European Foundation for the Improvement of Living and Working Conditions

Financial participation: The role of governments and social partners

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Foreword

Financial participation has been the focus of increasing attention over recent years. European initiatives have, since the early 1990s, encouraged moves to boost profit-sharing, employee share ownership and employee stock options throughout the European Union. Corresponding measures by the Member States have seen the introduction of new legislation in various countries, in the area of profit-sharing and share ownership, as well as law reform to facilitate the use of stock options.

The reasons why governments opt to promote financial participation vary from country to country. Some highlight the need for greater wage flexibility and wealth redistribution while others aim at better corporate performance and greater employee involvement in company affairs. In this context, the role of governments in promoting, or impeding, financial participation measures takes on increasing importance. Likewise, the role of the social partners, either in influencing government thinking or blocking government initiatives in this domain, cannot be underestimated.

This report, which draws on research carried out in eight Member States, provides a comprehensive picture of the current situation in this regard. It examines in particular to what extent governments, trade union confederations and employer organisations determine the shape of financial participation measures within different countries.

We trust this report will provide a timely contribution to the ongoing debate on this issue at European level.

Willy Buschak
Acting Director

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Introduction

This report examines the views, policies and activities of various key actors regarding financial participation in eight EU Member States. These key actors are trade union confederations, employer organisations and government ministries, and the countries under examination are Belgium, France, Germany, Italy, the Netherlands, Portugal, Sweden and the United Kingdom. The main, but not exclusive, level among the social partner bodies is 'peak' or central organisations — those trade unions and employer associations operating at national level (rather than at sectoral or occupational level) and bringing together sectoral and regional organisations. These national confederations are likely to be the most influential of the social partner organisations in the establishment and regulation (or prevention) of financial participation.

The report is based on a series of national reports conducted by eight country teams during 2001-2003, with data collected from government departments, trade unions and employer organisations (*for list of contributors, see Appendix 1*). The report summarises the findings of these national reports and highlights common features as well as differences. Other research on financial participation is cited where appropriate.

The underlying premise of this study is that governments and central social partner organisations play a pivotal role in the national framework of financial participation, although to varying extents, and therefore potentially influence the extent, practice and characteristics of financial participation at company level. Thus, to fully understand the character of corporate financial participation practices, the role of these organisations in developing and regulating the national frameworks should first be identified. An original feature of the research is this top-level perspective: most financial participation research to date has focused on company-level activities, albeit with specific reference to fiscal and legislative provisions. In this way, the study provides an additional dimension to the understanding of financial participation.

The report addresses several key questions:

- To what extent do governments, trade unions confederations and employer organisations have an explicit philosophy or set of views on the topic of financial participation?
- Do they have any formal policies on financial participation and, if so, are these designed to promote or restrict the use of financial participation schemes?
- What are the perceived benefits and shortcomings of financial participation?
- What types of activity do these organisations undertake to promote or restrict the development and use of financial participation?
- What are the perceived barriers to the implementation and further development of financial participation schemes?

To address these questions, a programme of empirical research was undertaken in eight EU Member States during the period 2001-2003, involving interviews with key respondents in government ministries and among social partner organisations.

Policy context

Interest in financial participation has been growing in the European Union over the last ten years. There has been a series of initiatives at EU level in this area since 1990, starting with the European Commission's PEPPER report in 1991 and the adoption in the same year by the Council of Ministers of a Recommendation to promote financial participation (European Commission, 1991; Uvalic, 1991).[1] Recently, the Commission has issued a Communication on the topic, calling on Member States to take steps to assist the development of financial participation (European Commission, 2002). The European Parliament has also taken an active role in considering the merits of financial participation and advocating its use.

Most of the Member States have taken initiatives in the last five years to promote financial participation, either directly or indirectly. For example, Belgium has adopted a law on profit-sharing and share ownership; France has recently implemented a new law to promote financial participation in SMEs; the UK has introduced two new share schemes; and Germany has taken measures to promote employee share ownership as well as reforming its company law to facilitate the use of stock options. Italy has also made changes in company law, providing new opportunities for financial participation schemes, and has advocated a more coherent framework for employee share ownership.

In recent documentation from the European Commission, financial participation is seen to be divided into 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 schemes, 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. There is also a range of hybrid schemes, including convertible bonds, phantom stock and stock appreciation rights.

The term 'financial participation' is used in the report to refer to all of these activities on the grounds that they enable the employee to participate in profits and/or ownership. However, not everyone would share this definition. In Germany, for example, financial participation tends to be viewed as employee participation in productive capital. Employee participation in profits, along with stock options, is typically seen as a separate phenomenon (although it can be used to promote participation in productive capital). Germany is also notable for its system of employee loans to companies, from which employees receive interest or profit-related payments.

In this report, financial participation is viewed as a broad-based phenomenon. Narrow-based, executive-only schemes are not examined; however, reference is made to them where necessary since the coverage of financial participation instruments is a pertinent issue for governments and social partners.

[1] The acronym PEPPER stands for 'promotion of employee participation in profit and enterprise results'.

The research is guided by the view that a key influence on the nature and extent of financial participation is the legislative and fiscal framework provided by central government. This has been the key finding of many of the major cross-national European studies on financial participation since 1990 (see, for example, Uvalic, 1991; OECD, 1995; Vaughan-Whitehead *et al*, 1995; European Commission, 1996; Poutsma, 2001). However, regulation of financial participation schemes is not the only statutory and governmental influence on financial participation. Wider company law can also influence the incidence and character of financial participation, while legislative changes in this area also have an effect on the use of financial participation. For example, changes to the legal regulation of share issues and share purchases by companies in Germany in 1998 removed barriers to the use of stock options; this facilitated a significant increase in the use of stock options by large German companies even in the absence of any legislative or fiscal initiatives focusing specifically on promoting share options. In Italy, corporate governance reforms, such as greater protection for minority investors, have been seen as essential to the further development of share-based financial participation.

Governments may have a variety of objectives and reasons for promoting financial participation and it is important to examine the nature of governmental aims to fully understand the specific provisions of legislation. These may include promoting such objectives as wage substitution, wage flexibility, income and wealth re-distribution, medium and long-term savings, better corporate performance and greater employee involvement in company affairs.

Governmental objectives are likely to influence corporate practice in three ways:

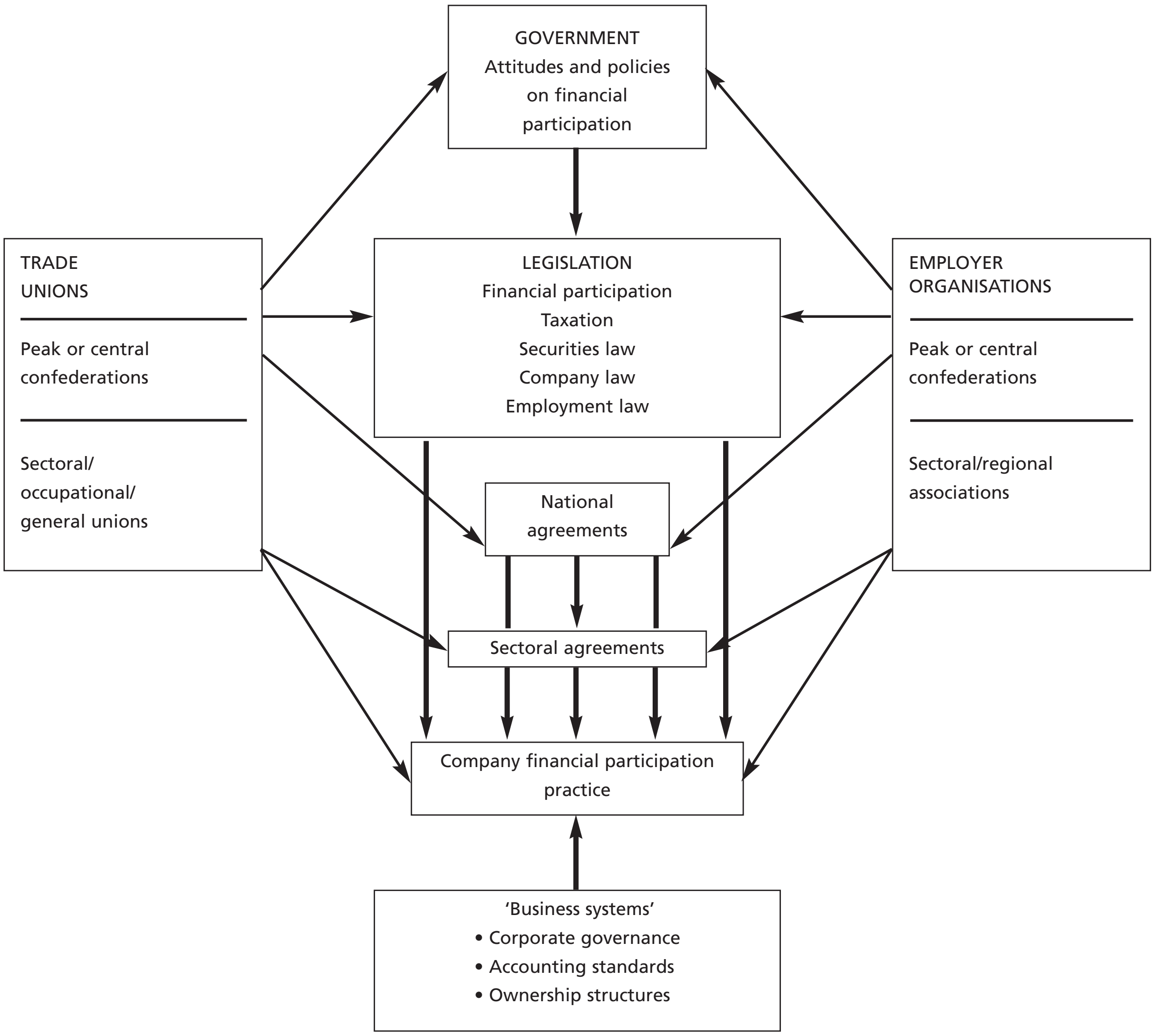
1. Via legislation and associated statutory instruments, backed up by fiscal initiatives. Yet specific legislation on financial participation is not the only instrument by which governments may affect financial participation practice: securities law, company law, employment law and the overall taxation regime also contribute to the framework of financial participation. Amendments to these may be necessary in some cases if financial participation is to be encouraged.

2. Via the influence of government ideologies and views on the prevailing national attitude towards financial participation.

3. Via implementation strategies. Do governments simply set the legislative framework and leave the rest up to companies, or do they take a more active role in promoting the use of legislation?

A model for understanding the development and implementation of financial participation frameworks is given in Figure 1. This shows the main ways by which company financial participation practice is influenced. A key influence on the extent and character of financial participation at company level is legislative frameworks and government action. These emanate from government attitudes and policies on financial participation, which in turn reflect broader social and economic ideas and objectives. Corporate-level activities in this area are also influenced by the ‘business systems’ in which they operate, with accounting standards, corporate governance arrangements and ownership structures being of particular importance.

Figure 1 The role of government and social partners in the regulation and promotion of financial participation



Notes
Thick lines indicate major potential routes of influence on company financial participation practices.
The activities of trade unions and employee representatives *within* the company are not shown.

A key question in this report concerns the contribution of the social partners to the framework and how they may influence corporate practice, either directly or indirectly. As Figure 1 indicates, the social partners may influence this framework at several levels:

1. They may aspire to influence governmental idealology and policies towards financial participation and related issues. This would require a very active engagement by social partner organisations with the topic of financial participation, coupled with well-developed ideas and policies. This can be seen as a proactive approach. The capability of social partner organisations to influence the fundamental orientation of governments towards financial participation will depend on the closeness of ties between social partner organisations and governments/political parties. Relevant considerations here are the presence of tripartite

institutions at national level and the extent to which social partner organisations form part of, or have especially close links with, political parties.

2. The activities of the social partners may be responsive to government legislative and regulatory initiatives. This might be termed the reactive approach. It could take the form of attempts to block governmental initiatives in their entirety, where there is a philosophical objection to financial participation, or to amend specific elements of government proposals.
3. Social partners may influence financial participation practice via collective bargaining at national or sectoral level. A critical mediating effect on their capacity to do this will clearly be the extent to which financial participation forms, or is legally mandated to be, part of collective bargaining.
4. Social partner organisations may affect company practices directly via their relationships with companies and their employees. The extent to which this occurs will depend on the extent of collective bargaining at company level, the extent to which financial participation forms part of the bargaining agenda, and on the closeness of the linkages between social partner organisations and their members/constituent organisations.

Focus of report

The primary focus of the report is on national or central level organisations (known as 'peak' organisations in the specialist literature). Thus, the main activities under scrutiny are likely to be encouragement of and responses to governmental activity. Central social partner organisations are rarely involved in collective bargaining at sectoral level (although they will be involved in national bargaining, where it exists) or in the detailed regulation of financial participation at company level. Sectoral collective bargaining is usually seen to be the territory of regional or sectoral-based employer organisations and constituent trade union organisations, while company activities may occur more or less independently of social partner organisations. Although sectoral or company-level bargaining is not specifically examined here, the issue of whether the implementation of financial participation should be reserved to lower-level social partner organisations is a pertinent one.

An important component of the model shown in Figure 1 is that legislation and the activities of the social partners are not the only influences on the incidence and characteristics of financial participation practice at company level. The corporate or 'business systems' environment is likely to have a significant impact on what companies do. For example, the favourable accounting standards treatment applying to stock options may be a powerful factor encouraging their use, irrespective of their taxation treatment. A further implication is that similar legislation and taxation regimes may have differential impacts on company practice depending on the nature of the corporate environment. These issues are not dealt with here in depth, but respondents' comments need to be understood in their broader national contexts.

To reiterate, the report addresses several key questions:

- To what extent do governments, trade unions confederations and employer organisations have an explicit philosophy or set of views on the topic of financial participation?

- Do they have any formal policies on financial participation and, if so, are these to promote or restrict the use of financial participation schemes?
- What are the perceived benefits and shortcomings of financial participation?
- What types of activity do these organisations undertake to promote or restrict the development and use of financial participation?
- What are the perceived barriers to the implementation and further development of financial participation schemes?

Methodology and data collection

To provide a comparative review of these issues, research was conducted in eight EU Member States — Belgium, France, Germany, Italy, Netherlands, Portugal, Sweden and the United Kingdom. These countries were selected to provide a sample comprising countries with high support for and use of financial participation (France, Netherlands and UK), medium usage (Germany and Belgium) and low usage (Italy, Portugal and Sweden). The study also provides a balance between countries where profit-sharing is dominant (France and Netherlands) and where share schemes are dominant (UK). It also captures the largest economies in Europe and was structured to provide as far as possible a representative picture of the main regions of the EU.

In each country, the national team collected data from a range of trade unions, employer organisations and government ministries. Among the social partners, information was collected from the central organisations/confederations in each country, or at least one of them where more than one is present. This was supplemented by data from constituent trade unions and from other employer/management associations, where possible. The data took the form of documentary material, web-based material and interviews with appropriate personnel in these organisations.

A standard set of interview guidelines was used for all organisations, as well as for the other European projects in the programme (*see Appendix 2*). While the national teams endeavoured to collect data on all the major sets of questions in the schedule, variations in national circumstances resulted in differences in the emphasis given to each set of questions. The questions, however, were designed to be sufficiently general to take national characteristics into account.

Main findings

The main findings of the study are that, although the social partners attempt to influence public debates in the area of government policy, the primary activities of both employer and trade union central organisations focus on influencing policy initiatives made by governments rather than encouraging them in the first place. Thus, the activities of the central social partner organisations are mainly reactive to government initiatives and legislation rather than proactive.

At the same time, employer organisations and trade unions tend not to be involved in the detailed regulation of financial participation schemes at corporate level. However, in France there are extensive supports for union involvement in the regulation of financial participation at company level deriving from financial participation legislation.

Central social partner organisations do not appear to provide extensive advice to companies or workers on this topic. Since company practice in Member States is substantially influenced by national statutory and fiscal frameworks for financial participation, the influence of social partner organisations on financial participation at company level is primarily indirect (i.e. via their influence on legislation). Furthermore, the extent of social partner activities in the financial participation area is substantially influenced by the extent of governmental support and activity. For example, the UK and French employer organisations and other management associations are the most active in this area.

