STUDIA EKONOMICZNE ● ECONOMIC STUDIES
NR 3 (LXXXII) 2014

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EMPLOYEE FINANCIAL PARTICIPATION IN BUSINESSES: IS IT WORTH DISCUSSING?[1]

PART I
INTRODUCTION

The systemic transition of the Polish economy in the late 1980s and early 1990s, brought a keen interest in various forms of employee participation in the profits and ownership of the enterprises employing them[2]. This was linked to ongoing discussions about how to privatize the country's state-owned companies on a large scale. The author of this paper took part in these discussions, trying to popularize employee share ownership, which was well-known in Western countries. In our view then, this kind of institution could be used to build a new business model for certain groups of enterprises created as a result of privatization.[3] At that time, however, neither the Polish intellectual elite nor the working class was prepared for, or understood, the long-term advantages of the forms of employee ownership[4] implemented in some companies in the most developed

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[1] The author would like to thank U. Grzelońska, P. Kozarzewski, K. Madej, L. Pietrewicz, R. Woodward and A. Ząbkowicz for valuable inputs, comments and discussion of the first version of this paper and for editorial help.

[2] For convenience we refer to these various forms of participation as *employee ownership*.

[3] The author presented the idea of employee share ownership as one of the possible options for privatization in Poland (Błaszczyk 1993).

[4] It is, however, important to note that beginning in 1956, Poland had seen a stream of thought supporting the participation of employee councils in the management of state-owned enterprises. In 1981, this idea began to be implemented in Poland, and gained force in 1989, when the collapse of the communist system made the councils in the enterprises genuinely autonomous.

Western countries. Even in these countries, however, these forms were not very common at that time. They were mainly perceived as marginal and, thus, were not taken into account as an option to be widely disseminated in the market economy (as opposed to the fairly widespread and partly mandatory use of employee participation in the management of companies in Europe). Nevertheless, the idea of employee financial participation (including profit sharing and employee shareholding), which since then has gone through various ups and downs, has survived and evolved into new forms, gaining ever wider acceptance and a firm legal grounding in some of the Western European countries and the United States. An international and European institutionalized movement has also been established to promote these solutions.[5]

In view of the events in recent years that have revived doubts about the basic principles and durability of the traditional forms of capitalism, the interest in employee financial participation, including widespread employee ownership, has returned. Its popularity has grown in Europe, together with a strong commitment of the European Commission (EC) to popularize it. Much empirical evidence has been gathered, new instruments have been designed, and their implementation is being advocated by the most prominent bodies within the EU. This article is intended, first, to remind us about the relevant legacies of the past and, second, to present new concepts of financial participation, examining the opportunities for their implementation and the conditions necessary for its success, and providing a critical evaluation of their relevance in Poland and elsewhere.

Due to usual space constraints, the author decided to divide the text into two parts that will be published in consecutive volumes of the journal. The first part will be devoted mainly to the idea of employee financial participation, its' economic and social justification, its' general evolution and its' relevance today. The second part focuses more on practical aspects of employee financial participation, its' implementation in most advanced countries and discusses its' prospects for the future. The paper presented below is organized in 5 sections. It starts by making a clear distinction between employee financial participation and employee participation in management (non-financial participation). After presenting the theoretical justification for financial participation, addressing its main values and objectives, in the second section it outlines the classical concepts and types of employee financial participation. While the third section includes an overview of the scale and scope of employee financial participation in Europe and the USA, the subsequent section presents the efforts of the EU institutions to support and foster the employee financial participation in Europe. In the last section, a number of new important questions for further research on financial participation are considered.

[5] The oldest organization dealing with employee participation is the International Association for the Economics of Participation (IAEFP) located currently at the University of Southern Mississippi. Organizations with corporate members are, in Europe the European Federation of Employee Share Ownership (with headquarters in Brussels) and in the USA the National Center for Employee Ownership (located in Oakland, California).

1. FINANCIAL PARTICIPATION VS. WORKERS' PARTICIPATION IN MANAGEMENT

Financial participation[6] is the participation of employees in the profits and/or assets of the company. It refers to financial benefits, property and rights resulting from this fact. By contrast, *workers' participation in management(non-financial participation)*[7] means employee representation in business management (on various levels) and refers to employees as social partners. Both forms of employee participation have very different ideological roots and different practical justifications, which does not prevent them from sometimes co-existing in one company.

