Financial participation in Germany.
Management's and works councils' view

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1 INTRODUCTION

The German market economy is based on the understanding that the state intervenes to create a social equilibrium. It is an important basic principle of such a regulated market economy (social market economy) that employees are entitled to a fair share of the company's profit to which they give their manpower. This is also the focus of the law on tax incentives for employee share ownership (Bundesministerium für Arbeit und Soziales, 2008, Law on employee share ownership (Law on tax incentives for employee share ownership) in the version of 7 March 2009, BGBl. I: 451.). However, the employees' fair share in the company's profit that is demanded can be defined and realized in different ways: e.g. as share of the employees' remuneration in national income and respective wage agreements, or as financial participation scheme combined with state incentives. Regarding the use of "quasi-corporate remuneration schemes", i.e. profit sharing as well as employee share ownership, Germany is considered an underdeveloped country.
In Anglo-Saxon countries and especially in the US, models of financial participation have been regarded an immanent part of human resource management since the 1980s. The concepts of strategic human resource management that were developed in those days (Beer et al., 1985; Devanna et al., 1981; Fombrun et al., 1984) emphasize the relevance of strategic incentives (appraisal, remuneration and participation schemes) with regard to achieving long-term strategic aims. However, due to the different labour market setup, the US-American Human Resource Management is faced with other problems with regard to motivating and retaining staff than German companies, as a comparison of fluctuation rates well documents (Weller, 2007). Yet, in the US it was not the "participation philosophy" of HR management either that initiated the spread, but state incentives for these types of participation. Koch (1993) reports that the number of companies with employee participation in company assets increased dramatically in the US since tax breaks were introduced in 1975, from 1,601 to 9,800 in 1992. While roughly 11.3 million or 10% of US-American employees were already equity shareholders and received part of their remuneration in the form of shares in 1992, it is now, according to a more recent study of the US-American Global Social Survey from 2006, 20 million or 17% of all US-American employees who own shares of the company they work for via employee share ownership. Moreover, 10.6 million or 9.3% hold employee stock options (NCEO, 2007).
Thus, quasi-entrepreneurial remuneration systems are not only from an HR policy perspective of interest. State subsidies – like in the US – can be a crucial external variable, stimulating the utilization of quasi-entrepreneurial instruments. Against this background, it is of theoretical, as well as practical interest, which forms of financial participation are practised in Germany and which reasons and obstacles companies find therein. This study is based on a representative survey in businesses. We will outline the methodology in Section 2 and will then report on our findings regarding the spread, intensity and reasons for financial participation in Germany and contrast the views of management and works councils (Section 3). Following this descriptive outline, we will show the results of multivariate estimations of the determinants for the implementation of financial participation schemes, as well as the influence of these parameters on the intensity of utilizing these instruments (Section 4). The final discussion (Section 5) summarizes the empirical findings and gives a brief outlook on future research.

2 AIM AND DESIGN OF THE STUDY

The aim of the study that is summarized here was a representative capture of the utilization and intensity of financial participation on a corporate level in order to give a comprehensive overview of the current situation in Germany. This covers information regarding concrete forms and arrangements of quasi-entrepreneurial remuneration schemes, the motivation behind them, experience and reasons to refrain from them, as well as questions regarding the linking with non-financial forms of employee participation.

To realize these aims, a survey was initially carried out among staff managers of businesses based in Germany (business survey following). That was followed by a second survey in those businesses that had a works council or other employee interest groups. In this second survey (works council survey) a member of the works council and the employee interest group respectively was interviewed. The works council survey was conducted to contrast the employees' and their representatives' views and experience with the aims and motives of the employers. This should yield more information about the role of the works council for the implementation of financial participation, also with regard to its exertion of influence on the substance.[1]

Population of the business survey are all companies[2] in Germany with a minimum of 150 staff members. The sampling procedure was carried out by simple random selection on the basis of an industrial premises directory. A total of 1,201 interviews were conducted with staff managers, managing directors or senior executives. The standardized interview was conducted via telephone in November 2007 (CATI – computer assisted telephone interview).[3]

Of all businesses where a complete business survey was available, those private-sector companies which utilize financial participation schemes and have a works council or some other form of employee interest group were contacted again. In that survey, which was conducted roughly six months later, we managed to interview a member of the works council or an employee interest group via CATI from a total of 121 businesses. As the market research institute supplied the collected data with an explicit (but anonymized) key it is possible to link the data of this survey with those of the business survey.

The following evaluations are limited to private-sector companies, i.e. public services enterprises and institutions were excluded from the analyses we report on here. The results are weighted and projected for all private-sector companies located in Germany with a minimum of 150 employees.

3 SPREAD, INTENSITY AND REASONS FOR FINANCIAL PARTICIPATION IN GERMANY

So far, little quantitative research has examined the rate of spread of financial participation in Germany, or particularly at the correlation with regard to work relations, as well as the shift of responsibility and decisions to the employees. That is not least due to the fact that only few data sources, which are official and accessible for research, are available regarding the

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[1] The survey took place within the scope of the project "Entrepreneurial elements in the new remuneration policy" supported by the Hans-Boeckler-Foundation, project no. S-2006-874-3 B and was carried out by the market research institute Produkt+Markt.

