

Financial participation bonuses based on a pre-defined formula

The European Commission's guidelines on financial participation explicitly state that bonuses should be based on a pre-defined formula, and not decided in some arbitrary fashion. There are two good reasons for this principle. Firstly, it is vital that employees know how their financial participation bonuses will be calculated. Without this certainty, employees may feel vulnerable to exploitation and opportunism, and may therefore be reluctant to enter into financial participation schemes. Secondly, schemes with pre-defined formulae provide a clearer and stronger incentive than those where the bonus is decided on an arbitrary basis. As such, pre-defined formulae should enhance the efficacy of financial participation.

Unfortunately, given the limitations of the data that are currently available, it is not possible to measure the percentage of employees whose bonuses are based on a pre-defined formula. As with the other indicators for which data are unavailable, possibilities for addressing this deficit are discussed in Chapter 2.

Percentage of employees participating in regular ongoing schemes

One of the Commission's general principles on financial participation holds that 'Financial participation schemes should be applied on a regular basis and should not be a one off exercise' (2002, p.13). The reasoning behind this is that regular schemes create better conditions for a long-term employment relationship that is advantageous to both employees and their organisations. Accordingly, this principle is reflected in Indicator 9. Unfortunately, however, at present this indicator is unsupported by a suitable data source.

Choice of financial participation bonuses in a variety of different forms

All financial participation schemes imply some risk for employees (see McCartney, 2004). However, an overarching objective of the Commission's guidelines is to ensure that this risk is minimised through good scheme design. Various aspects of scheme design affect employees' exposure to risk, but most important is the form of bonus payments. Conventional wisdom suggests that schemes that pay bonuses in the form of company shares are most risky. However, this risk can be greatly reduced by pooling or diversifying the share portfolio. By contrast, schemes that pay cash bonuses are normally viewed as being less risky. However, in certain circumstances, e.g. when inflation is high, cash schemes could be risky also. As there is no absolute test of risk, a desirable quality is that schemes should give employees some flexibility to choose the form in which they take their bonus payments. Currently, however, information on whether employees have this choice is unavailable in the international data sources.

Keeping financial participation and normal pay bargaining separate

One of the most important principles established in the Commission's guidelines on financial participation is that bonuses should always be additional to basic pay, and should never be a substitute for normal remuneration. There are two main reasons for this. Firstly, it is considered that employees need pay stability – given the nature and extent of the typical worker's financial commitments, it is imperative that employees have certainty about the bulk of their earnings. For this reason, trade unions in most European countries would only countenance financial involvement – and its inherent variability – on the proviso that it cannot interfere with bargaining on basic pay in any way.

A second reason why the Commission emphasises that financial participation bonuses should be additional to basic remuneration is that, where schemes are tax relieved, any other arrangement could lead to large-scale tax avoidance through 'salary substitution' (Pendleton et al, 2001; Poutsma, 2001).

A good indicator of whether financial participation bonuses and basic pay are independent is whether bargaining on these items is kept separate and distinct. Unfortunately, however, no cross-nationally comparable data exist on this issue at present.

Measuring legislative and fiscal support for financial participation

A number of studies have established the importance of supportive legislation and tax concessions in determining the incidence and nature of financial participation (e.g. Fernie and Metcalf, 1995). Therefore, in order to understand the environment and context for employee financial involvement, it is crucial to examine these national level supports.

As a simple measure of the national framework for financial participation, McCartney (2004) proposed a five-point scale, with points being awarded on a cumulative basis for the following characteristics:

- existence of legislation specifically covering financial participation;
- tax relief for enterprises on profit-sharing;
- tax relief for employees on profit-sharing;
- tax relief for enterprises on share-ownership schemes;
- tax relief for employees on share-ownership schemes.

For the former EU15, Poutsma (2001) brings this information together in a tabular format. However, Slovenia is not covered by Poutsma's analysis. Therefore, for the current paper, this information had to be derived from a review of the specialist literature and directly from discussions with national experts on the Slovenian situation.¹²

Legislation specifically covering financial participation

Mainstream financial participation in Slovenia dates from the mass privatisation of companies that occurred in the post-socialist transition of the Slovenian economy. The Ownership Transformation Act (1993) established the possibility for employees and managers of newly privatised companies to acquire up to 60% of the shares on favourable terms (Simoneti et al, 2001). This provided a once-off boost to employee share-ownership. However, since the end of mass privatisation in 1998, no specific legislation on financial participation has been introduced which would support existing levels of share-ownership and which could stimulate further financial participation, for example through profit-sharing. This situation has seen the levels of employee share-ownership actually decline in recent years. Employees who got shares through privatisation were not well coordinated and organised, and have therefore tended to sell their shares. Compounding this, the lack of new legislation to support financial participation means that the structures needed to encourage new forms of financial participation are absent. Therefore, Slovenia does not score for having legislation specifically dedicated to financial participation.