1.1. NON-FINANCIAL PARTICIPATION

The rights of employees to take part in the decision-making process (sometimes referred to as co-management) are derived solely from a labor-based legitimization; that is, they result from employees' share in work, not in property[8]. Ideologically, these rights are derived from the non-financial needs of the workers, such as their need for involvement and self-realization, as well as to a broadly understood need for work "empowerment". But advocates of these arrangements make other arguments on the basis of economic efficiency as well: employees engaged in issues concerning the enterprise will be able to find new motivations to improve work efficiency and innovation, making it possible for their full potential to be used for the benefit of the company. By enhancing the position of employees in the company's management system, the participation schemes may also significantly improve the material well-being of personnel. In most countries of continental Europe, *non-financial participation* is regulated by law (at least since the 1980s) and operates in the majority of large companies[9]. Institutions supporting non-financial participation have been created at different levels of business management and have taken different forms in different countries, including, in particular, direct and indirect, or "representative", participation. The most common and most popular form of indirect participation involves employee councils, which are usually established at the department level throughout the entire company. Their primary role is to serve as information and consultation bodies and, in some areas, to enable participation in the decision-making process. In some countries, where trade unions are not able to operate at the shop floor level, employee councils can take their place, and in others, these two

[6] German term: "materielle Beteiligung der Arbeitnehmer".

[7] German term: "Mitbestimmung" (English: "codetermination").

[8] In its most extreme form the labor-based argumentation was encompassed in the concept of the classic self-governing enterprise (owned collectively by the employees). The analysis of this form can be found in Blaszczyk (1990).

[9] Details can be found in Blaszczyk (1988) and more up-to-date information can be found in Lowitzsch (2011).

representative institutions co-exist within the company[10]. Another important form of indirect participation is co-management at the level of entire company, which involves the participation of employees' representatives in the supervisory boards of public limited companies. Since 2001, in addition to national legislation regulating this type of co-management, European companies are subject to an amended EU-Joint Stock Company Statute, which includes the participation of employees' representatives in the governing bodies of such companies[11].

It should be noted that, in addition to the legally required forms of participation in management, many companies (especially smaller ones) voluntarily offer additional forms of non-financial participation as a result of the particular needs of the companies. This type of participation often arises in connection with the introduction of financial participation and the need to attract employees and involve them in the process. An interesting, though less popularized, form of non-financial participation is the so-called *direct* workplace *participation*, which consists in creating autonomous working groups, quality circles and other similar institutions that enable employees to manifest their initiative and creativity in shaping both the work environment and work process. This form was introduced particularly in the Scandinavian countries (Rudolf 1982), but despite promising results, did not spread on a wider, more general scale in Europe. It seems that this type of non-financial participation deserves special attention in the current situation, taking into account both the needs of today's businesses (the ability to introduce rapid changes and innovations), as well as the characteristics of the work environment (the increasing level of education and growing aspirations).

1.2. FINANCIAL PARTICIPATION

Moving on to the main topic of this paper, *employee financial participation* in companies, one first needs to stress that this term covers a very wide spectrum of solutions ranging from participation in profits, through individual shares in equity and employee stock options, to employee ownership systems like ESOPs, specially designed to serve this purpose, which combine employees' participation in the profits and capital of the companies[12]. *Financial participation* is thus an umbrella term referring to various forms of supplementing employees' fixed remuneration with a variable component of earnings, the value of which depends on the profit or loss of the company. However, the term should only be used to describe solutions used regularly and universally and covering the majority of

[10] Nevertheless. in some countries trade unions were vehicles for the introduction of non-financial participation. A detailed description of employee councils' rights in Western European countries can be found in Blaszczyk (1988, pp.102–124).

[11] This concerns multinational corporations operating in several EU countries.

[12] The term *employee financial participation* concerns individual property rights, hence it does not cover the legal form of cooperative which assumes collective ownership of an economic entity.

employees of a given company[13]. One of the main features of financial participation is that it is introduced voluntarily, on the initiative of the entrepreneurs. However, legal and tax incentives play an important role as well. *Financial participation* creates additional economic and legal bonds between the company and its employees. All financial participation schemes are based on a similar idea: to make the employees co-beneficiaries of the company or, in the most far-reaching systems, co-owners.

The justifications for these ideas include ethical, psychological, economic, and systemic motivations. At the forefront are the demands for greater fairness in the compensation of workers, who are not treated merely as a cost but also as the most creative factor of production. In this context, we are reminded of the demand for workers' empowerment in the discussion of non-financial participation, though in this case, its implementation would have to be based on a solid financial foundation: the participation of employees in profit-sharing and ownership, as well as in the resulting rights.

One of the most frequently cited economic reasons to implement financial participation is to improve individual and collective motivation at work. By introducing additional benefits linked to the company's performance, it is expected that employees will show greater interest in the quality of their work, greater ability to work in teams, and greater identification with their enterprise.

Employees receive various benefits, including an increase in revenues and, above all, insurance for the future, consisting of support for old age and accidental events, as well as support in the event of employment loss.

