and EPOC surveys, and the Foundation's European Working Conditions Survey. Their utility for providing information on FP is however limited. The EPOC survey was a one-off study conducted in 1996, and is therefore dated. None of these surveys provides much detail, since information on FP derives from a single question in the survey instrument. Additional problems arise as a result of the specific limitations of the CRANET and EPOC surveys in particular. They are company surveys which draw their responses only from management representatives, and are limited by incomplete geographical coverage. Even though it makes sense to study FP from a company-level perspective, the fact that there are large differences in the extent of FP for different types of workers within companies makes this approach problematic. As we have argued elsewhere (Welz and Fernández-Macías, 2007), company surveys tend to overstate the importance of FP.

Given these data limitations, we decided to examine opportunities for generating FP data from existing statutory surveys such as the European Community Household Panel Survey (ECHP), the Labour Force Survey (LFS) and the European Working Conditions Survey (EWCS). These surveys have the advantage of referring to the individual rather than the organization, potentially yielding more useful data. Below we attempt to fill some of the existing research gaps with regard to the incidence of FP by an analysis of data from the 2005 EWCS.

### **Financial Participation According to the 2005 European Working Conditions Survey**

In this section, we make an approximation to the issue of FP from an employee perspective, using data from the 2005 EWCS. This survey

provides a wealth of information on the conditions of work and employment in 31 European countries, including detailed information on the components of pay and the participation of workers in profit-sharing and share ownership schemes. The EWCS is based on a multi-stage stratified random sample, representative of the EU working population aged 15 and above (Parent-Thirion et al., 2007). For the purposes of this article, we use a sub-sample including only employees in the private sector, which accounts for more than 16,000 cases.

The EWCS has some problems as an instrument for the analysis of FP. First, it is not a survey aimed at studying pay systems, but work and employment conditions. The information on pay is secondary to the general aims of the survey, and is less developed and detailed than other aspects such as working time or workplace risks. The questions on pay are at the end of the survey and are intended to capture broadly the differences in pay systems. The three queries specifically related to FP are: does your remuneration include:

- payments based on the overall performance of the company (profit sharing scheme) where you work;
- payments based on the overall performance of a group;
- income from shares in the company you work for?

This formulation captures adequately the participation of employees in profits and enterprise results, but only as far as they are reflected in their remuneration. So the scope of the information we study in this article is *FP as a component of pay*. This excludes some forms, notably those involving employee savings or pension schemes. Although this is an important qualification, it should not be overemphasized. The most widespread form of FP is as a component of remuneration, and this is the form most discussed in the literature.

A potential problem is the level of non-response. Overall response rates to the survey were around 50 percent, with significant cross-country variation. It is common knowledge that individual surveys tend to leave out the extremes of the income distribution, and as FP is highest in the top income levels, this may lead to a certain degree of underrepresentation of the phenomenon. Item non-response does not appear to be a significant problem: the level of non-response to the questions about FP in the 4th EWCS was around five percent overall and above five percent in only five countries. Indeed there was a higher non-response to the general question about monthly wages or pay than to the specific questions about FP (Parent-Thirion et al., 2007).

Item non-response may be more problematic in the case of Germany, Finland and Luxembourg, where the figure is around 10 percent, with a rather high percentage of refusals (rather than 'don't know' responses). This might indicate a reluctance to give information on the issue, which

might be higher for those actually affected, and might suggest that the real levels of FP in some countries are underestimated. Nevertheless, there is a high correlation between non-responses to all questions on components of pay (not only those related to FP) which would indicate a general reluctance to give information about pay, not just about FP.