Tax incentives for financial participation

Arising out of the lack of legislation governing financial participation, there are currently no financial participation tax incentives in Slovenia for either employees or companies. Therefore, a zero score is also recorded for the four tax related points on the scale. Overall, therefore, a cumulative score of zero is registered on the descriptive five-point scale.

¹² Sincere thanks to Aleksandra Kanjuo Mrèela.

However, it is important to mention some encouraging developments. Kanjuo Mrèela (2003) notes that draft legislation on financial participation was prepared and brought to parliamentary procedure in 1996/1997. Although this legislation is not yet passed, interest in it still appears to be alive as, in 2002, the Ministry for the Economy in Slovenia undertook preparatory work as a basis for passing new legislation in the area of financial participation.

Table 6: *Measuring legislative and fiscal support for financial participation (Indicator 12)*

<i>Indicator</i>	<i>Dimension</i>	<i>Theme</i>	<i>Sub-theme</i>	<i>Unit of analysis</i>	<i>Gender breakdown</i>	<i>Source</i>	<i>Remarks/Limitations</i>
Scale measuring legislative and fiscal support for FP	National policies and characteristics	Taxation	Tax treatment of financial participation	National tax system	N/A	Poutsma (2001, pp. 57–58) summarises legislative and fiscal supports for FP in the EU15. National experts and specialist literature.	<ul style="list-style-type: none"> • Possible to construct a synthetic index e.g. 0-5 scale, one point for: <ol style="list-style-type: none"> a. Existence of FP legislation? (y/n) b. Tax relief for enterprises on profit sharing? (y/n) c. Tax relief for employees on profit sharing? (y/n) d. Tax relief for enterprises on share-ownership schemes? (y/n) e. Tax relief for employees on share-ownership schemes? (y/n) • Scale may need to be empirically validated. • This scale does not measure the level of tax relief, only its existence.

Direct employee participation

Theory suggests that financial participation will be more successful when it coexists with opportunities for employees to participate in problem solving and the design of work. The argument is that these parallel forms of worker involvement reinforce and are reinforced by financial participation. On the one hand, financial participation will be more effective if incentives to achieve better performance are matched with structures that allow the people who know the job most thoroughly – those who do it every day – to contribute freely to improving operational efficiency. On the other hand, structures which provide for employees’ input into problem-solving will be more effective when workers are given a financial incentive to make their contribution (Levine and Tyson, 1990). This theory appears to be supported by the empirical evidence. Many studies have discovered strong statistical associations between the use of financial participation schemes and other forms of employee participation, often characterised as ‘high performance work organisation’ or ‘high involvement workplaces’ (Ichniowski and Shaw, 1995; McCartney and Teague, 1997 and 2004; OECD, 1999; Osterman, 1994; Pil and MacDuffie, 1996). In addition, the combined performance effects of financial involvement and other forms of employee participation have been shown to exceed those of such innovations in isolation (Cully et al, 1999; Kim, 1998).

The literature often distinguishes between two forms of direct employee participation: consultative participation and delegative participation (see EPOC Research Group, Foundation, 1997).

Consultative participation is defined as follows: ‘Management encourages employees to make their views known on work-related matters, but retains the right to take action or not.’

Delegative participation is defined as: ‘Management gives employees increased discretion and responsibility to organise and do their jobs without reference back.’

Data on both consultative and delegative participation are available for Slovenia from the Foundation’s European Working Conditions Survey. Question 27 deals with consultative delegation. Question 27a asks individuals: ‘Within your workplace, are you able to discuss the organisation of your work when changes take place?’ Question 27b considers the nature of this consultation in more detail:

- Q.27b(2) asks employees, ‘Do these exchanges of views take place with superiors?’
- Q.27b(5) asks, ‘Do these exchanges of views take place on a regular basis?’
- Q. 27b(6) asks, ‘Do these exchanges of views take place on a formal basis?’

Employees who answer ‘yes’ to all of these questions – i.e. they are able to discuss the organisation of work with their superiors on a regular and formal basis – could reasonably be considered to be engaged in genuine and meaningful consultative participation. Therefore, based on this measure, 28.1% of employees in the Slovenia sample engage in direct consultative participation.

Table 7: *Percentage of employees engaged in direct employee participation (Indicator 13)*

<i>Indicator</i>	<i>Dimension</i>	<i>Theme</i>	<i>Sub-theme</i>	<i>Unit of analysis</i>	<i>Gender breakdown</i>	<i>Source</i>	<i>Remarks/Limitations</i>
Percentage of employees engaged in direct workplace participation	National policies and characteristics	Cultural differences	Other direct participation	Employee	Directly available	European Working Conditions Survey	<ul style="list-style-type: none"> • See EWCS (Appendix) • Questions 22 and 27 provide information on delegative and consultative employee participation respectively.

The Foundation’s working conditions survey also provides information on the other form of direct employee participation – delegative participation.

- Question 22(1) asks employees, ‘Are you able, or not, to choose or change your order of tasks?’
- Question 22(2) asks, ‘Are you able, or not, to choose or change your methods of work?’