Among the social partners themselves, there is considerable similarity in philosophy and approach across countries. With some exceptions, employer organisations are favourably inclined towards financial participation. Furthermore, they tend to hold broadly similar views on the desirable characteristics of financial participation (although there are differences in detail associated with national differences in regulation and institutions). For example, although broad-based financial participation is seen to be desirable, employer organisations emphasise that companies should be able to implement narrow-based schemes if that seems most appropriate for their circumstances. On the trade union side, a general softening of opposition to financial participation can be seen in most European countries in recent years; indeed, many unions and central confederations are now supportive of financial participation (Buschak, 2002). However, as with employer organisations, trade unions believe that financial participation schemes should contain certain ‘protections’, such as broad-based eligibility criteria (*see Chapter 4*).

Overview of national statutory frameworks

1

An overview is given here of the current statutory frameworks for financial participation in each of the eight EU Member States examined for this study. These brief details are provided to assist understanding of the empirical material presented later in the report rather than to provide comprehensive information on the nature and development of financial participation in each country. Over the years, several major reports have been published on the character of financial participation in the Member States. These include the first PEPPER Report (Uvalic, 1991), the second PEPPER Report (European Commission, 1996) and Poutsma's 2001 study on *Recent trends in employee financial participation in the European Union*. Recently, the position regarding stock options in each Member State has been examined in a series of reports conducted by PWC for the Directorate-General for Enterprise (2002).

Financial participation in eight EU Member States

Belgium

The study by Mormont and Léonard (2003) shows how Belgium has only recently acquired a clear legal framework for financial participation. Although there had been some legislative activity in the 1980s and early '90s (such as the 1984 law promoting stock options and a 1991 law facilitating purchase of 'restricted stock'), there was a lack of clarity in the regulatory environment. This was not helped by a series of case law judgments from the courts, with a key issue being whether or not the rewards deriving from financial participation schemes should count as salary and hence be subject to social charges. From the mid-1990s, the need for major reforms in the area of financial participation has gathered momentum. Two major reforms have taken place since then — the 1999 legislation on stock options and the 2001 legislation on profit-sharing and employee share ownership.

The general goal of the 1999 law dealing with stock options is to raise the competitiveness of enterprises in a competitive setting. The government supports stock option systems by having special tax arrangements. The taxable value of the options is determined at the point when they are allocated (and not when the employee exercises the option). Furthermore, the benefit represented by the allocation of shares is not reckonable for social security contributions and the law imposes no constraints in respect of either the amount of options offered or the categories of employee with access to these options. The law provides for lower taxation if the options scheme meets a number of conditions relating to vesting and the life of options. Comprehensive details on the taxation of stock options can be found in the PWC report for the Directorate-General for Enterprise (2002). This report notes that options schemes are usually restricted to directors and managers, but are now widely used in large Belgian companies.

The 2001 law 'relating to employee share ownership and profit-sharing schemes' aims to encourage and structure the mechanisms of financial participation practised in Belgium. The main feature of the legislation is the provision of tax concessions for profit-sharing and employee share ownership (especially the latter) as long as various conditions are met. These correspond to the principles developed by the European Commission and are as follows:

- The setting-up of financial participation must be voluntary and employees can take part in both profit-sharing and share ownership. The law requires that financial participation cannot substitute for 'normal' salary and must therefore be additional to wages and salaries. Allocations are either as governed by the terms of a collective agreement or, in the absence of this, on 'equal terms', with the key criteria being seniority, grade, level on the pay grid, level of pay and level of trained competency.

- A participation scheme must be the outcome of a collective agreement between employer and employees, or at least of an employee membership procedure. Schemes need to be open to all employees, although a minimum eligibility criterion of one year's tenure can be applied.
- Voting rights must be attached to shares in employee share ownership schemes. Moreover, there must be transparency in the enterprise's management (i.e. the link with company results must be clear) and financial participation cannot take the place of pay. Financial participation has to be based on a predefined formula. The total amount allowed for financial participation is restricted to 10% of the total wage bill and 20% of pre-tax profits.

In addition to the general framework, the 2001 law on profit-sharing and employee share ownership also allows the introduction of two specific systems:

- a cooperative participating enterprise to hold and manage shares received by workers; and
- the plan for setting up a profits-sharing scheme in a small company may take the form of an investment savings plan.

Employee share ownership and profit-sharing schemes are not covered by the fiscal and quasi-fiscal schemes that are applied to pay: money accruing from financial participation is treated as a new kind of benefit. The job of collecting tax is handed over to the employer and the amount is lower than in the case of employee share ownership. Some of the tax paid on participation earnings is paid to the ONSS (the Belgian social security office) to compensate for the social security deficit that could result from the application of these schemes.

Further details of the new framework for broad-based financial participation in Belgium can be found in Mormont and Léonard (2003) and in Blanpain (2002).

France

France has an extensive legal and fiscal framework for financial participation (Schmidt and Regnaud, 2002). The main form of financial participation over the years has been profit-sharing, with two main schemes in operation:

- Deferred profit-sharing (*participation)* is compulsory in companies with more than 50 employees. Profits are shared according to a mandatory pre-set formula or one settled by collective bargaining. The profit share is paid into a fund (*réserve speciale de participation* or RSP*)* and attracts tax advantages if it is held there for at least three years.
- Cash profit-sharing (*intéressement)* is a voluntary scheme. Tax benefits may be secured if the profit share is paid into a company savings scheme (*plan d'épargne d'entreprise* or PEE*)*. *Intéressement* can only be introduced through a collective agreement with trade unions, with trade union representatives at enterprise level, with works councils or by a two-thirds majority of employees. The formula for the computation of *intéressement* bonuses can include productivity or any measure of collective organisational performance, as well as profits.

At the centre of financial participation in France is the system of enterprise savings funds. Savings plans can be established unilaterally by employers or by agreement with union representatives, works councils or by a two-thirds majority of employees. PEE plans receive voluntary contributions from employees and matching contributions from employers (including profit-sharing bonuses). Most of the funds gathered in savings plans are invested in *Fonds Communs de Placement d'Entreprise* (FCPE), which in turn are either invested in a diversified fund or in the shares of the employer. In this way, employee share ownership has been promoted in the French system: recent evidence indicates that nearly half of PEEs are used as a means for employee share acquisition (Incomes Data Services, 2001a). Employee share ownership has also been boosted recently by a legal requirement that companies increasing their authorised share capital should also increase the amount available to company savings schemes (where employee stockholdings are below 3%).

Legislation enacted in 2001 has added to the savings plan system by creating two new savings plans — the PPESV long-term savings fund and the PEI intercompany savings plan, aimed at smaller companies. The PPESV was a contentious measure initially because of fears among unions that it was designed to dilute the French 'pay-as-you-go' pension system; to allay union fears, it is required that the establishment of such a savings plan has to be agreed by unions at branch or company level. The PEI was aimed at widening the use of savings plans (the PEE plans have traditionally been used mainly by larger companies). A further measure to promote the use of savings plans was a new requirement that profit-sharing and savings plan arrangements must be included on the agenda of obligatory annual negotiations with employee representatives (under the Auroux law).

The 2001 law also requires that employees can elect a director to the Conseil d'Administration when employees collectively own 3% of the company's equity (5% previously).

Stock options have been governed by specific legislation since 1970, but until recently were mainly held by top executives. Recent legal changes have provided preferential tax treatment for smaller option grants and also for longer retention of exercised shares. Share options are now becoming more broad-based in French companies.

Further details on the French system of financial participation and recent innovations can be found in Schmidt and Regnaud (2002), Rojot (2002), Incomes Data Services (2001a) and Mabile and Fakhfakh (1997).

Germany

In Germany, financial participation is viewed as participation in productive capital or capital participation (Weiler, 2002). It is distinct conceptually from profit-sharing, although in practice capital participation and profit-sharing are often interlinked. The long-standing legal framework in Germany (provided most recently by the Fifth Capital Formation Act and Section 19a of the Income Tax Law) provides for preferential tax treatment on employer payments to various forms of employee investments. These are supplemented by a tax-free government savings premium. These capital formation payments have been agreed by industry collective agreements and nearly all employees covered by collective agreements in West Germany are entitled to them, as are about two-thirds of workers in the East. Capital participation arrangements are further subject to co-determination arrangements at company level. The savings arrangements are limited to workers below a certain taxable income level (after social security contributions and other allowances), but in practice this threshold is set at a level that allows most workers to qualify. This feature reflects the long-standing concern in Germany to use savings plan arrangements to counter inequalities in wealth.

Traditionally, this system has been primarily concerned with employee participation in productive capital in general. Since 1999, it has been modified to favour employee share ownership. Savings placed in productive capital attract preferential government savings premiums and the ceiling for the level of savings that attracts tax concessions is extended for investments in productive capital (shares or share-based funds). Since 2002, the minimum holding period of six years has been relaxed.

Profit-sharing can be used to supply payments to savings/investment arrangements under the Capital Formation and Income Tax laws. Employer organisations have favoured the development of profit-related payments in recent years and it has been an integral component of their demands for greater flexibility in the pay determination system. A recent survey by the WSI of the Hans Böckler Foundation has found that about one-third of companies now have profit-related pay components in place (Bispinck and Schulten, 2003). This has been a more contentious development than promotion of investment in productive capital because it helps to decentralise the collective bargaining system and potentially facilitates salary substitution over time.

A variant of profit-sharing in the German context is the system of employee loans to companies (underwritten by bank guarantees), which may attract interest payments or profit shares. The loan is viewed as a form of employee savings in productive capital as described above and therefore attracts tax concessions. Unlike share ownership schemes, however, the employee receives no decision-making rights. Other forms of capital participation in Germany include share ownership in limited liability companies and 'dormant' or 'silent' partnerships (where subscribers supply capital and receive some control rights).

Stock options are a recent innovation in Germany. They were, in effect, prohibited by company law until 1998 (because employees were required to deposit the cash needed for exercise at the time of grant) and companies wanting to use options had to use stock appreciation rights, phantom stock or convertible bonds instead. The law on Corporate Control and Transparency liberalised this regime in 1998 and stock options are now permissible in Germany. Since 2002, capital gains from the sale of shares have been treated more favourably. Broad-based option schemes in Germany fall under the remit of Works Council co-determination rights.

Further information on the German system of financial participation can be found in Weiler (2002), Senne (2002), Incomes Data Services (2001b) and Carstensen *et al* (1995).

Italy

The statutory framework for financial participation in Italy is comparatively underdeveloped, although there has been growing interest and activity since the early 1990s (Limardo and Paparella, 2003). The Constitution of the Republic (1946) recognises the right of workers to cooperate in enterprise management and to have access to share investments in the main production industries. However, few concrete initiatives have been taken in this area.

Recent changes to the structure of collective bargaining in Italy have included some modest support for profit-sharing. The 1993 trilateral agreement called upon companies to link company-level bargaining to company-level results and required the government to give its support. This was implemented by Decree-Law Number 166 of March 1996, Article 5, which exempted a share of the flexible wage (up to a maximum 3% of the total wage) from payment of social contributions (company contributions usually amount to up to 32% of total wages). After a series of re-issues of this Decree-Law, the provision finally became Law Number 135 on 23 May 1997.

As for employee share ownership, the Civil Code allows profit-sharing to take the form of special categories of shares (Article 2349) and for a portion of these to be available as share options (Article 2441). Recently, tax breaks have been made available to support employee share ownership. Legislative Decree 314/97 exempts shares issued to employees from income tax subject to a ceiling of €2,065 and a three-year holding period (Legislative Decree 505/99). Stock options are also covered by this legislation: employees in receipt of non-tradable stock options are liable to income tax at the point of exercise on the difference between market value and the exercise price at exercise.

Given the structure of corporate ownership in Italy (such as the prevalence of pyramidal ownership), changes to corporate law and corporate governance may well be necessary to promote further use of financial participation. The Vietti Commission on company law has suggested changes that may promote financial participation, including:

- new special categories of shares can be introduced in favour of employees (with or without (limited or extended) voting rights); and
- greater flexibility for directors in managing the company, being able to sign agreements with the workers' representatives on financial participation.

In addition, the White Paper on the Labour Market issued in 2001 recognised the merits of financial participation as a way of creating a more participative and cooperative relationship between the social partners (Biagi and Tiraboschi, 2002). As yet, however, there have been no legislative developments.

For further information on the Italian system of financial participation, see Limardo and Paparella (2003), Biagi and Tiraboschi (2002), Tiraboschi (2002) and Del Boca *et al* (1999).

Netherlands

As in France and Germany, employee savings schemes are at the centre of financial participation in the Netherlands (Poutsma and Voets, 2002). Two forms of company savings schemes were introduced in 1994. One (premium savings schemes) provides for employees to subscribe to a savings plan from post-tax salary, with a 1 for 1 match by the employer. The other scheme provides for employees to subscribe pre-tax pay or the proceeds of a profit-sharing scheme, but without the employer match. In both cases, the employee can withdraw sums from the fund after four years, tax-free. The profit share form is by far the most popular, with nearly 3 million participants in 2000. The Dutch government announced in 2002 that it intends to abolish the savings fund institutions.

Savings funds may be used to operate broad-based stock options schemes, with the exercise of shares financed by savings in the fund. This type of stock options scheme allows employees to receive double the amount of options tax-free than is normally permitted. These schemes are required to be open to three-quarters of the workforce and to be approved by the Works Council.

Stock options schemes may also be operated outside the savings fund framework, with two types of tax regime in place. Prior to 2001, the point of tax was the grant of options. New legislation in 2001 enabled the point of tax to be the exercise date, with employees now able to choose prior to exercise which tax regime to be under.

For further information on the Dutch system of financial participation, see Poutsma and Voets (2002) and Incomes Data Services (2002).

Portugal

The framework for financial participation in Portugal is less developed than in other Member States covered in this report (Ramada, 2002). Although there is no specific legislation in Portugal concerning financial participation schemes, a number of laws regulating labour market relations and taxation and social security contributions provide a legal framework that can be considered mildly favourable.

Profit-sharing is not considered labour remuneration under Portuguese labour laws. This implies that the employer is not committed to such remuneration, even if it has been prevalent in the past, and the employer does not have to pay social security on this form of remuneration.

Until recently, stock options benefited from anomalies in the tax regime. There were no specific regulatory or tax provisions prior to 2000. Since then, the tax position on stock options has been clarified, with new provisions coming into force in 2003. Half of the capital gain from selling shares acquired through options schemes will be liable to income tax at marginal rates.

Employee share ownership schemes have been mainly encouraged by privatisation, whereby employees have been offered shares at preferential rates. However, many employees entered into forward-selling agreements at the same time, so employee share ownership does not appear to be a durable phenomenon so far.

For further information on the Portuguese system of financial participation, see Ramada (2002).

Sweden

Sweden is a unique case within Europe because of its flirtation with collective financial participation in the 1980s (Gergils and Gergils, 2003). As envisaged by the trade unions, Wage Earner Funds would shift corporate ownership to trade union-led funds over a 10-20 year period. In practice, they were a diluted form of this, being allowed to invest in company stock using a small proportion of corporate profits. These funds were abolished in the early 1990s. It is said that the political divisions arising from the Wage Earner Fund experience have stifled debate on financial participation in Sweden, with the result that few developments have taken place to promote it in recent years.

However, Sweden continues to operate long-standing Profit Sharing Funds. From 1992 to 1996, allocations to these funds were fully relieved from social security charges, which resulted in an increase in interest in profit-sharing funds. However, in 1997 the dispositions were recharged for social security (although a discount is still granted), resulting in a decline of interest. In 1997, the Swedish Left Party proposed a bill to Parliament, asking for the abolition of social security charges for Profit Sharing Funds. Parliament agreed in 1998 to investigate the possibilities of profit-sharing; this investigation is concluded, but as yet no action has been taken.

The framework for stock options was codified in 1998. Prior to this, options were taxed at vesting unless they were classified as marketable securities, in which case they were taxed at grant. Now, employee stock options are taxed at exercise. However, marketable securities are often used in preference to employee stock options because they are taxed at grant, when the tax liability is generally lower (Directorate-General for Enterprise, 2002). Both employee stock options and marketable securities are also liable to capital gains tax on sale of exercised shares.

For further information on the Swedish system of financial participation, see Gergils and Gergils (2003).

United Kingdom

Like France, the UK has a long tradition of financial participation (Pendleton *et al*, 2002a). Deferred share-based profit-sharing was introduced in 1978, then superseded by the Share Incentive Plan in 2000. Stock options have been the most important form of financial participation in the UK, with the approved schemes (those benefiting from tax concessions) being SAYE or Sharesave (in which the employee enters into a tax beneficial savings contract to finance the exercise of options), Company Share Options Plan (an 'American-style option' that may be restricted to selected employees) and Enterprise Management Incentives (aimed at smaller companies).