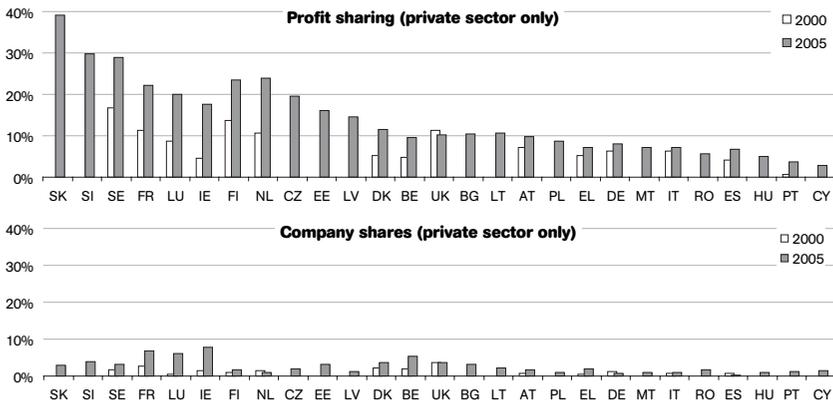
In this section, we discuss the general incidence of FP in individual countries, and the changes from 2000 to 2005; then we briefly present the distribution of FP according to company, job and individual variables. Finally, using a multivariate logistic regression model, we try to specify the main determinants of FP in the EU.

### General Levels of FP in 2005

Figure 1 shows the overall incidence of the two main forms of FP for which there are data in 2005: profit-sharing and direct shares in the company. The general levels of FP are relatively low compared with those reported in previous studies, as we noted above. Share ownership is considerably lower than profit-sharing: it only rises to (almost) eight percent of all employees in Ireland, whereas the proportion of employees sharing profits is above 10 percent in 11 EU countries. Profit-sharing is relatively high (above 20 percent) in Slovakia, Slovenia, Sweden, the Netherlands, Finland, France and Luxembourg. Share ownership is above five percent in Ireland, France, Luxembourg and Belgium. Ireland, France and Luxembourg stand out with relatively high levels of both forms of FP.

Figure 1 also shows the incidence of FP in 2000 for the EU15 countries.<sup>1</sup> In all except UK (where there is a small reduction), there has been an increase (in some cases quite notable) in the percentage of employees

**FIGURE 1. Percentage of Workers Involved in Financial Participation by Country, 2000–2005**



in profit-sharing or share ownership remuneration schemes. This shows that although the proportion of European workers involved in FP schemes is still relatively low, it is clearly on the increase, suggesting that the phenomenon may become more significant in the future.

### Financial Participation across Companies, Jobs and Individuals

An employee-based survey enables us to study the distribution of FP schemes across different types of companies, jobs and individuals. Here we only briefly examine the general (bivariate) distribution of FP in the EU by different variables, for descriptive rather than analytical purposes. Because it is possible that the impact of any individual variable on FP is mediated by a third or more variables, it is necessary to use a multivariate statistical model, which we do in the next section.

Figure 2 shows the types of companies in which FP is most frequent. The number of employees in the local establishment seems to be strongly and positively related to FP schemes: those working in large establishments are four times more likely to receive payments from FP schemes than those in smaller establishments. In terms of sector, the differences are also notable, with FP most widespread in the financial sector, real estate, utilities and manufacturing. On the other side, the incidence is very low in education and health, construction, agriculture, retail, hotels and restaurants and other services.

