European Foundation for the Improvement of Living and Working Conditions

Financial participation of employees in the European Union: Much ado about nothing?

Background paper

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Introduction

The European Foundation for the Improvement of Living and Working Conditions ('the Foundation') hosts the online *European industrial relations dictionary*.[1] According to the Dictionary:

> '*Financial participation 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, 2005b)

Financial participation, in the form of profit sharing and share ownership, has been a feature of employee participation for many years. Financial participation may, in principle, involve employees both in financial risks (in the form of losses) and benefits (in the form of profits). However, in practice, most schemes are devised in such a way that participants only benefit: they are not exposed to financial risk either individually or collectively. While financial participation has been supported in a number of Member States through tax incentives and other forms of legislation, approaches differ widely across the Member States. Financial participation has been a focus of interest of the European Commission since the publication of the Pepper I report in 1991 and the Pepper II report in 1996 (European Commission, 1991, 1996). In 2004, the Foundation undertook a research project looking at the national frameworks, policies and views of governments, trade unions and employer organisations in eight Member States regarding financial participation (European Foundation 2004a).[2] The main objective of the Foundation's research into financial participation was to learn more about the incidence of financial participation and the national level policies and attitudes of key actors as regards the design, development and implementation of financial participation arrangements.

Across the EU, employee financial participation is the focus of increasing attention. Concern exists at European level that costs and administrative complexities have hampered the large-scale introduction of financial participation schemes. In 2002, in an effort to move the issue forward, the Commission published a Communication, *On a framework for the promotion of employee financial participation*. In it, the Commission acknowledges the Foundation's research in the area of employee financial participation and calls on the Foundation to continue this work. Recent opinions drafted by the European Economic and Social Committee and the European Parliament further underline the importance of collecting data on financial participation, particularly in relation to small and medium-sized enterprises (European Parliament, 2003; EESC, 2003)

Policies and views of governments and social partners

National frameworks

Profit sharing, one possible form of financial participation, is an important component of financial participation in most countries. In France, it has been compulsory since 1958 in companies with more than 50 employees. Profit-sharing based systems also exist in Belgium, Germany, the Netherlands, Sweden and the United Kingdom (UK). However, profit sharing is handled differently in different countries. In France and the Netherlands, the employees' shares of the profits are channelled into employee savings plans. In Germany, they are channelled into various forms of asset formation, whereas in other countries employees can acquire the shares of the profits more or less directly.

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[1] **http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/**

[2] The eight Member States were Belgium, France, Germany, Italy, Netherlands, Portugal, Sweden and the United Kingdom.

The incidence of profit sharing broadly correlates with the existence of legislation encouraging the use of profit sharing in some form – for instance, as employer contributions to savings plans. Thus, profit sharing is prevalent in France, Netherlands and the UK, and quite common in Sweden and Germany. It is also quite widely used in Portugal, due to the status of profit sharing in tax law, even though there has been little active encouragement of profit sharing systems.

The other main form of employee financial participation is ownership of shares in the company. All-employee share ownership schemes (including all-employee stock options) are quite widespread in France, the Netherlands, and the UK. (They are least common in Italy and Portugal.) The prevalence of share ownership schemes in these countries appears to be the result of mechanisms aimed at facilitating employee acquisitions of shares: all three countries have savings plan arrangements to support share acquisition.

Most countries have revised arrangements for stock options over the last five to ten years. However, they do not necessarily promote stock options as a broad-based form of financial participation.

In a majority of countries, there has been some promotion of financial participation over the last five to ten years. Belgium, in particular, has adopted the recommendations of the Pepper report. Most of the statutory frameworks for financial participation simply ensure that conditions are the same for all companies. However, some countries – Belgium, France and the UK – have taken active steps to encourage the use of financial participation by SMEs, including:

- tackling the culture of inertia and resistance among enterprise owners;
- increasing government support – for instance, through tax incentives and legal structures;
- creating an environment in which information and know-how are easily accessible and where institutional support can add significant value;
- identifying structures of financial participation that are workable, simple and affordable;
- communicating the benefits of financial participation and ways in which it can operate (Pendleton and Poutsma, 2004).

Governments

In 1996, the Pepper II report stated that in many Member States there was very little activity in terms of financial participation. That situation has now changed: in nearly every Member State of the former EU15, financial participation is actively pursued. In some instances, this can be partly attributed to the activities of EU institutions. For instance, as indicated previously, recent debates at EU level appear to have stimulated reforms in Belgium where the principles developed at EU level have been taken on board.

Opinions vary widely regarding the merits of financial participation; national policy objectives also vary. In some countries, it is felt that financial participation may reduce income inequality; in others, that it will increase it. In some cases, the capacity of financial participation to enhance employee savings in the medium and long-term is viewed as a key benefit. In other cases, its contribution to enhancing productivity is felt to be more important.

Governments see their main function as providing a regulatory framework for financial participation. This may include measures to promote financial participation. However, once such a framework has been put in place, the dominant view of governments is that companies or the social partners should be responsible for promoting financial participation plans.

National governments hold one of three positions on the linkages between financial participation and employee representation. In one set of countries, governments mandate the involvement of employee representatives in financial participation. Both the Belgian and French governments, for instance, require that financial participation plans be subject to agreement with employee representatives. Recent French legislation also gives unions a seat on the boards of the funds that invest workers' savings. Governments in a second set of countries, including the Netherlands and Germany, argue that the implementation of financial participation plans ought to be agreed between the social partners. However, they do not specify how this should take place. The third position is that of the UK government, which believes that implementation should be left to the company level and does not explicitly refer to the desirability of social partner involvement and agreement.

Some countries view the potential of financial participation to contribute to greater flexibility in remuneration and in systems of pay determination as beneficial. However, this is probably the most contentious aspect of broad-based financial participation. Other governments either do not stress this role, or have taken steps to limit wage substitution and the capacity of social partners to sidestep existing industrial relations arrangements and institutions.

The main perceived disadvantages of financial participation are the dangers of transferring risk to employees and the limited applicability to SMEs of some forms of participation (in particular, share ownership).

Although governments identify a range of possible benefits stemming from financial participation, some governments are conscious of the lack of clear evidence and the difficulties of identifying its effects.

There are three main types of perceived barriers to further growth in financial participation: political, technical and corporate barriers. Among political barriers is the widespread anxiety that narrow-based share ownership schemes will contribute to self-enrichment and so impact negatively on public perceptions of broader forms of financial participation. Furthermore, in some countries, trade union organisations oppose financial participation for various reasons. At the micro-political level inside firms, it is difficult to introduce financial participation schemes that require a high level of trust into environments that may be experiencing conflict. In terms of technical barriers, financial participation appears to be less appropriate for SMEs because of administration costs, the absence of a market for shares, etc. Corporate barriers to the use of financial participation include corporate governance, corporate law and reporting requirements. If financial participation is to spread further, reforms to these aspects of corporate life may be required, as may the development of specific financial participation frameworks.

Employer organisations

Employer organisations tend to view financial participation favourably. However, the extent to which they do so reflects the degree to which financial participation has developed in their country. Employer organisations in countries with well-developed and long-standing frameworks for financial participation are the most supportive and have the most well-developed views and policies.

Employer organisations tend to focus their activities on the prevailing form of financial participation in their country. For instance, the CBI (UK) focuses on employee share ownership schemes, whereas MEDEF (France) has focused on employee savings plan arrangements.

Employer organisations express a preference for broad-based financial participation plans. However, they usually insist that governments and regulatory frameworks should not unduly limit companies' freedom to implement the plans most appropriate to their needs. They argue that regulatory frameworks should be limited to fiscal and related provisions, and should not be overly prescriptive. Thus, some employer associations have lobbied governments to reform the regulation of executive stock options and so enable their more widespread use.

At individual company level, management has discretion as to whether to implement financial participation schemes broadly or narrowly. They also retain discretion in terms of setting different incentives for different categories of workers. For instance, it is felt appropriate that key workers who have a more direct influence on the financial situation of the company – those in senior management positions – receive appropriate incentives.

Employer organisations in the countries studied share similar perceptions regarding the benefits of financial participation. Employer organisations emphasise how profit sharing and share ownership schemes plans can increase motivation and so yield better performance and results and raise the loyalty and commitment of staff. An associated benefit is easier recruitment and retention. Employer organisations, however, differ in terms of how they view pay flexibility and collective bargaining arrangements. Some employer organisations – in Italy and Sweden, for instance – emphasised that financial participation could potentially contribute to decentralising pay setting and enhancing flexibility. Others, however, did not highlight this.

Employer organisations tend to prefer that financial participation be separated from other forms of employee participation and representation. They generally believe that employee representatives should not have rights to formally negotiate over the design, introduction, and management of financial participation plans. They also indicated that the difficulty for SMEs of using financial participation schemes was a key limitation to their wider use – most clearly in the case of employee share ownership schemes.

Employer organisations do appear to respond positively to specific government proposals to extend financial participation. However, they do not seem to play an active role in disseminating information or advice on financial participation. In most countries, they tend to leave this to specialist lobby groups or to sectoral or regional associations. This then raises the question of where such associations obtain expert information and advice on financial participation.

Although in some cases (e.g. Italy), employer organisations are attempting to proactively push the debate on financial participation forward, most appear to respond in a more reactive fashion to governmental policy initiatives and to the prevailing framework for financial participation.

Trade unions

In general, the extent to which trade unions take part in policy discussions reflects the extent of development of financial participation policy and frameworks in each country.

The views of trade unions towards financial participation, and the ways in which they conceptualise it, may differ between confederations, in those countries where there is more than one trade union confederation. Differences may also exist between unions in the same confederation, such as in Germany. Overall, socialist and communist confederations (such as in France and Italy) tend to be more hostile to financial participation than do liberal, social democrat, or Catholic confederations (as in France and Italy.) Those that represent mainly manual workers tend to be less enthusiastic about financial participation than those representing non-manual and professional employees, as can be seen in Sweden.

The views that unions take regarding financial participation do not equate directly with the activities and policies that they adopt. Unions that are, in principle, critical of financial participation may still be involved at a practical level in developing such participation.

In recent years, several major confederations – such as the DGB (Germany) and the TUC (United Kingdom) have adopted a more favourable view of financial participation. In general, the trade unions are shifting their position from one of outright opposition to qualified acceptance. The Executive Committee of the European Trade Union Confederation (ETUC) endorsed financial participation in a resolution taken on 19–20 November 2002, providing that participation was embedded in a holistic system of worker participation (ETUC, 2002).