However, for the entrepreneur, the important justification lies in the ability to enhance the flexibility of remuneration in response to changes in market conditions and the company's bottom line. For smaller companies, implementing employee equity-sharing can help to improve the capital structure (by increasing shareholders' equity) and to resolve succession issues when the owner retires. In the case of large companies, the key arguments for financial participation are the improvement of internal communication, the greater achievement of social goals, and the implementation of a more effective HR policy (Guski and Schneider 1986, p. 28). For all types of companies it is argued that financial participation is positively linked to sustainable employment and the development of employees' human capital.

On the macroeconomic level, social and economic benefits linked to the financial participation consist in a more equitable distribution of wealth (without expropriation or redistribution) and the resulting changes in social stratification and attitudes (this is most aptly described by the slogan "people's capitalism" which was popular in the 1950s and 1960s). This argument again becomes valid in the present context, due to the rapidly increasing socio-economic stratification of modern societies and concentration of wealth and property over the past few

[13] This far-reaching interpretation derives from the 2002 EC report.

decades.[14] Employee financial participation, if introduced on a large scale, could somewhat mitigate these changes.

Another important goal of financial participation is to increase society's capacity to save and invest, as well as to promote knowledge of the market economy and the acceptance of its rules. The introduction of the most far-reaching form of financial participation, employee share ownership, extends an awareness of responsibility for the issues of business efficiency, investment, capital market rules, etc., to large numbers of people who had formerly been excluded from it. Finally, in many countries, financial participation is meant to strengthen directly the pension system by allowing employees to accumulate large savings on their supplementary pension accounts.

2. TYPES OF FINANCIAL PARTICIPATION

Due to differences in the manner and degree to which employees are linked to the finances of their companies, three basic forms of financial participation can be distinguished (Błaszczyk 1992, p. 12):

1. *Employee sharing in company surplus*, calculated in various ways (e.g., based on profit, income, etc.), also called "pure" profit-sharing[15];

2. *Employee share ownership* (e.g. stock, shares, equity[16]); and

3. *Mixed systems* (including both profit- and equity-sharing).

In the "pure" profit sharing systems, an additional source of employee income, supplementary to their contractual remuneration, is established, albeit without the employee empowerment implicit in share ownership. However, if employees are given the right to re-invest this income in the company, profit-sharing systems gain a new role as the basis for financing equity. More and more often, company profit shares are becoming the initial phase of the establishment of employee share ownership, and sometimes the two systems (profit- and equity-sharing) go on to function simultaneously (in the mixed form). However, because of their different economic implications, each form needs to be described separately.

[14] For example, according to research conducted in Germany in 1997, one million wealthiest households owned more wealth than 25 million poorest households put together (Lowitzsch 2011, p. 119). The situation is more extreme in the United States, where, according to the latest (2007) data on the distribution of net wealth, the richest 1% of Americans owned 33.8% of the country's total wealth, the richest 10% held 71.5% of total wealth, and the poorest 50% owned only 2.5% of the country's total wealth. There are similar disparities with respect to income. According to the author of an article published in the *Business Insider* in November 2011, such wealth and income inequality in the United States is unprecedented since the onset of the Great Depression in 1928 (Lubin 2011).

[15] German term: "Erfolgsbeteiligung".

[16] German term: "Arbeitnehmer-Kapitalbeteiligung".

2.1. EMPLOYEE PROFIT-SHARING

The most traditional form of profit-sharing, also referred to as cash-based profit-sharing, is a direct bonus payment based on the share of profits allotted to the employee. This does not include a personal bonus[17] based on measures of individual performance, but rather bonuses paid under a collective, pre-determined profit-sharing program, linked to the overall profit of the company.

Under deferred profit-sharing, the allocated profit share is held for a given period of time either in a special individual savings account or reinvested in the company. In deferred profit-sharing systems, the premium may also be awarded in the form of company shares, which are also retained for a fixed period and may only be sold by the employee after this period.

The employee profit sharing has its longest tradition in France, where as early as 1959 a law on so-called participatory systems was enacted that introduced obligatory employee profit sharing in large and medium enterprises. Initially, these were cash payments out of profits, later, deferred payments were added[18], which were made into special participatory funds, where they had to be held for three years in exchange for tax benefits. Since 1967, increasingly broad employee savings plans, implemented voluntarily by entrepreneurs, have been introduced in addition to the required profit-sharing.

Another example of establishing long term employee savings plans from profit sharing is West Germany, where in the post-war period massive efforts were made to support such savings in order to reduce financial inequalities among citizens and to rebuild the middle class. As part of the national policy to create wealth, a new term was coined, namely "wealth-increasing expenditures"[19], which refers to regular payments by the employer (excluding payroll) for the benefit of employee savings, subject to an additional state premium.

