

**CHANGING PATTERNS OF
EMPLOYEE FINANCIAL PARTICIPATION
IN EUROPE**

**A survey among listed firms in
Six European Member States**

Final Report by

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In cooperation with

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Nijmegen School of Management

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Colophon

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Introduction

Financial participation has emerged as a major issue for European Union institutions, Social Partners, and member governments. The involvement of employees in the profits and ownership of enterprise has been recognised as a potentially major contribution to major social-economic goals of entrepreneurship and adaptability. At the level of the enterprise, participation of employees in profits and ownership appears likely to promote motivation, commitment, and good performance. It also facilitates the establishment of reward strategies that are linked to the particular circumstances and performance of the enterprise, and in this respect it is consistent with the devolution of pay determination systems that is occurring throughout Europe. For these reasons, many of the member states are engaging in active debates on the merits of financial participation. Several governments have taken action to promote the use of financial participation. These developments have been mirrored by developments at EU level such as the publication of the two Pepper Reports and the passing of the Community Recommendation on this topic in 1991. Financial participation is also seen as important since it represents a means of promoting social dialogue and employee involvement. This is an issue identified as an objective of the Commission's *Social Policy Agenda (2000-2005)*, in which it is proposed to 'launch a communication and action plan on the financial participation of workers'. In 2002, the Commission has issued this Communication on the topic (CEC 2002), calling on Member States to take steps to assist the development of financial participation. Most of the Member States have taken initiatives to promote financial participation, either directly or indirectly. Focusing on the countries in this study, France has implemented a new law to promote financial participation in SMEs, the UK has introduced two new share plans, and Germany has made changes to its company law that facilitate the use of stock options.

The Commission reports and communications and major reports of the European Foundation¹ have established the contours and legislative regulation of financial participation systems in member states, and give a broad picture of developments across the Union. However, it is becoming clear that we lack detailed information on the actual characteristics of financial participation schemes in action. Several major questions can be identified. At firm level, are financial participation schemes an active and central instrument of social partnership or are they simply 'add-ons' to the pay package? To what extent do the various actors at firm level share similar perceptions of the function and benefits of financial participation? To what degree are employees and/or their representatives involved in the design, implementation, and administration of financial participation schemes? Do financial participation schemes 'mesh' with existing systems and structures of direct and indirect participation, or do they develop independently? And eventually, what impact do these schemes have on outcomes that benefit employees and/or

¹ .

employers? Are there any changes in plan design and take up as a result of changing economic conditions and bookkeeping standards since 2001?

In the most recent document from the European Commission, financial participation is seen to take three main forms: profit sharing, employee share ownership, and employee stock options. Profit sharing may take the form of immediate cash bonuses, cash transfers to employee savings funds, or free equity shares. Employee share ownership may take the form of share purchase plans, free shares financed out of profits, or ESOPs (where shares are transferred to a collective trust financed by a loan secured against future profits). Employee stock options are where employees are granted a right to acquire shares at some future point at a price set when the right is granted.

This project, which involved partners from several EU countries, attempts to address these questions through a programme of empirical research and dissemination. The answers to these questions are actively disseminated to the Social Partners.

This report presents the results of a survey among companies listed at stock exchange markets in six European Member States.

Outline of the project

The situation in Europe regarding the application of financial participation schemes has developed slightly overall since the publication of the initial PEPPER Report. There is more encouragement given to financial participation than fifteen years ago in virtually all member states. However, there is a growing disparity between the acknowledged financial participation countries (such as France and the UK) and those countries with the least developed financial participation policies and institutions. Those countries committed to financial participation have taken active steps to develop financial participation further but these actions have not been followed by other member states. Part of the problem is that there appears not to exist any exchange of information between member states regularly either on legislation or good practices.

In summary we may formulate the state of the art as follows:

- There is an increase in the use of schemes in Europe.
- However, the substance of share ownership in Europe is generally small, which means that there are relatively isolated experiments going on.
- There is a growing awareness at both sides of industry that employee share ownership might be a new employee benefit to be applied.
- A growing number of trade unions develops a pragmatic attitude towards the phenomenon and tries to be involved.

- There is a growing need for sharing information and a growing need for models and exchange of experiences on best practices and on solutions for apparent problems that show up when practising these schemes.
- Moreover, following the research and discussions more insight should be acquired concerning employee choices and employee representatives' views.
- And more insight should be gained on the views of the social partners on this phenomenon.
- Due to bookkeeping scandals and subsequent impact on these types of schemes financial participation are much more critically approached than at century's end and may have lost broad based support.

Objective of the project

Given the findings of European Research and the recommendations of the Commission, the following objective is proposed for the project.

*Develop insight into the phenomenon of **broad based financial participation***

*by highlighting experiences of companies listed on the stock exchanges markets in Europe with **financial participation schemes in particular employee share schemes**,*

*the **objectives that are met or not met**,*

*the **obstacles they have faced**,*

*and **the changes companies have made since 2001***

Main Questions

Several key questions are relevant to policy-makers and Social Partners. We focus on:

- What is the purpose of financial participation schemes at firm level?.
- Do schemes meet the desired objectives of interested parties?
- What obstacles and solutions are there to financial participation schemes meeting desired objectives?
- How do financial participation schemes link, if at all, with existing institutions and practices of direct and indirect employee participation in decision-making?
- Which changes have been made to financial participation schemes as a result of the changing economic and regulatory environment?

Research strategies and dissemination practices

We investigated the practice of financial participation in six European countries. These are France, Germany, Spain, Netherlands, Finland, and the UK. The choice of the countries has been determined by two criteria. One, they represent the main geographical areas of the Union. Two, they provide examples of high (France, UK), medium (Netherlands, Finland) and low (Spain, Germany) users of financial participation schemes.