**FIGURE 2. Percentage of Workers Involved in Financial Participation by Size and Activity of Employer, EU27 (2005)**

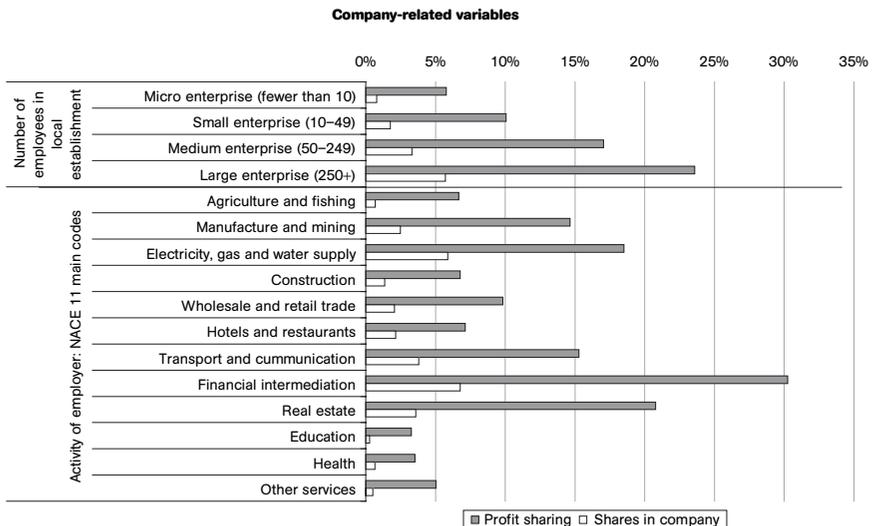
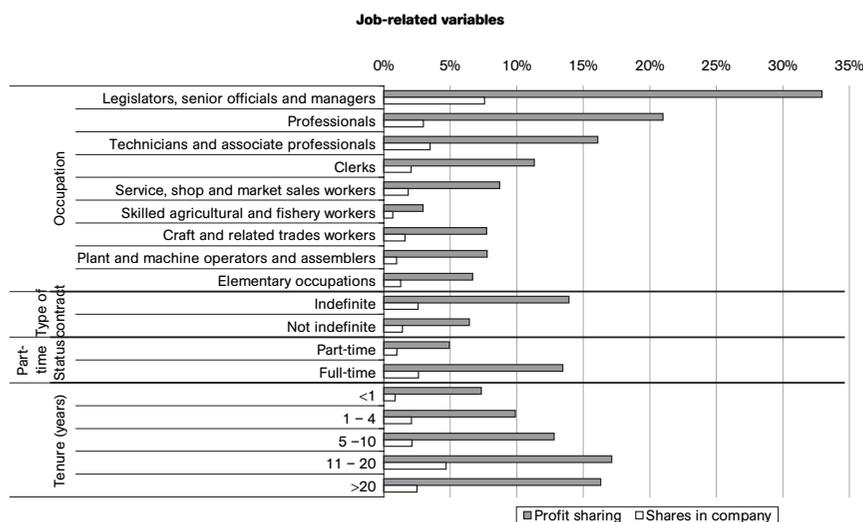


Figure 3 shows the distribution of FP schemes according to occupation, type of contract (temporary and part-time) and tenure. FP schemes are much more common among managers (almost 35 percent), professionals (more than 20 percent) and associated professions (more than 15 percent) than for everyone else (well below 10 percent). This indicates one possible explanation for the higher levels of FP reported in company-based surveys and those recorded here: even if a scheme exists in an individual company, it may only affect the higher occupational levels. Permanent and full-time employees are more or less twice as likely to be involved in FP as temporary and part-time employees. Tenure is also related to FP, but the association is neither strong nor linear.

Figure 4 presents the results for three important socio-demographic variables: sex, age and education. Men are twice as likely to be part of these schemes than women, which may be due to the different types of jobs that men and women occupy (occupational segregation) rather than direct discrimination in the application of these schemes. In the multivariate model in the next section we discuss this possibility in more detail. Age does not show a clear relation with FP: the highest levels of FP are in the mid-age segment (which may be due to career development effects and to the fact that FP schemes may be more usual in ‘younger’ establishments). Education shows an important correlation with FP. We discuss in the following section whether this effect is directly attributable to educational level or to the fact that higher educational levels are related to higher positions in the occupational structure.

**FIGURE 3. Percentage of Workers Involved in Financial Participation by Occupation, Employment Status and Tenure, EU27 (2005)**



### Determinants of FP in the EU

We analysed the most important determinants of FP in the EU by constructing two multivariate logistic regression models (one for profit-sharing and one for share ownership), in which the dependent variables are coded as dummies (1 means that the individual employee participates in the scheme, 0 that he or she does not). The independent variables were introduced one by one (stepwise, based on their contribution to the explanatory capacity of the model and also on our judgment of their substantive interest), in two blocks: one for the company, job and socio-demographic variables, and another one for all the country dummies. This means that first, analysing all the countries together, we tried to specify the model that better explained better the determinants of profit-sharing and share ownership (first block) for the whole of the EU. Once we had specified this model, we introduced one by one (stepwise) the countries that differed significantly from the rest in the likelihood of FP for employees even after controlling for all the variables introduced previously (this was the second block of analysis). Therefore, the countries shown in Table 1 differ significantly from the rest in the incidence of FP even after controlling for their different economic and employment structures.