Typically, it is argued that financial participation is acceptable as long as certain conditions are met, chiefly:

- equality of participation;
- protection of employees from unreasonable risk;
- prohibition of wage substitution;
- the consent of employees and their representatives to company financial participation schemes.

Unions vary from country to country in the form of financial participation most often adopted – unions in the Netherlands, for example, prefer profit sharing. Unions often see the liquidity of the payment associated with profit sharing (as against the relative illiquidity of shares) as a key benefit of profit sharing. However, a disadvantage is that the closer linkage between profit sharing and wages may lead to wage substitution, decentralised collective bargaining and possibly weaker collective pay setting.

Share ownership schemes are seen as having their own risks and benefits. A key risk of employee share ownership is that employees' income will be subject to stock market volatility. However, unions may prefer share ownership schemes to profit sharing arrangements because there is less associated danger of pay substitution and greater potential for economic democracy.

Opposition towards financial participation has weakened in some French trade unions. In part, this is because they see share ownership schemes and the governance rights associated with such schemes as having the potential to provide some protection for employees against foreign institutional investors.

In Italy, debates about share ownership in some parts of the union movement centre around the opportunities for employee involvement in corporate governance. However, in most instances, unions criticise what they see as the minimal opportunities that share ownership schemes provide for greater employee involvement in corporate governance.

Some union confederations have opposed financial participation in cases where governments and/or employers explicitly linked it to wage flexibility and the decentralisation of bargaining. This is most evident in Belgium, Italy and Sweden. In these circumstances, union hostility to financial participation has to be seen in the context of a broader concern to defend existing patterns of collective bargaining and pay setting.

The extent to which unions are active in the area of financial participation depends heavily on the extent of government activity. In those countries, such as Portugal and Sweden, where governments have done little to promote financial participation, little union activity is evident.

Unions vary considerably in the extent to which they are involved in developing policies and legislation for financial participation. On the whole, unions tend to be most involved in developing legislation in those countries that have a tradition of tripartite institutions.

Occasionally, unions also put forward the argument that financial participation, in its equity sharing variant, may also constitute a means of influencing corporate decision-making. An overwhelming majority (97%) of the 4,650 members of the employee share ownership trust (ESOT) of Irish airline Aer Lingus, which holds 12.6% of Aer Lingus on behalf of current and former employees, voted to reject the hostile takeover bid planned by rival Ryanair.

Findings of the Foundation, 1999–2005

In 1999, the Foundation started its research into the nature and extent of financial participation in the EU. The research comprises five key phases. The first phase of the research culminated in a report *Recent trends in employee financial participation in the EU*, which gave an update of the legislative and financial practices in the Member States and discussed the European Commission's Pepper I and II reports.

The second phase looked at the incidence and characteristics of share ownership and profit sharing schemes in the Member States (excluding Luxembourg). This research was undertaken with Cranfield University in the UK, and involved analysis of data from the CRANET dataset.[3] On the basis of this research, a report was published, *Employee share ownership and profit-sharing in the European Union*, which gave an overview of the structural and human resource management characteristics of companies that use financial participation schemes. In the third phase, launched in 2001, the views and policies of the national governments and social partners regarding financial participation were examined.

The fourth phase made preparations for a benchmarking exercise of financial participation across the EU. The Foundation first developed 16 indicators based on the eight principles of the 2002 Communication of the European Commission *Communication on a framework for the promotion of employee financial participation*. On the basis of this, it then published a report, *Financial participation in the EU: Indicators for benchmarking*. It then 'road-tested' these indicators using the real-life example of Slovenia, publishing its findings in the report *Financial participation in the EU: A benchmarking study of Slovenia*. In 2007, the most recent phase of the Foundation research concluded with a comparative study from the Foundation's European Industrial Relations Observatory (EIRO), *Financial participation in the New Member States*.

In addition to the above research, other Foundation work has dealt with financial participation as a sub-element of the broader category of 'variable pay', which can include piecework payments and performance- or results-based payments. In 2001, an EIRO comparative study, *Variable pay in Europe*, looked at incidence and trends in variable pay in the then EU15 and Norway. In particular, it examined the collective bargaining context and the often opposing positions of social partners in relation to both the principle and practice of variable pay. A more recent study from the Foundation, *Wages and working conditions in the European Union*, analyses the relationship between various wage systems (including variable pay systems), and work organisation and organisational performance. The report concludes that 'aspects of work organisation have stronger effects than wage systems […] both on quality of working life and on performance outcomes' and that 'in order to improve efficiency, wage systems and work organisations should be aligned, e.g. by combining participative work organisation and modern forms of variable pay'.

This present report attempts to take the benchmarking exercise of financial participation a step further, by analysing the recent dataset from the fourth *European Working Conditions Survey* (EWCS) conducted in 2005. The data from the EWCS contrasts quite strongly with data obtained from the CRANET dataset. The report will analyse the differences regarding the incidence of financial participation to give a more holistic picture for later, more in-depth benchmarking exercises.

[3] CRANET is a multi-country dataset on human resources management practices. Coordinated at Cranfield School of Management in the UK, the data have been collected by academic teams in each of the constituent countries.

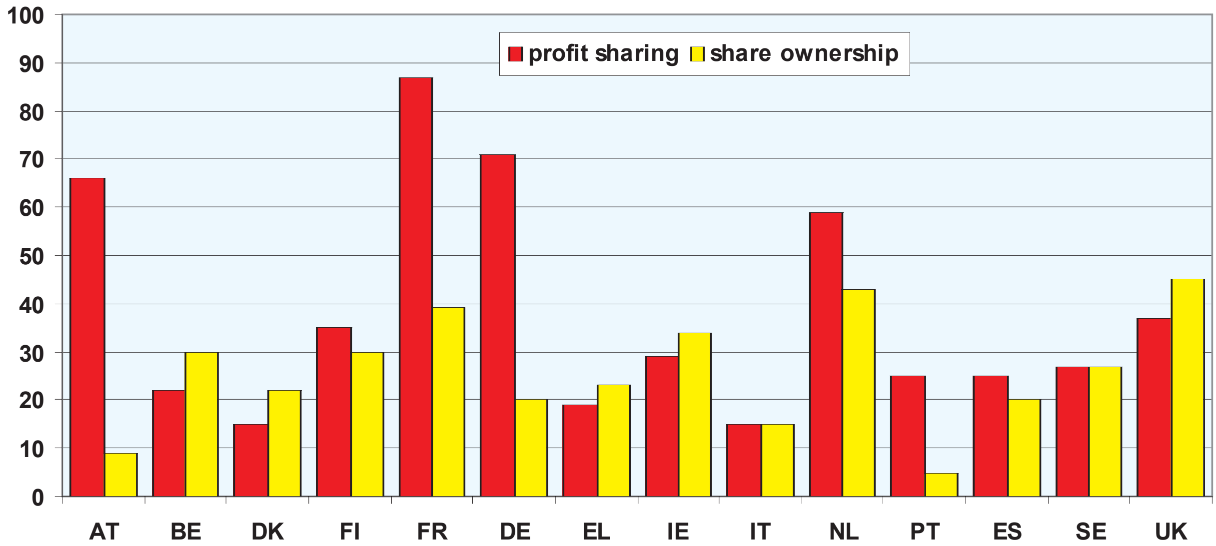
The key findings of previous Foundation research projects are summarised below.

Increase in financial participation

Over the 1990s, financial participation became more widespread in European business units with more than 200 employees. During this period, companies put in place financial participation schemes for management and, to a lesser extent, for other staff. About half of the share ownership schemes studied are broad-based schemes open to all employees. The other half are selective – implemented only for management and staff at higher grades. More than 80% of profit sharing schemes are broad-based.

The findings support the argument, advanced in much of the literature, that legislation and tax concessions have a considerable impact on the use of financial participation schemes. Financial participation schemes are most common where there is extensive legislation or tax concessions: the incidence of share ownership schemes is highest in the UK, where there is an extensive raft of legislation and fiscal concessions. Similarly, the incidence of profit sharing is highest in France, where profit sharing is compulsory for firms with more than 50 employees (see Figure 1).

Figure 1: *Proportion of business units with financial participation schemes, 1999–2000, by country (%)*



Note: *For business units with 200 or more employees*
Source: *European Foundation for the Improvement of Living and Working Conditions,* Employee share ownership and profit-sharing in the European Union*, 2001.*

The introduction of legislation seems to encourage the growth of financial participation schemes, especially broad-based schemes. This is especially evident in the Netherlands, where strong growth in profit sharing and share ownership schemes in the 1990s reflected new legislation on these topics. (When a multivariate analysis of the determinants of the use of financial participation schemes was carried out, the picture was somewhat different: the presence of supportive legislation or tax concessions appeared to be very important in explaining the use of broad-based financial participation schemes. However, it did not appear to be important in explaining the use of narrow-based financial participation schemes.)

Company size

There is a clear, positive relationship between company size and the use of broad-based financial participation schemes. This is consistent with most previous studies and suggests that the potential for free-rider effects does not discourage the use of these schemes. According to the free-rider concept, group incentive schemes such as profit-sharing schemes give individual workers only a small fraction of any additional profit that accrues due to their own effort. This is particularly the case in large organisations. Such schemes could therefore tend to encourage free-riding, which would result in lower productivity. However, according to the findings of other theoretical and empirical studies, these negative aspects would be more than offset by the increase in cooperative behaviour and teamwork resulting from financial participation.

Another aspect of economic theory suggests that as company size increases, individual employees receive proportionally smaller benefits from financial participation. Hence, a negative relationship between company size and use of financial participation might be expected. However, the findings of the Foundation are not consistent with this view. In the case of share ownership schemes, it is noteworthy that for both broad-based and narrow-based schemes a positive relationship exists between size (of both company and business unit) and financial participation. By contrast, the incidence of narrow-based profit-sharing does not seem to vary consistently or substantially with the size of company or business unit.

Communication and employee participation

The proposition guiding the analysis of employee communications and participation was that those business units with financial participation would display more communication and participation than those without. This was partially borne out. Business units with either broad-based or narrow-based share ownership schemes tended to display more communication than did business units without such schemes. This might be due to sophisticated management, the need (often legally required) to impart information on share ownership schemes, or a perceived complementarity between the two forms of participation.