1. First activity was the construction of an inventory of characteristics of financial participation schemes for each country. The purpose of this activity is to extend the formal knowledge embodied in the earlier reports by including comprehensive summaries of the known characteristics of schemes at firm level and capital market developments. This activity involved primarily desk-based research, and included reviews of relevant literature, statistical sources etc.
2. The second main activity undertaken was to collect detailed data on a sizeable group of firms with financial participation schemes. This would enable us to develop an accurate and well-grounded picture of financial participation practices in each country. To obtain this information a questionnaire was sent or structured telephone interviews were conducted with those responsible for the management of schemes at company level. The objective of this exercise will be to collect mainly factual information so reliance on one respondent per company will be generally sufficient. The type of information sought will include the type of schemes used, the nature of involvement of the various actors in design and implementation etc. Selection of respondent companies in each country will be determined to reflect the distribution of financial participation firms by activity and size. It is planned too to weight the number of cases according to the extent of financial participation. The fieldwork was organised and conducted by the Institute of Applied Social Sciences (ITS) at Raboud University Nijmegen.

As a second stage of this process we did feed-back the results of the research activities (above) to social partners on country and EU-level. This is done by the organisation of a workshop October 14/15 2005, at Oegstgeest, The Netherlands. A separate report with contributions and discussions at the workshop is available.

Methodology

The research consisted of two types of studies. An inventory study per country and a survey among listed companies.

Inventory Studies

The inventory studies per country have the objective to present an explanation of the nature and background of development of financial participation systems in the country.

Survey

The survey consisted of a pre-structured questionnaire. It asked for a few details of the plan and opinions of the respondent on results and obstacles. It was sent to the officer responsible for management of the scheme or the HRM manager. We decided to take a national orientation in the study, that is the focus is not on global equity plans. This does not mean that companies that have a global plan were excluded, but we asked for the situation of this plan in the respective country where the company was listed. We focused on companies with a plan.

Names and addresses were collected from companies listed on the general stock exchange market in the respective countries. From the smaller Markets of Helsinki and Amsterdam all listed companies were contacted and in the other countries a selection took place: the top 200.

To elaborate a higher response the questionnaire was not only send by post. Also native speaking interviewees called the respondent after two weeks for reply. The possibility existed to do a computer aided telephone inquiry. In addition, the possibility was provided to fill in the questionnaire on the web.

Response rates

Country	# addresses	%	Response	Response rate
Spain	183	19,1	25	13,7
France	182	19,0	29	15,9
Germany	162	16,9	47	29,0
Netherlands	138	14,4	37	26,8
Finland	115	12,0	28	24,4
United Kingdom	178	18,6	11	6,2
Total	958	100,0	177	18,5

Our target was to have a response rate of minimum 30% per country and a minimum of 30 responses per country. The response rate is below the norm mainly due to the very low response in the UK.

Results from the inventory studies

The inventory studies discuss the following topics.

- Legal context of financial participation and government policy
- Description of types of financial participation
- Development and Diffusion of financial participation with a focus on broad based share ownership
- Relationship with corporate governance, including developments
- Relationship with industrial relations system, including developments
- Relationship with the development of capital markets
- Social partners views
- Research results (country) that covers the basic propositions of the research as far as possible

In general the inventory in the six countries under investigation discovered a few developments:

- There is generally a suppression of wage increases. Based on general, national talks and agreements the possibilities for differentiated higher wage increases are levelled off. This means that there is a tendency to look for other employee benefits for the sake of flexibility in remuneration on individual level.
- There is a slight tendency to decentralise the determinacy of labour agreements. This also made it possible to develop company level remuneration packages where stock options and share schemes get their place.
- In general we observe a move towards the diffusion of Anglo-Saxon shareholder concept, also on continental Europe. This holds not only for management concepts with more elements of performance related pay, but also for corporate governance systems where share holding is highly valued and more distributed to citizens.
- We observed an increase in market capitalisation which attracted much more new share holding and an increased interest from individuals and employees. In the course of this there is an increase of share holding by citizens and employees.
- The booming capital markets have boosted financial participation among listed companies in most Member States at century's end. However, there are indications that

companies may have tightened the schemes due to the less favourable economic climate and due to changing bookkeeping standards.

- Due to the aging population there is some erosion of pension systems. This has led to discussion about the financial basis of pensions in the future. We observed a slight tendency to move towards more private and defined contribution plans. In some cases this may be related to capital accumulation via employee share type of plans.

Differences between countries

As expected there are large differences between countries. The UK appears to be the country with substantial application of share schemes. France appears to be a country with mandatory profit sharing schemes. Spain appears to be a country with a tradition of co-operatives. Germany is a country with established capital accumulation plans for employees, and the Netherlands and Finland appear to be countries with a national wage saving system. These country differences determine the existence of schemes to a large extent. Most broad based employee financial participation appears to be a reaction to the possible benefits provided by government policy in certain European countries.

Supportive legal context and government policy

There is an increase of the use of these schemes in all countries. The development is supported by legislation in certain countries, most notably the UK and France. In these countries financial participation becomes sophisticated and to a certain extent part of national and sectoral income policy. The main arguments to promote the system is wage flexibility, productivity and wealth redistribution.

Slowly moving changes in industrial relations

Apparently with these developments there is an interest in these schemes from both social partners. However, it does not yet appear in front of the social dialogue and at agreements talks. In some occasions in some country there are examples where the topic is negotiated and ended up in an agreed financial participation arrangement. Trade unions tend to change their positions to a more pragmatic attitude towards schemes. They try to get hold of this new domain of additional benefits for employees.

Survey Results

Introduction

The questionnaire of the survey consisted of 7 sections (see the Annex for the questionnaire). First section asked about the existence of a scheme. The next section asked about the profit sharing system, if any. Following section asked details about share related schemes. Then questions were asked concerning the impact of the scheme and the last section asked question concerning participative practices, obstacles and background information.