SAYE (Sharesave) has been the most important all-employee stock option scheme. Employees are allowed to take out options, to be exercised in three, five or seven years time, at up to 20% discount on market value at the time of grant. Meanwhile, employees save to exercise the option using an approved Save As You Earn (SAYE) savings scheme, providing tax-free interest rates. There is no income tax payable on the eventual sale of shares, but there is a capital gains tax (CGT) liability.

The Share Incentive Plan provides substantial tax benefits for share purchases by employees and also for grants of shares to employees by companies. Employees may subscribe pre-tax income to purchase shares on a regular basis and these contributions can be matched by the employer (up to 2:1). Employers can also choose to award free shares to employees, thereby providing an implicit form of profit-sharing (this provision replaced the Approved Profit Sharing plan). At the same time, the Enterprise Management Incentives plan introduced highly tax-advantageous stock options arrangements for employees of smaller companies.

Besides these specific schemes, the general framework for employee share ownership and stock options has been enhanced by the provision of taper relief to the capital gains arising on share sale. The longer that shares are held, the smaller the CGT liability.

From 1987, the UK had a highly tax-beneficial cash profit-sharing scheme (Profit Related Pay), but the tax concessions were ended in 2000 because it was believed that a high proportion of schemes were 'cosmetic'. Cash profit-sharing has not disappeared from the UK, but there are no tax concessions for this form of financial participation.

In the UK, approved financial participation systems are entirely voluntary and at the discretion of management. There is no legal requirement to consult or reach agreement with the workforce or their representatives before implementing a scheme (although individual participation is subject to the agreement of the individuals concerned).

For further information on the UK's system of financial participation, see Pendleton *et al* (2002a).

Statistics on the extent of financial participation schemes

Comprehensive national statistics are available on approved schemes in France and the UK. Statistics on the incidence of financial participation have also been collected by lobbying groups in France, Germany, the Netherlands and UK. There appears to be a lack of reliable statistics on the incidence of financial participation schemes in Italy, Portugal and Sweden.

To date, the only comparative statistics for the incidence of financial participation across EU Member States are those collected or analysed by the 1996 EPOC survey in a study of workplaces with 50 or more employees (EPOC Research Group, 1997) and by the 1999 CRANET study of business organisations with 200 plus employees (Brewster *et al*, 2000). Information is extracted from these primary data sources (Pendleton *et al*, 2001; Poutsma, 2001) and presented in Table 1.

Table 1 Extent of financial participation schemes in the EU (selected countries)

	Percentages of workplaces or organisations with profit-sharing or share ownership schemes			
Country	**Percentage of establishments with 50+ employees with profit-sharing in 1996 (EPOC study)**	**Percentage of establishments with 50+ employees with share ownership in 1996 (EPOC study)**	**Percentage of organisations with 200+ employees with broad-based profit-sharing in 1999 (CRANET study)**	**Percentage of organisations with 200+ employees with broad-based share ownership in 1999 (CRANET study)**
Belgium	*n/a*	*n/a*	12	11
France	57	7	84	23
Germany	13	4	18	10
Italy	5	3	8	2
Netherlands	14	4	55	21
Portugal	6	3	17	2
Sweden	20	2	19	12
UK	40	23	30	30

Sources: EPOC study (Poutsma, 2001); CRANET study (Pendleton *et al*, 2001)

It must be emphasised that the EPOC and CRANET studies are very different, with different respondent bases (i.e. workplaces *versus* organisations). Thus, these two sets of figures cannot be directly compared and certainly cannot be used to extrapolate trends over time. Nevertheless, it is clear from the two studies that profit-sharing is widespread in France and much more prevalent than in any other of the countries. The CRANET study indicates that the incidence of profit-sharing is also high in the Netherlands and to a lesser extent in the UK. Both the EPOC and CRANET studies indicate that share ownership schemes are most widespread in the UK, while being very uncommon in Italy and Portugal. The CRANET study suggests that there is a middle group of countries in which share ownership schemes are found in about 10% of organisations (Belgium, Germany and Sweden).

Conclusion

This discussion has provided brief details on the main features of the statutory framework for financial participation in each of the countries studied. Several observations can be made:

- Profit-sharing, in a variety of forms, is an important component of financial participation in most countries. Clearly, it is most important and widespread in France, where *participation* is compulsory. Profit-sharing based systems can also be observed in Belgium, Germany, Netherlands, Sweden and the UK. But there are variations in the end-result of profit-sharing: in France and the Netherlands profit shares are channelled into employee savings schemes, and in Germany into various forms of asset formation, whereas in other countries profit shares may be acquired more or less directly by employees.
- The incidence of profit-sharing, as recorded by the 1999 CRANET survey (Pendleton *et al*, 2001), correlates with the presence of legislation encouraging the use of profit-sharing in some form (for example, as employer contributions to savings plans). Thus, the incidence of profit-sharing has been high in France, the Netherlands and UK, and quite high in Sweden and Germany. It has also been quite high in Portugal owing to the status of profit-sharing in tax law, even though there has been little active encouragement of profit-sharing systems.
- All-employee share schemes (including all-employee stock options) are quite widespread in France, the Netherlands and UK. They are least common in Italy and Portugal. A key influence on the incidence of share schemes would appear to be the provision of mechanisms to facilitate employee acquisitions of shares: in the three countries where they are quite widespread, savings scheme arrangements support share acquisition. Germany has recently widened the scope of its asset formation arrangements to include employee shares.
- Most countries have made revisions to their stock options scheme arrangements over the last five years or so, although these do not necessarily promote this instrument as a broad-based form of financial participation.
- In most countries, there has been some activity to promote financial participation over the last five years. Belgium, in particular, has taken on board the PEPPER agenda. The position thus appears to be different from that of the mid-1990s, when the second PEPPER Report (1996) observed that little had happened to promote financial participation in some countries.
- Most of the statutory frameworks for financial participation provide a more or less level playing field. However, it is notable that some countries (Belgium, France and the UK) have taken steps to encourage the use of financial participation among small and medium-sized enterprises (SMEs).

The role of national governments 2

Governments are clearly important facilitators for the development of any financial participation regulation. It appears that in countries with a favourable tax regime, employee financial participation is more diffused and widespread. Furthermore, the active exchange of information and possible promotion campaigns by governments may enhance the development of employee financial participation. Governments may also work in conjunction with non-governmental organisations in promoting the phenomenon.

The following discussion examines the views and policies of the governments of the eight EU Member States studied in this report. The results show diversity between the countries in the nature and extent of their governments' activities. The research is based on analysis of documentary material from government ministries involved in policy-making or regulation of financial participation, as well as on interviews with experts responsible for such policies and regulations. Table 2 lists the ministries included in the research for each country.

In France, the Conseil Supérieur de la Participation (CSP) was included because it is an official tripartite council founded by the Ministry of Labour and Social Affairs that monitors the development of the financial participation system. Such a body does not exist in any of the other countries studied or indeed elsewhere in Europe.

Table 2 Government sources of data

Belgium	Ministry of Finance Ministry of Employment and Labour
France	Ministry of Labour and Social Affairs Ministry of Finance – Economy – Industry Conseil Supérieur de la Participation
Germany	Ministry of Labour and Social Affairs Federal Ministry of Finance Ministry of Economic Affairs and Technology
Italy	Ministry of the Treasury
Netherlands	Ministry of Financial Affairs Ministry of Economic Affairs Ministry of Social Affairs and Employment
Portugal	Ministry of Economics Ministry of Labour and Solidarity
Sweden	Ministry of Finance Ministry of Industry, Employment and Communications
UK	Treasury, The Inland Revenue

Attitudes towards financial participation

Across the eight countries studied, there is diversity in the nature of government ministries and departments that have the main responsibility for policies and regulations concerning financial participation. In France and Germany, the main coordinating ministry is the Ministry of Labour and Social Affairs, although the tax regulations are operated by the Ministry of Finance in both countries. In Belgium, the Netherlands and UK, the Ministry of Finance or the Inland Revenue coordinates policy and regulatory activity. In Portugal, it is less clear which ministry has primary responsibility since financial participation has not so far formed an important element of government policy.

Table 3 Attitudes and promotional activities of governments

Country	Ministries involved in financial participation	Main attitudes	Extent of promotion	Type of schemes favoured
Belgium	1. Ministry of Finance 2. Ministry of Employment and Labour	Involvement of workers in company policy, responding to economic and social developments, with the potential to provide greater transparency and information exchange.	Some promotion by Ministry of Finance.	Ministry of Finance has a slight preference for employee share ownership. Ministry of Employment and Labour favours systems that are generalised (i.e. not only to the benefit of senior executives).
France	Ministry of Labour and Social Affairs/Conseil Supérieur de la Participation (CSP)	Harmonisation of capital – labour relations, wealth redistribution and promotion of savings.	Highly active: compulsory profit-sharing and active monitoring of use of financial participation.	Broad-based deferred profit-sharing and employee savings in personnel investment funds. Expansion of savings funds recently. Also enhanced support for stock options and share ownership recently.
Germany	1. Ministry of Labour and Social Affairs 2. Ministry of Finance 3. Ministry of Economic Affairs and Technology	Financial participation fits into the ideology of the 'social market economy'.	Information brochures and support of agencies for information exchange. Primarily seen as an issue for the social partners.	Broad-based capital participation, with support recently for investment in company shares. Contributions to savings may be made through profit-sharing, but profit-sharing seen as a decision for the social partners. Barriers to stock options removed recently.
Italy	Ministry of the Treasury	Creating more participative relationships between the social partners.	The recent White Paper on the Labour Market recommends support for economic democracy, but limited legislative activity so far.	Support for wage flexibility since 1993, leading to some diffusion of profit-sharing. Employee share ownership favoured, but debate as to whether collective or individual arrangements preferred.
Netherlands	Ministry of Financial Affairs	Profit share and share-based saving to diminish demand in basic pay: 'moderate basic wage increases' and 'flexibility of remuneration'.	Primarily seen as an issue for the social partners.	Favour broad-based schemes. Criticism of narrow-based stock options for management. Recent preference for more flexible savings arrangements.
Portugal	1. Ministry of Economics 2. Ministry of Labour and Solidarity	Not explicitly stated.	In general, favourable. However, not seen as a priority. An issue for the social partners.	Some moderate tax incentives for profit-sharing for companies. Employee share schemes seen as desirable in principle, but difficult to use in Portuguese context. No specific support for stock options, although they benefited from a tax 'loophole' until recently.
Sweden	1. Ministry of Finance 2. Ministry of Industry, Employment and Communications	Philosophy not actively developed due to political sensitivities and some scepticism on the benefits of financial participation.	Not active, no consensus on whether to promote financial participation.	None, although there is strong criticism of stock options and bonuses for top management.
UK	Inland Revenue/ Treasury Department of Trade and Industry has some involvement in promotion	From 'enterprise culture' – 'popular capitalism' to 'stakeholder view' – 'partnership'. But contribution to productivity is the most important policy objective.	Active marketing of schemes via road shows on company level, especially for all-employee schemes.	Both all-employee and selective share schemes promoted. Long-standing emphasis on options-based arrangements, supplemented recently by share purchase scheme. Cash profit-sharing scheme recently phased out because of compliance problems.

These differences in departmental responsibilities reflect the specific policy traditions in the various countries. The difference may have an impact on the national philosophy as background for the development of employee financial participation. The responsibility of a Ministry of Social Affairs may be linked to a system with more social objectives than one where the Ministry of Finance or of Economic Affairs is responsible. Table 3 summarises the involvement and orientation of key government ministries in the countries studied.

Belgium

The official view on financial participation in Belgium is that it offers numerous benefits for both enterprises and employees. It will foster the involvement of all workers and will eventually involve them in company policy. It can also be a response to economic and social development, particularly in a context of competitiveness and an increasing opening up of the Belgian economy. Furthermore, financial participation can lead to greater transparency within an enterprise, with more exchange of information and a better understanding of it, thereby improving the management of the enterprise.

The Liberal and Socio-Christian political parties are strongly supportive of financial participation, whereas the Socialist and Ecology parties are more cautious. In the case of the Socialist party, an important factor is the link to a trade union movement which is hostile in some quarters. The left-wing political parties highlight the potential dangers and call for preconditions for the introduction of financial participation schemes, such as non-discrimination and equality among workers and an assurance that financial participation will not substitute for core salary.

There is also a difference in view between the Belgian Ministry of Finance and the Ministry of Employment and Labour, the latter tending to be a little more sceptical about the exact advantages of financial participation. In the view of the Ministry of Finance, the Law of 2001 dealing with employee profit-sharing and share ownership has two objectives. The first is to reduce the charges that inflate labour costs, as financial participation is not seen as part of the workers' remuneration and therefore receives advantageous tax treatment. The second objective is to introduce new legislation covering employee relations in enterprises. Financial participation may serve as an alternative remuneration method that allows entrepreneurial workers to benefit from profits that flow from their creativity. This ultimately unites shareholders and employees around an enterprise project.

France

There is a long tradition of financial participation policies in France. In fact, a Congress on Profit Sharing took place in Paris in 1889. In the post-war years, General De Gaulle started the whole issue under the umbrella of harmonising the relationship between capital and labour. Successive left- and right-wing French governments have developed financial participation into an elaborate system that can also be used for income and employment policies (for example, using the profit share for financing temporary unemployment, allowing withdrawals for the benefit of buying a house or a French car).

Other views were added to the original philosophy of harmony between capital and labour. Delivering a share of the profits to employees as a form of wealth redistribution became an important social objective. More recently, another, more corporate-oriented argument has been added. Financial participation is seen to be good for the nation since it raises capital that can be invested, or re-invested, in French companies. The risk that foreign direct investment is seen to pose for French employees has contributed to the growth of support for financial participation among the French trade unions, leading a majority of them (including the previously hostile CGT) to join the government's initiative of creating long-term employee savings funds (Fabius law, 2001) to boost local investments in French companies (*see Chapter 4*).

Germany

With the responsibility for financial participation in Germany resting with the Ministry of Labour and Social Affairs, the national philosophy behind financial participation is expressed by the notion of the 'social market economy'. The topic of financial participation is mentioned several times in the Coalition Agreement between the Social Democratic Party and Alliance 90/Greens in October 1998. The aim is to achieve agreements in the 'Alliance for Jobs' to enhance and extend financial participation. In addition, extensions of capital-sharing and profit-sharing are seen to potentially form an element of supplementary old-age pension schemes. However, to date, these sentiments have not given rise to much in the way of activities, incentives or regulations by government or the social partners.

The general consensus in Germany is that the market economy should be socially acceptable and that there should be equal access to shares in any increases in national and corporate wealth. The policy of encouraging asset savings by successive German governments has been based on a recognition of inequalities in wealth. Typically, the policy is directed towards improvement of asset ownership by low earners. Originally, the objectives were to develop a system of saving that allowed modest earners to buy a house. Later the system was broadened to general asset savings, like stocks and bonds, operated by special investment banks.

Recently, a more corporate aspect has entered the debate in Germany. In 2000, at the 50th Annual Congress of the Arbeitsgemeinschaft Partnerschaft in der Wirtschaft or AGP (an NGO that promotes employee share ownership in Germany), Chancellor Gerhard Schröder described financial participation in the form of capital-sharing as one of the pillars of the social market economy. He went on to say that co-determination *and* capital-sharing contribute to managing the tremendous economic and societal changes taking place, and support the required restructuring of companies. He pleaded for an improved employee involvement and new forms of work organisation. Typically for Germany, he appealed to the sectoral collective bargaining parties to find regulations and pointed to the joint declaration achieved in the 'Alliance for Jobs'.

In general, the German philosophy is oriented towards broad individual application of any financial participation. There is no specific form that is promoted or supported. That would also not be seen as fair towards employees that work under other regimes. The general view of the government is that good models function without state subsidies.

Italy

The view of the Italian government is that financial participation, as well as other forms of participation, will stimulate a more cooperative attitude between the social partners. By taking a leading role in the area of financial participation, the government hopes to create conditions to foster the development of participative agreements among companies, leading to an increase of competitiveness in the Italian economic system. Moreover, the notion of financial participation fits the picture of economic democracy. The recent White Paper on Reform of the Labour Market called for the development of a more consistent framework for the development of employee share ownership.