Human resource management and financial participation

The last part of the analysis consisted of an investigation into the relationships between human resource instruments and financial participation. This analysis was guided by the proposition that financial participation and other human resource management (HRM) measures have a reciprocal relationship. If employees are to accept performance-enhancing initiatives from management, such as performance appraisals, it can be argued 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 can be argued that they should actively contribute to performance outcomes. It was expected, therefore, that firms using financial participation would be found to also have a range of human resource management features in place, such as higher-than-average training expenditure, comprehensive performance appraisal systems, etc. The results show that, indeed, employee training and performance appraisal schemes are associated with the presence of share ownership schemes. This supports the notion that companies try to protect human capital development through the combined use of training, appraisal and share ownership schemes. The results also show that there is a correlation between profit sharing schemes and individual performance related pay measures. This points to the possibility of embedding profit sharing in a system of performance-related HR measures.

Benchmarking financial participation

The purpose of this project was to develop a set of indicators that would allow the benchmarking of financial participation policies and practices across the EU. (These indicators are listed in the Annex.) The indicators incorporate the general principles outlined by the European Commission in its 2002 Communication. In addition, they address the extent of financial participation usage, and differences in national policies and characteristics that may act as barriers to the cross-national diffusion of financial participation schemes. Particular attention has been paid to the availability of existing data in developing the final indicators.

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

It is implicitly assumed that each of our indicators should be given an equal weighting in describing financial participation policy and practice. Certainly, there is currently no obvious conceptual justification for emphasising one indicator over another. However, it is recognised that the weighting issue will arise again when the results of benchmarking are being interpreted.

There are currently three key sources of cross-national information on employee financial participation: in addition to the CRANET survey and the Foundation's fourth *European Working Conditions Survey*, data from the Foundation's Employee Participation in Organisational Change (EPOC) research project also provides information.[4]

The design of these surveys somewhat limits their usefulness for providing information on financial participation. None of these surveys provides much detailed information on financial participation: in all three, information on financial participation derives from a single question. This clearly limits the amount of information that can be gathered on this complex and still evolving issue. Particular problems arise as a result of the specific limitations of the CRANET and EPOC surveys. First, these are company surveys, and so do not directly support employee-based indicators. Second, they provide only a partial picture, as they draw their responses only from management representatives. Third, they are limited by incomplete geographical coverage. Finally, in the case of EPOC, the survey was a once-off study conducted in 1996, and it will become less relevant over time.

Despite efforts made to maximise the use of existing data, it should be emphasised that these data limitations currently make it impossible to fully benchmark financial participation within the EU on the basis of information that already exists (seven of the 16 final indicators would require that new data be generated).

There are several ways of dealing with this situation. One option would be to conduct a new survey dedicated to employee financial participation. As well as capturing much greater detail, it could be designed from first principles to ensure full coverage, regularity and a focus on both employee and management respondents. However, one danger of such a specific approach is that financial participation could come to be viewed in isolation. We are interested in how financial participation fits with other aspects of work organisation in general, and of workplace industrial relations in particular. Therefore, it is essential for analytical purposes that any new survey on financial participation also carry questions on its key correlates, e.g. flexible working practices, new forms of work organisation etc. An alternative approach is to expand the EPOC and CRANET surveys to capture more detail on financial participation. These surveys are particularly limited by their design: to be useful sources of information for a comprehensive benchmarking exercise, they would need to be extended, be updated more frequently and more regularly, and have their coverage expanded to provide more information on gender.

A further option is to examine opportunities for generating financial participation data from existing statutory surveys, such as the European Community Household Panel Survey (ECHP), the Labour Force Survey (LFS), or the *European Working Conditions Survey*. These surveys have the advantage of referring to the individual rather than the organisation, and would potentially yield more useful data. The next section will attempt to fill some of the existing research gaps regarding the incidence of financial participation by analysing recent data from the fourth *European Working Conditions Survey* (EWCS).

[4] The Foundation's EPOC project charted developments in the changing world of work, most significantly in the area of work organisation. The focus of the investigation was to show the extent of direct employee participation and to illustrate the role played by such participation in the modernisation of work organisation.

Financial participation in the light of surveys

Most previous studies on employees' financial participation in the European Union were based on surveys addressed to companies, not to individual workers. (These surveys were normally completed by human resource managers.) Depending on the research objectives, however, the company level may or may not be the proper unit of analysis. An argument in favour of operating at the company level is that financial participation is a personnel management tool in private companies, aimed at motivating employees, increasing commitment and making pay more flexible. Most of the time it is the company management who decides whether and how to implement financial participation schemes. Therefore, any study aimed at explaining the reasons for and the implementation of financial participation should be based on company data. On the other hand, precisely because financial participation is put in place to motivate workers and make pay more flexible, any study aimed at assessing its impact should draw on data gathered from employees.

This section will aim to arrive at an employee perspective on financial participation, using data from the fourth *European Working Conditions Survey* (EWCS) of 2005. This survey provides information on the conditions of work and employment in 31 European countries, including information on the components of pay and on the participation in profit sharing or share ownership schemes. It used a multi-stage stratified random sample, representative of the EU working population (European Foundation, 2007). For the purposes of this report, a sub-sample will be used that includes only employees in the private sector – more than 16,000 cases.

Comparing CRANET and EWCS data

When employee- rather than company-based data is used, it indicates a considerably lower incidence of financial participation in Europe. It is therefore important to discuss the main differences between the methodology of previous studies, based on the CRANET survey, and that of the EWCS. Consequently, the EWCS and the CRANET survey will be compared in terms of methodology and results. Table 1 summarises these main differences.

Table 1: *Methodological differences between CRANET survey and EWCS*

	CRANET 2000	**EWCS 2005**
Unit of observation	Companies with 100+ employees	Employed persons (employees and self-employed)
Respondent	Human resource managers	Individual workers
Method of data collection	Postal survey	Face-to-face interview
Countries covered	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, UK	EU27, Croatia, Norway, Switzerland, Turkey
Number of cases per country	Between 56 (NL) and 530 (UK)	1,000 (600 in the six smallest countries)
Response rates	Average of 15% (between 12% and 20%)	Average of 48% (between 32% and 69%)

The most important difference is the unit of analysis. The CRANET survey addressed private companies with more than 100 employees, and was completed by HR managers. By contrast, the EWCS surveyed employed persons (both employees and self-employed, as according to the EUROSTAT definition) and was completed by interviewing individual workers. This methodology implies that, although the CRANET survey is a good source of data for estimating the incidence of financial participation at company level, it is not adequate for assessing the incidence of financial participation at a wider societal level (i.e. for individual employees). It is the case that respondents in the CRANET survey were asked to provide information about the coverage of the financial participation schemes in their companies. This was used to make a broad assessment of how many employees were able to take part in financial participation schemes. However, the EWCS analyses directly whether workers receive pay from profit sharing or share ownership schemes. This data can be used to study more accurately the incidence of financial participation in the workforce.

Another important difference between the two sources is the method used in the data collection. The CRANET survey is administered by mail. This would suggest that there is high degree of self-selection taking place. It also results in a considerably lower response rate (around 15% in this case). This can give rise to some bias in the results. Specifically, it is quite likely that HR managers who had more advanced HR policies (including financial participation) were more motivated to complete the questionnaire. This would suggest that CRANET data might overestimate the levels of financial participation in Europe. By contrast, the EWCS is a face-to-face survey carried out in the private homes of European workers, which implies a much smaller degree of self-selection and a higher response rate. There is no reason to believe that the EWCS is biased in relation to the variables of financial participation.

These differences in the measuring instrument can lead to substantial differences in the results, and deliver a completely different picture of the incidence of financial participation schemes in different countries. Figures 2 and 3 indicate the incidence of financial participation according to CRANET data in the vertical axis, and in the horizontal axis according to EWCS data. The line dividing the figures in two (departing from the origin) represents where all countries should be, if both surveys indicated the same extent of financial participation for a given country. The more that individual countries depart from that line, the less of a match there is between the results of both surveys.

Figure 2: *Country incidence of profit sharing, CRANET and EWCS data (%)*

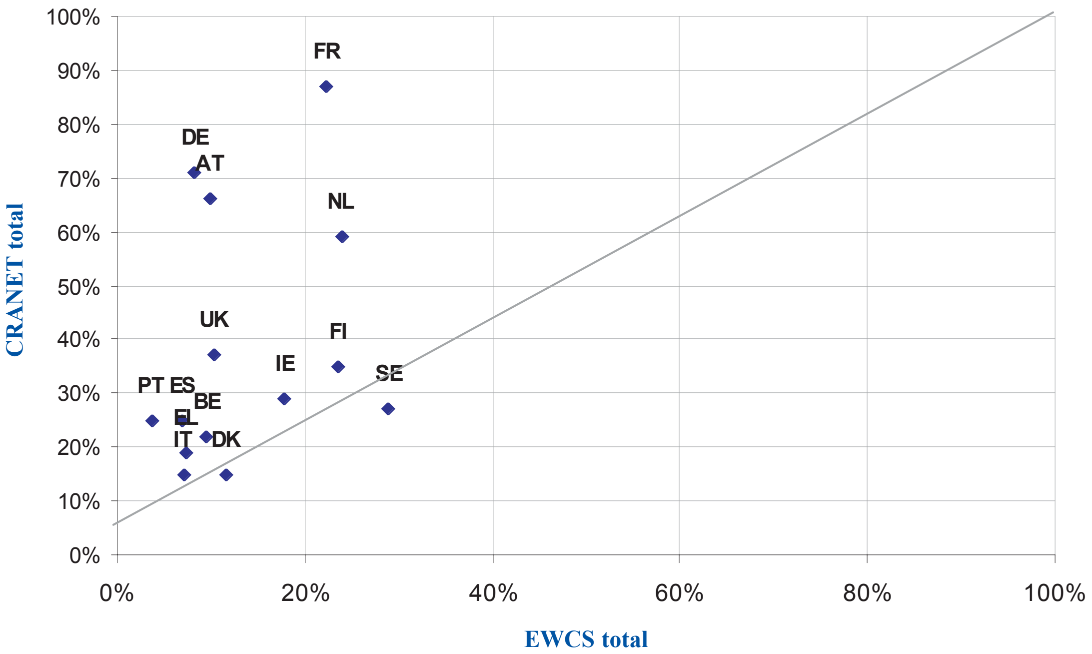
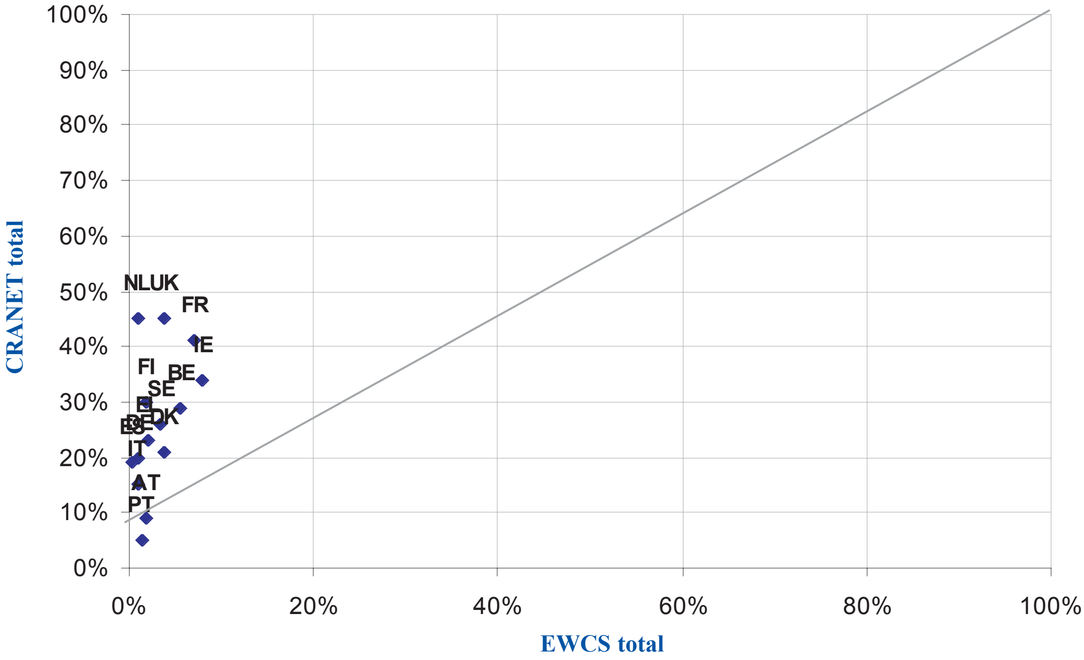