More detailed description of the national forms of employee profit sharing will be included in the second part of this article in the subsequent volume of the journal.

2.2. EMPLOYEE SHARE OWNERSHIP

Employee share ownership is a qualitatively different form of employee financial participation, since employees become company's co-owners by acquiring shares. This means that employees hold the legal right to a given share of the company's assets and to the profits generated by these assets. The employee becomes the owner of the share (including the real appreciation in its value, or capital gain)

[17] Individual bonuses (gain-sharing) create a flexible part of income, dependent on performance and supplementary to the fixed salary. Performance is measured in various ways and depends on the employee's position and his/her level of responsibility. Bonus systems include piece rates and bonuses based on productivity or cost-cutting.

[18] Since 1967, deferred payments out of profits have been obligatory in all companies employing more than 100 people and, since 1986, in all those employing more than 50 people.

[19] "Vermögenswirksame Leistungen".

and, depending on the type of participation, he or she has a right to take part in business decisions, bearing the risks and sharing in the benefits associated with the company's performance. Thus, in such a system, employees receive dividends on profits based on the amount of their investment, in addition to their salaries. Here we propose a broad definition of employee share ownership, including any form of employee investment in the company aimed at bringing profit. Some of these forms (e.g. loans) are not strictly considered equity-sharing; however, since they fulfill a similar economic function, they will also be the subject of our analysis.

Employee share ownership exists either in the form of direct employee shareholding, i.e. individual acquisition of shares in joint stock companies and other types of individual equity-sharing (in other types of companies), or in indirect forms[20] included in special shareholder plans. In addition to individual acquisition of shares, direct employee ownership includes the rights of employees to acquire future shares (share options). Either company or employee funds can be used to purchase employee shares. Employees may also purchase company bonds or lend their money to the company in a different way.

As mentioned above, in addition to individual equity-sharing, there are collective employee ownership programs, referred to as Employee Stock (or Share) Ownership Plans (ESOPs). These plans are equipped with specialized institutions (most often trusts) that act as intermediaries between the company and its employees in matters related to the creation and management of capital held on behalf of employees. Whereas individual employee equity-sharing is popular mainly in continental Europe, ESOPs are much more common in Anglo-Saxon countries.

There are several different ways in which employees obtain their shares in enterprises: in some systems, employees bear the acquisition costs at least partially, and in others, the acquisition of shares or stocks is fully covered by the employing company, through a bank loan or a combination of financing mechanisms, often supported by the state.[21] Shares are most commonly distributed through equity or share savings plans[22], which allocate shares to employees on an individual or collective basis at the issue price, with a discount or deferred payment option[23].

Granting employees stock options or the rights to acquire shares at a later date, but at a price fixed in advance, is yet another form of employee ownership. The advantage of this form is that employees are given the opportunity to profit on the difference between the purchase and selling price of shares if the price increases. However, this type of benefit is not universally recognized as a type of financial participation *per se* because, at the moment of sale, employees most

[20] In this case, shares are at first owned by the institutions representing employees and are later transferred to individual employee accounts after a grace period (most often when the credits used for their acquisition are repaid from the company's profit).

[21] In the form of tax relief, reduced or cancelled social contributions, or various kinds of subsidies.

[22] In share savings plans employers regularly bring input in cash or shares.

[23] The payment can be deferred and paid in installments, often with an employer's subsidy or a bonus.

often keep the profit but do not become co-owners of the enterprise shares for a longer period of time. Similarly, the previously mentioned employee bonds and loans to companies cannot be regarded as classic employee equity-sharing, as they increase the company's debt rather than build its capital. However, taking into account their long-term nature and the right of employees to the interest on the borrowed capital or to dividends in the case of bonds, they can be seen as similar in character to equity-sharing. Moreover, such instruments enable the company to obtain funds at a lower price than on the market.

The previously mentioned forms of collective employee ownership (ESOPs) are characterized by a different way of acquiring shares. ESOPs are based on special financial engineering, whereby the institutional intermediary (usually a trust) purchases the shares (usually using a bank loan) and allocates them to individual employee accounts for deferred use. The bank loan can be repaid either from the company's profit or from dividends on employees' shares, but rarely by the employees themselves[24].

Broad privatization in the UK and other Western European countries in the 1970s-1980s provided an excellent opportunity for the introduction of employee financial participation on a wider scale. Massive privatization of state-owned companies in the former Eastern Bloc began a bit later, in the 1990s and early 2000s. Both waves of privatization led to significant changes in the structure of ownership, in part including the "top-down" creation of specific forms of employee ownership, which often turned out to be less stable[25] than the financial participation schemes steadily developed from the bottom up over many years.