A long-standing concern of Italian governments has been to enhance wage flexibility. The 1993 Agreement provided a framework agreement that allowed for some decentralisation of pay determination and supported the development of flexible components in employee wages and salaries. This was supported by modest tax concessions in the late 1990s. To some extent, financial participation is seen as a mechanism to further enhance pay flexibility.

Netherlands

In the Netherlands, the national philosophy behind financial participation is completely different to other countries. While in France and Germany promoters talk about social objectives like wealth redistribution, in the Netherlands part of the philosophy was to find ways to influence collective bargaining outcomes and to have moderate wage increases. The idea was that when the government developed a system able to sustain the purchasing power of individuals and households, the need for any wage demands beyond inflation would be moderated. Therefore, any incentives for financial participation were regulated within a system that also promoted general wage savings. Another general argument used in the context of profit-sharing was the possibility of flexibility in remuneration since the wage system in the Netherlands was considered too rigid.

At the end of the 1990s, the law suffered from its own success. The substantial amount saved appeared to be linked to a major decrease in tax income for the government. Also, the law did not meet one of its initial objectives — of enhancing savings by low earners. It appears that high earners participated more and saved more, while they also had higher profitability of their savings due to the tax regime (higher incomes can deduct a higher proportion from income tax). The law therefore came under attack and the new government of July 2002 proposed to change the law and more or less abolish the wage savings system.

Portugal

Portugal has less developed policies in the area of financial participation than other countries studied, but the representatives interviewed shared a generally favourable view of financial participation. It was seen to contribute to enhanced labour productivity and to align the interests of employers and employees. In principle, share ownership was seen as preferable to profit-sharing because of its longer timeframe. However, employee preferences for liquidity, coupled with the low level of development of financial markets in Portugal, restricted the appeal of share ownership schemes. In general, little interest in financial participation was discerned among either employers or employees, and this helps to explain the lack of any national strategy on the subject. The reasons for this lack of interest were seen to be the low level of wages in Portugal and the tradition of antagonistic labour relations. It was suggested that a precondition for the extension of financial participation in Portugal was a major shift in attitudes among employers, unions and employees.

Sweden

Financial participation does not appear to be a priority issue on the Swedish political agenda, although there is some work underway in government on changes to the stock options regime.

There are several reasons for this lack of promotion of financial participation. The furore over Wage Earner Funds in the 1980s and early '90s has left its legacy. Furthermore, the links between the Social Democratic government and the trade union movement may have discouraged policy development because of the suspicion in parts of the union movement that employers wish to use financial participation to decentralise the traditionally centralised collective bargaining system. In the one area where government has legislated recently (stock options), there has been considerable public disquiet about highly publicised 'fat cat' option awards and this has tended to discourage further debate about financial participation within government circles. This is perhaps ironic given that many professional commentators believe that Sweden's regime for stock options is relatively restricted.

United Kingdom

While France, Germany and the Netherlands had broad, macro-level considerations for promoting financial participation, the UK's national philosophy is more oriented to company level. The introduction of the various schemes in the UK reflected a corporate rather than a social policy agenda. Promotion of medium-term employee savings has not been a motive for governmental support of financial participation. Nor does financial participation take the form of an off-shoot from company savings schemes, as in France (although a savings plan is integral to the operation of the main all-employee stock options scheme).

Currently, the primary governmental objective for financial participation is to secure improvements in productivity. The productivity issue has been a major factor in the economic and industrial policy of the Blair governments since 1997. It is argued that share ownership will increase employee motivation and bring about closer employee identification with the company, thereby leading to greater work effort and commitment; this, in turn, will contribute to higher productivity. This is a somewhat narrower aim than that of the previous Conservative governments, which also emphasised the capacity of share ownership schemes to bring about social transformation by creating an 'enterprise culture' or 'popular capitalism'.

However, the New Labour government added stakeholder views to the national philosophy and to some extent located financial participation in a philosophy of 'social partnership'. It is argued that 'ideally all employees should have shares' on the grounds that as 'stakeholders' they should benefit from the success of their companies. The two Blair governments have provided very strong support for share-based financial participation and have introduced two new sets of arrangements for share schemes/stock options, coupled with more general measures to support employee share ownership. Some support for profit-sharing may be discerned in some strands of this legislation, but cash profit-sharing is not on the agenda for this government. Since being in office, the orientation of the New Labour government to financial participation has been similar to that of their Conservative predecessors in that it reflects a predominantly corporate agenda. It differs in that 'fairness' has been a primary consideration in the development of the all-employee scheme: it is seen as important that all employees should have the capacity to benefit from the success of their employing company. This is enshrined in the use of the term 'partnership' to describe some aspects of the scheme. This combination of objectives might be described as 'efficiency and fairness'.

Views on the advantages and disadvantages

Two stances on financial participation can be observed among governments in the countries studied. On the one hand, there are governments that are ardent advocates of financial participation, as in the UK. On the other hand, there are governments that, although they believe financial participation is a potentially beneficial instrument, remain sceptical as to how far the benefits may be realised in practice. Within this group, there are some (such as Portugal and Sweden) that are doubtful whether conditions in their countries are right for a major expansion of financial participation.

Table 4 summarises the views of governments on the advantages and disadvantages of financial participation. It can be seen that macro-social effects are stressed in some countries (such as Germany, France and the Netherlands), while in others the emphasis is more focused on corporate-level economic outcomes, such as productivity and wage flexibility (for example, in the UK, Belgium and Italy).

The differences of opinion on productivity effects are interesting. German governmental officials expressed doubts on productivity effects in the absence of solid research evidence. Portuguese officials believe that financial participation may have positive productivity effects, but also lack the solid evidence to confirm this. In the UK, there is some evidence of positive effects on productivity (not necessarily for all schemes) and government officials attached some importance to this. The attractions of financial participation in the UK are seen to reside in company-level productivity effects rather than broader socio-economic impacts (although corporate-level effects also contribute to macro-economic success). The most important objective underlying the recent UK legislation has been the encouragement of improvements in productivity in companies.

In Belgium, the Ministry of Finance believes that financial participation has a positive effect on enterprise growth and profitability, which results in more employment and greater competitiveness. It also enables enterprises to achieve higher productivity. Overall, company performance increases because employees feel more involved and profitability will grow due to the stimulation of internal collaboration. The UK, Belgian and German officials emphasised that financial participation is unlikely to have positive effects on its own: they suggested that the interaction between financial participation and good management practices (such as employee involvement and communications) are likely to combine to promote trust and cooperation between managers and workers. At a more general level, Italian officials reckoned that financial participation could contribute to the development of greater economic democracy.

A positive impact on work organisation and direct participation was most likely what Chancellor Schröder had in mind when, addressing the AGP in 2000 (*see p. 22*), he described financial participation as a forward-looking instrument. The idea was that the realisation of technical progress, rationalisation and modernisation succeed more easily and are shaped more socially when financial participation is applied. The German Ministry of Labour and Social Affairs shares this view and promotes financial participation. In Belgium, the Ministry of Finance views financial participation itself as a new form of corporate organisation since it alters the relationship between employer and employee, but the Ministry of Employment and Labour in that country sees no direct link with the introduction of new forms of work organisation at plant level.

Table 4 Government views on financial participation

Country	Advantages	Disadvantages
Belgium	• Involvement of workers • Supports competitiveness and openness of Belgian economy • Will lead to greater transparency, information exchange and improved management of companies	• Weakens the fixed wage system and increases wage differentiation • Too little transparency
France	• Harmonises capital – labour relations • Enhances wealth and income redistribution • Increases savings that can be invested in French companies • Extends employee influence on corporate management (in a context where French listed companies are increasingly owned by overseas institutional investors) • Disseminates information on companies and performance to employees	• None mentioned by respondents
Germany	• Enhances wealth redistribution • Increases savings of low earners • Employee share ownership increases identification and commitment with company objectives • Profit-sharing and share schemes integrate social objectives with modernisation of businesses • Stock options support development of smaller companies with high-growth potential	• Doubts on productivity effects in the absence of solid evidence • Transfer of risk to employees
Italy	• Share schemes help to develop stock markets • Stimulates economic democracy • Profit-sharing contributes to flexibility	• None mentioned by respondents
Netherlands	• Moderates basic wage demands • Profit shares enhance pay flexibility • Improves savings by low earners	• Share options may be exploited by top managers for self-enrichment • Options may encourage managers to manipulate earnings and also promote short-termism in management
Portugal	• Increases productivity • Enhances identification and commitment • Improves cooperation and long-term partnership	• Restricts labour mobility • Remuneration risk for workers • Shares are illiquid form of reward
Sweden	• No official opinion on the effects of financial participation in the absence of conclusive scientific proof of its benefits	• No official opinion on drawbacks of financial participation, but some anxiety that share options can be misused by top management for self-enrichment
UK (tax concessions for share acquisition and share option schemes)	• Enhances employee motivation • Enhances identification and commitment • Improves productivity • Attracts and retains key employees in smaller companies	• None mentioned by respondents

Labour retention is seen as an important consideration for smaller companies, especially by UK officials. (Indeed, the UK's Enterprise Management Incentives scheme was designed for this purpose, *see p. 15*.) With regard to retention and binding of employees, the Portuguese and German government officials could see both sides of the issue. Measures to increase labour retention can conflict with the objective of promoting labour mobility. Although in macro terms, the benefits of labour retention may be questioned, in practice it is often an important objective at company level and financial participation is seen to be a useful tool in this respect. The Belgian respondent mentioned that financial participation might help in attracting and retaining skilled and motivated staff.

At the individual level, the Belgian Ministry of Finance suggests that the impact of financial participation on employees is positive on all counts. It leads to greater motivation, identification with the objectives of the enterprise, better relations between employees and management, better cooperation and confidence at the workplace, better distribution of wealth, greater social justice and a better quality of living and working. The Belgian Ministry of Employment and Labour, however, has mixed feelings about the effects: as far as staff involvement and motivation are concerned, it believes that relations are more based on the spirit and climate of the enterprise. It also argues that when there is a large-scale financial participation scheme, the proportion of additional remuneration is relatively small and that it therefore clearly has little effect.

An important issue concerns the relationship between financial participation and other forms of employee participation and representation. In particular, to what extent should financial participation be institutionally linked to other forms of employee participation? The 2002 Communication from the European Commission, on ‘a framework for the promotion of employee financial participation’, notes that ‘there is strong evidence suggesting that the benefits of financial participation are greatest when such schemes are introduced through a partnership approach and when they are embedded in an overall approach of participatory management’ (European Commission, 2002, p. 19).

This general position appears to be accepted by governments in the study, but there is some divergence of approach between governments, especially on the issue of social partner involvement in the design, implementation and management of financial participation schemes (in other words, the link between financial and representative participation). Three positions can be discerned:

- One set of countries has mandated the involvement of employee representatives in financial participation. Both the Belgian and French governments have required that financial schemes be subject to agreement with employee representatives (although an employee ballot is an alternative in France). Recent French legislation also gives unions a seat on the boards of the funds that invest workers’ deferred savings.
- A second set of countries, including the Netherlands and Germany, argue that the implementation of financial participation schemes ought to be agreed between the social partners, but do not specify how this should take place.
- The third position is that of the UK government: it believes that implementation should be left to the company level and does not explicitly refer to the desirability of social partner involvement and agreement.

Promotional activities initiated by governments

There is considerable diversity between the Member States in the extent to which governments actively promote the use of financial participation by companies. Overall, the evidence suggests that those governments that have been most committed to financial participation, over the longest period, have been most active in encouraging the take-up of financial participation and in monitoring its adoption by companies.

Due to its long-standing financial participation policy, France has developed extensive promotion activities. It has, for example, a national council for participation — the Conseil Supérieur de la Participation (CSP). This was created in 1996 and is presided over by the Minister of Labour and Social Affairs, which usually delegates this function to the Industrial Relations Director in its ministry. The CSP is a tripartite committee, with employee and employer representatives of national social partner organisations, and with appointed people representing specialised associations or public departments contributing to promote financial participation. Its main objectives and activities are:

- To monitor the dissemination of different systems of financial participation in French enterprises. The CSP undertakes an annual quantitative analysis and public report, dealing with those financial participation systems that require collective agreements or consultation: profit-sharing system (*intéressement*), employee savings plans (PEE) and compulsory financial participation in the profits (*participation*). However, it hardly deals with any share-based systems of financial participation (these are more the responsibility of the Ministry of Finance). Therefore, to date, there is no complete or broad official annual statistical report on share-based systems in France. However, recently, the CSP has received the assignment to monitor share-based systems as well.
- To gather information on the ways that financial participation systems are applied (e.g. state of negotiations, state of the agreements and amounts of distributions, savings) and to deliver this information to employees, enterprises or any stakeholder interested in such information.
- To support initiatives regarding financial participation in enterprises.
- To advise the government and to provide recommendations on ways in which financial participation can better reach its goals, meet expectations and disseminate into the nation.

In Germany, promotional activity of financial participation by government is limited. The official view is that the state should not actively intervene to promote capital-sharing: the implementation of financial participation is seen as an issue for the social partners and company-level actors. Thus, although the Ministry of Labour and Social Affairs provides information on financial participation (brochures available on the Internet), it does not provide any advisory services to companies, trade unions, other relevant organisations or individuals. Instead, inquiries are referred to the AGP and other organisations mentioned in the publications.

A similar approach can be found in Portugal, the Netherlands and Sweden. In these countries, there does not appear to be an active programme of promotion of financial participation by government. The Portuguese and Dutch governments believe that financial participation should be dealt with by the social partners, not by government. This means that they do not actively promote financial participation other than facilitate it, by regulations set by government and agreed by parliament. In Italy, the social partners have taken the view that government should not play an active role in financial participation because it could restrict their freedom of manoeuvre. In Sweden, too, the official view is that initiatives to adopt any system of profit-sharing or option schemes must be taken at company level.

In contrast, in the UK, the New Labour government under Prime Minister Blair has offered strong support for employee share ownership. The Chancellor of the Exchequer has declared that he wants to see a doubling of the number of companies with an all-employee scheme (around 1,750 in 1998) and various policy and implementation initiatives have been taken to reach this target. The implicit implication of this target is that share schemes will need to be implemented by companies that, on the whole, have not traditionally used financial participation (i.e. small, medium-sized and privately owned companies). This proactive attitude has included the following initiatives:

- an effective name for the all-employee scheme was seen as important from the outset: after the 'All-Employee Share Ownership Plan' was introduced, the Inland Revenue conducted market research into the name of the scheme and as a result it was renamed the 'Share Incentive Plan' in Autumn 2001;
- in conjunction with Proshare (an NGO that promotes employee share ownership), the Inland Revenue has mounted promotional 'roadshows' around the country, with special attention paid to inviting small and medium-sized enterprises (SMEs);
- an advertising campaign, involving full-page advertisements in the national press during March and April 2002;
- provision of extensive information on the Inland Revenue web site; and
- marketing stands and provision of speakers at business conferences.

By contrast, the new Enterprise Management Incentives plan has not been promoted to this extent. The rapid adoption of the scheme suggests that active marketing was not necessary.

Barriers to financial participation

Government officials in Portugal, Germany and the Netherlands point out that there may be potential difficulties with financial participation and that these might limit its growth. The main issue here is the risk emanating from concentration of employee investments in their employer. Some officials cited the ENRON case and other financial scandals more recently. Dutch officials referred to the possibility that financial participation may lead to manipulation of the financial results of a company by its managers for the sake of their own personal enrichment or to encouragement of actions that are short-termist in orientation. Questions in the Dutch Parliament concerning these problems have led to changes in corporate governance regulations and tax incentives for stock options. Similarly, the issue of risks has led the German government to design regulations for safeguarding investments by hedging procedures (these pre-date the ENRON affair).

The Belgian Ministry of Employment and Labour also foresees difficulties, as the link between the work performed and the enterprise's value on the capital market is not necessarily a direct one and the determination of profit is not always clear and transparent. Also problematic is the differentiation of salaries which financial participation may cause.