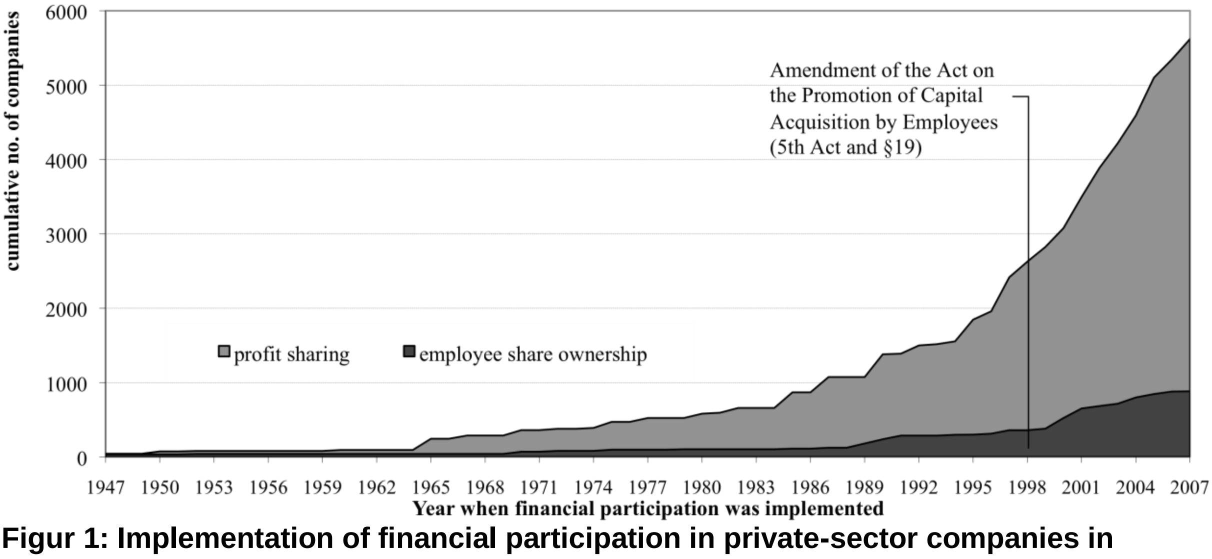
[2] The term "business" refers to industrial premises, i.e. it can also be a branch office or a subsidiary of a corporate. This definition is in accordance with the differentiation of the IAB Establishment Panel or the WSI works council survey. Moreover, taking the Establishment History Panel of the Federal Employment Agency (BA) as our population, this definition yields comparative figures that were used to check the representativeness of the sample.

[3] The population comprises 24,933 businesses with a minimum of 150 employees (special analysis of the Establishment History Panel of the Federal Employment Agency (BA) from 30 June 2007). Due to the databases' up-to-datedness the sampling procedure of our business survey contained businesses from 100 employees onwards. By means of a filter question we checked if at least 150 people were currently (November 2007) employed. Target figure of the net sample were 1,200 conducted interviews. Based on the adjusted gross sample (6,589 businesses) there was a response rate of 18.2%. 13.5% of the companies and target persons, respectively, could not be reached. 68.3% refused to participate or broke off the interview.

spread and intensity of financial participation in businesses in Germany. Part of those data sources which are generally open for secondary analyses are the IAB (German Institute for Employment Research) Establishment Panel and the WSI (Economic and Social Science Institute) Works Council Survey on a business level. Then there are the Socio- economic Panel Study, the Micro-census and the European Working Condition Survey (EWCS) on the individual level. However, the accessible information with regard to use, design and impact of quasi-entrepreneurial remuneration concepts is not very comprehensive, as the subject area is only covered marginally and not the main interest of the corresponding survey. The WSI Works Council Survey from 2007 is an exception (Bispinck & Brehmer, 2008; Bispinck, 2008). Based on these data, though, we can only make statements for businesses with a works council.
So far, studies on financial participation in Germany show, however, that there has been no significant increase in importance over the past years. There have only been shifts in the number of employees involved between East and West Ger- many and in different industries (Bellmann & Leber, 2007). According to results from the EPOC (Employee Direct Participation in Organisational Change) study from 1996 and the Cranet (Cranfield Network on Comparative Human Resource Management) study from 1996/2000, Germany is mid-range of the member states with regard to the utilization of quasi-entrepreneurial remuneration schemes, together with Sweden, Denmark, Austria and Belgium (Hofmann & Holzner, 2002; Pendleton et al., 2001; Poutsma, 2001). However, the studies quoted mostly look only at the spread and intensity of quasi-entrepreneurial remuneration schemes and are somewhat older. The study presented here therefore delivers not only more current, but as a more specific survey also more comprehensive data on this topic.

3.1 Spread and intensity of financial participation

There are no legal incentives for performance-related remuneration in Germany. This however is not the case when looking at employee share ownership, even if it is not yet that widespread: legislation provides for regulations to promote share ownership and capital acquisition. Nevertheless (slight) changes can be noted over a longer period of time based on the studies quoted in the previous section and our business survey. Looking at the time when financial participation was introduced in the businesses we surveyed, one can see a clear increase for both forms of quasi- entrepreneurial remuneration schemes – i.e. profit sharing and share ownership – in the previous years (Figure 1).