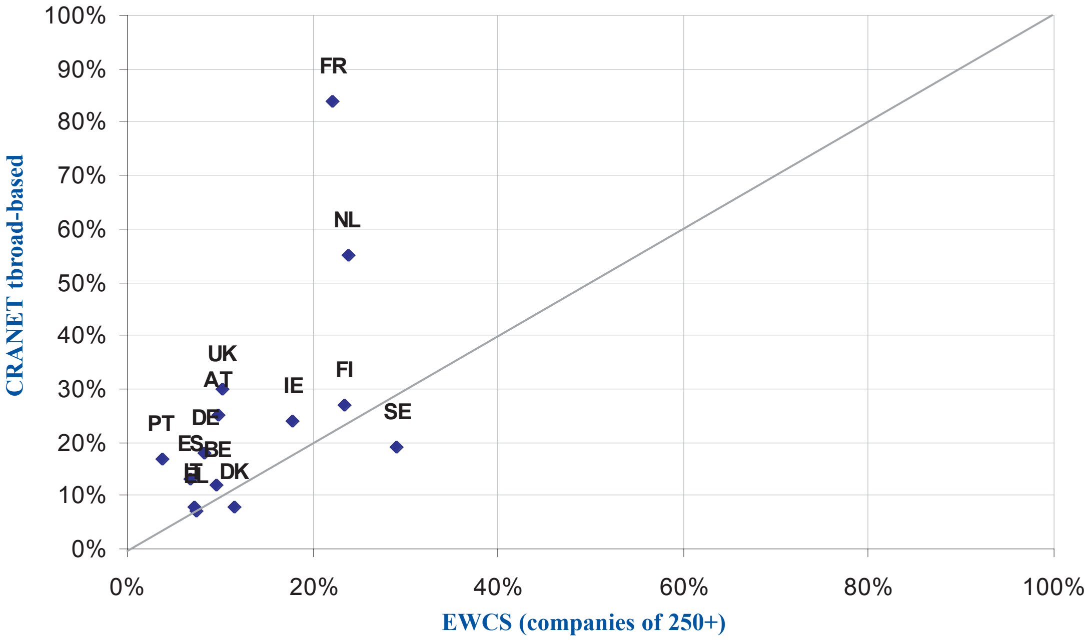
Figure 3: *Country incidence of share ownership, CRANET and EWCS data (%)*



It is immediately obvious that the CRANET figures are much higher. They give the impression that profit sharing, for instance, is very widespread in France, Germany, Austria and the Netherlands (being available to between 60% and 90% of the companies surveyed), while share ownership schemes are available in between 5% and 45% of companies. The EWCS paints a very different picture: share ownership schemes are accessible to a small minority of employees (less than 10%). Even profit sharing schemes have limited incidence (between 20% and 30% for Finland, France, the Netherlands and Sweden).

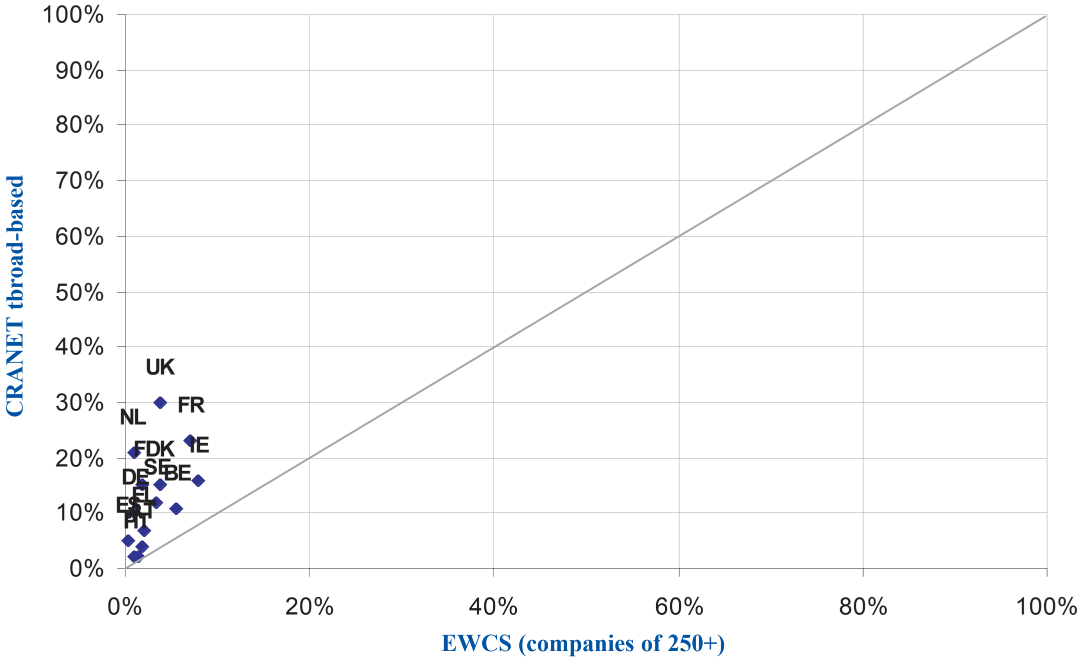
The comparison of Figures 2 and 3 shows how different the picture of financial participation in the EU can be depending on the source data. However, this comparison is not entirely adequate, because of the different units of analysis. Figures 4 and 5 show a slightly better comparison. The CRANET results refer to companies of more than 200 employees only, whereas the EWCS results refer to all employees. Furthermore, the CRANET results shown in Figures 2 and 3 above refer to the existence of financial participation schemes in the company, but not to what percentage of the workforce in the company takes part. These two qualifications are corrected in Figures 4 and 5: the CRANET results indicate the percentage of companies with broad-based financial participation schemes, and the EWCS results refer only to employees working in companies with more than 250 employees. Now, the difference between the two surveys is not as dramatic, although for most countries the CRANET results still indicate higher levels of financial participation than the EWCS survey.

Figure 4: *Country incidence of profit sharing, amended CRANET and EWCS data (%)*



Note: *The CRANET results indicate the percentage of companies with broad-based financial participation schemes; the EWCS results refer only to employees working in companies with more than 250 employees.*

Figure 5: *Country incidence of share ownership, amended CRANET and EWCS data*



Note: *The CRANET results indicate the percentage of companies with broad-based financial participation schemes; the EWCS results refer only to employees working in companies with more than 250 employees.*

This comparison of the CRANET and EWCS results also shows that looking at the issue of financial participation solely from a company perspective give indicate a misleading impression of high incidence: even when financial participation schemes exist in a company, they are not necessarily extended to all employees. Finally, this comparison would suggest that, because of the self-selection problem, company surveys might tend to be biased towards the most ‘advanced’ forms of management practices and so overestimate the prevalence of financial participation schemes.

The EWCS as a source of data

The EWCS might have its own inherent problems, which limit its usefulness as an instrument for analysing financial participation. It is designed to study working and employment conditions, not pay systems. The information gained 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 come at the end of the survey and aim to capture broad differences in pay systems. The questions about financial participation are positioned within the battery of items of components of pay. In the questionnaire used during the interview, the question is formulated as below:

EF6 What does your remuneration include?

SHOW CARD EF6 - READ OUT - MULTIPLE ANSWERS POSSIBLE!

	Mentioned	Not mentioned	DK	Refusal	
G - Payments based on the overall performance of the company (profit sharing scheme) where you work	1	2	8	9	GO TO EF6G_1
H - Payments based on the overall performance of a group	1	2	8	9	GO TO EF6G_1
I - Income from shares in the company your work for	1	2	8	9	

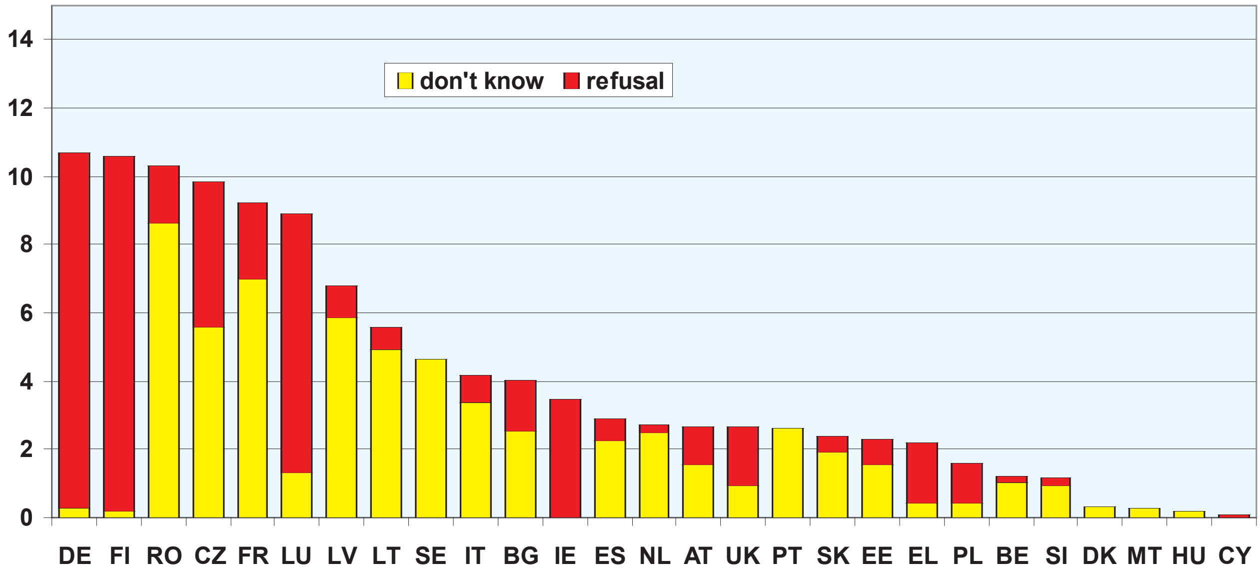
Thinking about the payments based on the overall performance of the company (profit sharing scheme):