The survey research investigated the following:

- What is the purpose of financial participation schemes at firm level?.
- Do schemes meet the desired objectives of interested parties?
- What obstacles are there to financial participation schemes meeting desired objectives?
- How do financial participation schemes link, if at all, with existing institutions and practices of direct and indirect employee participation in decision-making?
- What changes took place since 2001?

We start with a closer look to companies that responded and the use of schemes in general.

Financial participation in listed companies

Table 1 presents the overall picture of the use of forms of participation in the sample. Since we want to know the complementarities between different participation forms and financial participation, we focus on the 151 companies with any participation, including non-financial participation like representative participation and teamwork. From table 1 it appears that a large majority has some form of non-financial participation forms (83%). From the forms of financial participation, stock options and profit sharing are most popular. Stock options plans were found in 52% of companies and profit sharing systems in 54% of the companies. Compared with a similar survey done in 2001 there is not much change. Most of the companies have 2 schemes. If we break down the figure of financial participation schemes in schemes for all employees than profit sharing and share acquisitions are the most popular. Stock options appear to be used much more for management and selected staff. In the next table 2 we present more details per category of plan.

Table 1 Distribution of forms of participation

	%		N		
	no	yes	total	no	yes
Non-financial participation	17	83	151	25	126
Financial participation	26	74	151	39	112
Profit sharing scheme	46	54	151	69	82
Stock options scheme	48	52	151	73	78
Share acquisitions, other than options	54	46	151	81	70
Other	90	10	151	136	15
<i>For all or most employees</i>					
Profit sharing scheme	63	37	151	95	56
Stock options scheme	88	12	151	133	18
Share acquisitions, other than options	68	32	151	103	48
Other	94	6	151	142	9

Table 2 presents the results for all types of participation examined in the survey. Stock option plans are much more restricted for management and selected staff. How are types of schemes distributed over the countries? Table 2 shows this and as expected in France (52%), the Netherlands (45%) and Finland (52%) there is more use of all employee profit sharing schemes while in the UK all employee share schemes are more popular (91%). This is explained by the elaborate tax provisions for the different types of schemes in the respective countries. In France a certain type of profit sharing schemes is even mandatory. Management only profit sharing schemes were most found in Germany (35%). There is some path dependence here. The use of stock options was prohibited in Germany until 1998 and German companies used profit sharing schemes in stead. Since stock options became a possible remuneration German companies were catching up quickly and the figures show a higher score (45%) than in the UK for management only stock option schemes. French companies appear to use stock options mainly for management and selected staff (52%). Next to the UK all employee share acquisitions plans are more found in Germany and France. This is also in line with promotion policies and tax provisions in those countries.

Table 2 : Type of schemes per country

	Country						Total	Eta
	ES	DE	FRA	NL	FIN	UK		
N=100%	25	40	21	29	25	11	151	
Financial participation								
<i>For management only</i>								
Profit sharing scheme	20	35	10	14	16	9	20	.24 *
Stock options scheme	4	45	10	31	16	36	25	.36 **
Share acquisitions, other than options	8	23	10	17	8	9	14	.18
Other	0	5	0	7	4	9	4	.15
<i>For management and selected staff</i>								
Profit sharing scheme	16	15	5	21	8	9	13	.16
Stock options scheme	16	18	52	28	32	18	26	.27 **
Share acquisitions, other than options	4	13	10	10	16	9	11	.12
Other	0	0	5	10	4	0	3	.22
<i>For all or most employees</i>								
Profit sharing scheme	20	28	52	45	52	27	37	.26 *
Stock options scheme	4	8	5	28	12	18	12	.26 *
Share acquisitions, other than options	16	40	52	14	12	91	32	.48 **
Other	0	3	10	10	12	0	6	.20

More all employee profit sharing and share plans

Table 3 list the coverage per plan. More than two third (68%) of profit sharing plans are all employee plans. The same figure is found for share purchase plans (69%). As expected all employee schemes are more found in the UK and France. Also in Finland most companies practise an all employee scheme.

Table 3: Coverage per type of plan

	Total
N=100%	82
Profit share	
restricted access	32
all employee	68
only all employee	57
only management and selected staff	4
only management only	18
mix of these 3	21
N=100%	78
Stock options	
restricted access	77
all employee	23
only all employee	15
only management and selected staff	33
only management only	33
mix of these 3	18
N=100%	70
Share purchase	
restricted access	31
all employee	69
only all employee	57
only management and selected staff	11
only management only	20
mix of these 3	11

(Narrow based) stock options plans are popular

As expected, stock option plans are a popular reward instrument for management and selected staff. Stock option plans are typically only for management and selected staff (77%). Especially companies in Germany and France operate a restricted stock option plan. Broad based plans are slightly less likely a stock option plan. In case of broad based plans companies are more inclined to use also other type of plans, like share purchase and share savings plans.

On average companies operate two types of plans. In other words listed companies with share related schemes elaborated more plans.

The degree of participation of employees in share related plans is generally lower than in profit sharing plans. On average, broad based share plans has a participation rate of 60 %, with the median on 66% while for profit sharing plans the figures are 84% and 90%.

Generally, employees hold less than 5% of stock in these listed companies. The median is 1,0%.

What are the objectives?

From the literature and research the following objectives are mentioned in case of the application of financial participation in companies.

- Improve economic performance through productivity increase, profitability improvement and flexibility of remuneration.
- Gain tax advantages
- Source for finance
- Improve organizational performance through involvement and functional flexibility
- Improve industrial relations through reduced conflict and lower levels of absenteeism
- Organizational identification through intrinsic commitment, direct participation, job satisfaction and security
- Extrinsic commitment through instrumental orientation and investment attitude

Other more defensive objectives are:

- Autonomy in Pay Determination
- Take over defence

Are the objectives met?

The respondents indicated the following results concerning the stated objectives (Table 4).