The overall explanatory power of the model is not very high (after the 22 steps including variables and country dummies, it explains only a quarter of the total variation in profit-sharing, according to Nagelkerke's  $R^2$ ). Considering the amount of statistical 'noise' that is always present in this

**FIGURE 4. Percentage of Workers Involved in Financial Participation by Sex, Age and Highest Educational Attainment, EU27 (2005)**

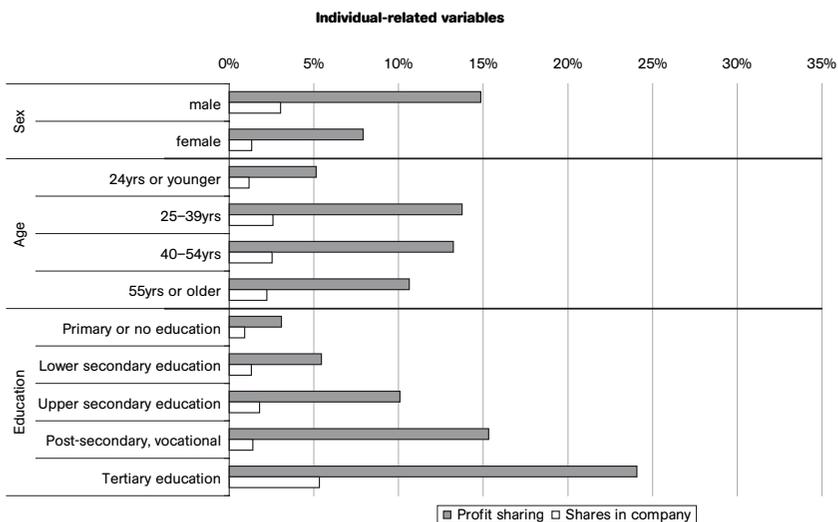


TABLE 1. The Determinants of Profit-sharing: Multivariate Logit Model

	Odds ratio	
<b>Constant</b>	0.02	**
<b>Occupation</b>		
Elementary occupations	<i>ref.</i>	
Managers	4.24	**
Professionals	1.97	**
Technicians	1.79	**
Clerical	1.58	**
Service workers	1.37	**
Skilled agricultural workers	0.80	
Craft and trades workers	0.98	
Operators and assemblers	0.90	
<b>Sector</b>		
Manufacturing and mining	<i>ref.</i>	**
Agriculture and fishing	1.10	
Utilities	1.32	*
Construction	0.86	
Wholesale and retail trade	0.98	
Hotels and restaurants	0.53	**
Transport and communication	1.07	
Financial intermediation	2.04	**
Real estate	1.01	
Education	0.11	**
Health	0.30	**
Other services	0.60	**
<b>Establishment size</b>		
Under 10	<i>ref.</i>	
10–49	1.28	**
50–249	1.57	**
250+	2.40	**
<b>Education</b>		
Primary or no education	<i>ref.</i>	**
Lower secondary education	1.46	**
Upper secondary education	1.90	**
Post-secondary, vocational	2.43	**
Tertiary education	2.99	**
<b>Contract</b>		
Not permanent	<i>ref.</i>	
Permanent	1.66	**
<b>Sex</b>		
Male	<i>ref.</i>	
Female	0.61	**

(Continued)

TABLE 1. (Continued)