	Yes	No	DK	Refusal
EF6G_1 - Are the payments based on the overall performance of the company calculated according to a predefined formula?	1	2	8	9
EF6G_2 - … do you receive these payments on a regular basis?	1	2	8	9

This formulation succeeds in capturing employees’ participation in profits and enterprise results, but only as far as they are reflected in employees’ remuneration. So this section will look solely at financial participation as a component of pay. (This means that forms of financial participation not directly reflected in remuneration, such as employee savings or pension schemes, will not be examined.) Although an important qualification, this should not be overemphasized. First, the most widespread form of financial participation – profit sharing – is as a component of remuneration, and this is correctly measured in the EWCS. Second, the form of financial participation that is most important in theoretical terms – share ownership – is also a component of pay, because financial participation is mainly a tool for motivating employees and for making pay structures more flexible according to companies’ results.

A second potential problem of the data on financial participation in the EWCS is the level of non-response. First, there is the non-response to the survey itself. It is common knowledge that individual surveys tend to leave out the extremes of the income distribution: as financial participation is most prevalent among employees in the highest income levels, this may lead to its being underrepresented in the EWCS. However, because it only affects the very highest layers of the income scale, the impact on estimating the overall levels of financial participation is most likely to be insignificant. A more important problem is non-response to the specific item on financial participation. Questions about pay systematically get higher percentages of non-response than other survey questions, because people are more reluctant to give information about their earnings than about the number of hours they work or their level of job satisfaction. However, as Figure 6 indicates, the level of non-response to the questions about financial participation was not high, being above 5% (the average level of non-response) in only five countries. There was, in fact, a higher level of non-response to the question about monthly pay (Parent-Thirion et al, 2007).

Figure 6: *Proportion of 'Don't know' responses and refusals (%)*



Source: *Fourth European Working Conditions Survey, 2005*

The degree of item non-response does not point to any significant bias; however, in some individual countries, it may indicate the existence of some negative bias. This is specifically the case in Germany, Finland and Luxemburg, where there is both a higher percentage of non-responses, and a higher percentage of refusals (as opposed to 'don't knows'). A refusal to answer a particular question might indicate a reluctance to give information about that item. In the case of financial participation, this level of reluctance might be higher for those who do participate financially in their companies: this might in turn suggest that the real levels of financial participation in some countries are underestimated. Nevertheless, there is a high correlation between the levels of non-response to all the questions on components of pay; this would indicate that respondents are generally reluctant to give information about pay generally, not just as regards financial participation. It can be concluded therefore that the figures for financial participation are fairly representative of the real levels in the population for most countries (with the possible exceptions of Germany, Finland and Luxemburg, where figures may be slightly underestimated).

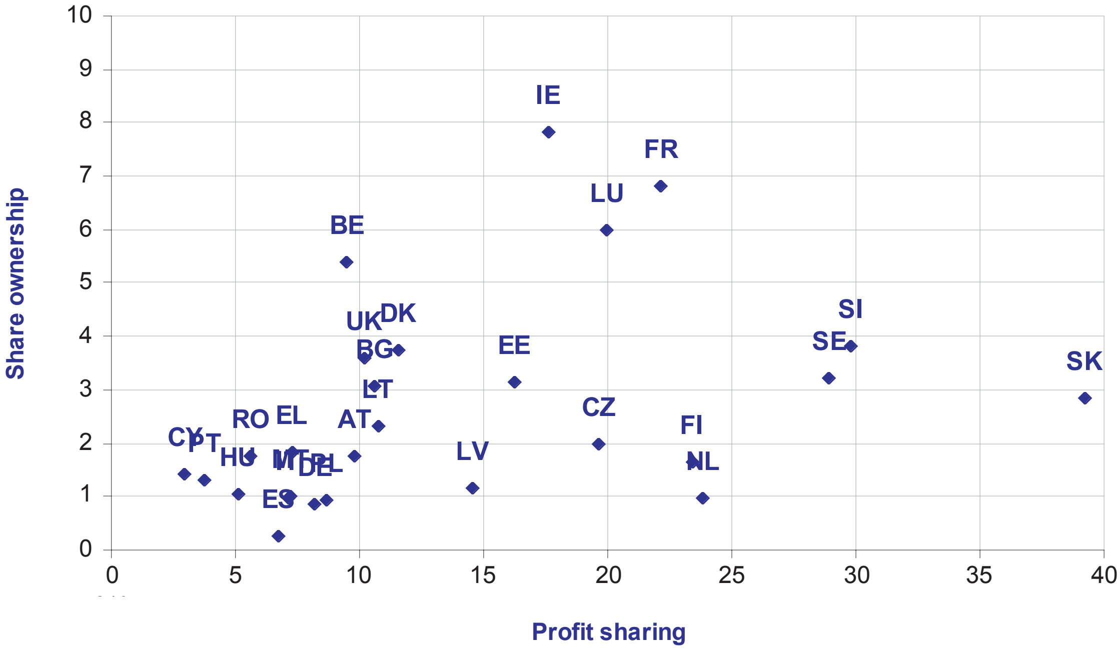
Findings from the fourth European Working Conditions Survey

This section will describe and analyse the incidence of financial participation across the EU, as indicated by the results of the EWCS. It will first discuss the general incidence in individual countries, and the change seen between 2000 and 2005. Then, it will briefly present the distribution of financial participation according to company, job and individual variables. Finally, using a multivariate logistic regression model, it will attempt to specify the main determinants of financial participation in the EU.

General levels of financial participation in 2005

Figure 7 illustrates the general levels of financial participation in the Member States. The vertical axis indicates the proportion of employees in the private sector whose remuneration includes payments based on share ownership of their company. The horizontal axis presents the proportion of employees in the private sector whose remuneration includes payments coming from profit sharing schemes (based on either company or group performance).

Figure 7: *Levels of financial participation in the EU in the private sector (%)*

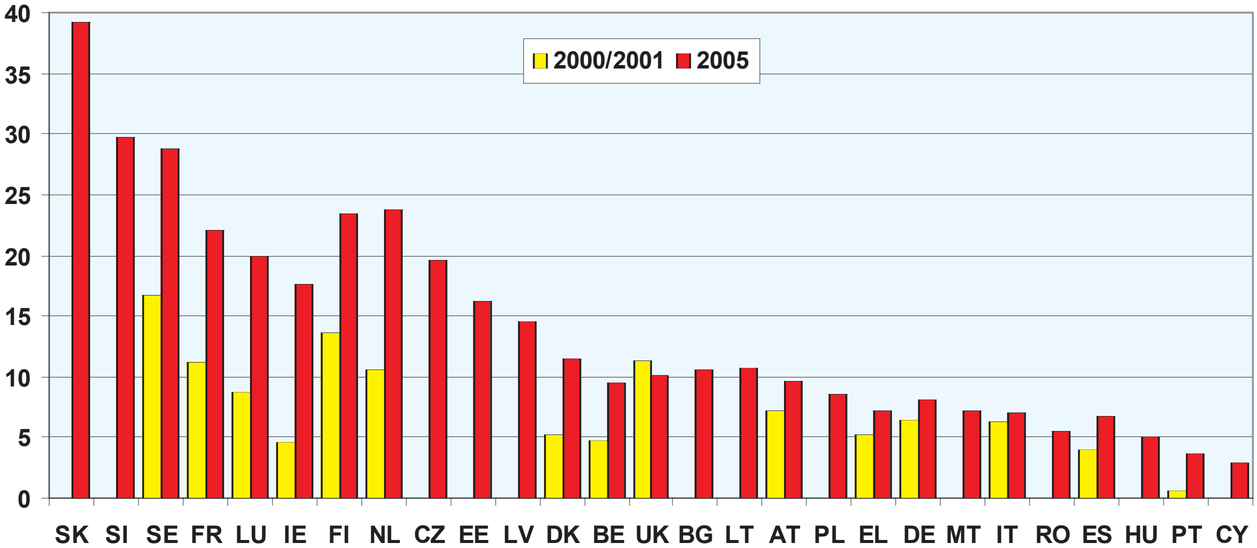


Source: *Fourth European Working Conditions Survey, 2005*

The first point to be noted in Figure 7 is that the general levels of financial participation are lower than those found by previous studies (as discussed already). In most Member States, fewer than 2% of employees participate in share ownership schemes, and fewer than 10% in profit sharing schemes. A second observation to be made is that share ownership is considerably less widespread than profit sharing: in the country where it is most common, Ireland, only 8% of all employees have access to it. By contrast, in the country where proft sharing is most common, Slovakia, almost 40% of employees take part in it.

As Figure 7 also indicates, considerable differences exist between countries. Profit sharing is most widespread in Finland, France, Luxembourg, the Netherlands, Slovakia, Slovenia and Sweden, where between 20% and 40% of all employees participate in it. Share ownership is most widespread in Belgium, France, Ireland and Luxemburg, where between 5% and 8% of employees take part in it. Ireland, France and Luxemburg are noteworthy because of the relatively high levels of both forms of employee participation in these countries.