Table 4 Which of the following impacts consider you as (very) successful? Per type of plan.

	Profit sharing	Share purchase	Stock options
N=100%	82	70	78
factor performance (total index of the next 8 performance measures)	55	31	42
1. productivity	48	20	33
2. attracting suitable recruits	46	24	41
3. work motivation	59	29	45
4. identification with the company	56	37	49
5. work satisfaction	49	24	37
6. entrepreneurial attitudes and behaviour among employees	43	23	35
7. labour turnover	17	10	23
8. showing employees that the company values them	55	36	49
additional pension provision	15	14	6
securing tax concessions	12	11	14
to raise capital		13	9
to inhibit take-overs of the company		9	1

This table presents the positive scores on objectives per type of plan. Obvious is that profit sharing appears to be able to better meet the objectives than share purchase plan and stock options plans, while stock option plans score better than share purchase plans.

In general, the objectives that are mainly met with profit sharing plans are:

- improve work motivation
- promoting identification with the company
- showing that the companies value their employees
- attracting suitable recruits and

Targets that were not very successfully met are:

- reduce labour turnover
- provide additional pension

In case of share purchase plans and stock options plans a similar pattern of objectives were met, that is:

- improve work motivation

- promoting identification with the company
- showing that the companies value their employees

Only in case of stock option plans these plans were more successful in attracting suitable recruits and reducing labour turnover. Note that stock options plans were mainly used for management and selected staff and thus appear to be an instrument for retention purposes much more than the other type of plans.

The targets ‘additional pension provision’ and ‘securing tax concessions’ is only relevant in some countries. Not surprising ‘securing tax concessions’ get higher scores in France for profit sharing. France (in case of profit sharing) and Germany (in case of share purchase) score high on ‘additional pension provisions’.

There are important differences between broad based share schemes and restricted schemes. Tables 5,6 and 7 present an overview per type of plan and for cases with restricted plans and all employee plans.

Table 5: Successful objectives of restricted and all employee profit sharing plans

	restric ted	all empl oyee	total	Eta
N=100%	26	56	82	
factor profit share performance	42	61	55	.17 *
Productivity	42	50	48	.07
attracting suitable recruits	42	48	46	.06
work motivation	42	66	59	.22 **
identification with the company	50	59	56	.08
work satisfaction	42	52	49	.09
entrepreneurial attitudes and behaviour among employees	46	41	43	.05
labour turnover	15	18	17	.03
showing employees that the company values them	46	59	55	.12
additional pension provision	12	16	15	.06
securing tax concessions	12	13	12	.01

The overall factor performance for all employee profit sharing is better than for restricted profit sharing plans. Looking at the different targets there is only a significant positive effect of all employee plans in case of work motivation.

In contrast, in case of stock option plans restricted plans are considered more successful in overall performance (Table 6). There are specific significant differences between restricted and all employee plans for improving work motivation and work satisfaction of selected staff.

Table 6: Successful objectives of restricted and all employee stock options plans

	restric ted	all empl oyee	total	Eta
N=100%	60	18	78	
factor stock options performance	47	28	42	.16 *
Productivity	35	28	33	.06
attracting suitable recruits	43	33	41	.09
work motivation	52	22	45	.25 **
identification with the company	52	39	49	.11
work satisfaction	42	22	37	.17 *
entrepreneurial attitudes and behaviour among employees	37	28	35	.08
Labour turnover	25	17	23	.08
showing employees that the company values them	48	50	49	.01

In contrast, all employee share plans are more successful than restricted plans especially concerning work motivation and work satisfaction (Table 7).

Table 7: Successful objectives of restricted and all employee share purchase plans

	restric ted	all empl oyee	total	Eta
N=100%	22	48	70	
Factor share purchase performance	27	33	31	.06
Productivity	18	21	20	.03
attracting suitable recruits	18	27	24	.10
work motivation	18	33	29	.16 *
identification with the company	32	40	37	.07
work satisfaction	9	31	24	.24 **
entrepreneurial attitudes and behaviour among employees	27	21	23	.07
labour turnover	14	8	10	.08
showing employees that the company values them	27	40	36	.12

Changes in plans due to bookkeeping standards?

We asked the respondents whether they have changed plans since 2001 due to economic problems or changing bookkeeping standards. Table 8 presents an overview. Only a limited number of companies have changed the plans. However, if they change the plan they put important limitations on the plan in terms tightening eligibility criteria, scale down participation levels and make any awards more forfeitable and performance related. This clearly means a move to less broad based schemes.

Table 8: Changes made to plans and its causes

	%		N=		N	
	0	1	100	0	1	1
					%	
<i>Changes made to current fp plans</i>						
Tightened eligibility criteria	93	7	112	104	8	
Capped or scaled-down participation levels	95	5	112	106	6	
Reduced the generosity of company matching	97	3	112	109	3	
Reduced the discount on exercise prices	100	.	112	112	.	
Made awards more performance-related and forfeitable	91	9	112	102	10	
Reduced option terms and narrowed exercise windows	99	1	112	111	1	
Switched from options to restricted shares	96	4	112	107	5	
Repriced options	100	.	112	112	.	
<i>Changes made due to:</i>						
Economic pressures	61	39	23	14	9	
Changing corporate governance, book keeping standards	52	48	23	12	11	
Introduction of international financial participation plan	96	4	23	22	1	
Changes in tax benefits	91	9	23	21	2	

What are the main obstacles?