	Odds ratio
<b>Country</b>	
<i>Reference: DK, EL, ES, IT, HU, AT, PL</i>	
SK	7.26 **
SI	4.79 **
SE	3.13 **
NL	2.43 **
FR	2.51 **
CZ	2.63 **
FI	2.49 **
IE	1.84 **
EE	1.90 **
LU	1.56 **
UK	0.53 **
CY	0.46 **
PT	0.56 **
LV	1.35 **
DE	0.74 *
MT	0.69 *
Variable entered	Nagelkerke $R^2$
1 Occupation	0.065
2 Sector	0.111
3 Size of the establishment	0.136
4 Education	0.151
5 Type of contract	0.159
6 Sex	0.165
7 SK	0.193
8 SI	0.205
9 SE	0.212
10 NL	0.216
11 FR	0.220
12 CZ	0.225
13 FI	0.229
14 IE	0.232
15 EE	0.233
16 LU	0.235
17 UK	0.235
18 CY	0.236
19 PT	0.237
20 LV	0.237
21 DE	0.238
22 MT	0.238

kind of international survey, an  $r^2$  of 0.24 is a quite reasonable fit, however. The single variable that has the strongest impact on the likelihood of an employee participating in a profit-sharing scheme is occupation, indicating, as suggested earlier, that the distribution of FP schemes within companies is skewed towards the higher positions in the occupational structure. The odds of a manager receiving income from profit-sharing is more than four times that for a manual worker, even controlling for all the other variables in the model. Professionals and associate professionals are also much more likely to be part of a profit-sharing scheme; but the difference between skilled, semi-skilled and unskilled workers is not significant.

Economic sector is also an important determinant of profit-sharing, although much less than occupation; as particularly the finance sector, utilities and manufacturing are most likely to participate in profit-sharing. The likelihood that an employee receives income from profit-sharing increases consistently with company size: the odds are 2.4 times higher in large companies compared to SMEs. Even after controlling for occupational level, education has a significant impact on the likelihood of being part of a profit-sharing scheme: the odds are three times higher for those with tertiary education compared to those with only primary education. A permanent employee is 1.7 times more likely than a temporary employee to participate in profit-sharing. Particularly interesting is the fact that there is a significant *gender gap* even after controlling for all the other variables: the odds of women participating in profit-sharing is only 0.6 of those of men. Is this a result of job segregation or a form of pay discrimination? It is difficult to say, because although we have controlled by sector and occupation, the occupational and sectoral variables used in the model are very broad (the ISCO classification is coded at the 1-digit level) and may not capture adequately the occupational segregation of women.

Table 1 also shows the estimated coefficients for different countries. As explained above, once we fitted the model with the variables discussed, we introduced the country dummies in the analysis to see which countries differed significantly from the rest. The usual problem when comparing any individual economic variable across different countries is that it is difficult to know how much of the differences observed are the result of different 'national characteristics' rather than different economic structures. In this case, because we first fitted a model using only company, job and socio-demographic variables for all EU27 countries, and then included the country dummies stepwise (one by one, introducing first the country that differed most from the rest, then the next, and so on), the coefficients for individual countries reflect how much individual countries differ from the rest keeping constant the structure of their labour markets in terms of sector, occupation, etc.<sup>2</sup>

Five out of the 11 countries with higher levels of FP are from eastern Europe: notably Slovakia – the odds of a Slovak employee participating in profit-sharing are seven times higher than those of the reference countries – but

also Slovenia, the Czech Republic, Estonia and Latvia. This is probably a legacy of the very intensive processes of privatization of state-owned companies during the economic transition, which was in many cases accompanied by FP schemes (Vaughan-Whitehead, 1995). Among the EU15, Sweden, the Netherlands, France, Finland, Ireland and Luxembourg have a higher incidence of FP than the reference countries, and the UK, Cyprus, Portugal, Germany and Malta have a lower one. Some of the countries which in previous research were flagged as having high levels of FP show negative coefficients. This is not only the result of the different survey instrument, but also because of the fact that the occupational and sectoral structure are taken into account in this case.

We carried out a similar multivariate analysis for share ownership. Because the results are quite similar to those presented in Table 1, we will only briefly discuss the main differences.<sup>3</sup> The general fit of the model is lower ( $r^2 = .16$ ), which in part probably reflects the much lower variation in the levels of share ownership (around 2 percent of the overall sample) and in part indicates that share ownership may depend on variables not included in the model. Sector is in this case a more important determinant than occupation, although occupational level is also very strongly correlated with the likelihood of receiving income from shares in the company. Company size, sex and education have an impact similar to the one we discussed earlier for profit-sharing, but in this case length of tenure also has a small positive impact. Hence the type of employee most likely to receive income from shares in the company is a *male manager with tertiary education working in the financial sector*.