It should also be noted that, in practice, employee ownership of a company's shares or bonds does not guarantee influence on business decisions. Most often, employees are represented at shareholder meetings by proxies, and if they participate in person, their proportion among shareholders is too small to constitute the deciding vote. Some forms of employee ownership are deliberately designed so as not to give workers the full voting rights of their shares (for example, by giving them non-voting shares). However, the problem of linking employee ownership to the appropriate form of non-financial participation is another topic, which shall be omitted here.

3. THE SCALE AND IMPACT OF FINANCIAL PARTICIPATION IN THE UNITED STATES AND IN EUROPE

The roots of employee financial participation can be found in Europe in the early nineteenth century, when the first attempts were made to create systems enabling

[24] The description and classification of various institutional solutions fostering equity-sharing, both individual and through ESOPs, can be found in Blaszczyk (1992, p.45–51).

[25] Comparative studies, conducted at the end of the 1990s in several Central and Eastern European countries, showed that post-privatization changes in the ownership structure of enterprises privatized with a predetermined allocation of shares are usually quick and in many cases lead to the concentration of capital in the hands of a few shareholders (Blaszczyk et al., eds., 2003).

employees to receive regular shares in profits. In the middle of the nineteenth century, profit-sharing schemes were already successfully implemented in companies across Great Britain and Germany. Employee participation systems were developed in a systematic way from the bottom up in European countries, in Great Britain and in the United States until the Great Depression in the early 1930s, when they collapsed along with the economy[26]. The renewed development of financial participation began after the World War II. More about the history and evolution of various forms of employee financial participation will be presented in the second part of this paper in the subsequent volume of the journal.

At the beginning of 2012 in the United States, according to the US National Center of Employee Ownership (NCEO),there were about 11,000 ESOP-type plans, covering more than 10 million employees. About 10 million people were participating in stock option plans. In addition, approximately 5 million employees participated in older types of savings plans, investing mainly in company shares. Furthermore, more than 11 million employees had bought shares under a share purchase plan. Eliminating double counting, it is estimated that about 28 million people participated in one of the employee share ownership plans. At the end of 2010 it was estimated that approximately 17.4% of all private sector employees had shares or stock options in their companies and about 8.7% had stock options. In all limited liability and joint stock companies as much as 36% of employees had stock options. It is estimated that the capital included in employee ownership now constitutes about 8% of the total capital of all commercial companies. While ESOPs are present in most of the companies not listed on the stock exchange, only 3% of public companies have ESOPs. The forms dominating in public companies include stock option purchase plans and other ownership savings plans. It is estimated that each employee of a company that has an ESOP receives an annual average revenue equivalent to US$4,443 and has an account worth an average of US$55,836. At the end of 2009, ESOP capital resources were estimated at approximately US$869 billion. It is hard to assess such data for other types of employee ownership and profit sharing plans, as the reporting obligations are much less strict than in the case of ESOPs. Although companies that are majority-owned by employees are rare in the United States, large and well-known global companies are among them[27]. It is also worth noting that more than half of *Fortune* magazine's "100 Best Companies to Work for in America" have an ESOP or another employee share ownership plan (National Center for Employee Ownership, 2012).

In Europe, in the 15 old EU Member States, 17% of private sector employees work for an employer offering some form of employee shareholding, and if we broaden our view to include various forms of profit-sharing, then 36% have the opportunity to participate financially in the companies where they are employed"

[26] It was estimated that in Great Britain in 1929, over a quarter of a million employees participated in such systems (Estrin et al. 1987).

[27] These include the sales network Publix, which employs 15,000 people, the construction company McCarty, the companies Nypro and Lifetouch (employing 18,000 each) or W.L. Gore and Associates (with 8,000 employees).

(Lowitzsch et al. 2009). Taking a closer look at the data (Lowitzsch 2011), we see that in all of these countries there is a fairly high percentage of companies practicing various forms of financial participation (from several to several dozen percent in different categories), but the percentage of employees who actually benefit from these programs is much lower (a few percent, typically less than 10). For example, in Belgium, 21% of companies employing more than 200 people offer shareholding plans, but only 4.3% of the potential beneficiaries use these opportunities. The situation in France is similar, with the respective percentages of 34% and 5.3%. This means that the potential scope of financial participation is much greater than its use in practice. However, when analyzing the data, one must take into account the fact that they are estimates, as the summarizing reports use a variety of sources, with varying methods and research tools that are difficult to compare.[28] Moreover, the kinds of financial participation practiced in Europe differ significantly across countries and are sometimes so specific that they cannot be easily compared. These peculiarities stem from the different ways financial participation evolved in those countries, as well as different legal systems. Thus, in some countries the dominant forms are various kinds of profit-sharing (for example, in France in 2004, deferred profit-sharing involved as much as 53% of employees, or 6.3 million people, and in Sweden, the Netherlands, Luxembourg and Finland, 15%, 13.8%, 13.5% and 11%of employees, respectively, participated in profit-sharing), whereas there is a more even balance between profit-sharing and shareholding in Germany (with12% of employees participating in profit-sharing, and – as of 2006– shareholding plans in practice in more than 3,000 companies employing 2.3 million people) and the UK (where, in 2006, for example, shareholder-approved plans associated with participation in profits and stock options were present in 5,000 companies and included approximately one million people, and other savings plans were present in more than 4,000 companies covering 2.6 million workers) (Lowitzsch 2011, pp. 28–31).