Of course the situation in most European Member States is not that voluntary that it is easy to introduce financial participation schemes. There are several obstacles due to legal prescriptions, how the benefits are treated, the reactions of trade unions and employees, etcetera. We asked the respondents to indicate which obstacles are important. Table 9 shows that the major obstacles are:

- the legal framework; this is considered too restrictive and complicated (61%)
- little or no tax incentives for employees (56%)
- administration costs (52%)
- Securities requirements are complicated (49%)

Also, internationalization appear to be an important obstacle for further developments:

- International regulations
- Lack of cross border harmonisation

There are important differences between countries. Table 9 indicates also the significant differences between countries and mentions a few typical examples. In case of social security charges this obstacle is especially mentioned by respondents from France and the Netherlands while this is less an obstacle in Spain. A bit expected, in Spain trade unions' views are considered as an obstacle while not in the other countries. While in the Netherlands securities requirements are considered an obstacle this is less the case in the UK.

Table 9: % of companies that considers item as an obstacle for further development of financial participation

	Country						Total	Eta
	ES	DE	FRA	NL	FIN	UK		
N=100%	22	28	12	20	19	8	109	
<i>Obstacles to financial participation schemes</i>								
Little or no tax incentives for employees	27	68	50	65	68	50	56	.32 **
Social security charges	18	61	50	65	53	13	47	.39 **
Unions are opposed to plans	45	21	25	25	26	0	27	.26 *
Administration costs	45	54	58	65	47	38	52	.16
Employees are not interested in long term benefits	36	32	50	45	68	0	41	.35 **
Existing shareholders do not want empl. to hold shares	41	14	25	15	37	0	24	.30 **
Legal framework is restrictive and complicated	55	71	58	60	53	63	61	.14
Securities requirements are complicated	45	50	50	70	42	13	49	.28 *
Culture of the company	45	11	25	15	32	0	23	.34 **
International regulations (eg accounting regulations)	45	50	58	65	37	38	50	.19
Lack of cross-border harmonisation of schemes	32	46	58	55	37	50	45	.19

How is financial participation linked to participation arrangements?

We investigated the existence of several forms of participation and communication in the company. We also looked at the involvement of employee representative in the development and management of plans.

We investigated the relationship between the degree of participation, as measured by the number of forms, and the existence of type of schemes. There is an association between broad based plans and the participative nature of the company. In case of broad based plans there are slightly more forms of participation and communications.

Important is also that in case of broad based plans the higher the chance that there is an employee representative on supervisory board or board of directors. As expected, the chance to have an employee representative in the board that manages the financial participation scheme is also higher in case of broad based schemes.

Next there is a strong association between involvement of trade unions and/or employee representatives in settling the agreement and employee representatives on supervisory board, board of directors and board that manages the financial participation scheme. Also this participation is strongly related to broad based schemes.

In summary, broad based schemes are developed in a more participative company.

Conclusions

This report presented an overview of the situation of financial participation in six European Member States. A few conclusions:

1. There is a slight tendency to decentralise the determinacy of labour agreements. This also made it possible to develop company level remuneration packages where stock options and share schemes get their place.
2. In general we observe a move towards the diffusion of Anglo-Saxon shareholder concept, also on continental Europe. This holds not only for management concepts with more elements of performance related pay, but also for corporate governance systems where share holding is highly valued and more distributed to citizens.
3. We observed an increase in market capitalisation which attracted much more new share holding and an increased interest from individuals and employees. In the course of this there is an increase of share holding by citizens and employees.
4. The booming capital markets have boosted financial participation among listed companies in most Member States at century's end. Most share related schemes were introduced in the second half of the nineteen-nineties.
5. Companies listed on stock exchange markets operate generally more than one scheme; about 16 % operates all type of schemes.
6. Profit sharing schemes are generally broad based all employee schemes with a participation degree generally above 80%. Two-third of share related schemes are broad based plans with a participation degree of 60-65%.
7. From the share related schemes stock options plans are the most popular. Especially plans restricted to management and selected staff tend to be stock options plans.
8. The main objectives of all employee plans tend to be to increase work motivation and valuing employees.
9. The impact of narrow based plans for management and selected staff tends to be improvement of work motivation and increase in work satisfaction
10. The main obstacles for the development of an all employee share scheme are: the legal framework; this is considered too restrictive and complicated; little or no tax incentives for employees. In general, not availability of tax incentives were rated as the most important obstacle. This is especially mentioned in companies with broad based schemes. As expected, also security charges are more mentioned in case of broad based plans.
11. There are important differences between countries due to the differences in treatment of the plan approval and difference in treatment of employee benefits.
12. Although the main initiative for introduction of plans comes from the employer, broad based share plans tend to be negotiated and agreed with trade unions or employee

representatives. The involvement of employee representatives in the development and management of the plan is also higher than in case of narrow plans.

13. Broad based share plans are established in more participative companies.

Participation questionnaire

Supported by the European Commission

This questionnaire asks about employee participation plans in your company. Please answer even if you have none or very few forms of participation in your company.

The survey is aimed at companies in several European countries and is designed to collect information on differences in company practices between countries. As a result there may be some questions which use unfamiliar terms. We have endeavoured to keep these to a minimum but if you need clarification please contact the survey team at the address provided (see below)

Please base your answers on the position in your company as a whole in the main country of operations. Please ignore the position in overseas subsidiaries except where questions explicitly refer to these.

The information collected in this questionnaire will be used for scientific and academic research. The information you provide will be treated in the strictest confidence and will not be released to any third party.

At the end of the questionnaire you can indicate whether you want a summary report or a small report benchmarking your scores with the average of the survey.

Thank you for taking the time to assist. It is appreciated.