The steep rise in the use of stock options for top executives appears to have created political difficulties in several Member States. Public disquiet about 'fat-cat' awards of stock options has made it difficult for some governments, which are broadly favourable towards the principles of financial participation, to actively promote their use or to implement further legislation. Belgium, the Netherlands and Sweden are good cases in point. These difficulties are not necessarily insurmountable: the UK has introduced a selective stock options scheme, even though there has been considerable negative publicity in the recent past about 'excessive' option awards. However, the fact that this new options scheme is aimed at smaller companies rather than the large listed companies (where the 'abuses' are seen to occur) possibly explains the lack of opposition. It may be that public opposition to stock options schemes (and by implication other forms of financial participation) is the most potent barrier to the development of financial participation in those countries with Social Democratic governments that have strong links to union movements sceptical or opposed to financial participation (such as Sweden and Belgium).

While most officials support the claim that tax incentives matter, they point to the attitude of the social partners at national and company level as an important barrier to further development. The German officials summarise the position as follows. The mere promotion by the state of financial participation cannot be seen as a stimulus as long as the social partners do not achieve agreement on the desirability of implementing regulations at company level. Factors that would facilitate the introduction of financial participation are a dialogue between the sectoral collective bargaining parties and the parties on the company level, as well as an improved acceptance by the employees based on comprehensible information. In Portugal, officials suggest that some fiscal incentives could be useful, but the main requirement would be a dramatic change in attitude by all parties involved; they point out that the social partners tend to have a conflictual view of labour relations and therefore a degree of mistrust prevails.

In the UK, two main barriers to the further development of financial participation have been identified. Lowering these was an important objective behind recent legislation. The first barrier is seen as the difficulty and cost for smaller, private companies to operate share schemes. There are high fixed costs in establishing such schemes, as well as difficulties in achieving liquidity and anxieties that share ownership may lead to a loss of control. Recent legislation and associated initiatives have been aimed at ameliorating these difficulties, while at the same time enhancing the tax benefits associated with share ownership and stock option schemes.

The second barrier is perceived to be the lack of flexibility for companies that arises from the need to have tight regulatory systems, to ensure tax compliance. (In essence, schemes approved by the Inland Revenue had to be implemented within very tight regulations.) To combat this lack of flexibility, a major objective of the recent legislation was to provide a looser framework, with certain key decisions (for example, whether shares should have voting rights) reserved to the company.

A further obstacle throughout EU Member States to the use of share-based financial participation is the level of development of financial markets. There are considerable differences between countries in the extent of equity markets and the size of the listed sector will have a strong influence on the incidence of financial participation. The 1999 CRANET study showed that stock market listing was a very important factor in determining the use of employee share schemes (Pendleton *et al*, 2001). Portuguese officials emphasised that the potential for development of financial participation was limited by the current size of their national equity market. A similar point applies to Germany, where the relatively small number of listed companies has limited the appeal of share-based financial participation in the past.

In Belgium, there appears to be relatively few large enterprises whose shares may be acquired by all staff. Moreover, there is generally little innovation in the field of financing organisations. It is especially clear in Italy that broader reforms of company organisation and corporate governance will be necessary for a major expansion of share-based financial participation. In particular, the rights of minority investors are likely to need greater protection than has traditionally been the case in the Italian system. Current reforms of corporate governance in Italy may well improve the prospects for employee share ownership, but further action by government will probably be necessary to actively promote financial participation.

Conclusion

Several conclusions can be drawn from the study of government ministries:

- It is clear that in nearly all countries examined, there is now an active engagement with financial participation. This is a change from the position reported by the second PEPPER Report in 1996, which showed that there was very little activity in the area in many Member States (European Commission, 1996).
- In some instances, greater engagement by Member States can be attributed, at least in part, to the activities of EU institutions. The recent reforms in Belgium, for example, appear to have been stimulated by debates at EU level and have taken on board the principles that have been developed there.
- There is quite a wide variation in the perceived merits of financial participation and in national policy objectives. In some countries the capacity of financial participation to reduce inequalities is emphasised, while in others anxieties are expressed about its potential to increase inequality. In some cases the capacity of financial participation to enhance medium and long-term employee savings is viewed as a key benefit, whereas in others the contribution of financial participation to productivity enhancements is more important.
- Governments see their function as providing the statutory regulatory framework for financial participation. This may also include measures to promote it. However, once provided, the dominant view is that it falls to companies or the social partners to promote financial participation schemes. Little active promotion by governments takes place (the UK and France are the main exceptions, albeit in differing ways).
- Three positions can be discerned on the linkages between financial participation and employee representation. One set of countries has mandated the involvement of employee representatives in financial participation. Both the Belgian and French governments have required that financial schemes be subject to agreement with employee representatives (although an employee ballot is an alternative in France). Recent French legislation also gives unions a seat on the boards of the funds that invest workers' deferred savings. A second set of countries, including the Netherlands and Germany, argues that the implementation of financial participation schemes ought to be agreed between the social partners, but 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.
- In some countries, the capacity of financial participation to contribute to greater flexibility in remuneration and in systems of pay determination is viewed as a benefit. However, this is probably the most contentious aspect of broad-based financial participation. Other governments do not highlight this effect or else have taken steps to limit wage substitution and the capacity to side-step 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 of some forms (share schemes especially) to the circumstances faced by SMEs.
- Although governments in general identify a range of possible advantages for financial participation, some are conscious of the lack of clear evidence for these benefits and the difficulties of identifying their effects. This limits the extent to which governments can extol the virtues of financial participation.
- The main perceived barriers to further growth of financial participation can be classified into three types:
  - *Political*. Widespread disquiet about the potential for narrow-based share schemes (especially options) to contribute to self-enrichment can affect public perceptions of broader forms of financial participation. In addition, in some countries trade union organisations oppose financial participation for various reasons. At the micro-political level within companies, it is difficult to introduce a 'high-trust' instrument into environments that are characterised by conflictual relationships between the main parties.
  - *Technical*. Financial participation appears to be less appropriate for SMEs for several reasons, including administration costs and the absence of a market for shares.
  - *Environmental*. There are barriers to the use of financial participation posed by other aspects of the corporate environment, such as corporate governance, corporate law and reporting requirements. Further development of financial participation may require reforms to these, as well as the development of specific financial participation frameworks.

Views and policies of central employer organisations 3

Five main questions are addressed in this discussion of the research findings on central employer organisations.

- What are the views and policies of these organisations on financial participation?
- What is the preferred relationship between financial participation and other forms of employee participation and representation?
- To what extent have employer organisations been involved in representational activities in the area of financial participation?
- To what extent are employer organisations involved in advisory and information dissemination on this subject?
- What do these organisations perceive as the main barriers to further use of financial participation in their countries?

These questions correspond overall to the five key questions outlined for the project in the Introduction (*see p. 1*), but there are differences in emphasis. Here, we deal with ideas, policies and perceived benefits of financial participation in a single section because employer organisations are generally favourably disposed towards it. The issue of the relationship with other forms of employee participation is dealt with in a separate section because this tends to be a highly salient issue for employer organisations. The activities of employer organisations are separated into two types — representational activities and provision of advisory and information services.

The nature of the research questions in the national studies means that a definitive assessment cannot be reliably make of the influence of employer organisations on national frameworks and policies towards financial participation. Nor can it be clearly determined whether they are reactive or proactive overall in relation to government policies. However, the picture that emerges is that in most cases, employer organisation activity is responsive to governmental policy initiatives and to the prevailing framework for financial participation. This is because in most countries there are some arrangements for financial participation already in place and so governmental action focuses on amendments to these. Employer organisations are not, on the whole, attempting to create financial participation from scratch. In some cases, employer organisations have been more proactive in seeking amendments to tax regulations, as in the case of stock option regulation in some countries. Where there is an embryonic framework for financial participation, employer organisations have been vocal in some instances (as in Italy) in attempting to get financial participation on to policy agendas, but not in others (as in Portugal).

Prior to addressing the questions listed above, some introductory comments are provided on the functions of employer organisations and details of the data sources used in the research.

Characteristics of employer organisations

The organisation of employer interests varies considerably between the eight EU Member States studied in this report. Two basic kinds of employer organisation can be discerned, supplemented by hybrids that combine characteristics of both. First, there is the trade association (in which the organisation represents the commercial and technical interests of its members) and, second, the employer association (in which the association represents the labour market interests of its members). This report focuses on the activities of the latter type of business organisation. However, it should be borne in mind that the traditional division between the two at central or national level has been abandoned in several of the countries examined in this study (Visser, 1999) and it is only in Germany that a clear division between 'trade association' and 'employer association' still pertains at national level.

Historically, employer associations have performed several functions for their members:

- *advisory* — providing advice and information on employment and industrial relations issues to their member companies;
- *representational and lobbying* — attempting to influence the policies and practices of government and other regulators;
- *grievances and discipline* — providing grievance and discipline procedures for their industry; and
- *collective bargaining* — negotiating with trade unions to create agreements on wages and hours of work at local, regional or national level.

The balance of functions differs both between countries and between levels of employer associations. Typically, there are two main levels: the sectoral-based association and the 'central' organisation. Sectoral associations vary in their breadth of coverage. They may be highly specialised or alternatively cover all companies in broad industry sectors; they may be unified and centralised, or else may be federal groupings of regional or local associations. In contrast, national or central organisations aspire to represent all relevant employer interests and usually the membership basis is employer associations, often supplemented by direct corporate membership. (Some central organisations have both employer associations and individual companies in membership.) There are also some general employer associations that aspire to represent all types of company of a certain type (e.g. small and medium enterprises).

Labour market activities vary between the two groups of organisation. On the whole, any collective bargaining or disputes procedure functions are to be found in sectoral organisations, either at regional or national level. Collective bargaining rarely occurs at central organisation level (Sweden being the main exception); in some cases (France and Italy), national agreements on issues other than rates of pay are signed at national or intersectoral level. Advisory services are also mainly provided by sectoral associations, but central organisations disseminate general information, conduct and publish research, and organise conferences on labour market topics. Representation of employer interests to government is generally primarily a function of the central organisation, except on issues that are specific to particular sectors.

In the case of financial participation, it is anticipated that employer association activity will be strongly influenced by government activity. Since government policy and action have a very strong influence on the use and extent of financial participation (Uvalic, 1991; European Commission, 1996; Pendleton *et al*, 2002b), much employer association activity in this area will be in response to government action. Thus, the representational activities of central associations may be a major component of employer association activity in this area. The greater the level of government action, the greater the extent of representational work by employer organisations.

Data from employer organisations

Each national research team collected data from the main central employer organisation in each country (*see Table 5*). The views and activities of other important employer organisations were also recorded. The type of organisation varies between countries, so comparisons have to be treated with a degree of caution. Some of these organisations are sector-based employer associations, while others are national professional organisations (*for a full list, see Appendix 3*).

Table 5 Data sources among central employer organisations

Belgium	**Fédération des Entreprises de Belgique (FEB)/Verbond van Belgische Ondernemingen (VBO) or Federation of Enterprises in Belgium**. This organises employers in 35 branches, numbering about 30,000 enterprises. Around 25,000 of its members are SMEs. It participates in tripartite institutions, such as the Central Economic Council and the National Labour Council.
France	**Mouvement des Entreprises de France (MEDEF).** Of the countries under consideration, this organisation has the most active role in industrial relations. It negotiates on some broad issues (such as the accord in 2001 on funding for retirement), but not on pay and conditions of employment; 39 intersectoral agreements were reached in 2001. Its 800 or so affiliates include both sectoral associations and intersectoral associations at all levels, as well as direct company members. There are over 800,000 companies affiliated to MEDEF, either directly or indirectly (Van Ruysseveldt and Visser, 1996) and it organises about 75% of French companies. It has trade association functions as well as employer association functions. It is seen as being a heterogeneous organisation, divided by conflicting interests.
Germany	**Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA) or Federation of German Employers' Associations.** This is strictly an employer association (commercial representation is provided by the Bundesverband der Deutschen Industrie or BDI). Membership is open to employer associations (at branch or regional level) and federations, but not to individual companies. Currently, the BDA has 54 sectoral associations and 14 intersectoral regional associations, and it represents companies employing about 80% of the German workforce. It has no direct involvement in collective bargaining, but has representational, lobbying and advisory functions.
Italy	**Confederazione Generale dell'Industria Italiana (Confindustria)** is the leading organisation representing the manufacturing and service industries. **Confederazione Italiana della Piccola e Media Industria (Confapi)** represents thousands of small and medium-sized companies, helping them to cope with the ever-changing economic environment.
Netherlands	**Vereniging Nederlandse Ondernemingen Nederlands (VNO)/Christelijk Werkgeversverbond (NCW).** This is the largest employer organisation in the Netherlands and was created recently by the merger of the Federation of Dutch Enterprises and the Christian Employers' Federation. VNO-NCW represents about 150 branch associations, representing more than 80,000 enterprises covering almost all sectors of the economy and almost all of the larger corporations. Overall, it organises about 80% of Dutch private sector employers. It has both trade association and employer association functions. It represents the business sector nationally on governmental advisory and consultative committees, most notably on the Social Economic Council (SER), and in national contacts with trade unions, most notably the Labour Foundation (Stichting van de Arbeid).
Portugal	**Confederação da Indústria Portuguesa (CIP)** is one of three Portuguese central employer confederations. CIP represents the industrial sector in about 80 sectoral and regional associations.
Sweden	**Confederation of Swedish Enterprise (Svenskt Näringsliv)** is Sweden's main employer association. It was created in 2001 by a merger of the two former largest organisations (the Swedish Employers' Confederation (SAF) and the Confederation of Industries). It has approximately 57,000 member companies and organises almost 80% of the companies with more than 100 employees. The organisation covers 66% of the private labour market. **Federation of Private Enterprises (Företagarnas Riksorganisation)** is Sweden's leading employer association for small and medium-sized companies, with some 55,000 members.
UK	**Confederation of British Industry (CBI)** is an umbrella body, open to employer interests. It has two kinds of affiliation: direct corporate affiliation and affiliation by independent sectoral employer associations. It tends to be larger companies that take advantage of corporate affiliation. The CBI has about 300,000 companies affiliated to it via employer association membership and several thousand direct members. It has no direct labour market role, but does have representational, lobbying and informational functions.

Employer views concerning financial participation

Employer organisations generally have favourable views on financial participation. To quote the respondent for the Confederation of British Industry (CBI) in the UK, the CBI 'has the philosophical view that share ownership in particular is a good thing which ought to be encouraged obviously and that we are trying to work with the Government to try and find ways of how we can extend the scope, both in terms of employers and in terms of employees, in the UK … We believe it is both a key way to involve employees in the business and give them a real stake in the future of the business'.

However, variations can be observed between the different countries' central employer organisations in the extent of their support for financial participation, as well as its preferred forms. Those organisations in Belgium, France, Germany, the Netherlands and UK are supportive of the principle of financial participation and all have been recently engaged in activities to promote it, although to varying extents. Italy, too, is mostly in favour, with the two largest employer organisations, Confindustria and Confapi, giving their support to financial participation schemes.

The exceptions are Sweden and Portugal. The latter's Confederação da Indústria Portuguesa (CIP), although not hostile to financial participation per se, views it as a low priority. There is a combination of reasons for this: low levels of profitability and productivity limit the capacity of companies to provide additional rewards to employees and employees themselves have a preference for increases in base wages (given the relatively low levels of wages and salaries in this country). The two main Swedish employer associations, Svenskt Näringsliv and Företagarnas Riksorganisation, hold a relatively neutral position on programmes for financial participation: their basic policy is that questions regarding company management and the employee – company relationship should be handled at company level.

There are also variations in the preferences for types of financial participation. This does not necessarily reflect any substantive philosophical position on the relative merits of various types of scheme. Instead, the prevailing forms of financial participation in a country tend to influence the balance of attention given by associations. For example, the British CBI is strongly in favour of employee share schemes, but has less to say about cash profit-sharing (which is not currently favoured by tax concessions and legislation). In contrast, the Dutch central employer organisation, VNO-NCW, is most clearly supportive of profit-sharing, which reflects the importance of this type of scheme in the Dutch context. The Portuguese CIP explicitly favours profit-sharing over share ownership, reflecting the belief that employees prefer increases in cash remuneration to share ownership. (The CIP representative argued that most Portuguese employees would sell shares at the first opportunity.) CIP suggests that stock options may be appropriate for managers and for start-up companies, but not for broad-based financial participation. As with financial participation itself, Swedish opinion on its form is also neutral: generally, the employer associations advocate voluntary systems for broader ownership and financial participation, and reject all legally enforced systems. In the case of Belgium, the central employer association, FEB/VBO, does not seem to prefer a particular scheme: the most appropriate plan in a given case depends on the specific characteristics of the organisation concerned.

