The PEPPER Report I Summary

The PEPPER Report (Uvalic, 1990) was designed in order to research the results of a program developed by the Commission of the European Communities which promotes the idea of employee participation in profits and enterprises results. The Commission devised the program in an attempt to combat unemployment and increase productivity in the workplace. It is the intention of the report to first discuss the origins and typology of the PEPPER schemes and then argue the positive and negative aspects. The report then examines the practice of the schemes in each Member State. Finally the report contains a summary of the findings of the research and makes suggestions for the CEC.

It is important to distinguish between the two different types of employee participation in enterprises. “Industrial democracy” is a form of employee participation that allows employees to play a part in the decision-making on such topics as information disclosure and consultation or minority or full parity codetermination. The other form includes various forms of employee participation in enterprise performance usually referred to as “economic democracy”, “financial participation”, or, following recommendations of the 1990 Workshop in Florence, “PEPPER” (Promotion of Employee Participation in Profits and Enterprises Results).

The schemes of PEPPER can be classified into two main categories which may nor may not co-exist and may in some cases overlap: profit-sharing and employee share-ownership. Profit-sharing can be defined as additional pay to the employee linked to profits or some other measure of enterprise results which does not interfere with the fixed wages established in the employees’ employment contract. The profit-sharing exists in two forms, cash-based profit-sharing or share-based profit-sharing. Another type of profit-sharing exists at levels higher than the enterprise level (e.g. regional and national). This form, wage-earners' fund, is financed by contributions from enterprise profits and are then invested for the benefit of all wage earners.

Employee share-ownership, although not directly related to enterprise profits, provides employees with the opportunity to participate within the enterprise by receiving either dividends and/or the appreciation of employee-owned capital. In this way the employees are again able to gain from the company profits. Employee share-ownership schemes can be both individual or collective and internal or external.

PEPPER is the focus of many arguments among scholars. Those in favor of the schemes often focus on the higher incentive effects, increased wage flexibility, and positive macroeconomic effects. Those who are against the PEPPER schemes often argue that the there is a weakening of property rights, creation of inefficiency of group incentives, and an increase risk-bearing on the part of workers.

Among the Member States the practice of PEPPER schemes varies greatly. While some Member States have implemented legislation promoting PEPPER schemes, others remain unconcerned. A summary of each Member State and its status of PEPPER schemes follows:

Belgium: PEPPER schemes are unfavorable due to legal, fiscal, and political obstacles. The schemes are a recent phenomenon, but the principal form is employee share-ownership, while profit-sharing is still only marginally present.

Denmark: PEPPER schemes are debated politically and economically. Wage earners' funds are discussed intensively. Although it is not implemented, profit-sharing is encouraged at enterprise level in the form of shares and bonds. The number still remains low and there is no research to test the results.

Federal Republic of Germany: There is much discussion of institutionalizing industrial democracy rather than economic democracy. Employee participation in capital is discussed intensively. According to econometric studies those firms which adopted profit-sharing with participation in decision-making improved economic performance (in terms of output per man, output per unit of capital, and profitability). However, it also noted that firms with decisional participation scored significantly higher in human capital related dimensions of the labor force.

France: The longest tradition of PEPPER schemes exists in France. Dating back to the 1850s, but really encouraged since the 1950s, the main forms are cash-based profit-sharing, participation in the benefits of growth, and employee share-ownership. Econometric studies reveals a majority of workers are in favor of the PEPPER schemes. The most pronounced effects are found among firms offering cash-based profit-sharing which had higher productivity, profitability and sales, lower absenteeism, and less turnover with respect to enterprises without such schemes. Participation schemes appear to have less stable employment and had no significant impact on employment.

Greece: There is a growing support for PEPPER schemes and the government has implemented legislation offering tax incentives to both enterprises and employees. In 1987 cash-based profit-sharing and employee share-ownership were introduced, however there have been no studies performed in order to test the effects.

Ireland: The government gives modest encouragement of the PEPPER schemes. Share-based profit-sharing and share option schemes are the most common form of schemes, however the schemes are confined to the private sector. There is no comprehensive evidence of the effects of the existing schemes.

Italy: The government gives no real encouragement for PEPPER schemes. The principal schemes are employee participation in enterprise results, and employee share-ownership. In general these schemes are implemented in order to increase productivity. It was found that the introduction of employee remuneration linked to enterprise performance had better economic results than firms with traditional pay systems.

Luxembourg: PEPPER schemes are very insignificant. Annual “gratifications” (which are not always related to profits) are the most common schemes as well as share offers to employees at preferential prices. There are no studies on the effects of these schemes due to a lack of interest.

Netherlands: The government has played no role in implementing PEPPER schemes. PEPPER schemes remain unimportant. Cash-based profit-sharing is most common but is rarely practiced. No studies have been performed on the effects.

Portugal: PEPPER schemes are not a priority to the government and therefore are neither encouraged nor denounced. Types of schemes in practice are profit-sharing and employee share-ownership. Because the schemes are so unimportant, there are no studies to profess results.

Spain: PEPPER schemes are very uncommon. There is no clear public opinion. Variable payments from profits exist but there is little information relating to the practice.

United Kingdom: PEPPER schemes have a long history in the U.K. The government encourages the schemes through a variety of legislation. PEPPER schemes expanded in the 1970s with the Approved profit-sharing schemes (APS) introduced by the 1980 Finance Act. Other schemes which are prevalent are the Save As You Earn (SAYE) share options schemes (1980 Finance Act), Discretionary Share Option Schemes (DSO), Profit-related pay (PRP) (1987 Finance Act), Employee share-ownership plans (ESOP), and cash-based profit-sharing. Econometric studies appear inconclusive. Some indicate positive effects on motivation, productivity, and employment. Workers' preferences indicate that schemes providing for immediate payment are in general preferred by workers to deferred types of schemes.

As proven above, there are clear differences from one Member State to another in the implementation and the progress of PEPPER schemes. In some Member States the governments are highly active in promoting the PEPPER schemes while other Member States appear somewhat indifferent. There is also obvious differences among the Member States in the intentions of PEPPER schemes as well as in the expected results. The many differences expand into the types of PEPPER schemes and how the schemes are implemented.

Whatever the differences happen to be, there is significant evidence that in those countries which practice the PEPPER schemes, there are positive effects. It is not necessary that every Member State enforce the same legislation nor the same schemes, what is important is that the PEPPER schemes are further encouraged in each Member State.