Dr. Erik Poutsma
Survey Director
Nijmegen School of Management
Radboud University, The Netherlands

If you need to contact us to clarify the meaning of any of the questions please contact

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For office use

Respondent number:

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PART A General

1. Which sector does your company belong to?

Please circle appropriate answer

a. agriculture	-1-
b. energy and water	-2-
c. chemical products, extraction and processing and non-energy materials	-3-
d. metal manufacturing; mechanical, electrical and instrument engineering; office and data processing machinery	-4-
e. other manufacturing (eg. food, drink and tobacco; textiles; clothing; paper, printing and publishing, processing of rubber and plastics)	-5-
f. building and civil engineering	-6-
g. retail and distribution; hotels, catering, repairs	-7-
h. information technology & telecommunication (ICT)	-8-
i. other transport & communication (eg. railroads, postal services)	-9-
j. banking ; finance ; insurance	-10-
k. other business services (eg. consulting, law firms, PR)	11
l. personal, domestic, recreational services (Health and fitness, cleaning and maintenance, bungalow parks and amusement centers)	-12-
m. health services	-13-
n. other services (eg. television and radio, R&D, charities, etc)	-14-
o. education (Including universities and further education)	-15-
p. other (please specify):	-16-

2. What forms of participation and communication are there in the company and when were they established?

TYPE OF PARTICIPATION	in use (circle as appropriate)	year of introduction
works council / social council	-1-	
trade union-based committee	-2-	
other employee representative body	-3-	
regular employee surveys	-4-	
suggestion schemes	-5-	
quality circles or quality improvement schemes	-6-	
semi-autonomous groups with some decision-making power	-7-	
social responsibility audit and report	-8-	
employee representative on supervisory board or on the company's main board of board of directors chosen by the union	-9-	
employee representative on supervisory board or on the company's main board of directors not chosen by the union	-10-	
employee representative on employee share scheme committee or trust	-11-	
employee representative on pension fund or savings scheme	-12-	
other, please specify:.....	-13-	

3. Do you have any of the following types of financial participation scheme for employees in your company?
(more than one answer is possible)

	for management only	for management and selected staff	for all or most employees
profit sharing scheme	-1-	-2-	-3-
stock options scheme	-1-	-2-	-3-
share acquisitions, other than options (share purchase plans, share distribution plans, participation in capital by employees etc.)	-1-	-2-	-3-
other (please specify):	-1-	-2-	-3-
none	-1-	-2-	-3-

If you have answered 'yes' to profit sharing in columns 2 or 3 of Q3 please answer questions in PART B. Please, go to question 4

Otherwise proceed to PART C: Please, go to question 11

If you have answered 'no' to all types of financial participation please proceed to PART F. Please, go to question 32

PART B Profit sharing

4. How long does an employee have to be employed in the company to be eligible for the profit sharing scheme?

..... months OR years (please write in)

5. What proportion of employees received a profit shares in the most recent profit share allocation?

..... %

6. How are profit shares distributed to employees?
(please tick as appropriate. More than one answer is possible)

equally	-1-
linked to salary level	-2-
linked to job grade or position	-3-
linked to length of employment	-4-
linked to employment type (full-time/part-time etc)	-5-

7. How large was the total annual profit share paid out relative to the total annual wage costs in the most recent profit share allocation?

..... %

8. In your view how important are tax concessions in influencing the use of profit-sharing in your company

very important	-1-
important	-2-
little or no importance	-3-

The following two questions ask about the objectives and the impact of the profit sharing plan.

9. How important are the following objectives in your company's use of profit sharing on a scale from 1 (not at all important) to 5 (very important indeed)

	not at all important	very modest importance	some importance	quite important	very important indeed
a. to increase productivity	-1-	-2-	-3-	-4-	-5-
b. to attract suitable recruits to the company	-1-	-2-	-3-	-4-	-5-
c. to improve work motivation	-1-	-2-	-3-	-4-	-5-
d. to provide additional pension provision	-1-	-2-	-3-	-4-	-5-
e. to promote identification with the company	-1-	-2-	-3-	-4-	-5-
f. to increase work satisfaction	-1-	-2-	-3-	-4-	-5-
g. to stimulate entrepreneurial attitudes and behaviour amongst employees	-1-	-2-	-3-	-4-	-5-
h. to reduce labour turnover	-1-	-2-	-3-	-4-	-5-
i. to show employees that the company values them	-1-	-2-	-3-	-4-	-5-
j. to take advantage of tax concessions	-1-	-2-	-3-	-4-	-5-

10. What impact has profit sharing had on the following?

	very negative impact	negative impact	no impact at all	positive impact	very positive impact
a. productivity	-1-	-2-	-3-	-4-	-5-
b. attracting suitable recruits	-1-	-2-	-3-	-4-	-5-
c. work motivation	-1-	-2-	-3-	-4-	-5-
d. additional pension provision	-1-	-2-	-3-	-4-	-5-
e. identification with the company	-1-	-2-	-3-	-4-	-5-
f. work satisfaction	-1-	-2-	-3-	-4-	-5-
g. entrepreneurial attitudes and behaviour amongst employees	-1-	-2-	-3-	-4-	-5-
h. labour turnover	-1-	-2-	-3-	-4-	-5-
i. showing employees that the company values them	-1-	-2-	-3-	-4-	-5-
j. securing tax concessions	-1-	-2-	-3-	-4-	-5-

PART C Stock options

If your company offers stock option plans to some non-managerial employees please answer the questions in this section. Otherwise please proceed to PART D

11. What proportion of employees received option awards in the most recent granting of stock options?

..... %

12. Are employees granted options by management OR do employees have to subscribe to an option plan (Tick appropriate answer)

managers grant option awards and all eligible employees are included when applied	-1-
employees choose to subscribe to an option plan	-2-

13. Is the stock option plan supported by an employee savings scheme (to raise the money to exercise the options)

yes	-1-
no	-2-

14. How long does an employee have to be employed in the company to be eligible for the stock options plan?

..... months OR..... years (please write in)

15. Is the size of stock option awards linked to any of the following? (Please tick as appropriate. More than one answer is possible)

equal to all employees	-1-
linked to salary level	-2-
linked to job grade or position	-3-
linked to length of employment	-4-
linked to employment type (full-time/part-time etc)	-5-
employee chooses	-6-

The following two questions ask about the objectives and the impact of the stock options plan.