‘Yes’ responses to these questions would signify that employees have substantial autonomy in organising, arranging and discharging their work duties. Therefore, the chosen measure of delegative participation is a ‘yes’ response to Q.22(1) and Q.22(2). By this measure, 45.8% of employees in the Slovenian sample engage in direct delegative participation.

The fact that the rate of delegative participation appears to exceed that of consultative delegation is somewhat surprising, since delegative participation is usually considered to be a more far-reaching form of involvement as it requires managers to relinquish control over key operational decisions. There are many potential interpretations of this anomaly. For instance, it could indicate a high level of trust between management and employees.¹³ On the other hand, it could

¹³ For instance, Kanjuo Mrèela (2003) notes that ‘an important characteristic of the privatisation process in Slovenia has been high involvement of employees.’ Furthermore, she provides survey evidence to show that 27% of Slovenian managers thought trust between managers and employees was high, while 51% felt it was medium.

say something about the division of labour within Slovenian industry – if jobs were broken down into simple sub-tasks, then there would be little room for error, and managers might be quite happy to allow some autonomy in ordering tasks and choosing work methods. This contrasts with the earlier interpretation insofar as fragmented work tends to be associated with more traditional workplaces. This debate is beyond the scope of the current report. However, it is an interesting finding, and it will be interesting to see if it is repeated in other Member States.

Percentage of adults directly holding company shares

The extent to which ordinary citizens directly own company shares is an important indicator of how receptive employees are likely to be to certain forms of financial participation. In Anglo-Saxon countries, such as the UK, it is quite common for ordinary employees to hold some of their personal wealth in direct equities¹⁴. This familiarity is thought to dispose workers in these countries more favourably to share-based forms of financial participation. However, in other European economies, stock markets are dominated by large institutional investors such as pension funds, and retail share investment is relatively limited. Here, the lower rate of citizen participation in stock markets might be expected to act as a barrier to the spread of share-based schemes.

In some Member States, Ireland for example, the Household Budget Survey (HBS) asks elective questions about employees' shareholdings. Where this is the case, it is very easy to calculate the total number of shareholders as a percentage of the adult population on a comparable basis. However, the question about employee shareholdings is not part of the harmonised schedule of questions common to all countries, and it is not asked in the Slovenian HBS. This means that reference has to be made to national data for this information. In using national data, it is more difficult and risky to make strict cross-national comparisons, and this should be noted when interpreting this indicator.

Table 8: *Percentage of adults directly holding company shares (Indicator 14)*

<i>Indicator</i>	<i>Dimension</i>	<i>Theme</i>	<i>Sub-theme</i>	<i>Unit of analysis</i>	<i>Gender breakdown</i>	<i>Source</i>	<i>Remarks/Limitations</i>
Percentage of adults holding company shares directly (i.e. not as part of a fund, such a pension fund)	National policies and characteristics	Cultural differences	Citizen participation in stock markets	Nation state	Possible	National household budget surveys National registries of securities and national statistical offices	<ul style="list-style-type: none"> • A Household Budget Survey is not compulsory, but all Member States conduct one. • The timing of household budget surveys differs between Member States. • Some HBS questions are harmonised and collated by Eurostat. However, this does not include the questions on equity holdings. • As an example of useful information from the HBS, Q.16 on Form HB2 of the Irish survey asks, 'Do you have money invested in stocks and shares?' (tick yes/no). From this, the percentage of citizens who hold direct equities can be derived. Note, however, that the relevant question may differ between Member States, and in some cases (e.g. Slovenia) the question is not asked. • Where the question is not on the HBS, refer to national data. Note potential problems of comparison.

¹⁴ See *Report of the High Level Group of Independent Experts, on cross-border obstacles to financial participation of employees for companies having a transnational dimension* (2003).

For Slovenia, national data for the number of people holding company shares is available from the company KDD, the Central Securities Clearing Corporation. Its figures show that, on 8 October 2004, some 830,000 owners of securities in joint stock companies were registered in Slovenia. However, 5,000 of these were corporate or institutional shareholders (e.g. banks, pension funds). Therefore, the total number of citizen shareholders was 825,000.

According to the Statistical Office of the Republic of Slovenia, the adult population of Slovenia at the end of 2003 was 1,628,855.¹⁵ Expressing the number of shareholders as a percentage of this total gives a figure of 50.7%. This is the headline indicator of citizen participation in the stock markets for this Member State.

Percentage of enterprises with a stock market listing

Equity-based financial participation schemes are generally easier to introduce and maintain in publicly quoted companies than in unlisted companies (Festing et al, 1999; Pendleton et al, 2001). This is because the stock market provides a natural mechanism for valuing shares and provides an outlet for selling shares when employees want to cash in their equity. It follows that, all else being equal, the diffusion of financial participation will be facilitated by well-developed capital markets (see Poutsma, 2001).