Where the model for share ownership differs most from that for profit-sharing is in the country variations. In this case, there is only one Eastern European member state (Slovenia) standing out from the rest, despite what could be expected given the legacy of the massive privatization processes during the last decade. Ireland and France have the highest degree of share ownership even after controlling for the other variables (the odds ratio of participating financially is three times higher than in the other countries), whereas the Netherlands, Germany and Spain show only around half the incidence of income from share ownership recorded in the other countries.

## Conclusions

Previous research indicates that FP can deliver real benefits for employees, enterprises and national economies; yet it remains under-used in most member states, and is very unevenly distributed across the EU. During the 1990s, FP became more widespread in large European companies. While profit-sharing, in one form or another, is more prevalent than share ownership schemes, there are variations between countries in the type of scheme in operation. All-employee share plans (including

stock options) are relatively widespread in countries where there are savings plan arrangements in place to support share acquisition. Legislation and tax concessions can act as a trigger for the introduction of schemes. SMEs face particular problems in introducing such schemes, including high costs and administrative workload. Companies with share ownership schemes tend to communicate more effectively with employees.

Previous research by the European Foundation found that governments and central social partner organizations play a pivotal role in the national framework of FP, albeit to varying degrees, and hence can influence the extent, practice and characteristics of FP at company level. Employers' associations generally acknowledge the role of profit-sharing and share plans in generating loyalty and commitment among staff, as well as encouraging recruitment and retention. Trade unions are generally favourable to FP, provided that certain safeguards are met. Governments view their function essentially in providing the statutory regulatory framework, while it is up to companies or the social partners to promote FP plans.

In this article we have updated previous research using data from the EWCS, allowing us to examine the subject from a new angle (the employee perspective) and also to cover for the first time the whole enlarged EU, and all sectors and sizes of private company. The contrast between these new findings and those from previous (company-based) surveys is considerable.

Our main findings are:

- 1) The use of FP is very low in most countries, much lower than regularly estimated using company-based surveys: only around 12 percent of European employees receive income from some form of profit-sharing scheme, and only 2.3 percent from shares in the companies they work for. Only in six countries (Slovakia, Slovenia, Sweden, the Netherlands, Finland and France) does profit-sharing affect more than one fifth of employees, and in only four (Ireland, France, Luxembourg and Belgium) do more than five percent receive income from shares in their companies.
- 2) Although these levels are low, in the last five years they have been consistently increasing in all EU15 member states except for the UK and in most new member states.
- 3) It is obvious that FP is very unevenly distributed among different types of companies, jobs and individuals. Employees in managerial positions are more than four times more likely to participate in these schemes than manual workers, even after controlling for variables such as sector, establishment size or education. Financial participation is also distributed unevenly between men and women, and between permanent and temporary workers.

Our analysis of FP from EWCS data has been only a first approximation. Our aim with this article was to highlight the strikingly different picture obtained from a survey based on the responses of individual employees rather than from one based on those of human resource managers in relatively large companies. This different picture leads to a different assessment of the issue. The low incidence of FP at the level of the individual employee, and the high unevenness of its distribution, puts a question mark from a policy perspective. The findings we have discussed suggest that some of the concerns regarding the distributional effects of FP schemes (which would reinforce pre-existing inequalities in pay and earnings) seem well-founded.

## NOTES

- 1 The 2001 EWCS did not differentiate between public and private sectors in the new member states. Nevertheless, the figures for the whole economy show increasing levels of FP in all these countries except the Czech Republic, Romania and Hungary.
- 2 The countries that remain (the 'reference' category) are those that are very similar in terms of FP (again, controlling for the other variables).
- 3 For a detailed discussion of this model (and the actual results), see Welz and Fernández Macías (2007).

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