16. How important are the following objectives in your company's use of stock options on a scale from 1 (not at all important) to 5 (very important indeed)

	not at all important	very modest importance	some importance	quite important	very important indeed
a. to raise capital	-1-	-2-	-3-	-4-	-5-
b. to increase productivity	-1-	-2-	-3-	-4-	-5-
c. to attract suitable recruits to the company	-1-	-2-	-3-	-4-	-5-
d. to improve work motivation	-1-	-2-	-3-	-4-	-5-
e. to provide additional pension provision	-1-	-2-	-3-	-4-	-5-
f. to promote identification with the company	-1-	-2-	-3-	-4-	-5-
g. to increase work satisfaction	-1-	-2-	-3-	-4-	-5-
h. to stimulate entrepreneurial attitudes and behaviour amongst employees	-1-	-2-	-3-	-4-	-5-
i. to reduce labour turnover	-1-	-2-	-3-	-4-	-5-
j. to inhibit take-overs of the company	-1-	-2-	-3-	-4-	-5-
k. to show employees that the company values them	-1-	-2-	-3-	-4-	-5-
l. to take advantage of tax concessions	-1-	-2-	-3-	-4-	-5-

17. What impact have stock options had on the following?

	very negative impact	negative impact	no impact at all	positive impact	very positive impact
a. to raise capital	-1-	-2-	-3-	-4-	-5-
b. productivity	-1-	-2-	-3-	-4-	-5-
c. attracting suitable recruits	-1-	-2-	-3-	-4-	-5-
d. work motivation	-1-	-2-	-3-	-4-	-5-
e. additional pension provision	-1-	-2-	-3-	-4-	-5-
f. identification with the company	-1-	-2-	-3-	-4-	-5-
g. work satisfaction	-1-	-2-	-3-	-4-	-5-
h. entrepreneurial attitudes and behaviour amongst employees	-1-	-2-	-3-	-4-	-5-
i. labour turnover	-1-	-2-	-3-	-4-	-5-
j. to inhibit take-overs of the company	-1-	-2-	-3-	-4-	-5-
k. showing employees that the company values them	-1-	-2-	-3-	-4-	-5-
l. securing tax concessions	-1-	-2-	-3-	-4-	-5-

18. In your view how important are tax and social security concessions in influencing the use of broad-based stock options in your company

very important	-1-
important	-2-
little or no importance	-3-

PART D Share purchase and distribution schemes

If your company offers share purchase, share acquisition, or share distribution plans to some or all non-managerial employees please answer the questions in this section. Otherwise please proceed to PART E

19. Are employees granted shares by management OR can employees subscribe to purchase shares
(Tick appropriate answer: more than one answer is possible)

managers grant share awards and all eligible employees are included	-1-
employees voluntarily choose to subscribe to a share plan	-2-

20. What proportion of employees were allocated shares in the most recent operation of the plan? (if relevant)

..... %

21. What proportion of employees subscribed to shares in the most recent operation of the plan? (if relevant)

..... %

22. How long does an employee have to be employed in the company to be eligible for the share plan?

..... months OR..... years (please write in)

23. Is the size of stock awards/purchases linked to any of the following?
(Please tick as appropriate. More than one answer is possible)

equal to all employees	-1-
linked to salary level	-2-
linked to job grade or position	-3-
linked to length of employment	-4-
linked to employment type (full-time/part-time etc)	-5-
employee chooses	-6-

The following two questions ask about the objectives and the impact of the stock acquisitions plan.

24. How important are the following objectives in your company's use of stock acquisition plans on a scale from 1 (not at all important) to 5 (very important indeed)

	not at all important	very modest importance	some importance	quite important	very important indeed
a. to raise capital	-1-	-2-	-3-	-4-	-5-
b. to increase productivity	-1-	-2-	-3-	-4-	-5-
c. to attract suitable recruits to the company	-1-	-2-	-3-	-4-	-5-
d. to improve work motivation	-1-	-2-	-3-	-4-	-5-
e. to provide additional pension provision	-1-	-2-	-3-	-4-	-5-
f. to promote identification with the company	-1-	-2-	-3-	-4-	-5-
g. to increase work satisfaction	-1-	-2-	-3-	-4-	-5-
h. to stimulate entrepreneurial attitudes and behaviour amongst employees	-1-	-2-	-3-	-4-	-5-
i. to reduce labour turnover	-1-	-2-	-3-	-4-	-5-
j. to inhibit take-overs of the company	-1-	-2-	-3-	-4-	-5-
k. to show employees that the company values them	-1-	-2-	-3-	-4-	-5-
l. to take advantage of tax concessions	-1-	-2-	-3-	-4-	-5-

25. What impact has the share acquisition plan had on the following objectives?

	very negative impact	negative impact	no impact at all	positive impact	very positive impact
a. to raise capital	-1-	-2-	-3-	-4-	-5-
b. productivity	-1-	-2-	-3-	-4-	-5-
c. attracting suitable recruits	-1-	-2-	-3-	-4-	-5-
d. work motivation	-1-	-2-	-3-	-4-	-5-
e. additional pension provision	-1-	-2-	-3-	-4-	-5-
f. identification with the company	-1-	-2-	-3-	-4-	-5-
g. work satisfaction	-1-	-2-	-3-	-4-	-5-
h. entrepreneurial attitudes and behaviour amongst employees	-1-	-2-	-3-	-4-	-5-
i. labour turnover	-1-	-2-	-3-	-4-	-5-
j. take-overs of the company	-1-	-2-	-3-	-4-	-5-
k. showing employees that the company values them	-1-	-2-	-3-	-4-	-5-
l. securing tax concessions	-1-	-2-	-3-	-4-	-5-