In most of the countries the pattern is similar, in that – as in the United States –stock option purchase plans are most prevalent in the largest companies, which are often listed on the stock exchange. Stock option purchase programs are present in as much as 83% of listed companies in Finland, 80% in the Netherlands, more than two thirds in Germany, approximately 50% in France, one third in Denmark, about 25% in Luxembourg, and 40% of companies employing more than 50 people in Belgium. Sweden is the only country where share option schemes are non-existent. In the UK it is difficult to specify the number of beneficiaries of stock options, as in many companies these programs are combined with other employee share ownership schemes, as discussed in a detailed form in the second part of the article. In most of the countries where there are employee ownership schemes, the latter have either an individual (employee

[28] Outstanding research in this field is conducted by The European Foundation for the Improvement of Living and Working Conditions, whose reports and studies are conducted for the EC (European Foundation 2004). Another important source is the Cranet Survey, concerning European companies employing more than 200 people (Lowitzsch 2011).

share ownership) or (temporarily) collective character (ESOPs), though in Finland the dominant form is the collective employee fund, which was also in force in Sweden until 1991 (Lowitzsch 2011).

According to reports prepared by the European Federation of Employee Share Ownership (EFES 2010), employee share ownership developed strongly in the first decade of the 2000s. While in 2001, 40% of large European companies offered employee share ownership plans, these plans were present in as many as 83% of such companies by the end of 2010. Moreover, newer plans have included all employees, and not just selected groups as was the case earlier. The question how often employees actually exercise such rights to financial participation in their companies, however, remains open.

There is a fairly widespread view that the implementation of financial participation in Europe in its various forms is most advanced in France and the UK. These two countries have the most experience and longest tradition in implementing legal solutions (over 50 years in France and more than 30 in the UK). Within the EU-15 the lowest levels of financial participation are in the Southern European countries, i.e. Italy, Spain and Portugal. The reasons for this differentiation are not clear and need to be studied.

In conclusion, despite the inability to determine the exact number of people benefiting from various forms of financial participation in the 15 old EU Member States, it must be said that employee financial participation has already been introduced on a large scale, and it is likely that the benefits of these programs affect millions, or even tens of millions, of people in Europe. Existing legislation, which in many countries strongly supports the development of financial participation, provides an additional opportunity for its further significant development.

In the New Member States, financial participation is much less widespread and far from achieving its potential. Although in most of these countries employees benefitted from acquiring stocks and shares at preferential prices during the privatization of their companies in the early transition period, there were neither incentives to keep these shares nor the will on the part of employees themselves to do so. It seems that this willingness is linked to a certain standard of living on the one hand, and the level of economic education of rank and file employees, and awareness of managers (in particular their expertise in the field of business culture and modern management methods) on the other.

More information and discussion on the achievements and experiences of particular countries will be presented in the second part of this paper in the next volume of the journal.

4. THE STANCE OF THE EUROPEAN COMMUNITY ON EMPLOYEE FINANCIAL PARTICIPATION

At the European level, the debate on employee financial participation began in the early 1990s. The first report of the European Commission, entitled PEPPER I

(Promotion of Employee Participation in Profits and Enterprise Results), was written in 1991. On the basis of this report, in 1992 the Council of the European Union issued a recommendation concerning the promotion of employee participation and the European Parliament adopted a resolution on the same subject. Within these recommendations, the European Council formulated the basic principles that must be met so that employee participation programs obtain EU support. These rules remain in force today, in the more precise formulation contained in the Commission Communication of 2002 (European Commission 2002); hence, we quote the complete version below:

1. Employee financial participation must be voluntary (for both employers and employees).

2. Participation programs are a supplement to the existing remuneration system and not a substitute.

3. Programs must not discriminate; the benefits of financial participation must be extended to all employees.

4. Programs must be understandable and transparent.

5. Rules of financial participation in companies should be based on a clear, predefined formula.

6. Firms are obliged to provide information and training to employees on the model introduced and participation details.

7. Unreasonable risk for employees in the programs implemented must be avoided, and if it exists, objective information and warnings must be given to employees.