A simple measure of the development of capital markets is the percentage of companies that are listed on a stock market. Cross-nationally comparable figures on the total number of enterprises are available from the Observatory of European small and medium-sized enterprises, in its publication *SMEs in Europe*. Unfortunately, this source currently does not cover the NMS, and so this study has to rely on national data. According to information from the Statistical Office of the Republic of Slovenia, the total number of companies in Slovenia is currently 46,177.¹⁶

In terms of the number of these companies that are publicly quoted, the Ljubljana Stock Exchange currently lists the shares of 175 companies. Expressing this as a percentage of the total, the findings are that 0.38% of companies in Slovenia have a stock market listing.

Table 9: *Percentage of enterprises with a stock market listing (Indicator 15)*

<i>Indicator</i>	<i>Dimension</i>	<i>Theme</i>	<i>Sub-theme</i>	<i>Unit of analysis</i>	<i>Gender breakdown</i>	<i>Source</i>	<i>Remarks/Limitations</i>
Percentage of enterprises with a stock market listing	National policies and characteristics	Institutional differences	Stock market listing	Nation state	N/A	<i>Total no. of enterprises:</i> <ul style="list-style-type: none"> • Observatory of European SMEs • National data sources <i>No. of listed enterprises:</i> <ul style="list-style-type: none"> • Federation of European Securities Exchanges • National data sources 	<ul style="list-style-type: none"> • For EU15, total number of enterprises (non primary industries) from Observatory of European SMEs, <i>SMEs in Europe</i>, Table 2.5. • For NMS, national statistical offices. • Number of listed enterprises directly from national stock exchanges. Also available in transnational form from Federation of European Securities Exchanges, <i>European Securities Exchange Statistics</i>, Table 3 (Listed Companies and Investment Flows). • Simply express latter as a percentage of the former.

¹⁵ Persons aged 18 years and over.

¹⁶ Economy subjects, 'legal persons'; this includes partnerships, limited liability companies and joint stock companies.

Average number of employees in each organisation

Many empirical studies point to a strong relationship between the size of an organisation (as measured by the number of employees) and its use of financial participation. For example, Pendleton et al (2001) find a significant association between establishment size and, particularly, broad-based financial participation schemes, while Festing et al (1999) find that the incidence of both employee share-ownership and profit-sharing increases strongly with the size of the organisation. There may be several explanations for this.

An agency theory approach suggests that, as organisational size increases, it becomes more difficult to monitor employees' performance. This may make financial participation more useful to large organisations because, by rewarding employees for better performance, it reduces their incentive to 'shirk'. Alternatively, Pendleton et al (2001) suggest that financial participation may be more attractive to larger organisations because the greater 'social distance' between management and workers in these companies, and the threat of larger employee numbers, creates a stronger imperative for management to align employee interests with those of the organisation.

Eurostat regularly measures the number of enterprises and the number of employees for a selection of EU Member States. The average size of enterprises can easily be established by dividing the latter figure by the former. However, information on Slovenia is not yet available from this database, and so the reference again is to national statistics. The Slovenian Labour Force Survey (second quarter, 2004), indicates that there are currently 946,000 people employed in Slovenia. However, because the focus of this study is on financial participation, the interest is in employees rather than people employed (which also includes self-employed people). According to the Statistical Office of the Republic of Slovenia, some 67,179 of people currently employed are self-employed private entrepreneurs. Therefore, the total number of employees is approximately 878,821.

It has already been established that there are 46,177 companies operating in Slovenia. However, this is not the total number of workplaces. In addition, there are 28,472 'Institutions, Bodies and Organisations' – a group that includes State bodies (e.g. government departments), public institutions (e.g. schools and hospitals), social partner organisations, political parties, religious communities, etc. It is important to include these workplaces in the calculations as certain forms of financial participation (e.g. gain-sharing) could be applied in these not-for-profit contexts. Therefore, the total number of workplaces in Slovenia is approximately 74,649. Taking this total and dividing it into the number of employees, the average number of employees per workplace in Slovenia is about 11.77.

¹⁷ This figure is approximate, but it may understate the true total number of workplaces because some companies may have multiple sites.

Table 10: Average number of employees in each organisation (Indicator 16)

<i>Indicator</i>	<i>Dimension</i>	<i>Theme</i>	<i>Sub-theme</i>	<i>Unit of analysis</i>	<i>Gender breakdown</i>	<i>Source</i>	<i>Remarks/Limitations</i>
Average number of employees per workplace	National policies and characteristics	Institutional differences	Enterprise size	Nation state	N/A	Consistent data for selected Member States available from Eurostat New CRONOS Database: Structural Business Statistics. Otherwise, refer to national statistics.	<ul style="list-style-type: none"> • Eurostat New CRONOS database measures the number of enterprises in each Member State, and the number of employees. The average size of each enterprise can be derived by dividing the latter by the former. • Statistics only available for ‘the business sector’ – therefore forestry, agriculture, education, health and other community, social and personal services are excluded. • Annual data, but most recent year is 2001. • Caution should be exercised in comparing data from national statistical sources. • Note that the interest is in the number of employees not the total numbers employed. Also, the interest is in the number of work places or business units (physical locations) rather than the number of companies.