While the employer organisations of the eight EU Member States under investigation share similar views about the purposes of financial participation, there are differences in the way financial participation operates in each country. Financial participation is seen by all as a way of enhancing employee identification with their employing organisation, thereby leading to higher levels of motivation and possibly therefore to improvements in company performance. Some respondents, however, recognised the difficulties in clearly establishing the direction of causality.

It was also suggested that financial participation can assist in the recruitment and retention of employees. In Belgium, it was seen to foster staff loyalty and therefore secure a more stable workforce. The German BDA representative noted the potential role of financial participation as a tool of wealth redistribution, reflecting the traditional function of financial participation (mainly profit-sharing) as an instrument to redistribute wealth to modest income earners. Portuguese respondents, in contrast, argued the opposite — that financial participation was not a useful means for redistributing wealth. In France, the central employer organisation of MEDEF has recently argued that a primary function of financial participation is to facilitate employee saving and success in this respect is more important than promotion of particular forms of financial participation (Tchobanian and Nohara, 2001). This fits with the traditional centrality of employee savings schemes in the operation of profit-sharing, but also with the emerging belief that savings plans can contribute to pension provision.

In the Netherlands, employer organisations also emphasise the role of financial participation in creating flexible remuneration systems (this perhaps reflects the primacy of profit-sharing in the Dutch system of financial participation). In Italy, Confindustria sees financial participation as a way to review the structure of labour relations and the position of each actor involved, leading to stronger worker – company communications; moreover, it can help to meet a company's need for more flexibility, specifically flexibility in financial schemes. In Belgium, financial participation has until recently been seen as a way of creating flexibility within the confines of national incomes policies, but the views of employer associations have shifted since the framework for financial participation became more extensive. They have argued that financial participation should not be seen as remuneration and hence should stand outside the labour relations system.

Most employer associations (the Portuguese did not explicitly mention this point) express a preference for broad-based schemes of financial participation, but are also adamant that narrow-based or executive schemes should not be prohibited. The Belgian Bankers' Association, ABB/BVB, however, favours financial participation schemes that are open to all employees on the grounds that all staff members are affected by a corporate spirit and therefore have to feel involved. The guiding philosophy is that companies should be free to choose schemes that best suit their needs and if broad-based schemes are not appropriate, then companies should not be compelled to open schemes to all employees. This view was clearly expressed by the CBI in the UK and the BDA in Germany. At the same time, employer associations do not openly or strongly advocate narrow-based schemes because of public suspicion of executive enrichment. In fact, the Dutch employer organisations of VNO-NCW and AWVN have both strongly advocated broad-based schemes in reaction to public disquiet in the Netherlands about executive share option schemes.

A further concern of employer associations is that some forms of financial participation may not be suitable or readily usable by certain types of company. In particular, employee share ownership schemes are seen as problematic for privately owned SMEs because of the lack of a market for shares. Some sectoral associations (such as the Engineering Employers' Federation or EEF in the

UK) have argued that cash profit-sharing schemes may be more appropriate than share ownership schemes for SMEs and privately owned companies. It is argued, therefore, that governments should design financial participation arrangements so that all types of company may benefit. MEDEF, in particular, has argued that savings scheme arrangements in France need to be modified so that they are more readily usable by small companies (the 2001 Fabius law provided for sector-based savings schemes for small companies). Similarly, voting rights may cause some reluctance in Belgian SMEs in implementing share ownership schemes and the fact that the total value of profit-sharing cannot exceed a limit of 20% of the year's profit in effect excludes numerous SMEs, where total profits are small.

Employee participation, representation and collective bargaining

One anxiety about financial participation in general, and share ownership schemes in particular, is the possible implications for employee participation in decision-making. It is argued that employees should not secure a preferential role in the governance of the company by virtue of holding shares in it. One of the Portuguese respondents, for example, argued that share schemes should not allocate shares to the extent that employees gain some power over company strategy.

On the whole, respondents seemed to favour a separation of financial participation and other forms of participation, rather than a conscious linking of the two. Dutch respondents argued that the existing works council system already gave employees a sufficient role in decision-making and hence financial participation schemes should not contain any formal linkages to employee participation in decisions. At the same time, several respondents recognised that financial participation requires good levels and standards of communication with employees and that there will therefore be some degree of synergy between 'good management' and financial participation, and between employee involvement (typically undefined) in the company and financial participation. However, the Belgian employer associations argue that the new laws on financial participation missed an opportunity to establish a new kind of dialogue between employers and employees, based on confidence and consensus. Now, the law contains a mandatory procedure involving collective labour agreements, which make the relationship a priori antagonistic.

The clearest expression of the concern to maintain separation between employee representation and financial participation was provided by France's MEDEF. The respondent argued that agreement on the introduction of new forms of financial participation should be secured by a ballot of employees rather than via a collective agreement with unions. It was suggested that trade union representatives may represent only a tiny proportion of the workforce and that, furthermore, in many cases representatives lacked the requisite knowledge to fully assess financial participation schemes (especially share-based schemes). The extent of employer hostility to union involvement reflects not only the greater legal requirement for employee agreement for financial participation in France than in other countries, but also the complexity of workplace representation in France (where several unions with differing ideas may be present in a given workplace, but each may have only a small proportion of the workforce in membership).

The legal requirement that financial participation schemes should be introduced via a collective agreement has been a significant issue in Belgium, as mentioned above, with the main employer organisation opposed to this requirement. It is argued that, given trade union hostility to financial participation and the desire of companies to maintain flexibility, this will stifle the development of financial participation.

Besides France and Belgium, other countries, too, are concerned that financial participation be kept separate from employee representation. In Germany, for example, the BDA has long argued that financial participation arrangements should not be incorporated in sectoral collective labour agreements. (In the UK, it is not an especially pertinent issue since unions have had very little involvement in the establishment and operation of financial participation schemes, especially share-based ones, and there are no legal requirements that schemes be subject to agreement with employee representatives.)

A key issue in some countries concerns the implications of employee share ownership plans for corporate governance. It was noted earlier that recent French legislation allows for board representation where the employee stake is 3% or more of a company's equity (*see p. 11*). In most cases, employee share ownership seems unlikely to rise to levels that will give employees a significant voice in governance. In the UK, for example, the regulation of share schemes by institutional investor trade associations limits the proportion of equity that can be used for employee share schemes. But in some countries the governance implications are potent for employer associations. In Sweden, the employer associations fear that financial participation may dilute ownership for the original owners and thereby decrease their control of the company. The original intentions of the Wage Earner Funds, to pass control of Swedish companies to union-based institutions, is clearly a factor in this anxiety. In Italy, the view in some quarters that employee shareholder associations should be a significant component of employee share ownership is regarded warily by employer organisations because of the tradition of conflictual industrial relations in that country; although supportive of financial participation, Confindustria opposes extensive governmental regulation of participation mechanisms alongside employee share schemes.

These types of anxieties may help to explain why some sectoral employer associations, while supportive of reforms to promote share ownership, have tended to promote profit-sharing (where there are usually no direct governance implications).

Representation and lobbying

A clear finding that emerges from this study is that the extent of employer association activity is closely related to the extent of financial participation in each country and the degree to which governments are actively promoting financial participation. Thus, MEDEF (France) and the CBI (UK) appear to have been the most active in the financial participation area, while CIP (Portugal) appears to have been the least active. This relationship emanates from the representational role of central employer associations. Where governments (such as France and the UK) have been actively designing new legislation in the financial participation area, central associations have been 'sucked into' lobbying and representational activity in an attempt to ensure that legislation reflects the wishes of the business community. In contrast, where there is little or no institutional support for financial participation (as in Portugal), employer associations have not been active in the financial participation area.

The important point here is that the activity of employer associations is *reactive*: their activities respond to government initiatives, rather than government policies responding to employer association activity. This is not to say that employer associations do not attempt to influence governments at early stages of policy formation. The UK's CBI, for example, actively attempted to influence government policy once the government decided to initiate new legislation. In Belgium, both the ABB/BVB and FEB/VBO gave their opinion on draft legislation and made use of informal contacts with ministerial offices and government departments to influence decisions; the FEB/VBO was also represented on the working party, headed by Professor de Grauwe, that developed the recent financial participation legislation.

The exceptions to this generalisation can be found in those countries where government support for financial participation is as yet embryonic. Here, employer associations have called on their governments to promote financial participation (as in Spain and Italy). Thus, employer associations are trying to set the agenda, rather than responding to it. In Portugal, however, the social partners have not campaigned for greater governmental and institutional support for financial participation.

Provision of advice and information

A further general finding from this study is that central employer organisations have little role in the provision of advice to companies or the dissemination of information on financial participation. This is not altogether surprising: typically, provision of information to companies is seen as more appropriately the preserve of sectoral or regional associations. The German BDA, for example, argues that its primary role is political representation and coordination, rather than provision of advice. Several respondents also argued that the adoption of financial participation is a company-level decision and that other parties should not actively attempt to influence this decision.

Although central employer organisations do not formally provide advice on financial participation to companies or strongly advocate its use, they do issue general information from time to time. The extent of this provision appears to be related to the extent of the institutional framework for financial participation. Where financial participation is extensive (as in France and the UK), the central employer organisations publish information periodically to raise awareness. In the main, however, central organisations appear to rely on the activities of specialist bodies (such as FONDACT in France, Proshare in the UK or AGP in Germany) to disseminate information and raise awareness of financial participation.

Barriers to financial participation

Respondents in the various countries surveyed identified several barriers to the further use of financial participation. In Portugal, for example, some of the respondents suggested that a perception that financial reporting often lacked transparency could limit the appeal of financial participation to workers and unions. A further problem, associated with a perception that financial participation entails pay substitution, is that workers would be highly averse to the risk of reductions in compensation during economic downturns. This was seen to be a particularly severe problem in Portugal because of low levels of wages. This also meant that workers were unlikely to accept employee share schemes: they would prefer to receive cash increases in their income. In

Belgium, the fact that financial participation has to be introduced through collective bargaining is seen as a large obstacle that will slow down the introduction of new schemes.

Elsewhere, stock market listing was seen to be an important issue. In Germany, the small size of the listed sector was seen to inhibit the growth of share-based financial participation. The German respondent argued that the relatively small listed sector was an outcome of employer fears about co-determination. Respondents in the UK, where the listed sector is much larger, also expressed this view. It was felt that share-based financial participation would always be of limited appeal to small unlisted companies, despite the government's attempts to increase the attractiveness of share schemes to such companies. It was suggested that the tiny minority of SMEs that are oriented to major growth would be the most likely group of small companies to utilise financial participation and the government's efforts to appeal to this sub-sector were seen as valuable and beneficial. Belgian respondents said that the current climate on the stock market exchange does not encourage the introduction of new financial participation schemes either.

Italian employer associations mention that there are several important obstacles to the spread of financial participation schemes. For one, Italian labour law is based on a conflictual relationship between employer and employee. Furthermore, the aversion of some of the union organisations to financial participation will hinder both its development at the legislative level and its implementation at company level. The lack of a clear legislative framework in Italy for financial participation, especially share ownership, is a major obstacle to its use by companies. Confindustria argues that the Italian government needs to provide a greater incentive package of tax and social charges. Implicitly, this would reduce a company's labour costs and thereby improve its competitiveness. Furthermore, any framework for financial participation must not impose a participatory regime to accompany it. Instead, it should be left to workers, representatives and managers at company level to decide on appropriate forms of participation.

In the Netherlands, employer representatives suggested that financial participation was a 'leap of faith' for workers and companies because the benefits are not obviously quantifiable. It was suggested that uncertainty about the benefits restricts the appeal of financial participation.

In Sweden, the lack of public discussion on the subject is an important explanation as to why financial participation is not more widespread. Furthermore, there is an uncertain and unfavourable taxation regime, which may lead to risks and high costs for companies that consider introducing such a system. There are no clear-cut models for introducing financial participation schemes.

Conclusion

- Central employer organisations have on the whole favourable views on financial participation, although the extent of this reflects the degree of development of financial participation in their country. Employer organisations in countries with well-developed and long-standing frameworks for financial participation tend to be most supportive of it and have the most well-developed views and policies.
- The focus of employer organisation activities tends to be the prevailing form of financial participation in use in their country. For example, the CBI in the UK tends to focus on employee share plans, whereas MEDEF in France has focused especially on employee savings schemes.

- Employer organisations tend to express a preference for broad-based financial participation schemes, but are usually adamant that the freedom for companies to implement schemes that are most appropriate to their needs should not be unduly restricted by governments and regulatory frameworks. Thus, employer organisations have lobbied governments in some cases to reform the regulation of executive stock options so as to facilitate their use.
- There is a great deal of similarity in the perceived benefits of financial participation. Employer organisations emphasise the role of profit-sharing and share schemes in generating loyalty and commitment of staff, and associated with this their function in assisting recruitment and retention. The main differences relate to pay flexibility and collective bargaining arrangements. Some associations (as in Italy and Sweden) have emphasised the potential of financial participation to contribute to decentralisation of pay determination and to enhance flexibility, but others have not highlighted this factor. The silence of some associations on this point may be because pay determination is already decentralised (as in the UK) or because it is recognised that this issue is contentious.
- Employer organisations express a preference for a separation of financial participation and other forms of employee participation and representation. It is generally believed that employee representatives should not have formal negotiation rights over the design, introduction and management of financial participation schemes. It is often argued that unions represent only a minority of those who may benefit from financial participation. Furthermore, formal representative involvement may introduce conflict to an instrument that is typically adopted to encourage cooperation. This sentiment is especially marked in those countries where there is an ideology of conflictual labour relations.
- It is argued that regulatory frameworks should be limited to fiscal and related provisions, and should not be overly prescriptive. Employer organisations tend to see the role of national policy as the provision of frameworks within which companies can design schemes that are most appropriate to their needs.
- A primary limitation of financial participation arrangements highlighted by employer organisations concerns the difficulty of their use by small companies. This is obviously so in the case of employee share schemes, but can also be the case with profit-sharing.
- Employer association activities in the area are to a considerable extent responsive to specific government proposals to extent financial participation. Several associations have been deeply involved in the formulation of new frameworks for financial participation at national level.
- However, central employer organisations do not tend to play an active role in the dissemination of information and advice on financial participation. This tends to be left to specialist lobby groups in most countries or implicitly to sectoral or regional associations. (The latter raises the question as to where these associations obtain their expert information and advice.)
- Although in some cases, such as Italy, the central employer organisation is attempting to push the debate on financial participation forward, in most instances employer organisation activity appears to be responsive to governmental policy initiatives and to the prevailing framework for financial participation.

4 Views and policies of central trade union organisations

Having looked at central employer organisations in Chapter 3, this discussion will now focus on central trade union organisations and their views and policies on financial participation, its advantages and disadvantages, and perceived barriers to its further diffusion. Union involvement and activities in policy development and implementation are also examined.

Trade unions may now play an important role in the acceptance of financial participation systems, even though they have not been ardent promoters in the past, as theory and results from empirical research show. In general, they have been sceptical about these systems for a number of reasons. For example, it is suggested that financial participation may undermine employee support for independent representation by trade unions and also remove some element of employee remuneration from collective forms of pay determination. Furthermore, some schemes impose considerable risks on employee savings.

On the other hand, the development and diffusion of financial participation in many EU Member States in recent years present trade unions with pressing questions about the nature of these schemes. They will be confronted with questions and problems their members may have with the introduction of typical schemes. Moreover, especially in continental Europe, trade unions play a role in national policy-making and therefore may be presented with governmental policies in this area. This clearly will have an impact on the need for trade unions to address the subject.

Several major trade union confederations have adopted a more favourable view of financial participation in recent years (such as Germany's DGB and the UK's TUC). In general, trade union positions are shifting from outright opposition to qualified acceptance. Typically, it is argued that financial participation is acceptable so long as certain safeguards are met. These safeguards centre on equality of participation, protection of employees from unreasonable risk, prohibition of wage substitution and the consent of employees and their representatives to company financial participation schemes.

Data from trade union organisations

The data on trade union views, policies and activities is derived from interviews with spokespeople from the main or central trade union federations in the eight countries studied (*see Table 6*). All interviewees occupied strategic and influential positions in the selected union organisations. The general principle governing the selection of respondents was that the main or dominant federations should be included for each country. In the case of the UK, there is only one confederation – the Trades Union Congress (TUC). In Germany, the DGB is clearly the dominant confederation (with over 80% of union members under its aegis), but there are also other small union confederations (such as the CGB for Catholic workers). In other countries, union confederations are organised on political/religious lines (as in Belgium, France, Italy, Portugal and the Netherlands) or are based on broad occupational categories (as in Sweden and the the Netherlands).