26. In your view how important are tax and social security concessions in influencing the use of broad-based share acquisition plans in your company

very important	-1-
important	-2-
little or no importance	-3-

PART E Employee involvement in financial participation plans

If you have any kind of financial participation plan please answer this section. Otherwise please proceed to PART F

27. Was the financial participation scheme introduced as part of a formal agreement with employees or their representatives?

agreement with trade union representatives	-1-
agreement with other employee representatives or works council	-2-
ballot of the workforce	-3-
no formal agreement - employer decided	-4-
other, please specify:	-5-

28. To what extent have employees or their representatives been involved in the following
Employee or representatives are...

	not involved in	informed about	consulted about and asked their opinion about	took part in decision making on
the drafting of the plan	-1-	-2-	-3-	-4-
the distribution principles	-1-	-2-	-3-	-4-
the eligibility criteria	-1-	-2-	-3-	-4-
plan administration	-1-	-2-	-3-	-4-
other:	-1-	-2-	-3-	-4-

29. How often do you typically communicate to employees about the profit share or employee share plans?

less than once a year	-1-
once a year	-2-
twice a year	-3-
three or four times a year	-4-
every month	-5-
every week	-6-
every day	-7-
other:	-8-

30. What proportion of the company's equity ...

is owned by employees%
is under option to them%
TOTAL%

31. To what extent are employees or their representatives involved in corporate decision-making?

no direct involvement in corporate decision making	-1-
employee share holders have voting rights	-2-
indirect voting rights via collective representation	-3-
at the shareholder meeting	-4-
representative on the board	-5-

PART F Discontinued or changed financial participation plans

Please answer questions in this section if you have recently modified a financial participation scheme or have discontinued one in the recent past.

32. Have you previously had a broad-based financial participation plan which has been discontinued? If so, please indicate the year when the scheme was discontinued

	discontinued?	year when discontinued
profit sharing scheme	-1-	
stock options scheme	-2-	
share acquisitions, other than options (participation in capital by employees; allocated or purchase)	-3-	
other (please specify):	-4-	
none	-5-	

33. Was this replaced by a new plan?

replaced by a new plan	-1-
not replaced	-2-

34. Have you made any of the following changes recently to current financial participation plans?

	yes	no
a. tightened eligibility criteria	-1-	-2-
b. capped or scaled-down participation levels	-1-	-2-
c. reduced the generosity of company matching	-1-	-2-
d. reduced the discount on exercise prices	-1-	-2-
e. made awards more performance-related and forfeitable	-1-	-2-
f. reduced option terms and narrowed exercise windows	-1-	-2-
g. switched from options to restricted shares	-1-	-2-
h. repriced options	-1-	-2-
i. other (please specify):	-1-	-2-

35. Did you make changes due to:

	yes	no
a. economic pressures	-1-	-2-
b. changing corporate governance and book keeping standards	-1-	-2-
c. introduction of international financial participation plan	-1-	-2-
d. changes in tax benefits	-1-	-2-

PART G General

All respondents please answer this section

36. Overall, what is your assessment of the effects of employee participation and involvement in your company on the following?

	very negative impact	negative impact	no impact at all	positive impact	very positive impact
a. productivity	-1-	-2-	-3-	-4-	5
b. attracting suitable recruits	-1-	-2-	-3-	-4-	5
c. work motivation	-1-	-2-	-3-	-4-	5
d. additional pension provision	-1-	-2-	-3-	-4-	5
e. identification with the company	-1-	-2-	-3-	-4-	5
f. work satisfaction	-1-	-2-	-3-	-4-	5
g. entrepreneurial attitudes and behaviour amongst employees	-1-	-2-	-3-	-4-	5
h. labour turnover	-1-	-2-	-3-	-4-	5
i. showing employees that the company values them	-1-	-2-	-3-	-4-	5

37. What was the turnover of the company in 2004?
 (FINANCIAL YEAR ENDING IN 2004; ESTIMATE ACCEPTED)
 UK in GBP all others in €

€

38. What was the average number of employees in 2004?

.....

39. What was the market value of your company as of December 31, 2004?

€

40. How many countries does your company operate in

.....

41. How many European countries does your company operate in

.....

42. In how many of European countries do you operate an employee share plan?

.....

43. Which of the following indexes is your company in

	yes	no
FTSE100	-1-	-2-
FTSE250	-1-	-2-
Techmark	-1-	-2-
none	-1-	-2-

44. To what extent do you consider the following to be obstacles to the use of financial participation schemes?

	no obstacle	some obstacle	important obstacle
a. little or no tax incentives for employees	-1-	-2-	-3-
b. social security charges	-1-	-2-	-3-
c. unions are opposed to plans	-1-	-2-	-3-
d. administration costs	-1-	-2-	-3-
e. employees are not interested in long term benefits	-1-	-2-	-3-
f. existing shareholders do not want employees to hold shares	-1-	-2-	-3-
g. legal framework is restrictive and complicated	-1-	-2-	-3-
h. securities requirements are complicated	-1-	-2-	-3-
i. culture of the company	-1-	-2-	-3-
j. international regulations (eg accounting regulations)	-1-	-2-	-3-
k. lack of cross-border harmonisation of schemes	-1-	-2-	-3-

45. In your view, what could be done to make the use of financial participation easier ? (Please write in if you have any comments)

--

THANK YOU VERY MUCH

Please, return this questionnaire by using preferably the return envelop (no stamp required).
If you don't wish to use the return envelop, a stamp is required.

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The Institute for Applied Social Science Research of the University of Nijmegen, Netherlands will edit a summary report. If you would like to receive this report please fill in your address details and send it to us in the return envelope. No postage required.

Company Name:
Name:
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Postal Code:
City:
Country:
E-mail:

It is possible to benchmark your company against those of all other companies in the survey. If you are interested to receive this information please tick the next box.

yes, I would like to receive this information

Note: The information on this page will not be added to the questionnaire-data file and only used to send you the summary report and requested information.