Summary

The above exercise clearly demonstrates how the Foundation’s indicators of financial participation can be applied in a practical sense. Using these indicators, a partial profile of the test case – Slovenia – has been elaborated. For convenience, Slovenia’s scores are now brought together and summarised in the table below.

Table 11: Profile of financial participation, Slovenia

<i>Indicator No.</i>	<i>Indicator</i>	<i>Source</i>	<i>Scoring Range</i>	<i>Score</i>
1	Percentage of enterprises using FP	CRANET	0–100	32.9%
2	Percentage of employees covered by FP	CRANET	0–100	21.8%
		Foundation	0–100	9.6%
3	Percentage of enterprises offering FP to different occupational grades	CRANET	0–100	32.9% (managers) 25.5% (prof./tech.) 22.4% (clerical) 20.5% (manual)
7	Percentage of employees regularly receiving information on performance measures relevant to the FP scheme	CRANET	0–100	54.0% (in all orgs.) 61.5% (in orgs. using FP)
12	Scale measuring legislative and fiscal support for FP	Literature, National Experts	0–5	0
13	Percentage of employees engaged in direct employee participation	Foundation	0–100	28.1% (consultative) 45.8% (delegative)
14	Percentage of adults directly holding company shares	National Sources	0–100	50.7%
15	Percentage of enterprises with a stock market listing	National Sources	0–100	0.38%
16	Average number of employees in each organisation	National Sources	Infinity	11.77

It should be clear that not all of the Foundation's 16 indicators are supported by existing cross-nationally comparable data. In fact, it has only been possible to make a partial profile using nine indicators. Chapter 2 examines possible solutions to this data deficit.

2

Generating new data

Chapter 1 demonstrated the practicality of the Foundation's indicators. It showed that, where data are available to support them, these measures are straightforward to apply and provide an interesting and informative insight into the nuances of financial participation as it exists in a particular Member State. Despite this tantalising glimpse of their potential, however, it is obvious that the full range of 16 indicators is needed to get a complete picture of financial participation policy and practice. At present, only nine of the Foundation's 16 indicators are supported by existing data, and this information gap needs to be addressed as a matter of priority. The purpose of this chapter is to examine ways in which this can be done.

Firstly, this chapter will discuss the overall approach that should be adopted in addressing the current data deficit. The relative merits of two alternative approaches will be discussed:

- Approach 1 – Starting from first principles with a new survey specifically dedicated to financial participation;
- Approach 2 – Expanding existing data sources to provide new information and more detail on financial participation.

Ultimately, the latter option is preferred.

The second part of the chapter concentrates on the detailed arrangements for upgrading existing data sources. By focusing on the seven indicators for which information was unavailable, it:

- highlights the data gaps that need to be filled;
- identifies the existing surveys that should be upgraded to address each of these gaps;
- outlines questions that could be introduced to these existing surveys to achieve this.

Overall approach to addressing the data deficit

As outlined above, one option would be to conduct a new survey specifically dedicated to employee financial participation. This approach would have several attractions. Firstly, by focusing directly on financial participation, a dedicated survey would give a more detailed and nuanced insight into the nature of financial participation than the existing non-specialist data sources can provide.¹⁸ Secondly, a new survey could be designed from first principles to provide:

- full geographical coverage – all Member States would be covered;
- full coverage of all types of financial participation, including gain-sharing;
- a focus on the employee rather than the organisation – this would facilitate the disaggregation of data between different groups such as managers and manual workers, men and women, atypical workers and regular employees, etc;
- regularity and timeliness – regular updates would be provided.

However, there would also be serious disadvantages to this approach. Firstly, it could prove extremely costly. To begin

¹⁸ To illustrate this, consider that the three best data sources that currently exist – CRANET, EPOC and the Foundation's European Working Conditions Survey – each derive their information on FP from a single question in the survey instrument (McCartney, 2004).

with, funding would have to be provided for a cross-national project on the design of the new survey. Then, the survey instrument would have to be translated into all of the EU languages. Then, sampling and large-scale fieldwork activities would have to be undertaken in each of the 25 Member States. The costs associated with these endeavours would be substantial and cannot be ignored from a practical perspective.

Secondly, a dedicated survey could be undermined by the technical problem of non-response bias. A degree of non-response is to be expected with any sample survey, and this can usually be tolerated. However, problems arise when non-respondents are systematically linked by some unseen characteristic. In this case, it is arguable that employees who have no experience of (or access to) financial participation schemes would be over-represented among the non-respondents in a dedicated survey on financial involvement. This is simply because they might feel that their answers would be irrelevant. If this were the case, the figures produced by such a survey would systematically overstate the extent of financial participation.