8. Participation programs must take into account the employees' right to mobility between enterprises and countries.

Subsequent PEPPER reports, which were designed to diagnose progress in the field of financial participation in Europe, were written successively in 1997 (PEPPER II), 2006 (PEPPER III) and 2009 (PEPPER IV) and referred only to the forms of participation that met the requirements specified above and, consequently, obtained EU support[29].

The last report (PEPPER IV, 2009) gave a complete picture of financial participation in all EU Member States and candidate countries and not only described various participation programs and their popularity in individual countries but also presented the government policies and the attitudes of social partners. It also discussed the obstacles for implementation of the programs and legal, fiscal and other incentives for their application. Hence, a large amount of

[29] Hence, stock option programs for management alone, share ownership available for selected employees, and irregular profit-sharing or individual merit-based bonuses are not included.

information on financial participation in individual countries and legal solutions fostering their implementation is available. Nevertheless, a single common legal framework for the EU still has not been created. This is due to the fact that the EU has no decisive competences on internal regulations concerning enterprises or tax and fiscal systems within Member States. So far, the EU could only advise on good practices and provide recommendations on the mutual recognition of their rights in other countries.

In order to address the question what kind of progress could be achieved in this area in the current legal framework, the European Socio-Economic Committee issued an opinion on the matter on 21 October 2010. “The aim [of the opinion] is to encourage Europe to draw up a framework concept which promotes Europe’s economic and social cohesion by facilitating the application of EFP at various levels” (European Committee 2010)

The Committee also proposes to develop a transnational “Building Block Approach”, which would include all forms of financial participation practiced, so that individual countries can choose the combinations of modules that are most suitable for their needs[30]. Within this approach, the Committee differentiates between three basic forms of financial participation: profit-sharing, individual share ownership, and the ESOP model. The Committee recommends a combination of profit-sharing and individual share ownership and, in the case of SMEs, the ESOP model.

For today, the European Socio-Economic Committee proposes to develop the “Building Block Approach” and its gradual implementation in the Member States, as well as coordination, streamlining and mutual recognition of the principles of financial participation for companies operating across borders. For the future, however, the Committee sees the need for closer cooperation, for instance in relation to the increasing mobility of employees and enterprises between Member States, which does not go in hand with the limited mobility of participatory solutions.

5. QUESTIONS FOR FUTURE RESEARCH, IN PARTICULAR IN POLAND

For the past 30 years, employee financial participation, i.e. profit-sharing and employee share ownership, has proved effective in the leading European economies and the United States. Our examination clearly shows that financial participation cannot be treated as a socio-economic experiment in today’s economy. It is rather a widely-acclaimed operating principle in thousands of companies that have recognized it as a good practice and included it in the modern management of business and human capital.

[30] The “Building Block Approach” has been described in Lowitzsch (2011).

In Poland and other new EU countries, we also need to realize this and start giving financial participation the attention it deserves. However, while bearing in mind the important human aspect of financial participation, many questions need to be answered regarding the economic dimension of this issue. For example, what could be expected as a result of the implementation of participation on a broad scale in our companies? What might be its impact on productivity? How might it change the behavior of companies, and under what conditions would it support their development? How could the interests of employers and employees be taken into consideration without harming the efficiency of management? In what institutional framework could financial participation generally be beneficial for raising the competitiveness of companies? What might be its impact on corporate governance?

The influence of financial participation on companies' performance has been the subject of studies too numerous to discuss at length in this part of the article. Generally, it can be stated that participation has a positive influence on the survival of a company in a difficult situation and on maintaining employment. Judging by the recent American experience, companies with financial participation have adapted better to harsh crisis conditions and provided more protection for disappearing jobs than other companies (National Center 2012). A more controversial issue is the advantage of such companies in the area of raising labor productivity and other economic outputs, because the impact of participation on efficiency seems to be less direct and depends on many additional factors. At this point, it should be noted that not only are these benefits different across countries but also across different types of financial participation. Therefore, we plan for the next stage of our work to investigate this issue and to deliver a study devoted to the economic results of different forms of financial participation, based on a review of research conducted in Europe and America.

Another question concerns the main purposes for introducing financial participation in our country and whose interests should be addressed by doing this. We think that these interests *may exist* among employees, managers, employers, individual consumers, pensioners and the society at large. As we suggested earlier, maintaining jobs and ensuring fair incomes can be seen as one of the purposes of financial participation, and this lies in the interest of employees. Enhanced loyalty and work motivation, better work quality and more flexible pay lie in the interest of managers and owners of companies. More and richer sources of funds for the time after retirement are in the interest of each working person. Finally, higher savings would benefit the society in a country with a very low savings rate. A deeper and more precise investigation of the nature of these interests is in our future plans, too.