An important consideration is the degree of vertical integration between confederations and constituent unions, and the extent to which national confederations have a clear mandate from members to represent the interests of the union movement. Traditionally, the power and role of national confederations derive from the extent to which national-level bargaining and tripartite activity take place. Visser (1995) has ranked the vertical integration of union movements in the following order — Sweden, Belgium, Netherlands, Germany, Italy, France, UK (Portugal is not mentioned).

Table 6 Data sources among central trade union organisations

Belgium	• Confédération des Syndicats Chrétiens (CSC)/Algemeen Christelijk Vakverbond (ACV) — Confederation of Christian Trade Unions • Federation Générale du Travail de Belgique (FGTB)/Algemeen Belgisch Vakverbond (ABVV) — General Federation of Belgian Workers • Centrale Générale des Sindicaux Liberaux de Belgique (CGSLB)/Algemene Centrale der Liberale Vakbonden van Belgie (ACLVB) — Federation of Liberal Trade Unions of Belgium
France	• Confédération Française Democratique du Travail (CFDT) — French Democratic Workers' Union • Confédération Française de l'Encadrement (CFE)/Confédération Générale des Cadres (CGC) — French Confederation of Professional and Managerial Staff • Confédération Française des Travailleurs Chretiens (CFTC) — French Christian Workers' Union • CGT – Force Ouvrière (CGT-FOFO) — 'Open Force' • Confédération Générale du Travail (CGT) — General Confederation of Workers
Germany	• Deutscher Gewerkschaftsbund (DGB) — German Trade Union Confederation
Italy	• Confederazione Generale Italiana del Lavoro (Cgil) — Italian General Confederation of Labour • Confederazione Italiana Sindacati Lavoratori (Cisl) — Italian Confederation of Workers' Union • Unione Italiana del Lavoro (Uil) — Italian Labour Union • Unione Generale del Lavoro (Ugl) — Union of General Labour
Netherlands	• Federatie Nederlandse Vakbeweging (FNV) — Netherlands Trade Union Confederation • Christelijk Nationaal Vakverbond in Nederland (CNV) — National Christian Trade Union Confederation • Vakcentrale van Middelbaar en Hoger Personeel (Unie MHP) — Union for Senior and Middle Managers
Portugal	• União Geral de Trabalhadores (UGT) — General Workers' Union • Confederação Geral dos Trabalhadores Portugueses (CGTP)/Intersindical Nacional (IN) — General Confederation of Portuguese Workers • Sindicato dos Trabalhadores do Comércio Escritorio e Serviços de Portugal (CESP) — Union of Commercial and Service Workers
Sweden	• Sveriges Akademikers Centralorganisation (SACO) — Confederation of Professional Associations • Landsorganisationen (LO) — Swedish Trade Union Confederation • Svenska Industritjänstemannaförbundet (SIF) — Union of White-Collar Workers in Industry
UK	• Trades Union Congress (TUC)

However, the extent of involvement of trade union confederations in policy development in the area of financial participation does not match this traditional hierarchy. For example, although the UK's Trades Union Congress (TUC) is typically seen as a weak confederation (relative to its constituent members), it has been quite deeply involved in the recent development of financial participation in that country. In general, the extent of union confederation involvement in policy discussions mirrors the extent to which financial participation policy and frameworks are developed in each country.

Another key finding is that, not surprisingly, union ideas and views on financial participation tend to differ between confederations when there is more than one confederation in a country. Overall, Socialist and Communist federations (as in France and Italy) tend to be more hostile to financial participation than Liberal, Social Democrat or Catholic federations. Federations that mainly represent manual workers tend to be less enthusiastic about financial participation than those that represent non-manual and professional employees (as in Sweden).

Trade union views concerning financial participation

For most union confederations, the phenomenon of financial participation is not perceived to be one of their most important policy issues. The extent to which there is engagement reflects the general salience of financial participation in the national political agenda. Thus, most union confederations in Portugal and Sweden have not engaged to any great extent with financial participation, while, in contrast, such organisations in the UK and France are involved with the subject to a much greater degree. The general level of activity is also associated with the extent to which employer organisations, as well as governments, advocate financial participation. The Italian confederations, for example, have actively engaged in debates about profit-sharing and share ownership partly because of government encouragement (such as the White Paper on Labour Market Reform) and also partly because Confindustria (the leading central employer organisation representing the manufacturing and service industries) has urged the expansion of financial participation.

Union policy has been reactive to these initiatives, but has had to recognise in a purely pragmatic way that such financial participation schemes are attractive to members. However, unions in many instances have been reactive to this, with the result that their experience and knowledge of the phenomenon is limited. Several union respondents mentioned this during the interviews and this should serve as a background to what follows. On the other hand, the experts in the national federations interviewed for the study appear to be well informed.

Table 7 presents a summary of the views and ideas of trade union organisations towards financial participation. In most countries, there is a division between unions that are supportive of financial participation and those that are against. For example, in Italy Cisl and Uil both see financial participation as contributing to greater economic democracy, whereas Cgil is wary of financial participation, especially if conceived as an instrument of economic democracy and corporate governance. (Cgil is not opposed, however, to financial participation as an instrument for individual employees to develop their savings.) In France, the left-wing CGT is formally opposed to financial participation, although it does participate in various institutions that administer and oversee the financial participation system in that country.

In general, the divisions between union confederations on this topic are based on either politics or occupation. Left-wing confederations have traditionally been opposed to financial participation because it can blur the divide between capital and labour. Italy's Cgil, in particular, has been concerned that employee share ownership could lead to a situation where trade unions are representing capital (employee share owners) as well as labour; for this reason, Cgil has argued that employee shareholder associations should operate entirely separately of union representation. A rather different, and unusual, division is found in Belgium where the Christian confederation (CSC/ACV) is generally opposed to financial participation, while the Liberal confederation (CGSLB/ACLVB) is favourably inclined towards it.

The other main division is between occupation-based confederations, where unions representing white collar workers, especially professional staff, tend to be more favourably inclined towards financial participation. In Sweden, for example, the SIF (representing white-collar workers) is supportive of financial participation, with the sections representing 'new economy' workers being especially enthusiastic; similarly, SACO, the professional workers' confederation, is also favourably inclined. (A key factor here would seem to be that many of the members of these confederations are eligible for financial participation and thus tend to be supportive of it.) In contrast, Sweden's main blue-collar confederation, the LO, is critical and 'sceptical' of financial participation, although not strongly hostile.

Table 7 Trade union views on financial participation

Country	Unions in favour of or accept (+) or against (-) financial participation	Primary view of purpose of financial participation	Key considerations
Belgium	CSC/ACV (-) FGTB/ABVV (-) CGSLB/ACLVB (+)	Financial participation should be seen as remuneration (CSC/ACV and FGTB/ABVV) A way of boosting purchasing power (CGSLB/ACLVB)	Schemes should be open to all employees and offer identical benefits (CSC/ACV and FGTB/ABVV) Preference for profit-sharing (CGSLB/ACLVB)
France	CFTC (+) CGC (+) CGT (-)	Profit-sharing seen as an important savings component to complement wages	Broadly favour the current system and recent innovations, but opposed to any link with pensions Systems should be broad-based Trade unions should be involved in the supervisory board of employee savings funds. The CGT opposes this in principle, but has engaged in practice.
Germany	DGB (+)	An additional form of saving for employees	Broad-based employee share savings and/or employee loans under collective agreement
Italy	Cgil (-) Cisl (+) Uil (+) Ugl (+)	Financial participation seen as only an economic-financial opportunity (Cgil) The other trade unions stress its contribution to economic democracy	Financial participation should be voluntary
Netherlands	MHP (+) FNV (+) CNV (+)	To moderate national and sectoral annual wage increase and enhance flexibility of pay	Broad-based supplement to wages, with a slight preference for profit-sharing Schemes should be negotiated and agreed with employee representatives There should be no relationship with pensions
Portugal	UGT (+) CGTP (+) CESP (+)	Additional reward to align interests	Broad-based profit-sharing, negotiated, egalitarian and transparent, with explicit ex-ante formula
Sweden	SACO (+) SIF (+) LO (-)	Involvement and participation (SACO and SIF) Threat to equality (LO)	LO sees financial participation as part of wages, hence negotiable SACO and SIF see it as a complement to wages
UK	TUC (+)	Additional reward for identification and commitment	Broad-based share ownership additional to pay, alongside participation in decision-making under partnership framework

However, philosophical views towards financial participation do not equate in a straightforward way to the activities and policies adopted by unions. Unions that are critical of financial participation in principle nevertheless have some pragmatic involvement in its development. In Belgium, for example, a representative of the Christian confederation CSC/ACV (generally opposed to financial participation) was a member of the working party that developed the recent legislation on the subject, while in France the CGT (also formally opposed) is involved in the overseeing of employee savings funds.

On the whole, unions are wary and suspicious of government and employer motives for financial participation. Many unions think that the subject is raised in order to secure compliance and identification with the company, and thus to weaken employee attachment to unions or the union role in employee representation. This is especially problematic for those confederations that have labour – capital conflict at the heart of their ideology. Furthermore, there is an anxiety that financial participation is aimed at securing wage flexibility and wage substitution. This is especially so in the case of profit-sharing.

Not many unions are enthusiastic supporters of financial participation, tending to see such schemes as potentially weakening their traditional collective bargaining approach to the improvement of members' financial rewards. The Dutch trade unions pointed out this interference with collective bargaining, saying that the present system is promoted by tax incentives with the explicit argument that this may moderate the requested annual wage increases in collective bargaining. Also in Belgium, trade unions fear that financial participation will decentralise pay bargaining to enterprise level, thus breaking up the Belgian model of concertation. However, in the UK the TUC tends not to see share schemes as posing any threat to collective bargaining of wages and conditions because share schemes are usually set up under strict legal conditions and administered independently from industrial relations processes.

Trade unions have explicit views on what type of financial participation is preferred and what conditions should be set for these schemes. In general, all unions stress that schemes should be broad-based and negotiated and developed under collective agreement with trade unions or employee representatives. Furthermore, financial participation should be additional pay, above ordinarily collectively agreed basic wages. In those countries where financial participation is integrated with employee savings arrangements (as in France and the Netherlands), it is argued that financial participation should not be a substitute for pension savings. (The background to this are the recent scandals and bankruptcies where employee pension savings have been lost, with the ENRON case in the USA being mentioned in several interviews.)

There are some differences between trade unions in different countries concerning the type of scheme favoured. The TUC in the UK and DGB in Germany have a preference for share-based schemes (and loans in the Germany case), whereas the Dutch and Portuguese confederations prefer profit-sharing. A key argument advanced in favour of share-based schemes is that share prices are less subject to manipulation by management than profits. This argument led Portuguese trade union spokespeople to stress that any profit-sharing scheme should be guided by explicit ex-ante formula for calculating the profit. The TUC in the UK stresses in its guidelines that such schemes should be introduced alongside other measures that promote participation in decision-making. Notably, it argues that schemes should be embedded in a partnership agreement between employer and representatives in which some institutionalised participation in decision-making is guaranteed.

Views on the advantages and disadvantages

As previously mentioned, the limited direct experience and knowledge of financial participation of some union confederations have an influence on their expression of views about its impacts at company and individual level. During the interviews, some union spokespeople hesitated to give their opinion on such impacts, but nonetheless some valuable views were expressed.

Table 8 presents trade union views on the advantages and disadvantages of financial participation. Most spokespeople underlined the possible, although limited, impact of financial participation on identification and commitment. However, some stressed the importance of other human resources (HR) and social policies, as well as the social cultural climate, as being at least as important. The same argument was made on the impact of staff retention and recruitment: financial participation may help prevent recruitment and retention problems, but other elements (such as good social policy and cultural climate) are considered far more important for binding employees. Practically all union representatives who participated in the study were aware of the linkage of financial participation schemes to productivity issues. However, most of them were also entirely sceptical of what they saw as a simplistic connection and stressed that it was extremely difficult to isolate a simple cause-and-effect relationship. The Dutch, German and UK unions stressed the rather broader set of progressive HR policies that they saw as necessary to guarantee productivity improvements and they rejected the notion that there was a quick-fix solution available that did not necessitate more profound changes in managerial practices.

Some trade unions said that in smaller companies the impacts might be more substantial on the mentioned outcomes. Financial participation may enhance entrepreneurial attitudes in the smaller companies.

Respondents were agreed that, so far, financial participation schemes have very limited implications for industrial democracy and corporate governance. Some did believe that there is potential for financial participation to enhance the role of employees in governance. Profit-sharing and stock options are considered to have little potential to expand indirect participation in decision-making, but employee savings funds and employee share ownership are viewed as having some potential in some countries. In the French system, employees' profit share savings are allocated in funds that can be invested in their own company and these funds can be managed and monitored by boards that include trade union representatives. This allows unions to develop an institutional level of influence on company management, taking into account that approved profit-sharing schemes in France should be implemented in agreement with employee representatives (alternatively, a ballot of the workforce may be held). However, it is possible to develop an all-employee financial participation agreement with trade unions representing only a minority of the workforce. This makes it possible for management to 'divide and rule', which is why the main French trade unions demand a change of the regulation towards majority representation.

In Italy, some trade unions (Cisl and Uil) feel that financial participation is consistent with economic democracy and worker participation, while others (Cgil) are concerned about the potential for unions to become involved in shareholder representation. An issue in the recent debate in Italy has been the potential role for employee shareholder associations and the concern in some union quarters that they may undermine union representation.

Table 8 Trade union views on advantages and disadvantages

Country	Advantages	Disadvantages
Belgium	• Necessity of collective labour agreement and the openness to all employees in the 2001 legislation	• Salary substitute • Danger of undermining social security funding • Dualisation between private/public and not-for-profit sectors • Segmentation of workers • Risk for workers (non-diversified investment)
France	• Employee savings, additional to wages	• Possibility that the system influences collective bargaining negatively • Possibility of substitution of union representation by employee shareholder associations
Germany	• Source of savings for low earners • No impact on co-determination	• Conflicts when not broad-based and not equally distributed
Italy	• Sharing in company results • Participation • Improved industrial relations	• Does not bring about influence in strategic choices • Risk of losing capital
Netherlands	• Prevent recruitment and retention problems for certain categories of personnel, provided financial participation is embedded in good social policy • More direct impacts in smaller companies • No impact on co-determination	• Financial risks • Demotivation and conflicts in bad economic tide • May interfere with collective bargaining outcomes
Portugal	• Additional pay in a low wage economy	• Implementation may give too much discretionary power to employers • Possibility of alienating workers' own rights • A veiled form of skewing wages towards the benefit of particular groups • Used by companies as a form of tax evasion
Sweden	• Increased employee participation (SACO and SIF) • Extra remuneration • Smoothing the ups and downs of the trade cycle • Greater understanding, interest and knowledge in society for economic conditions and realities (LO)	• Greater risk for employees • Lock-in effect • Misuse by elites • Threat to negotiation mechanism • Wider wage differences
UK	• Productivity impact, provided financial participation is embedded in progressive human resources policies	• Negative outcomes may raise conflicts • Lack of employee involvement in decision-making in many instances

The relationship between financial participation and other forms of employee participation and representation is an important issue for unions. This is especially so for share ownership schemes for two reasons. The first is that such schemes are less amenable to traditional processes of employee representation because they are not directly connected to the employment contract. The second is that share ownership is usually seen to be associated with some control rights. In theory, there should be a clear relationship between share ownership and involvement in corporate governance, but the general trade union view is that in most cases in practice there is little or no worker involvement in governance. This is either because worker shareholders do not have the same rights as ordinary shareholders or because even the combined size of employee share ownership is too small to give workers any influence.

For German and French unions, the impact of financial participation on co-determination at company board level is a controversial subject. One approach is for unions to represent 'employee capitalists' at the general meeting of shareholders and on the supervisory board. The argument against such an approach is that employees should be represented by trade unions in order to safeguard broader basic rights than those of just 'employee capitalists'. French unions see the upcoming associations of employee shareholders as a potential threat to the current industrial relations system. However, at the moment, the French government seems to favour a pre-eminent role for trade unions rather than employee shareholder associations in future models of governance, either on the boards of companies or in supervisory committees of Employee Savings Funds.