A third disadvantage is that a dedicated survey could lead to financial participation being viewed in isolation. A key area of interest is how financial participation interacts with other aspects of workplace industrial relations. Consequently, for analytical purposes, it is desirable that any new survey on financial participation would also include questions on key correlating factors, e.g. flexible working practices, new forms of work organisation, etc. This raises a dilemma. If these measures of the broader industrial relations and human resource management (HRM) context must be included, there is a danger that the new survey could become so long and unwieldy as to discourage high response rates. In addition, the inclusion of these broader measures could lead to duplication of existing, more general human resource management surveys (e.g. CRANET and EPOC).

The alternative approach would be to expand the existing surveys to capture more detail on financial participation. This approach also has its disadvantages. Firstly, it is clear that, even by adding extra questions, none of the existing surveys will ever be able to provide as much detail on financial participation as a more specialised survey. Secondly, some existing sources of cross-national data on financial participation are inherently limited by their design. For example, CRANET is based only on information provided by management representatives (McCartney, 2004).

However, these limitations may not be as damaging as they might first appear. On the issue of detail, a number of points should be borne in mind. Firstly, and specifically for the purposes of benchmarking, an enormous amount of detail is not required – benchmarking aims to provide a summary overview of the financial participation situation in each country, not a detailed analysis. Secondly, although no single source of existing data provides extensive information on financial participation, the types of information they do provide are, to some extent, complementary. By focusing on the strengths of each data source, and by thoughtfully combining information from these sources, the Slovenia case study illustrates that it is possible to elaborate a surprisingly detailed picture of the financial participation situation using extant data.

Regarding the technical limitations of the existing surveys, the same point about complementarity also applies. Certainly, CRANET is limited by its focus on the organisation. However, when information from CRANET is combined with information from the Foundation's employee-based working conditions survey, this disadvantage can be compensated for. To illustrate, CRANET provides data on the incidence of financial participation (as measured by the percentage of enterprises that have schemes in place). The Foundation's survey provides complementary data on the coverage of these schemes (as measured by the percentage of employees who participate). In this case, the combination of data with different technical properties actually adds to an understanding of the financial participation situation.

In view of this, and given the fact that CRANET and the Foundation's working conditions survey are regularly updated and provide good geographical coverage, it is considered that the existing sources of cross-national data provide a viable starting point for benchmarking financial participation policy and practice in Europe. Therefore, given the cost

implications and technical difficulties associated with developing a dedicated survey, it is recommended that remaining gaps in the existing data should be filled by appending additional questions to existing surveys. Specific proposals in this regard are outlined below.

In order to identify precisely the remaining data deficits, and to specify how they should be addressed, the following section examines each of the indicators that are not currently supported by existing data.

Using the same formula to calculate bonuses for all grades

The above indicator is recommended by the Foundation in order to detect whether the ‘similar terms principle’ is being observed. However, no data currently exist to support this indicator, and so new information must be generated. As the indicator is an enterprise-based measure, it has to be supported with enterprise-based survey data. The CRANET survey lends itself most easily to providing this new data. As discussed above, Section IV, Question 2 of the CRANET questionnaire asks, ‘Do you offer any of the following? (Please tick as many as are applicable to each category of staff.)’

The extra information needed to support this indicator could be gained by adding a simple addendum to this question,

	Management	Professional/Technical	Clerical/Administrative	Manual
Employee share schemes				
Profit-sharing				
Stock options				

‘If you offer a particular scheme to more than one occupational grade, please answer the following: Do you use the same formula to calculate the bonus for all grades of employee?’ (yes/no).

Employee participation in choice and design of scheme

As previously outlined, one of the Commission’s general principles on financial participation is that schemes should be clear and transparent. One implication of this is that employees should have some say in the choice and design of the schemes that are introduced. Unfortunately, none of the existing surveys provides information on this subject, and so new data will have to be generated to support this measure.

As the recommended indicator takes the enterprise as its unit of analysis, it would be appropriate to fill this information gap by amending one of the relevant company-based surveys (EPOC or CRANET) rather than the EWCS, which is an employee-based exercise. Unfortunately, EPOC was designed as a once-off exercise, and it is unclear whether it will be repeated. Therefore, the most efficient option would be to upgrade CRANET, which is regularly updated. In addition, it has greater geographical coverage. It is recommended that the additional question – covering employee participation in the choice and design of schemes – could be located directly after the existing question on financial participation (Section IV, Q.2).

Existing question, (Section IV, Q.2), ‘Do you offer any of the following? (Please tick as many as are applicable to each category of staff.)’

	Management	Professional/Technical	Clerical/Administrative	Manual
Employee share schemes				
Profit-sharing				
Stock options				

The suggested new question would follow directly from the above:

‘If you ticked any of these financial participation schemes, please answer the following: Did employees and/or their representatives have the opportunity to participate formally in the choice and design of these financial participation schemes?’ (yes/no).