Another important question is how to deal with the risk avoidance among employees. Our observation from the privatization process is that employees are willing to invest in their companies, but they are strongly determined to avoid any kind of risk. All forms of employee share ownership (including stock options) bear some kind of risk. Without this, there is no true co-ownership. But if the employees don't accept risk at all, we have to avoid or to limit this kind of financial participation schemes and limit ourselves only to profit sharing schemes. We will try to find out, how the most advanced countries have managed to resolve this problem, especially during the last crisis and recession.

Taking into consideration the particular model of privatization in our country that included in many cases employee buy-outs, we could try to find out in our future research, what is the today's heritage from this privatization model – taking into account the remaining scope of employee ownership and the employees' attitudes towards it. This could partially explain the status of and potential for financial participation in Polish companies. The question is whether employee ownership and, more broadly, financial participation, is considered by the people as a temporary form or rather as a stable feature of a modern company.

Another question to answer is whether financial participation is consistent with the evolution of the modern business and contemporary forms of work. Taking into consideration the high work force mobility and the various forms of flexible work that are needed in today's economy, we have to ask how they can coexist with financial participation that favors stability of employment in their company.

A final important question for us is to find the sources of differences between countries that have led to big differences in the scale and scope of financial participation. One can assume that differences in organizational culture and the historical legacies of individual countries have played an important role. In particular, the historical character of industrial relations could be important: where cooperation has been given priority over conflict, financial participation could play an important role. In places dominated by class conflict, this, or any other kind of participation, is not likely to find fertile ground. But these factors only partially explain the high or low achievements of each country in this area. These questions require further studies.

To conclude, trying to respond to the above questions we need to learn from the most advanced countries and companies how to make financial participation work for the mutual benefit of enterprises, employees and society as a whole.

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ABSTRACT

This paper reviews the achievements in the area of employee financial participation (EFP) during the last fifty years. It addresses the question of the extent to which EFP is relevant in today's world. EFP is distinguished from participation in management (industrial democracy), and the various types of EFP are discussed. The major arguments for EFP are presented and discussed critically. The major forms of EFP, the scope and scale of their operation in several advanced economies are described. The efforts of European Union institutions to popularize the idea in all member countries are illustrated. Showing that EFP has become a broadly recognized principle of modern management in thousands of enterprises, we consider chances for disseminating these solutions on a wider scale, in particular in Poland. Finally, a number of directions for further research on financial participation are considered.

Keywords: Financial participation, industrial democracy, employee saving plans, profit sharing, employee share ownership, employee share ownership plans, legal regulations, incentives, European countries, USA.

JEL Classification: A13, D02, G32, J54, M52, P12

PARTYCYPACJA FINANSOWA PRACOWNIKÓW W PRZEDSIĘBIORSTWACH: CZY WARTO O TYM DYSKUTOWAĆ?

STRESZCZENIE

Artykuł ma na celu przypomnienie dorobku partycypacji finansowej pracowników (EFP) w okresie minionych 50 lat, przedstawienie obecnych osiągnięć w tej dziedzinie, a także przedyskutowanie, na ile te rozwiązania odpowiadają zmianom zachodzącym we współczesnym świecie. Omówiono w nim najważniejsze typy partycypacji finansowej, po ich odróżnieniu od partycypacji niematerialnej (udziału w zarządzaniu). Przedyskutowano argumenty przemawiające za wprowadzaniem partycypacji finansowej pracowników do przedsiębiorstw. Przedstawiono w dużym skrócie ewolucję form partycypacji finansowej w najbardziej zaawansowanych krajach Europy Zachodniej i USA oraz zarysowano skalę ich praktykowania. Pokazane zostały wysiłki Unii Europejskiej podjęte w ciągu ostatnich 10 lat w celu upowszechnienia partycypacji finansowej. Konkludując, stwierdzono, że partycypacja finansowa stała się szeroko uznawaną regułą nowoczesnego zarządzania firmą i kierowania zespołami ludzkimi w tysiącach współczesnych przedsiębiorstw. Na tym tle przedstawiono dyskusję nad przesłankami wprowadzenia EFP na szerszą skalę w Polsce i w innych krajach. Zaproponowano też przyszłe kierunki badań nad EFP.

Słowa kluczowe: partycypacja finansowa, uczestnictwo pracowników w zarządzaniu, pracownicze programy oszczędnościowe, udziały w zyskach, akcjonariat pracowniczy, plany własności pracowniczej, regulacje prawne, zachęty materialne, kraje europejskie, USA.