Figur 1: Implementation of financial participation in private-sector companies in Germany (cumulative number)

While employee share ownership was just a marginal phenomenon for a long time, a first increase could be noted in the mid 1980s, which is probably due to a wider spread of target agreement schemes and staff appraisals as a means of assessing remuneration (cf. for example Heiden, 2007). Part of the increase in businesses with employee share schemes after 1998 can, among other things, be ascribed to an extensive revision of tax incentives in Germany. However, this did not have the desired effect, as is indicated by the continuously low spread and the new law on the expansion of tax incentives for employee share ownership (Bundesministerium für Arbeit und Soziales, 2008).

	profit sharing	employee share ownership
existent	31.2	4.9
planned	5.8	0.9
abandoned	1.3	0.6
nonexistent	61.7	93.5

Table 1: Use of financial participation (in percentage)

Based on our survey it can be stated that currently nearly one third of all private-sector companies with 150 employees or more have implemented some form of profit sharing (Table 1). 5.8% are planning to introduce a profit sharing scheme whereas share ownership can only be found in 4.9% of the companies, while a scant 1% is planning to introduce an employee share scheme.

Financial participation in the company’s profits or assets is widespread especially among partnerships limited by shares (Table 2). More than half of the businesses (57%) use some form of profit sharing and almost one quarter (23.4%) use some form of share ownership. In addition, a good third of the employees of limited liability companies benefit from corporate success while employees share ownership plays rather a minor role with a share of 3.5%.

Looking at the companies’ size, expected differences can be seen. More than every fourth company with 150 to 249 employees and every third company with 250 to 499 employees has a profit-sharing scheme (Table 3). The situation is different for employee share ownership. Here it is only 3.8% and 6.1%, respectively, of the businesses of the above-mentioned sizes that let their employees have a share in their assets. It is not surprising that mostly large enterprises with 500 or more employees make use of financial participation instruments. They usually have a personnel department that practises professional human resource manage- ment and that includes financial participation schemes. Smaller businesses (with 150 to 249 employees) use these quasi-entrepreneurial remuneration practices less frequently, possibly due to the high costs and the considerable effort involved. A comparison between West and East Germany shows only a small difference with regard to the connection between company size and the use of financial employee participation, with a slightly larger number of companies willing to share in West Germany.

Looking at the results of the survey with respect to the location of the respective headquarters, it was found that financial participation schemes occur more frequently in companies with foreign headquarters (Table 3). One reason for thatcould be the fact that financial participation is more widespread in other European countries (e.g. France, Great Britain) and in the USA, where this kind of additional remuneration already has a longer tradition (Kabst et al., 2006). It can be assumed that foreign companies transfer their HR strategies and instruments to their German subsidiaries because of a positive experience they had with them in their own country.

	profit sharing	employee share ownership
sale proprietorship	(-)	(-)
partnership	(-)	(-)
GmbH / GmbH & Co. KG[a]	31.2	3.5
AG / KGaA[b]	57.0	23.4
other	15.3	3.4

(-) case number too small.
[a]Ltd./Limited partnership with a limited liability company as general partner
[b]plc/associations limited by shares

Table 2: Share of companies with financial participation according to legal form (in percentage) profit sharing employee share ownership

Due to a large share of small businesses in Germany further differences in the spread of financial participation can be found in the various industry branches (Bellmann & Leber, 2007). Profit sharing is widespread in the mining industry, energy and water supply, as well as in banking and insurances, where it is implemented by half of all businesses (Table 3). Equally willing to share are companies from the capital goods industry, from commerce and repair, and raw material processing. The distribution across industries is similar when looking at employee share ownership. 5.5% of businesses in the manufacturing industry and 4.6% of service enterprises offer their employees some form of share ownership.
Another indicator to estimate the importance of financial participation in businesses is the average number of employees who share the company's success (intensity)[4]. In businesses with profit sharing an average of two thirds of the employees can participate in the success (Table 4), whereby this figure with an average of 77.7% is slightly higher in East Germany than in West Germany (65.7%). That means that although less businesses offer their employees profit-sharing schemes in East Germany, the participation rate is significantly higher than in West German businesses. This has something to do with the different development of small and large businesses in East and West Germany (Bellmann & Möller, 2006). Comparing the intensity of financial participation according to business size classes, size has again a positive effect for businesses with profit sharing: The bigger the size of a company, the more employees can have their financial share in the company's success. Not only do larger businesses implement some form of profit sharing more frequently, but they also do this on a larger scale by offering it to the vast majority of their staff (e.g. on average 71.5% in businesses with 500 or more employees). With regard to headquarters there is little difference for businesses with profit sharing. Looking at employee share ownership the rate is on a very high level with an average of 85.9% of employees per firm.