Number of training hours related to financial participation

By their nature, financial participation schemes are sometimes unavoidably complex. They can involve intricate calculations, specialist terminology, and detailed rules regarding share-ownership and tax law. Employees who are unfamiliar with such schemes can find such complexity daunting, and this can lead to suspicion and ultimately under-use of financial participation. To prevent this, and to make their involvement in the design of schemes meaningful, it is desirable that training is provided for employees and their representatives on financial participation and related subjects.

At present, no data source provides information on training for financial participation, and so new information is needed. The Foundation’s chosen indicator on this subject is a company-based measure, so it can only be supported by upgrading one of the company-based surveys. Eurostat’s Continuing and Vocational Training Survey (CVTS) is a company-based survey of training practice that offers good geographical coverage and has been updated at regular intervals. As outlined in McCartney (2004), this is a potentially useful source of information on training related to financial participation. Part 2, Q.4 of the survey¹⁹ asks:

‘What was the total paid working time in hours spent on CVT courses by subject of training?’

- foreign languages;
- sales, marketing;
- accounting, finance;
- management, administration;
- secretarial, office procedures;
- personal development, induction training;
- computing, computer applications;
- machinery operation, quality control;
- health and safety, environment protection;
- services (e.g. catering, tourism, driving, security);
- other training subjects (please specify).’

¹⁹ Reference is to the Irish questionnaire (FÁS, 1999).

Without any changes to the survey, some useful data may already be available from this source: by post coding the open category ‘other training subjects’ it may be possible to identify whether any specific financial participation training took place. However, it is likely that, without the prompt of a dedicated category, few companies would think of including financial participation training in their responses. Therefore, a post-coding exercise could understate financial participation training.

Consequently, it is suggested that this survey be upgraded by simply adding an extra category to the above question:

- ‘financial participation – (training on how to design and operate profit-sharing, gain-sharing, employee ownership plans, etc)’.

Financial participation bonuses based on a pre-defined formula

As already explained, financial participation bonuses must be based on a pre-defined formula to maximise their incentive effect and to gain the confidence of all stakeholders. The Foundation recommends that the above indicator is used to measure the extent to which bonuses are, indeed, based on a pre-defined formula. Unfortunately, no data currently exist to support this indicator, and so it is necessary to generate new information. As the indicator is an employee-based measure, the EWCS would be the best potential source of data. Question EF.22 includes some information on financial participation, based on the following question:

‘What does your remuneration include?...

EF.22(7) Payments based on the overall performance of the company (profit-sharing scheme) where you work;

EF.22(9) Income from shares in the company you work for’.

It is recommended that an additional question be added directly under each of these two options:

- EF.22(7b)²⁰ ‘If you responded “yes” to EF.22(7) please answer yes/no to the following: Are these payments calculated according to a pre-defined formula?’
- EF.22(9b) ‘If you responded “yes” to EF.22(9) please answer yes/no to the following: Are these payments calculated according to a pre-defined formula?’

Percentage of employees participating in regular ongoing schemes

Regularity in financial participation creates better conditions for a long-term employment relationship and so benefits both employees and their organisations. Accordingly, one of the Foundation’s indicators deals directly with the regularity and continuity of schemes.

²⁰ The ‘b’ designation assumes that the original question, currently labelled EF.22(7) will become EF.22(7a) when the additional question is introduced. Similarly, the current EF.22(9) will become EF.22(9a) when the supplementary question is introduced.

Unfortunately, existing survey information is too general to address the question of whether schemes are applied on a regular and repeated basis. Once again, therefore, new data are required. As the specified indicator is an employee-based measure, the best potential source of this data is an additional question which could easily be introduced into the Foundation's working conditions survey. As outlined above, Question EF.22 of this survey already includes some information on financial participation, based on the following question:

'What does your remuneration include?...

EF.22(7) Payments based on the overall performance of the company (profit-sharing scheme) where you work;

EF.22(9) Income from shares in the company you work for'.

It is recommended that, in tandem with the additional questions on a pre-defined formula (see above), extra questions on regularity should be added directly below the original question. The recommended wording is as follows:

- EF.22(7c) 'If you responded "yes" to EF.22(7) please answer yes/no to the following: Do you receive these payments on a regular basis?'
- EF.22(9c) 'If you responded "yes" to EF.22(9) please answer yes/no to the following: Do you receive these payments on a regular basis?'

Choice of financial participation bonuses in a variety of different forms

An overarching objective is to minimise the risks associated with financial participation. Employees can be empowered to manage their risks according to their own personal preferences by giving them some choice over the form in which they take their bonus payments. Therefore, one of the Foundation's indicators is the percentage of employees who can choose to take their financial participation bonuses in a variety of different forms.

As with the other indicators in this section of the report, this measure is currently unsupported by existing data. To address this, the most efficient way of generating new data on this employee-based measure would be to upgrade the Foundation's working conditions study. As discussed above, Question EF.22 of the working conditions survey already includes some information on financial participation, based on the following question:

'What does your remuneration include?...

EF.22(7) Payments based on the overall performance of the company (profit-sharing scheme) where you work;

EF.22(9) Income from shares in the company you work for'.

