Employee financial participation in the European Union

WHAT is the context?

Financial participation is a system that assigns additional rewards above and beyond basic pay to groups of employees, in the light of good company performance. Since the early 1990s, various European initiatives have encouraged moves to boost profit-sharing, employee share ownership and employee stock options. In most countries, there is now an active engagement with financial participation – in contrast to the situation cited in the Commission’s ‘Pepper II report’ of 1996, which pointed to very low activity. Some Member States support financial participation through tax incentives and other forms of legislation. In an effort to encourage greater uptake in more Member States, the Commission published a Communication in 2002, ‘On a framework for the promotion of employee financial participation’. Subsequent opinions drafted by the European Economic and Social Committee and the European Parliament underline the importance of collecting information on financial participation, particularly in relation to small and medium-sized enterprises (SMEs).

WHY this research?

During the years 1999-2004, the Foundation carried out research into the nature and extent of financial participation in the EU. The research examined national-level policies and the attitudes of key actors in relation to the development and implementation of financial participation schemes. It found that governments and central social partner organisations play a pivotal role in the national framework of financial participation, albeit to varying degrees, and hence can influence the extent, practice and characteristics of financial participation at company level. The research also pointed to the need to develop forms of financial participation which would make it more attractive to small and medium sized enterprises (SMEs).

WHAT are the findings?

Main trends

- During the 1990s, financial participation became more widespread in large European companies.
- While profit-sharing, in one form or another, is prevalent in most countries, there are variations between countries in the type of scheme in operation.
- All-employee share plans (including all-employee stock options) are relatively widespread in countries where there are savings plan arrangements in place to support share acquisition.
- Legislation and tax concessions can act as a trigger for the introduction of schemes.
- Small and medium sized enterprises (SMEs) face particular problems in introducing such schemes, including high costs and administrative workload.
- Companies with share ownership schemes tend to communicate more effectively with employees.

Attitudes towards financial participation

Government

- Governments view their function essentially as providing the statutory regulatory framework – it is up to companies or the social partners to promote financial participation plans.
- For governments, the main disadvantages of financial participation are the dangers of transferring risk to employees, and the limited applicability in SMEs.
Trade unions

- Trade unions are generally favourable to financial participation, provided that certain safeguards, such as equality of participation, no wage substitution and protection of employees from unreasonable risk, are met.
- Some unions favour profit-sharing over share ownership plans, perceiving them to be less of a risk to wage substitution while potentially leading to greater economic democracy.
- In some countries, union opposition to financial participation is related to a concern to defend existing patterns of collective bargaining and pay determination.
- The extent of union activity in relation to financial participation is strongly influenced by the level of government activity in this area.

WHAT now?

Evidence indicates that financial participation can deliver real benefits for employees, enterprises and national economies. However, despite this potential, it remains under-used in most Member States, and is very unevenly distributed across the EU. A research project initiated by the Foundation in 2003 aimed to develop indicators for the benchmarking of financial participation policies and practices across the EU. Its 2004 study into financial participation in Slovenia showed how these indicators can be applied in practice. It is envisaged that these indicators could serve as the basis for an EU-wide benchmarking exercise of national financial participation practices in the years ahead, under the direction of the European Commission.

Further information
http://www.eurofound.eu.int/areas/participationatwork/finpart.htm
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Foundation reports on the subject:
Recent trends in employee financial participation in the European Union
DE, EN, FR versions available on request
http://www.eurofound.eu.int/publications/files/EF0156EN.pdf

Employee share ownership and profit-sharing in the European Union
http://www.eurofound.eu.int/publications/files/ef0440.htm

Financial participation: The role of governments and social partners
http://www.eurofound.eu.int/publications/files/ef04100.htm

Financial participation for small and medium-sized enterprises: Barriers and potential solutions
http://www.eurofound.eu.int/publications/files/ef04100.htm

Financial participation in the EU: Indicators for benchmarking
http://www.eurofound.eu.int/publications/files/ef0480.htm

Financial participation in the EU: A benchmarking study of Slovenia
http://www.eurofound.eu.int/publications/files/ef05132.htm