3.2 Motives for introducing financial participation schemes

Motives and reasons for introducing financial participation schemes in businesses have already been found in other studies (cf. Kronberger et al., 2006; Schwarb et al., 2001, amongst others). We therefore asked our interview partners from those businesses with financial participation in the survey to rate the given motives with regard to their importance for the introduction of financial participation schemes. Then they were requested to assess the same aspects with regard to the company's satisfaction (from the point of view of the interviewees) with them after the participation schemes had been implemented. Therefore the difference between importance and satisfaction can be considered an indicator for achieving the objectives.
Motives for introducing financial participation schemes are multifaceted and refer, according to the executives, usually to aspects of work efficiency, initiative and staff retention as well as the company's image and climate. On average our interview partners mentioned an increase in motivation, better performance, a distinct entrepreneurial attitude, as well as improving staff retention as the most important motives for launching a profit sharing scheme (Table 5). Introducing a more flexible remuneration scheme and improving the corporate climate still played an important role, while improving chances in staff recruitment, enhancing corporate image and decreasing staff turnover were considered only partly important. The latter aspect and also a reduction of absenteeism are frequently mentioned as an effect of introducing

[4] Business representatives were asked: 'Which groups of employees does your business allow to partake in the business' profit (respectively assets) or allow profit sharing (respectively share ownership)?' It is therefore the maximum possible, and not the actual number of employees the business shares it success with.

financial participation in the literature (cf. Schwarb et al., 2001; Strotmann, 2002, amongst others). Business representatives did not assess these as important motives, though. Looking at the average satisfaction with the motives mentioned in companies with profit sharing schemes we receive an almost identical image (Table 5). An increase in motivation, better performance, a distinct entrepreneurial attitude and improved staff retention come in first place, while the reduction of absenteeism ranks last. All in all, the "aims" mentioned have been met satisfactorily from the surveyed businesses' point of view.

	profit sharing					employee share ownership				
	total	location of industrial premises		company headquarters		total	location of industrial premises		company headquarters	
		West	East	Germany	abroad		West	East	Germany	abroad
business size										
150-249 employees	27.5	32.3	7.4	25.1	50.0	3.8	3.7	3.9	3.0	10.6
250-499 employees	32.9	33.1	32.2	32.3	41.8	6.1	6.9	1.6	6.0	8.6
500 and more employees	39.0	39.5	36.0	37.6	53.3	6.3	6.4	5.9	5.4	15.2
industries										
agriculture and forestry, fishery	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
energy, mining and water supply	51.8	(-)	(-)	52.3	(-)	2.9	(-)	(-)	2.3	(-)
processing industries	37.8	38.0	35.5	37.1	40.4	5.5	5.7	3.4	5.5	5.6
consumer goods	20.1	22.8	(-)	18.3	(-)	2.3	2.6	(-)	1.6	(-)
raw material processing	37.0	36.0	(-)	35.0	(-)	5.9	6.0	(-)	5.7	(-)
capital goods	45.1	44.7	(-)	46.8	37.5	6.4	6.7	(-)	7.0	4.4
building	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
service industries	28.1	31.9	13.3	26.1	(-)	4.6	5.3	2.1	3.7	(-)
trade and repair	37.9	40.2	(-)	36.3	(-)	6.0	4.5	(-)	3.8	(-)
transport and communications	29.0	33.4	(-)	27.1	(-)	3.9	4.0	(-)	4.2	(-)
credit and insurance industries	49.9	50.7	(-)	49.9	(-)	6.0	6.1	(-)	6.0	(-)
services mainly for businesses	25.4	33.1	(-)	22.9	(-)	6.9	10.3	(-)	6.0	(-)
other services	19.5	19.1	(-)	16.9	(-)	1.5	2.0	(-)	0.8	(-)
other	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
total	31.2	33.8	18.3	29.5	47.6	4.9	5.2	3.5	4.4	10.7

(-) case number too small.

Table 3: Share of companies with financial participation according to business size, industry and region (in percentage)

	participation rate	
	profit sharing	**employee share ownership**
business size		
150-249 employees	64.5	(-)
250-499 employees	67.0	(-)
500 and more employees	71.5	(-)
industries		
agriculture and forestry, fishery	(-)	(-)
energy, mining and water supply	(-)	(-)
processing industries	69.9	(-)
consumer goods	(-)	(-)
raw material processing	72.4	(-)
capital goods	67.5	(-)
building	(-)	(-)
service industries	64.6	(-)
trade and repair	59.4	(-)
transport and communications	(-)	(-)
credit and insurance industries	(-)	(-)
services mainly for businesses	(-)	(-)
other services	(-)	(-)
other	(-)	(-)
region		
location of industrial premises		
West Germany	65.7	84.7
East Germany	77.7	(-)
company headquarters		
Germany	66.6	92.1
abroad	67.8	(-)
total	66.8	85.9

(-) case number too small.

Table 4: Intensity of financial participation according to business size, industry and region (average percentage of employees participating per company)

Deviations between the ratings of importance and satisfaction (difference) indicate whether the aim was exceeded (positive difference) or missed (negative difference). Even if the business representatives stated that they were satisfied with the increase in motivation and improved performance, entrepreneurial attitude and better staff retention, the differences show that the expectations with regard to theses aspects could not be fully met. In contrast, expectations regarding the motives of a reduction of absenteeism and lower staff turnover were exceeded.