It is recommended that, in tandem with the additional questions already recommended on a pre-defined formula and regularity (see above), two final extra questions should be added as follows:

- EF.22(7d) 'If you responded "yes" to EF.22(7) please answer yes/no to the following: Do you have a choice about the form in which you receive these payments (e.g. a choice between receiving payments in cash or in company shares)?'
- EF.22(9c) 'If you responded "yes" to EF.22(9) please answer yes/no to the following: Do you have a choice about the form in which you receive these payments (e.g. a choice between receiving payments in cash or in company shares)?'

Keeping financial participation and normal pay bargaining separate

The Commission's guidelines on financial participation assert that bonuses should always be additional to basic pay, and should never be a substitute for normal remuneration. This is to ensure fairness for employees and to avoid undue pay variability. Where schemes are tax relieved, this principle also prevents an undermining of the tax base through 'salary substitution'. A good test, of how separate financial participation is from normal pay, is to examine whether negotiations on the two issues take place separately and at different times. Hence, the indicator above is chosen as one of the Foundation's key measures for benchmarking. In common with the other indicators in this section, however, there are currently no data from existing sources to support this measure, and so new information needs to be generated.

Data to support the recommended indicator could easily be provided by introducing an additional question to CRANET. Section IV, Question 1 of CRANET currently provides information on the level at which basic pay is negotiated. This is followed by the question on financial participation (Section IV, Question 2). A simple third question could be introduced asking whether the timing and level of negotiations on financial participation differ from those on basic pay:

'Do negotiations on basic pay and financial participation occur:

- a) At the same level (i.e. national, regional, company/division level, establishment level) (yes/no)?
- b) At the same time (yes/no)?'

Summary

The above exercise clearly identifies specific data shortages, and sets out in detail how best these can be addressed through the addition of addendums to existing survey instruments. A summary of the indicators for which data are missing, and the recommended sources of new data which could support these indicators, is outlined in the table below.

Table 12: *Recommended sources for missing data*

<i>Indicator No.</i>	<i>Indicator</i>	<i>Suggested Source</i>
4	Percentage of enterprises that use the same formula to calculate financial participation bonuses for all occupational grades	CRANET
5	Percentage of enterprises where employees and their representatives can actively participate in the choice and design of financial participation scheme	CRANET
6	Number of training hours specifically related to financial participation that are provided by organisations	CVTS
8	Percentage of employees whose financial participation bonuses are based on a pre-defined formula	Foundation
9	Percentage of employees participating in regular ongoing schemes	Foundation
10	Percentage of employees who can choose to take their financial participation bonuses in a variety of different forms	Foundation
11	Percentage of enterprises in which financial participation and normal pay bargaining are kept separate and distinct	CRANET

Conclusion

This report has two primary purposes. Firstly, it aims to ‘road test’ the Foundation’s financial participation indicators by applying them to a real life case. Therefore, a pilot study was undertaken on Slovenia. Chapter 1 shows that, even within the limitations of existing data, it was possible to develop a relatively detailed and comprehensive profile of financial participation in Slovenia. Altogether, it was possible to derive figures on nine of the Foundation’s 16 indicators for the Slovenia case, covering all three key dimensions of financial participation policy and practice identified by McCartney (2004):

- the level of usage of financial participation;
- the nature of financial participation;
- national policies and characteristics that affect the environment for financial participation.

The case study was undertaken as a technical exercise, and its purpose was to demonstrate how the Foundation’s indicators could be used in practice. Therefore, a discussion of Slovenia’s scores on these indicators is beyond the scope of this paper. Indeed, such a discussion should be left until after the Commission’s full benchmarking exercise when comparable scores for the other EU Member States will provide a contextual frame of reference for the Slovenia profile.

The second objective of the report was to identify the information gaps that currently prevent a full profiling of financial participation policy and practice, and to recommend detailed actions for addressing these gaps. While nine of the Foundation’s 16 indicators were supported by existing data, seven of the measures were not supported at all. Chapter 2 concludes that the most appropriate way of addressing this data shortage is not to undertake a new study dedicated to financial participation; instead, it recommends upgrading existing surveys to provide the necessary extra information.

Survey managers are constantly under pressure to add new questions to their questionnaires, and it is clear that not all of these requests can be accommodated. With this in mind, Chapter 2 attempts to spread the burden of extra data capture. Therefore, it suggests that CRANET and the EWCS should each add three addendums to existing questions. In addition, the CVTS survey should add an extra response category to one of its existing questions. In addition to this, the positioning and wording of the additions suggested in Chapter 2 has been carefully thought out to ensure minimum disruption to the flow and content of the existing surveys. Thus, the recommended additional questions have been designed and apportioned in such a way as to try and win over the cooperation of the relevant survey managers. With this cooperation, and with a judicious use of extant data, it is anticipated that a full benchmarking of financial participation in Europe can be successfully undertaken in 2005.

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