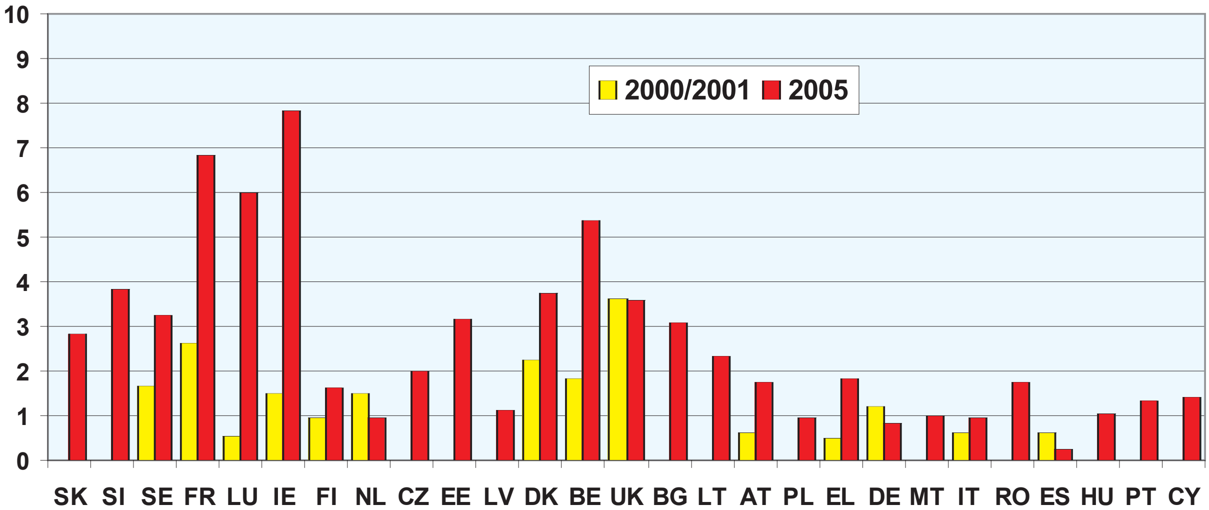
Figure 8: *Evolution of profit sharing in the private sector, by country, 2001–2005 (%)*



Source: *European Working Conditions Surveys, 2000/2001 and 2005*

Figure 8 and Figure 9 shows the change from 2000/2001 to 2005 in the proportion of employees who reported receiving payments from financial participation schemes. The figures for 2000 are shown only for the EU15. In 2001, the EWCS was carried out for the new Member States which later joined the EU in 2004; this survey, however, did not differentiate between public and private sector.[5] As is immediately apparent, there has been a clear trend of rising levels of financial participation over the five years between 2000 and 2005. In all countries there has been an increase, in some cases notable, in the percentage of employees participating in profit sharing or share ownership schemes (except for the UK, where there has been a small decline). This indicates that the percentage of workers involved in financial participation schemes in Europe, although still low, is on the increase, suggesting that the phenomenon will probably become more significant in the near future.

Figure 9: *Evolution of share ownership in the private sector, by country 2001–2005 (%)*



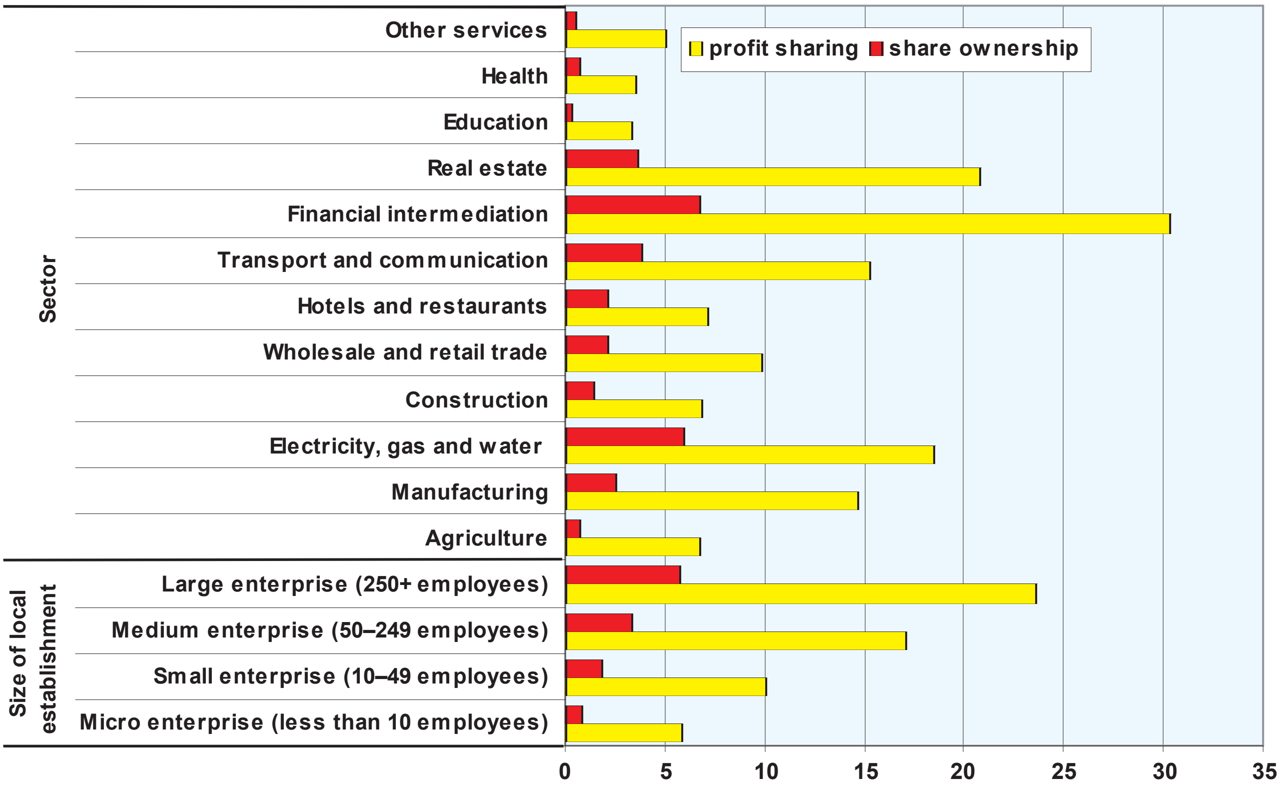
Source: *European Working Conditions Surveys, 2000/2001 and 2005*

[5] Looking at the figures for both the public and private sectors in the NMS, it is obvious that the trend towards increasing levels of financial participation also applies. In all countries except the Czech Republic, Hungary and Romania, the levels of financial participation have also increased.

Financial participation across companies, jobs and individuals.

The real potential of using an employee-based survey for studying financial participation is that it allows the distribution of financial participation schemes across different types of companies, jobs and individuals to be examined. This section will briefly look at the general distribution of financial participation in the EU by different variables, for descriptive rather than analytical purposes. Because it is possible that the impact of any individual variable on financial participation is mediated by a third variable (or more), a multivariate statistical model is required for a full analysis of the determinants of financial participation (see next section).

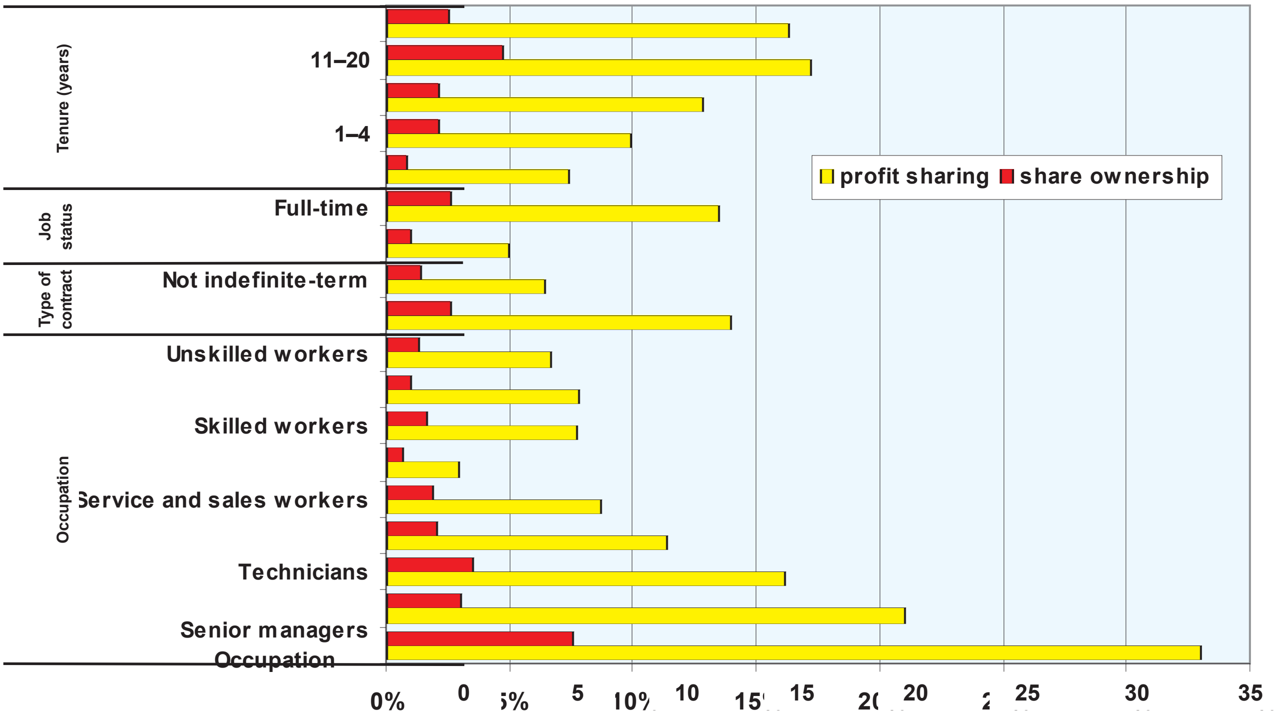
Figure 10: *Extent of financial participation, by sector and company size (%)*



Source: *Fourth European Working Conditions Surveys, 2005*

Figure 10 illustrates the types of companies in which financial participation is most common. The number of employees in the local establishment seems to be strongly and positively related to the existence of financial participation schemes. Those working in large establishments are four times as likely to receive payments from financial participation as those in smaller establishments. Considerable sectoral differences are also evident. Financial participation is most widespread, unsurprisingly, in the financial sector (probably reflecting a professional bias), in real estate, and utilities. It is least common in education, health, construction and agriculture.