For businesses with employee share ownership schemes we surveyed three additional motives regarding share ownership, of which only the aspect ’employees become co-entrepreneurs’ was rated as important (Table 5). Moreover, the rating of the aspects is analogous to the assessment of those businesses with profit sharing schemes. Improved motivation and better performance, improved staff retention and employees’ distinct entrepreneurial attitude were also here rated the most important motives by the interviewees. Having more flexible remuneration schemes and reducing absenteeism are equally assessed as less important by business representatives. The other motives – amongst others those related to company assets like increase of liquidity and equity capital, respectively – were only rated partly important.

	profit sharing			employee share ownership		
	importance	satisfaction	difference	importance	satisfaction	difference
increasing motivation and performance	1.54	1.94	-0.40***	1.95	2.25	-0.30
distinct entrepreneurial attitude	1.77	2.08	-0.31***	2.14	2.43	-0.29
higher staff retention	2.02	2.19	-0.17***	2.97	2.18	-0.21**
higher flexibility of staff remuneration	2.29	2.20	0.09	3.72	3.39	0.33
improving business climate	2.53	2.52	0.01	2.72	2.77	-0.05
improving chances in recruitment	2.74	2.63	0.11	3.16	2.85	0.31
improving business image	2.82	2.64	0.18	2.60	2.46	0.14
reducing staff turnover	2.88	2.55	0.33***	2.98	3.04	-0.06
reducing absenteeism	3.27	2.89	0.38***	3.84	3.78	0.06
employees become co-entrepreneurs (#)				2.14	2.37	-0.23
increasing company´s liquidity (#)				3.28	3.07	0.21
increasing company´s equity capital (#)				3.33	3.09	0.24

significance level: $<$0.01(***), $<$0.05(**), $<$0.1(*).
(#) These motives were only captured in businesses with employee share ownership.
scale importance: (1) very important, (2) important (3) partly important, (4) less important, (5) not important.
scale satisfaction: (1) very satisfied, (2) satisfied (3) partly satisfied, (4) less satisfied, (5) not satisfied.

Table 5: Importance of motives for financial participation and satisfaction (means)

The average answers from companies with employee share schemes show a similar order as in the expected values with regard to satisfaction (Table 5). Business representatives were most satisfied with the improved retention of staff, the increase in motivation, better employee performance and that co-workers become co-entrepreneurs. Aspects like "more flexible remuneration schemes" and "reduction of absenteeism" were less satisfactory for the businesses we surveyed, but these objectives were also played a minor role for the introduction of a profitsharing scheme (were less important).
Looking at the degree to which objectives were achieved (difference), businesses with employee share schemes also have a close match with expectations, whereby the satisfaction with the objectives mentioned was generally a little less than in businesses with profit-sharing schemes (Table 5). Even if those companies that had a higher retention of staff were on average most satisfied, this objective – compared with the importance when introducing the employee share scheme – was just barely achieved, but not fully.

3.3 Management's motives and target achievement from the works council's perspective – contrasting two views

The WSI Works Council Survey from 2007 (Bispinck & Brehmer, 2008; Bispinck, 2008) delivers first results about an assessment of financial participation from the employees' view. Advantages of our study are that the whole spectrum of financial participation – profit sharing as well as share ownership – was surveyed and that the design of the study allows to directly contrast and compare the views of management and works councils. Contact persons in the works council survey were therefore asked to assess the same motives as the company representatives. Members of the works council first rated the motives from their own point of view, according to their importance for the company and for management, respectively, for introducing financial participation schemes. It was of particular interest to what extent the statements of company representatives deviated from those of the works councils. These deviations might indicate some potential for conflict between management and works council. Generally the works councils believe that the motives mentioned were less important to management than what company representatives estimated in the first survey (Table 6). Differences are, however, only significant for some motives. The increase in employees' motivation and performance was most important from management's point of view. Works councils agree with that, even though they estimated the importance slightly lower on the scale. Promoting a distinct entrepreneurial attitude among employees was important to very important for management, while it was only important to partly important to the works councils. There is a similar picture as far as more flexible remuneration schemes and staff retention is concerned. It needs to be mentioned, though, that on average the ranking of motives in the works councils' assessment matches roughly with the ranking of the company representatives. This also indicates that company representatives communicated their motives to staff in order to prevent possible potential for conflict. Differences in the rating of individual motives suggest either an overestimation of the motivation by the companies or a diverging assessment of the degree of importance by the works councils.
In the general assessment, however, objectives were only partly achieved from the point of view of works councils and employee representatives. Comparison with the company representatives' satisfaction shows particular differences with regard to a more flexible remuneration. While company representatives are rather satisfied with this, it has only been partly achieved from the works councils' point of view. The same applies to the promotion of an entrepreneurial attitude among employees, reduction of absenteeism, an increase in motivation and performance as well as improved staff retention. Although these objectives were only partly met from the works councils' point of view, the ranking (even if only partly) corresponds with the satisfaction ranking of the company representatives. Works councils and employee representatives consider increased motivation and better staff performance as most likely achieved, while reduction of absenteeism was considered least achieved. (Table 6). Like the other results this outcome shows that the motives behind the introduction of profit sharing in a company were well communicated among staff. The varying assessment of the

degree of fulfilment might be an indicator that company representatives are anxious to assess their motivation positively.