An important issue that arises in several countries is the relationship between financial participation and collective bargaining institutions. This appears to apply more to profit-sharing than to share ownership schemes. Where financial participation has been explicitly linked to wage flexibility and bargaining decentralisation by governments and/or employers, some union confederations have opposed financial participation. The most obvious countries where this occurs are Belgium, Italy and Sweden. Here, financial participation has been advocated as a way of diluting national or sectoral systems of pay determination in favour of giving greater scope to company-level agreements. 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 determination.

A final disadvantage of financial participation identified by unions is the exposure of employees to risk. In the case of share-based schemes, employees' wealth is clearly at risk during hard times and where share value is determined by stock market sentiments. In the case of profit-sharing, future income will likely fluctuate according to corporate performance. In countries where accounting standards have been less developed and financial information is less transparent, there is the danger that companies will manipulate earnings to restrict employee benefits and that employees and their representatives will be unable to judge the likely benefits from financial participation. The Portuguese trade unions were most explicit about this disadvantage. A further risk is that as equity-based rewards become more entrenched, and where top management has a large amount of wealth invested in company shares, there are strong incentives leading to insider trading and manipulation of corporate results. Ultimately, in extreme cases, this could put workers' employment at risk, with ENRON again being mentioned by several respondents.

Level of promotional activities

The extent of union activity on the subject of financial participation is strongly influenced by the level of government activity in this area. Where there is little activity by governments in promoting financial participation (as in Portugal and Sweden), little activity can be discerned on the part of unions. In these countries, there is hardly any attempt by unions to campaign for an expansion of financial participation — although the Swedish union SACO is an exception, strongly advocated its use. Overall, union activity might be said to be reactive.

The primary representational role of central union confederations is to represent union interests in national policy-making. On the whole, they have little role to play in collective bargaining (although Sweden is a clear exception to this, and French and Italian unions are involved in periodic national bargaining). This generalisation is most clear in the case of Germany, where collective pay determination is expressly reserved to sectoral unions, and in the UK, where bargaining has been highly decentralised to company level for some time.

A key issue, therefore, is to what extent unions are involved in the development of policy and legislation for financial participation. The picture is quite varied across the countries studied. In the UK and Belgium, national confederations were involved in working parties responsible for developing recent legislation. In the UK, the TUC had a nominee on the Inland Revenue Advisory Group that helped to design the Share Incentive Plan and Enterprise Management Incentives. In Belgium, the unions had a representative on the de Grauwe working party that was instrumental in designing the 2001 legislation. In Germany, the DGB has had substantial influence on the development of the Capital Formation Law.

On the whole, unions tend to be most involved in the development of financial participation legislation where there is a tradition of tripartite institutions (clearly the UK is an exception here). Besides the de Grauwe working party mentioned above, the Belgian unions were involved in discussions in bodies such as the National Labour Council and the Central Economic Council. In the Netherlands in 2000, unions joined with employers in the Stichting van de Arbeid (Labour Foundation) to call (unsuccessfully) for tax concessions for profit-sharing. The clearest case of union involvement, however, is in France, where trade unions are represented in the national Conseil Supérieur de la Participation (CSP), a tripartite body that monitors the French financial participation system.

France is notable also for being the only country in the study where union organisations are involved in the management of the financial participation system (especially the savings plan component). This reflects the French tradition of union involvement in tripartite administrative institutions. In early 2002, the CGT, CFDT, CFTC and CFE-CGC formed an inter-union committee on salary savings (CIES) to select approved investment managers for the new employee savings schemes. The French unions also sit on the investment boards of the savings plans.

Although in most cases national confederations have a limited bargaining role (because of limited national-level bargaining in most countries), they have attempted to assist negotiators at lower levels of the collective bargaining system. In the UK, the TUC has formulated broad guidelines to assist affiliated unions to judge financial participation proposals from companies. The Dutch unions have also got guidelines of this sort: the largest Dutch trade union (FNV) has formulated guidelines to judge profit-sharing schemes in a broader context of social responsibility of the company. The Belgian union CSC/ACV has produced a 'negotiator's pack' for company-level representatives (the other Belgian confederations have not). In the course of the 'Alliance for Jobs', the German DGB issued a national policy statement favouring certain types of financial participation. The Portuguese trade unions, however, do not have guidelines of any sort since they do not have clear articulated policies on financial participation, nor does the subject appear to be a priority for them.

Some unions (for example, the Belgian CGSLB/ACLVB and the Italian unions) have organised conferences and seminars on financial participation, although these seem to be the exception rather than the rule. The impression from the research is that union confederations have produced limited amounts of information for use by individual members, union sections or affiliates. The CGSLB/ACLVB in Belgium, however, is an exception — it has an advisory service for members to provide guidance when companies propose financial participation schemes.

Barriers to financial participation

The majority of union respondents expressed the view that there was still considerable unwillingness by both management and shareholders in many companies to encourage share ownership by employees for fear that this would lead to demands for other kinds of participation. In addition, in many continental European countries, the vast majority of companies are not publicly quoted; indeed, most companies tend to be family-owned and their proprietors are usually not promoting share ownership. In Sweden, there is a lack of public debate and public opinion on the issue of financial participation, together with a dearth of facts and research on its advantages and disadvantages.

In Italy, Cgil sees the structural limits of the financial market as a barrier to the diffusion of financial participation. There seems to be a lack of transparency in the stock exchange market, as well as a lack of institutional investors.

The Dutch and German trade unions stress that their industrial relations systems and collective labour agreements are such powerful institutions that, for both employers and trade unions, it is not easy to introduce an additional element of risk. Only profit-sharing as an addition to basic pay is allowed due to a pragmatic compromise between the social partners concerning more performance-related payments.

The Belgian union CGSLB/ACLVB sees obstacles mainly in the preconditions that are necessary to introduce financial participation in a good way, such as a healthy industrial relations climate and an atmosphere of confidence within enterprises. The Italian unions also believe that an industrial relations system built on a notion of conflict between capital and labour is not conducive to the development of an instrument designed to bridge the labour – capital divide.

Conclusion

- In general, the extent of involvement by trade union confederations in policy discussions mirrors the extent to which financial participation policy and frameworks are developed in each country.
- Union ideas and views on financial participation tend to differ between national confederations when there is more than one confederation in a country. Overall, Socialist and Communist federations (as in France and Italy) tend to be more hostile to financial participation than Liberal, Social Democrat or Catholic federations. Federations that mainly represent manual workers tend to be less enthusiastic about financial participation than those that represent non-manual and professional employees (as in Sweden).
- Philosophical views on financial participation do not equate in a straightforward way to the activities and policies adopted by unions. Unions that are critical of financial participation in principle nevertheless have some pragmatic involvement in its development.
- Several major confederations have adopted a more favourable view of financial participation in recent years (such as the DGB in Germany and the TUC in the UK). In fact, trade union positions are generally shifting from outright opposition to qualified acceptance. Typically, it is argued that financial participation is acceptable so long as certain safeguards are met. These

safeguards centre on equality of participation, protection of employees from unreasonable risk, prohibition of wage substitution and the consent of employees and their representatives to company financial participation schemes.

- There are variations between countries in the preferred form of financial participation. Some unions prefer profit-sharing (as in the Netherlands), whereas others tend to prefer share ownership schemes. The benefits of profit-sharing are seen to be the liquidity of the profit share payment (compared with shares), but a disadvantage is that the closer linkage between profit-sharing and wages may facilitate wage substitution, decentralisation of collective bargaining and possibly the weakening of collective pay determination. A key danger of employee share ownership is the risk that employees' wealth will be subject to market sentiment. Furthermore, extreme reliance on stock-based remuneration for top managers may lead to short-termism and manipulation of earnings by managers, both of which may lead to adverse consequences for employees.
- The benefits of share schemes relative to profit-sharing are seen to be a weaker link with 'base' pay and the potential for greater economic democracy. The weakening of opposition in some French unions towards financial participation flows in part from the perceived potential for share schemes and associated governance rights to provide some protection for employees against foreign institutional investors. In some parts of the union movement in Italy, debates about share ownership centre around the opportunities for employee involvement in corporate governance. However, in most instances, the opportunities provided by share schemes for greater employee involvement in corporate governance are seen to be minimal, which makes unions critical of the system.
- Where financial participation has been explicitly linked to wage flexibility and bargaining decentralisation by governments and/or employers, some union confederations have opposed financial participation, as 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 determination.
- The extent of union activity on the subject of financial participation is strongly influenced by the level of government activity in this area. Generally, where there is little activity by governments in the promotion of financial participation, as in Portugal and Sweden, there is little activity on the part of unions.
- There is considerable variation in the extent of union involvement in the development of policy and legislation for financial participation. On the whole, unions tend to be most involved in the development of such legislation where there is a tradition of tripartite institutions and practices.

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Appendix 1
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Appendix 2
Interview guidelines for national reports

The research will be undertaken by interview with a person (or persons) who has a key policy role in each of the institutions. The following points should be addressed:

1 The Person:
- Job title?
- How long with the organisation/institution?
- How long in present position? Other positions?
- Role and influence in relation to financial participation issues. Involved in policy formation? Implementation of existing policies? Decision-maker and/or opinion-former?

2 The Organisation:
This section is intended to establish the nature of the organisation and its relevance to financial participation in the country.

- What is the organisation/institution?
- If an employer confederation, what percentage of employers/enterprises are members? What is the make-up of this membership by sector/by size/by ownership? Does it have a policy on financial participation for its member companies? Does it provide an advice service to member companies on financial participation? What percentage of member companies would have introduced a form of financial participation (*see list in 3 below*)?
- If a trade union confederation, what percentage of (a) national trade union membership and (b) of those in employment are members of the confederation? Does it have a policy on financial participation for affiliate unions and their members? Does it provide an advice service to affiliate unions on financial participation? What percentage of affiliate trade unions would have negotiated agreements on the introduction of financial participation and how many agreements exist?
- If a government ministry, in relation to the promotion of financial participation, is its role through financial incentives (e.g. through taxation relief), through regulation/legislation/guidelines, or through the provision of information on financial participation? Does it provide an advice service to companies, trade unions, other relevant organisations and individuals on financial participation?

3 General attitude of organisations to financial participation:
This section is to study in more depth the attitudes and philosophy of the organisation/institution in relation to financial participation.

- The following is a list of the most popular forms of financial participation. Does the organisation/institution have a preferred form:
  — profit-sharing;
  — share-based profit-sharing;
  — individual employee share purchase schemes;
  — employee share ownership plans (ESOPs);

— stock options;
— other (specify).

- What do you see as the dominant national philosophy behind financial participation? How does your organisation/institution stand in relation to this philosophy?
- Is there a national policy or strategy for the promotion and implementation of financial participation? If so, has the organisation/institution contributed to the development and implementation of this policy or strategy?
- Is there a national consensus on the promotion and form of financial participation arrangements? If so, what is an example of this consensus?
- Is there any form of national regulation (such as legislation and taxation policy) governing the implementation and operations of the different forms of financial participation? If so, what input did the organisation/institution have in the formulation of such a regulation? What role does the organisation/institution play in the ongoing governance of how financial participation is applied at national and at company levels?
- If such national regulation, legislation and/or taxation policies exist, what changes, if any, would the organisation/institution like to see introduced?
- Does the organisation/institution have a strategy/policy on financial participation? Does it:
  — support the concept;
  — not support the concept;
  — not have a strategy/policy on the concept of financial participation?
- If the organisation/institution has a strategy/policy on financial participation, is this influenced by:
  — a national policy;
  — EU-level policy;
  — European/international contacts and/or organisations (e.g. ETUC, UNICE).
- What do you see as the role, if any, of the organisation/institution in the promotion of financial participation?
- Does the organisation/institution contribute to or work with other national-level organisations, (such as bodies which promote financial participation or assist with the implementation of financial participation schemes at company level) or with other social partners, etc. in the promotion and/or implementation of financial participation arrangements?
- Does the organisation/institution favour financial participation arrangements which are:
  — narrow-based (restricted to senior/top management);
  — broad-based (open to all employees);
  — both.
- In general, does the organisation/institution consider financial participation to be good for:
  — the national economy;
  — members of the organisation/institution;
  — employees in companies with financial participation;
  — the business of these companies.

- Does the organisation/institution consider that financial participation results in a closer identity of all the stakeholders (management, workforce, shareholders and customers) in the mission and objectives of a company?
- What impact does the organisation/institution think that financial participation has on:
  — the prospects for investment in a company;
  — the performance of a company's shares on the stock markets.
- What would you consider are the main
  — advantages
  — disadvantages
  resulting from the introduction of financial participation arrangements?
- What would you consider are the main barriers to the introduction of financial participation?
- What would you consider are the main factors that would facilitate the introduction of financial participation?
- Does the organisation/institution have a strategy/policy on:
  — corporate social responsibility as it relates, in particular, to financial participation;
  — social rating;
  — co-operatives;
  — partnerships.

4 Impact of financial participation on company-level policies:
This section is to establish what impact or influence financial participation has on the organisation of work, employee involvement, communications and other HR management issues at enterprise level.

- Does the organisation/institution consider financial participation as complementary to or as an alternative form of remuneration to normal wages/salaries?
- Does the organisation/institution consider financial participation contributes to:
  — better employee/management relations;
  — improved workplace cooperation and trust;
  — greater commitment of employees to the business;
  — a better quality of working life;
  — social justice;
  — greater productivity and competitiveness;
  — the distribution of capital and wealth.
- Does the organisation/institution consider that financial participation facilitates:
  — greater workplace flexibility;
  — the introduction of new forms of work organisation?
- Does the organisation/institution have a policy or a view on the relevance of financial participation to other forms of employee involvement through, for example:
  — board-level representation;
  — involvement in shareholders' meetings;
  — corporate governance;
  — works councils;
  — trade unions.

- Does the organisation/institution have a policy or a view on the relevance of financial participation to forms of direct participation, for example:
  — the consultation of employees;
  — the delegation of decision-making to employees.
- Where do you see financial participation fit with long-term savings plans, such as pension funds?
- Does the organisation/institution have a policy or a view on the relevance of financial participation to the qualifications and skills levels within enterprises that practice forms of financial participation?
- Does the organisation/institution consider that there is a relationship between the practice of financial participation and investment in training?
- Does the organisation/institution consider that there is a relationship between the practice of financial participation and companies' policies on
  — recruitment
  — retention
  of employees, either generally or at senior levels or both?

Appendix 3

Employer organisations included in national reports (other than central employer organisations)

Country	Organisation	Membership	Function
Belgium	Belgian Bankers' Association (ABB/BVB)	110 financial companies	Sector-based association
France	Young CEOs' organisation (CJD)	Over 1,000 young CEOs of SMEs	Influential body with interest in innovative management practices
	CGPME	SMEs	A major employer organisation representing SME interests
	ANDCP	HR directors and HR managers	Professional body
	FONDACT	Companies with interest in financial participation	Lobbying and expert body
	Management Improvement Association (APM)	Association of managing directors	The leading network for training and information exchange among managing directors in France
Italy	Associazione Italiana Bancaria (Abi)	Banks (733), financial intermediates (258) and other financial organisations	
Netherlands	Algemene Werkgeversvereniging Nederland (AWVN)	Companies and employer associations	Negotiates about 50% of collective labour agreements in the Netherlands; also provides advice to companies on labour issues
	MKB Netherlands	Employer organisations for small companies	Representation
Portugal	Associação Empresarial de Portugal (AEP)		Advisory and promotion of entrepreneurship
	Centro Marca		Trade association
UK	Engineering Employers' Federation (EEF)	Regional engineering employer associations, with over 5,000 company members	Advisory and representation
	Chemical Industries' Association	170 chemical companies; high coverage in its sector	Provision of advice and representation; operation of disputes procedure and industry consultative forum
	Electrical Contractors' Association	Over 2,000 member companies	Mixed association. Provision of advice, representation, disputes procedure and negotiation of industry agreement
	Institute of Directors	Individual membership, about 65,000 people	Primarily a professional association, but active on employer issues, such as lobbying and representation, training of directors and advisory function

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Financial participation has been the focus of increasing attention over recent years. European initiatives have, since the early 1990s, encouraged moves to boost profit-sharing, employee share ownership and employee stock options throughout the European Union. Corresponding measures by the Member States have seen the introduction of new legislation in various countries. This report, which draws on research carried out in eight Member States, provides a comprehensive picture of the current situation regarding the state of financial participation. It examines in particular to what extent governments, trade union confederations and employer organisations influence the shape of financial participation measures within each country.

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

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