Figure 11: *Extent of financial participation, by occupation, contract, job status and tenure (%)*



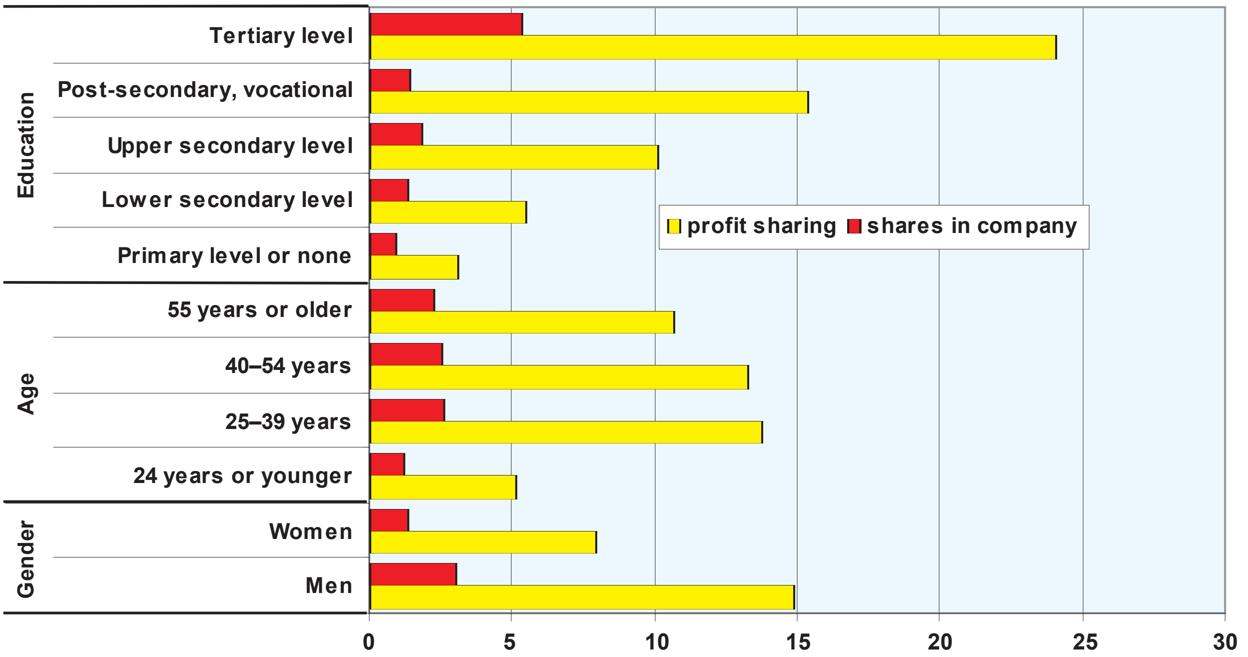
Source: *Fourth European Working Conditions Surveys, 2005*

Figure 11 shows the distribution of financial participation schemes according to occupation, type of contract (temporary and part-time) and tenure. The variable with the strongest impact is occupation. The percentage of employees who receive payments based on financial participation schemes is much higher for managers, professionals and technicians than for everyone else. Among all other employees, the incidence of financial participation is well below 10%. However, it reaches almost 35% in the case of managers, more than 20% in the case of professionals and more than 15% in the case of technicians.

This preponderance of financial participation among higher-level occupations suggests one possible explanation for the discrepancy between the levels of financial participation found in company-based surveys and those found in employee-based surveys. In individual companies where financial participation takes place, it is likely that only people in the higher levels of the occupational structure get to participate.

Type of contract and job status also correlate with financial participation, although not as strongly as occupation. Employees on indefinite-term contracts and those working full time are twice as likely to participate financially as those on other forms of contracts and those working part time. Tenure also correlates with financial participation, but not strongly nor in a linear fashion. Those with longer job tenure are slightly more likely to participate financially in their companies, but only up to 20 years of tenure; after that, the level of financial participation seems to decline.

Figure 12: *Extent of financial participation, by level of education, age and gender (%)*



Finally, Figure 12 presents the results for three important sociodemographic variables: sex, age and level of education. Sex clearly, although not strongly, correlates with financial participation: men are twice as likely as women to participate financially. Of course, this may be due to the different types of jobs that men and women hold (job segregation) and not necessarily the result of direct discrimination in the application of these schemes. (The next section will discuss this possibility in more detail, using a multivariate model). Age does not show a clear correlation with financial participation: the highest levels of participation are found in the middle groups (from 25 to 54 years of age). This may be due to career development effects, or to the fact that financial participation schemes may be more usual in 'younger' establishments. Finally, education shows an important bivariate correlation with financial participation: the likelihood that an employee takes part in profit sharing increases considerably with their level of education. The following section will attempt to determine whether this effect is attributable to the employee's level of education, or to the fact employees with higher levels of education normally work in higher positions in the occupational structure.

The determinants of financial participation in the EU

The analysis of the EWCS data looked at the main independent variables together and considered the most important determinants of financial participation in the EU. This was done by constructing two multivariate logistic regression models, one for profit sharing and one for share ownership. In these two models, the dependent variables are coded as dummies (1 means that the individual employee participates in the scheme, 0 indicates that they do not).

The model was constructed according to the following strategy. The independent variables were introduced, in two blocks, stepwise (one by one in order of their contribution to the explanatory capacity of the model and also in order of the researchers' judgment of their substantive interest). One block contained the company, job and sociodemographic variables, and the other block contained all the country dummies. First, we analysed all the countries together, to try to specify the model that better explained the determinants of profit sharing and share ownership (the first block). Once the model had been specified, the countries that differed significantly in terms of the likelihood of employee financial participation (even after controlling for all the variables introduced previously) were introduced one by one, in a stepwise manner. This was the second block of analysis. Therefore, the countries shown in Tables 2 and 3 differ significantly from the rest in the incidence of financial participation even after controlling for their different economic and employment structures.

Table 2: *Determinants of profit-sharing – multivariate logit model*

		Odds ratio	
	Constant	0.02	**
Occupation	Unskilled workers	*reference*	
	Senior managers	4.24	**
	Professionals	1.97	**
	Technicians	1.79	**
	Clerical workers	1.58	**
	Service and sales workers	1.37	**
	Agricultural and fishery workers	0.80	
	Skilled workers	0.98	
	Machine operators	0.90	
Sector	Manufacturing	*reference*	**
	Agriculture	1.10	
	Electricity, gas and water	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	**
Establishment size	Micro enterprise (less than 10 employees)	*reference*	
	Small enterprise (10–49 employees)	1.28	**
	Medium enterprise (50–249 employees)	1.57	**
	Large enterprise (250+ employees)	2.40	**
Education	Primary level, or non	*reference*	**
	Lower secondary level	1.46	**
	Upper secondary level	1.90	**
	Post-secondary, vocational	2.43	**
	Tertiary level	2.99	**
Type of contract	Not indefinite	*reference*	
	Indefinite	1.66	**
Sex	Male	*reference*	
	Female	0.61	**
Country	Reference: DK, EL, ES, IT, HU, AT, PL		
	SK	7.26	**
	SI	4.79	**
	SE	3.13	**
	NL	2.43	**
	FR	2.51	**

Table 2: *Determinants of profit-sharing – multivariate logit model (cont'd)*

		Odds ratio	
	Constant	0.02	**
Country (cont'd)	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		
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	0.220	
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	

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

The first observation that can be made is that the overall explanatory power of the model is neither particularly high, nor especially low: after the 22 steps including variables and dummies, it explains slightly less than 25% of the total variation in profit sharing, as is shown by the figure of 0.24 for Nagelkerke's r^2. Considering the amount of statistical 'noise' that is always present in this kind of survey, a value for r^2 of 0.24 is satisfactory. The variable that has the strongest impact on the likelihood of an employee participating in a profit sharing scheme is occupation, as we can see in the contribution of this variable to the overall r^2 of the model. As suggested before, this indicates that the distribution of financial participation schemes within companies is skewed towards the higher positions in the occupational structures, especially towards managerial and professional positions. The impact of this is considerable: the odds ratio of a manager receiving income from profit is more than four times higher than those for an unskilled manual worker, even if both work in the same sector, in the same sized company and have similar levels of education. Professionals and associate professionals are also much more likely to be part of a profit sharing scheme. The difference between skilled, semi-skilled and unskilled workers is not significant: all of them share a similarly lower likelihood of being part of profit sharing schemes.

The sector in which a respondent's company operates is also an important determinant of profit sharing, although much less so than occupation. In particular, workers in the financial sector, utilities and manufacturing are more likely to participate in profit sharing; in personal and social services sectors, the levels of financial participation are considerably lower. Size of company is also important. The likelihood of an employee receiving income from profit sharing increases with the size of the company they work in: the odds of an employee in a large company taking part in profit sharing are 2.4 times higher than someone in a smaller company.

It is interesting to see that education has a significant impact on the likelihood of being part of a profit sharing scheme even after occupational level is controlled for. The odds of an employee with a tertiary level of education participating in profit sharing are three times higher than for someone with a primary level of education, even if they have a similar occupation, work in the same sector and in a similar sized company. This probably reflects the fact that the occupational categorisation used in the model is very broad: the ISCO classification is coded at the one-digit level. As a result, the categorisation does not adequately differentiate the different positions in the occupational structures. For instance, the managerial category contains subcategories ranging from managers of small restaurants to CEOs of large oil companies. This would explain how not all the impact of educational level is neutralised when occupation is controlled for: therefore the model finds that education has a significant impact on the likelihood of participating in a profit sharing scheme.

Type of contract and sex also play a significant role in the model. An employee on an indefinite-tem contract is 1.7 times more likely to participate in profit sharing than is an employee on a non-permanent contract: this indicates that access to profit sharing schemes is skewed towards employees with more stable employment contracts. Even more interesting, however, is the fact that sex has a significant impact on the likelihood of participating in profit sharing schemes even after all other variables are controlled for. The odds of a woman participating in profit sharing are almost half (0.6 times) those of a man. Does this point to the existence of direct discrimination? Previous research into pay differences between men and women indicates that such differences are the result of two different mechanisms. First, women tend to work in lower-paid occupations and sectors. Second, in some cases women get less pay for doing exactly the same job as a man. The first mechanism indicates job segregation – the same pay for the same job, but lower paid jobs generally. The second indicates pay discrimination. Is the lower probability of women participating in profit sharing a result of job segregation or a form of pay discrimination? It is difficult to say, because although sector and occupation have been controlled for, the occupational and sectoral variables used in the model are very broad and may not have sufficient detail to capture adequately the occupational segregation of women. In any case, Table 2 shows that there is a gender gap also in the levels of participation in profit sharing schemes.

