

## FINANCIAL PARTICIPATION AND WORK QUALITY

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### SUMMARY

*The incidence of FP in European Union countries has been increasing in recent years because of expected potential benefits of this phenomenon. At the same time, the interest of researchers in studying the determinants and the impact of FP has been rising too, even though there are no definitive conclusions on the nature and extent of the benefits yet. Despite the large body of research highlighting the benefits of FP in the form of increasing productivity and efficiency, with greater worker involvement, with improving quality at work; and the experience of "pioneer" countries in using FP schemes (France and UK), there is rather more divergence, than convergence, in the incidence and forms of FP between European Union's member and candidate countries.*

**Keywords:** financial participation, job quality

"Science never solves a problem without creating ten more".

**George Bernard Shaw**

### 1. FP IN EU

The Lisbon Strategy aims for increasing competitiveness, productivity and quality at work in EU. Therefore European Commission has boosted the use of FP in EU level through PEPPER<sup>1</sup> Reports, since it is believed that it may enhance productivity. The evidence from dataset where FP is captured (EWCS, CRANET) show tendencies for increased incidence of FP in EU companies and as a result the interest among researches to study determinants and impact of FP has increased as well. Estrin et al., (1997) highlight the increase in the use of PS among OECD countries. Incidence of FP schemes depends on company specific and country specific characteristics. France and UK are among the pioneer countries experiencing the benefits from FP schemes, while the evidence from EU member states shows rather divergence than convergence in the use of FP schemes.

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<sup>1</sup> PEPPER stands for Promotion of Employee Participation in Profits and Enterprise Results

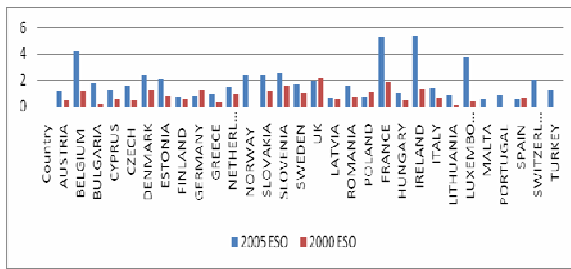


Figure 1. Distribution of ESO  
(Source: EWCS 2000 and 2005)

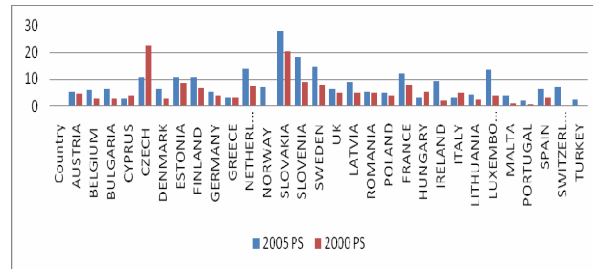


Figure 2. Distribution of PS  
(Source: EWCS 2000 and 2005)

According to fig.1 and fig.2 we may conclude that the incidence of FP (employee share ownership and profit sharing) schemes has increasing trends amongst European countries from 2000 to 2005.

### 1.1. Definition of FP

FP of employees is a form of remuneration, in addition to regular pay systems, that enables employees to participate in profits and enterprise results (Uvalic, 1991; Perotin and Robinson, 1995). According to the European Industrial relations dictionary<sup>2</sup> FP is defined as follows: “FP is an arrangement operating in some companies whereby employees are able to participate in the company’s financial results. This may take a form of share in profits, over and above the remuneration normally paid to employees, or a share in the ownership of the firm” (European Foundation for the Improvement of Living and Working Conditions, 2005).

### 1.2. Impacts of FP

Biagioli (1994) empirical work suggests that the benefits at micro level are the expected increase in efficiency and productivity. FP leads to improved productivity (Kruse, 1993; Kruse and Blasi, 1995) and improved profitability (Festing et al., 1999). Studies such as: PEPPER II Report; Commission of the EU (1997); Perotin and Robinson (2003) argue for a positive correlation between FP and productivity. FP is a mean for improving company performance.

Perotin and Robinson (2000) note that participation works as an incentive for employees to be more efficient and to remain longer in the company. In accordance, a negative relationship between PS and share ownership with the number of quits is found in the work of Wilson and Peel (1991).

FP is linking the effort with the reward. In the case that employees are rewarded as a result of the group effort this may lead to increased peer control i.e. employees will monitor each other (Kandel and Lazear, 1992). As a consequence monitoring cost will be reduced. FP schemes are seen to be most successful in promoting identification, improving motivation and easing recruitment difficulties (Kalmi et al., 2005) and have direct impact on integration, involvement and commitment (Bakan et al., 2004). Industrial relations are improved in the case we answer to agency problem with FP-aligning the goals of Principle (management) and Agent (employees). Participation may improve communication and cooperation between management and employees.

FP is regarded as a management tool to provide incentive and retain their highly qualified employees for enhancing an innovative and productive climate (Poutsma and de Nijs, 2003). A body of research finds complementarities between HRM tools and FP. FP may result in enhancing employees to higher commitment, higher training, and increased productivity.

<sup>2</sup> <http://www.eurofound.europa.eu/areas/industrialrelations/dictionary>

## 2. DEFINING JOB QUALITY

Job is rather a channel than a source of satisfaction. Employee may act as a consumer when choosing a job. Individuals seek for highly paid and quality jobs. But modeling quality among the labor force even though important is a hazardous undertaking.

Smith (1993) defines quality in this way: “Quality is the goodness or excellence of any product, process, structure or other thing that an organization consists of or creates. It is assessed against accepted standards of merit for such things and against the interests/needs of producers, consumers and other stakeholders” (p. 241)

Akdere and Schmidt define quality management as “core business strategy” and note the importance of consistently teaching employees for quality matters.

Job quality is defined individually and is different if we define it from employee or employer perspective. The perceptions for job quality also change through time but attractiveness for high salary job remains. “Quality of work may be a difficult, abstract concept to grasp and may also be political dynamite-and-win scenario for any government more interested in high levels of employment” (Is new work good work? p.21., Westwood, 2002).

The logit estimation using EWCS dataset leads to the following conclusion: “Male employees that have undergone training, work as full time, have higher education, work in large companies and are qualified to management category are more likely to participate in PS and ESO schemes” (Employee Financial Participation in EU Companies, Xhaferi, p. 43). Accordingly employees participating in FP schemes are more likely to be trained and with higher education.

Increasing quality at work and employee participation may increase job satisfaction. The impact of employee participation leads to worker participation in decision making and the latter consequently will lead to greater job satisfaction, higher employee motivation and a harmonious labour relations climate ( Thornley, 1981; Bradley and Gelb, 1983; Cressey and Williams, 1990).

Summers and Hyman suggest that the benefits from employee participation as a result of organizational commitment will be translated in greater worker flexibility and quality of output.

## 3. CONCLUSION

The evidence on FP data shows increasing tendencies for the use of FP in EU companies. There is also increasing interest among researches to study determinants and the impact of FP. A body of research studying the impact of FP is suggesting that is economically rational to have FP schemes because of a number of benefits which may result from its presence such as increased productivity, efficiency, increased commitment and involvement,.. This benefits may consequently be translated in greater job satisfaction, quality of output, and better industrial relations. Being an addition part of remuneration and leading to greater job satisfaction, FP may be considered as attractive and “quality” to employees. On the other hand studies on determinants of FP find that FP is rather present for trained and employees with higher education, which is in the framework of “quality employee” that employer seeks for. Even though ambigiosity is a characteristic in the study of FP and the definition of quality, still there may be causation between FP and quality.

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