3.4 Obstacles for financial participation

The low spread of financial participation schemes among businesses in Germany poses beside questions referring to motives, objectives and experience with quasi-entrepreneurial remuneration schemes also the question, which obstacles were perceived from the businesses' perspective. In our business survey we therefore asked the interviewees of all participating companies to rate possible reasons that speak against the introduction of financial participation schemes from their point of view. The statements are fairly clear, irrespective of whether a company has had experience with financial participation schemes or not. Most companies think of the introduction of a scheme as too costly, too laborious and too complicated (Table 7 and 8). Moreover, some of the interviewees did not see a recognizable benefit and they were afraid of a loss of the company's independence, partly due to the increased insight of the employees into the company's financial data when deciding for a financial participation scheme. On the other hand, potential resistance of staff and trade unions or employee interest groups, as well as a lack of interest from staff, were not seen as obstacles for the introduction of financial participation schemes (Table 7 and 8). Comparing the statements of those businesses with financial participation schemes and those without experience in this field there is only little difference. The trade union's or works council's potential resistance is, all in all, hardly seen as an obstacle for the introduction of a participation schemes, though more from businesses with profit sharing schemes than from businesses without experience in this field.

3.5 Problems from the works council's and employee interest groups' perspective

A core factor for a successful implementation of financial participation is the relationship between staff and management (executive board and superiors). A cooperative collaboration and a spirit of trust ensure not only a higher identification of staff with their company and its aims, an increased motivation and a higher commitment, but also make it more likely that a financial participation scheme is used. Bispinck & Brehmer (2008); Bispinck (2008) state in their evaluation of the WSI Works Council Survey that "companies where there is a certain amount of friction between management and works council have significantly less employee share ownership schemes". The results of our study can also be seen against this background.

	importance of management´s motives according to views (means*)			satisfaction/achievement of motives according to views (means*)		
	UL	BRAN	Diff.	UL	BRAN	Diff.
increasing motivation and better employee performance	1.46	1.83	-0.37***	1.82	2.41	-0.59***
improving business climate	2.40	2.45	-0.05	2.32	2.89	-0.57
improving business image	2.78	2.38	0.40	2.50	2.42	0.08
improving chances in recruitment	2.61	2.62	-0.01	2.49	2.65	-0.16
more distinct entrepreneurial attitude of staff	1.75	2.36	-0.61***	1.94	2.70	-0.76***
reducing absenteeism	3.12	3.31	-0.19	2.70	3.22	-0.52***
reducing staff turnover	2.82	2.72	0.10	2.41	2.74	-0.33*
higher staff retention	1.93	2.20	-0.27*	2.04	2.47	-0.43***
higher flexibility of remuneration	2.18	2.79	-0.61***	1.90	3.00	-1.10***

significance level: <0.01(***), <0.05(**), <0.1(*).
* scale from 1 'very important' to 5 'not important'
** scale from 1 'very important' (Mgmt)/'fully met' (WCEIG) to 5 'not satisfied'/'not met'.
UL = management; BRAN = works council/employee interest group
Only statements from works councils/employee representatives and management from businesses with either profit sharing or employee share ownership.

Table 6: Importance and achievement of motives – two views (means)

	profit sharing				
	existent	planned	abandoned	nonexistent	total
costs too high	3.17	3.30	3.03	3.14	3.16
too complicated	3.23	3.23	4.57	3.37	3.33
effort too high	3.19	3.17	4.31	3.45	3.36
no direct benefit visible	3.63	3.59	3.30	3.42	3.50
employees get too much insight into finances	3.53	3.72	4.64	3.46	3.51
legal uncertainty	3.55	3.38	4.60	3.68	3.63
loss of company´s authority	3.85	4.03	4.01	3.77	3.82
employees not interested	3.96	3.67	4.79	3.86	3.89
resistance of works council/employee representatives	3.56	3.21	4.75	4.16	3.93
staff resistance	3.92	3.91	4.95	4.28	4.15

scale: (1) applies fully, (2) applies mostly, (3) applies partly, (4) applies less, (5) does not apply.

Table 7: Obstacles for profit sharing according to form of participation (median)

	employee share ownership				
	existent	planned	abandoned	nonexistent	total
costs too high	3.00	3.19	2.96	3.23	3.22
too complicated	2.78	2.19	4.40	3.25	3.22
effort too high	3.62	3.78	4.96	3.24	3.27
no direct benefit visible	2.77	2.82	2.54	3.33	3.30
employees get too much insight into finances	3.28	2.98	4.42	3.36	3.36
legal uncertainty	3.17	3.41	3.57	3.51	3.49
loss of company´s authority	3.74	4.31	4.50	3.52	3.54
employees not interested	3.64	3.53	4.15	3.82	3.81
resistance of works council/employee representatives	4.24	3.30	4.96	4.08	4.08
staff resistance	4.21	3.74	4.96	4.21	4.21

scale: (1) applies fully, (2) applies mostly, (3) applies partly, (4) applies less, (5) does not apply.