Finally, Table 2 also shows the estimated odds ratio coefficients for different countries. As explained above, once the model was fitted with the variables discussed, the country dummies were introduced into the analysis to see which countries differed significantly from the rest. The usual problem encountered 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, and how much the differences reflect different structures in the economy. In this case, the model was first fitted using only company, job and sociodemographic variables for all EU27 countries; then country dummies were introduced stepwise (in descending order of their degree of difference from the rest). As a result, the coefficients shown in Table 2 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.[6]

It is interesting to note that five out of the 11 countries with higher levels of financial participation are in eastern Europe (Czech Republic, Estonia, Latvia, Slovakia and Slovenia). In particular, Slovakia and Slovenia show remarkably high levels of financial participation. Even after other variables are controlled for, the odds of an employee in Slovakia participate in profit sharing are seven times higher than those for an employee in the reference countries. The odds of an employee in Slovenia participating in profit sharing are five times those for someone in the reference countries. This is probably a legacy of the very intensive processes of privatisation of state-owned companies that took place during these countries' economic transitions. In many cases, these were accompanied by financial participation schemes (Vaughan-Whitehead, 1995). In the EU15, Finland, France, Ireland, Luxembourg, the Netherlands and Sweden have higher incidences of financial participation than the reference countries. Cyprus, Germany, Malta, Portugal and the UK have lower incidences. It is interesting to note that some of the countries which were flagged by previous research as having high levels of financial participation show negative coefficients in Table 2. This is a result of the different instrument used and of the fact that occupational and sectoral structure are controlled for in the analysis. In the case of Germany, previous research revealed that although many companies used financial participation schemes, it was only employers at higher occupational levels who participated.

Table 3: *Determinants of share ownership – multivariate logit model*

		Odds ratio	
	Constant	0.01	**
Sector	Manufacture and mining	*reference*	
	Agriculture and fishing	1.31	
	Electricity, gas and water supply	1.40	
	Construction	1.21	
	Wholesale and retail trade	1.09	
	Hotels and restaurants	0.67	
	Transport and cummunication	0.90	
	Financial intermediation	2.96	**
	Real estate	0.98	
	Education	0.19	**
	Health	0.46	**
	Other services	0.44	**
Occupation	Elementary occupations	*reference*	
	Legislators, senior officials and managers	3.47	**
	Professionals	1.58	*
	Technicians and associate professionals	1.66	**
	Clerks	1.46	*
	Service, shop and market sales workers	1.51	*

[6] The process works as follows: in the first step, the model compares the levels of financial participation in each of the countries individually against the levels in all the other countries (keeping constant the other company, job and sociodemographic variables). Then, the country that differs most from the rest is taken out and included in the model as a predictor (as long as the difference is statistically significant. The first one in this case, was Slovakia. The process then resumes for the remaining countries: comparing each one with the rest to see which differs most and including it in the model. This process continues until all the countries that differ significantly from the rest are taken out from the pool of countries and included as individual predictors in the model. The countries that remain (the 'reference' category in Table 2) are those that are similar enough in terms of financial participation (again, the other variables having been controlled for).

Table 3: *Determinants of share ownership – multivariate logit model (cont'd)*

		Odds ratio	
	Constant	0.01	**
Occupation (cont'd)	Skilled agricultural and fishery workers	0.40	
	Craft and related trades workers	0.87	
	Plant and machine operators and assemblers	1.00	
Establishment size	Micro enterprise (less than 10 employees)	*reference*	
	Small enterprise (10–49 employees)	1.25	
	Medium enterprise (50–249 employees)	2.09	**
	Large enterprise (250+ employees)	3.44	**
Sex	Male	*reference*	
	Female	0.52	**
Tenure	(continuous variable)	*reference*	
	Tenure (years)	1.02	**
Education	Primary level or none	*reference*	
	Lower secondary level	1.46	
	Upper secondary level	1.69	*
	Post-secondary, vocational	1.91	*
	Tertiary education	3.01	**
Country	Reference: AT, CY, CZ, DK, EE, EL, FI, IT, LV, LU, HU, MT, PL, PT, SE, SK, UK		
	IE	3.09	**
	FR	3.09	**
	SI	1.86	**
	NL	0.47	**
	DE	0.40	**
	ES	0.45	*
	Variable entered	Nagelkerke's r^2	
1	Sector	0.048	
2	Occupation	0.083	
3	Size of the establishment	0.113	
4	Sex	0.122	
5	Tenure	0.128	
6	Education	0.133	
7	IE	0.142	
8	FR	0.151	
9	SI	0.153	
10	NL	0.155	
11	DE	0.156	
12	ES	0.157	

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

Table 3 presents a similar multivariate model for share ownership. Many of the issues discussed for Table 2 also apply to Table 3, so less discussion is needed. The general fit of the model is lower: r^2 is 0.16). This probably reflects the much lower variation in the levels of share ownership – around 2% of the overall sample; it also indicates that share ownership may also depend on other, unobserved variables (not included in Table 3). The picture of the determinants of share ownership in the EU is very similar to that of profit sharing, with a couple of qualifications. In the case of share ownership, sector is a more important determinant than is occupation (although occupation is still important). Size of company, sex and level of education have a similar impact in the case of profit sharing; however, years of tenure also has a small positive impact. The picture that emerges of the type of employee most likely to receive income from shares in their company is a male manager in the financial sector with a tertiary level of education.

The model of share ownership differs most from the model for profit sharing in country differences. In this case, there is only one eastern European country (Slovenia), which contrasts with the results of the analysis of profit sharing and with expectations regarding the legacy of the mass privatisations of the 1990s. Ireland and France show the highest degree of share ownership even after other variables are controlled for: the odds ratio of participating financially in these countries is three times higher than in the rest. Germany, the Netherlands and Spain show a considerably lower incidence of share ownership – around half of all other countries.

Conclusions

The research indicates that financial participation can deliver real benefits for employees, enterprises and national economies. However, despite this potential, it remains little used in most Member States, and is very unevenly distributed across the EU.

During the 1990s, financial participation became more widespread in large European companies. While profit sharing, in one form or another, is more prevalent than share ownership schemes in most countries, variations do exist between countries regarding the type of scheme in operation. All-employee share ownership schemes (including all-employee 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. Small and medium-sized enterprises (SMEs) face particular problems in introducing such schemes, including high costs and greater administrative workload. Companies with share ownership schemes tend to engage in more effective communication with employees.

Foundation research also found that governments and central social partner organisations play a pivotal role in the national framework of financial participation, and hence can influence the extent, practice and characteristics of financial participation at company level. Employer organisations generally acknowledge the role of profit sharing and share ownership schemes in generating loyalty and commitment among staff and encouraging recruitment and retention. Trade unions are generally favourable towards financial participation, provided that certain safeguards are met (equality of participation, no wage substitution and protection of employees from unreasonable risk). Governments view their function essentially as providing the statutory regulatory framework, and leave it to companies or the social partners to promote financial participation plans.

This paper has also updated the Foundation’s research on financial participation using employee data for the first time, from the fourth *European Working Conditions Survey* (EWCS). This survey has enabled the subject to be looked at from a new angle – the employee perspective. It has also permitted the scope of the findings to be expanded: for the first time the enlarged European Union and all sectors and sizes of company in the private sector are covered. The contrast between these new findings and the findings from previous, company-based surveys is considerable. Looking at the issue of financial participation from an employee perspective leads to a distinctly different picture from that provided by company-based survey sources.

The analysis of the data on financial participation of employees in the European Union reveals that the general levels of financial participation are very low in most countries, much lower than those regularly estimated using company-based surveys. According to the EWCS, only around 12% of European employees receive income from some form of profit sharing scheme, and even fewer (around 2%) receive income from shares in the companies they work for. Only in six countries do more than 20% of employees engage in profit sharing (in Finland, France, the Netherlands, Slovakia, Slovenia and Sweden). In only four countries do more than 5% of employees receive income from shares in their companies (in Belgium, France, Ireland and Luxembourg).

Although these levels are low, over the last five years they have been consistently rising in all of the EU25 Member States, with the exception of the Czech Republic, Hungary, Romania and the UK. There seems to be a clear trend towards higher levels of employee participation in the European Union.

Finally, when looking deeper into the type of employee who participates financially in their companies' profits, it is clear that financial participation is very unevenly distributed among different types of companies, jobs and individuals. The most important factor determining the likelihood of engaging in some form of financial participation is an employee's occupation: employees in managerial positions are more than four times as likely to participate in these schemes as are skilled, semi-skilled or unskilled workers. This applies even after third variables such as sector, establishment size or education are controlled for. Financial participation is also distributed unevenly between the sexes and between types of contract: men are more likely to participate financially than are women, and workers on indefinite-term contracts are more likely to participate than those on temporary contracts, suggesting that financial participation is subject to similar forms of differentiation as general pay structures.

The analysis of financial participation according to results of the EWCS is only a first approximation, which needs to be further explored. The aim of this paper was to point to the strikingly different pictures gained by looking at financial participation from a survey based on the responses of individual employees rather than from a survey based on the responses of human resources managers of relatively large companies. This different picture leads to a different assessment of the issue. The low incidence of financial participation at the level of the individual employee, and the marked unevenness of its distribution, puts a question mark on the issue from a policy perspective. The findings discussed in the previous pages suggest that some of the concerns regarding the distributional effects of financial participation schemes, which might reinforce pre-existing differences in pay and earnings, seem to be well-founded.

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Annex: Indicators for benchmarking financial participation

Below are listed a number of indicators that can be used to benchmark financial participation. Beside each indicator are listed sources of data.

- Percentage of enterprises using financial participation (CRANET)
- Percentage of employees covered by financial participation schemes (CRANET/EWCS)
- Percentage of enterprises offering financial participation schemes to different occupational grades (CRANET/EWCS)
- Percentage of enterprises that use the same formula to calculate financial participation bonuses for all grades (CRANET)
- Percentage of enterprises in which employees can actively participate in a choice of financial participation scheme (no data)
- Number of training hours that enterprises provide related to financial participation (no data)
- Percentage of employees who regularly receive information on performance measures (CRANET)
- Percentage of employees whose financial participation bonuses are calculated based on predefined formula (EWCS, new in 2005)
- Percentage of employees participating in schemes that measure and disburse bonuses at regular intervals (EWCS, new in 2005)
- Percentage of employees who have a choice about the form in which they receive financial participation bonuses (no data)
- Percentage of employees for whom financial participation is completely distinct from normal pay bargaining (no data)
- Five-point scale measuring legislative and fiscal support (Poutsma)
- Percentage of enterprises using direct participation mechanisms (no data)
- Percentage of citizens holding shares (national household budget surveys)
- Percentage of enterprises with stock market listings (The Observatory of European SMEs)
- Average number of employees per enterprise (Eurostat/Chronos)

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