Table 8: Obstacles for employee share ownership according to form of participation (means)

	profit sharing	employee share ownership[a]
lack of transparency/comprehensibility	9.10	5.30
determination of key indicators	5.00	8.20
competition/potential for conflict	10.00	3.50
expected effects do not happen (long-term)	1.40	3.70
employee risk	6.50	4.20
inequality between staff and supervisors	10.20	9.00
abuse of financial participation from entrepreneurial point of view	5.10	(-)
staff has little influence on success	11.20	15.60
decrease in quality	2.20	(-)
performance pressure/responsibility	4.10	(-)
share amount not sufficient	2.20	8.20
other	7.40	18.40
no answer	44.50	32.20

* A maximum of three problems was asked about.
[a] For businesses with both profit sharing and employee share ownership solely problems with profit sharing were used

Table 9: Problems from works council´s point of view in connection with financial participation (in percentage*)

It is noteworthy that 44.5% of the interviewed works councils from companies with profit share schemes and 32.2% of the interviewees from companies with share ownership schemes gave no answer to the question about changes and potential problems that the introduction of financial participation might entail. This might suggest that one third to almost half of the works councils did not want to answer this question or really had no problems – no specific interpretation is possible here. The remaining valid statements show that most works councils see the problems of profit sharing in the fact that employees have little influence on the company’s success, that an inequality is created between staff and superiors, that potential for conflict increases due to strong competition and that there is a lack of transparency and traceability (Table 9). The latter is of vital importance in connection with productivity: exchange of information, agreement processes and trust building between works council and board of management (Heywood et al., 1998). In businesses with share ownership works councils perceive similar problems, though here the potential for conflict is more in the background, but interviewees see problems in determining key indicators.

	cohesion and support among colleagues		conflicts between staff and management/supervisors	
increased	20.40		13.40	
no change noticeable	71.60		75.20	
decreased	8.00		11.40	
	increased	decreased	increased	decreased
very strong	3.40	14.50	3.60	0.00
strong	54.10	22.40	25.40	19.10
average	31.60	63.10	49.60	57.60
low	10.90	0.00	21.40	23.30
very low	0.00	0.00	0.00	0.00

Table 10: Changes in cohesion, support and conflicts between staff and management/supervisors (in percentage)

From the works councils’ perspective the relationship among staff changed only in approximately 30% of the businesses, whereby 20% of the interviewees reported that cohesion and support among colleagues increased – greatly to moderately (Table 10). In 8% of the businesses with financial participation and existing works council the works councils reported that cohesion had decreased – also greatly to moderately. The number of conflicts between staff and superiors changed only in one fourth of the businesses surveyed according to the works councils’ assessment. The number of conflicts increased and decreased more or less equally and on average rather moderately (Table 10). Cohesion among colleagues changed hardly with the introduction of financial participation – if it did it changed positively. New conflicts between staff and management hardly arose either. Green & Heywood (2008) analysed the connection between profit sharing and job satisfaction and were able to show that employees tend to be less satisfied with their superior if the company has a profit sharing scheme.

3.6 Linkage of financial and organisational participation

There has been a lively discussion within the field of research on financial participation about the connection between quasi-entrepreneurial remuneration schemes and non-financial participation of employees in the company (cf. Backes-Gellner et al., 2002; Poutsma et al., 2006, amongst others). The positive interrelation between financial and direct participation of employees was confirmed by, amongst others, Poutsma (2001), based on the EPOC data, and Pendleton et al. (2001), based on the Cranet data. Bearing this in mind, all companies surveyed were asked which forms of organisational employee participation they used. The results show, for most forms of participation, that on average more companies with financial participation involve their staff in organisational decisions than companies without a financial participation scheme (Table 11). Looking at the use of staff appraisals and target agreements, respectively, and at the downward shift of responsibility and decision, this clearly becomes evident. It indicates that these forms of participation in decision-making are implemented to accompany financial participation.

	financial participation	
	without	with
organisational participation		
none	31.90	29.0
at least one form	68.1	71.0
amongst that:		
staff appraisal/target agreements***	57.3	66.8
downward shift of responsibility and decision*	50.8	56.4
introduction of team work/indeoendent work groups	46.8	52.1
user participation (e.g. introduction of new techniques)	45.1	48.1
quality circle	45.0	45.9
(regular) staff surveys	38.0	42.5

significance level: <0.01(***), <0.05(**), <0.1(*).

Table 11: Share of businesses with organisational employee participation according to form of participation (in percentage)

	fully agree	agree	partly agree	partly disagree	disagree	means
It is an appropriate way to let employees participate in the company´s good economic situation.	44.80	33.60	19.30	1.10	1.10	1.80
Employees are more interested in the company´s economic situation.	18.40	41.00	24.80	12.70	3.10	2.41
Employees would like to participate more in important decisions of the company.	16.60	42.40	27.50	10.30	3.20	2.41
Security of employment increases.	11.90	24.90	33.70	17.00	12.40	2.93
Financial participation leads to fairer remuneration.	5.60	26.40	26.90	25.90	15.20	3.19
Financial participation has a negative effect on income security (e.g. employees have accept loss of income in case of a negative economic situation of the company).	13.70	20.40	19.60	19.90	26.30	3.25
Financial participation limits room for salary negotiations.	8.30	13.10	26.20	27.80	24.50	3.47
Only slight fixed salary increases can be achieved.	6.60	13.50	30.50	21.20	28.20	3.51
Employees are burdened by taking over entrepreneurial risks.	3.40	17.50	26.40	18.60	34.10	3.63
Employees went on trainings to understand key business indicators.	6.00	13.90	12.60	28.50	39.00	3.81

Table 12: Agreement to statements regarding financial participation (in percentage and means)

3.7 Assessment of financial participation from the works councils' and employee interest groups' perspective

For their assessment of financial participation interviewees were asked whether they agreed or disagreed to individual statements (Table 12). Works councils and employee representatives consider financial participation as an appropriate way to let employees partake in the company's good economic situation. They also confirmed that because of financial participation employees are more interested in the company's economic situation and more interested in taking part in important decisions. According to the interviewees' assessment, taking over entrepreneurial risk does not or only partly burden employees. Regarding an increase in employment security the interviewees' assessment is rather mixed: one third of the interviewees agreed to this statement, one third disagrees and one third decided on "applies partly". Roughly one third of the interviewees confirm that financial participation leads to fairer remuneration or has a negative effect on employment security. The vast majority, however, does not agree. A majority of the works councils and employee representatives also consider it less applicable that the room for salary negotiations is limited through financial participation and that only little salary increases can be pushed through.
In 22% of the businesses we surveyed fixed remuneration components were changed into variable ones. According to the assessment of the interviewed works councils 10% of the remuneration was transformed on average, which corresponds to just more than a monthly wage or salary. According to the interviewees there was no change in three quarters of the businesses, though.
Finally, works councils were asked for a general assessment of financial participation. Both participation schemes were rated 2.5 on average by the interviewees – 58% rated financial participation as good to very good, 28% as satisfactory, and nearly 10% as sufficient and only just under 4% as poor.

4 MULTIVARIATE ESTIMATION

In the previous section we presented the results of the business survey independent of each other and independent of other characteristics and compared them. Now, following Poutsma et al. (2006), we will first look at the influence that different business characteristics might have on the probability of introducing a financial participation scheme in a company – separately for profit sharing and share ownership.
We will call on legal form, size, industry, location of industrial premises and headquarters of the company as our independent variables. We will also check whether employees are offered profit sharing and share ownership at the same time or as a supplement. Ultimately, we want to check the interrelation between financial and organisational participation. Following Poutsma et al. (2006), we again distinguish between indirect organisational participation (existence of a works council or other forms of staff representation) and direct participation as the sum score of the forms of participation presented in the previous section. Table 13 shows the results (marginal effects[5]) of a logit model estimate for profit sharing and share ownership, respectively.
The statistically significant factors influencing the probability that a business will introduce financial participation are hardly surprising and confirm the findings of previous studies. Business with profit-sharing schemes are more likely to be found in the credit or insurance industry; they also have employee share ownership and are rather incorporated companies (public companies (German: AG), associations limited by shares (German: KGaA) or limited companies (German: GmbH)). Furthermore, business size and direct organisational participation have a positive, though little, influence on the probability whether a business

[5] In this case a marginal effect indicates by how many percentage points the probability changes that a business will introduce profit sharing or share ownership if the respective independent variable (e.g. company size) increases by one unit. With dummy variables (almost all here, because of nominal scales) the marginal effect is the change in probability (in percentage points) in relation to the respective reference group. Marginal effects can be compared with each other within the estimate – similar to standardised beta values in a basic OLS regression, provided that scales correspond.

has a profit-sharing scheme or not. Results for employee share ownership are less clear. Statistically significant results can only be found for existing profit sharing schemes and foreign headquarters of the company, as well as for the parameters business size and incorporated company (public company (AG), associations limited by shares (KGaA)). Contrary to expectations, there are no significant effects for industry or organisational participation. Considering legal form, business size and location there are therefore no differences between the industries regarding the implementation of employee share ownership and no statistically verifiable relationship between organisational and financial participation (share ownership schemes).

	probability	
	profit sharing	**employee share ownership**
financial participation		
employee share ownership (ref. No)	0.324***	
profit sharing (ref. No)		0.048***
organisational participation		
indirect: works council (ref. None)	0.030	-0.006
direct: sumscore (+)	0.007**	-0.001
industries (ref. building, trade, transport, communications)		
processing industries		
raw material processing	0.006	-0.017
capital goods	0.033	-0.011
consumer goods	-0.147**	-0.007
energy and mining	-0.009	0.013
services		
credit and insurance industries	0.375***	-0.008
other services	-0.105*	-0.011
region		
location of industrial premises (ref. West Germany)	-0,020	-0.002
foreign headquarters (ref. Germany)	0.077	0.037***
business size (logarithmised)	0.046**	0.008*
legal form (ref. other)		
GmbH/GmbH & Co. KG[a]	0.186***	-0.008
corporation (AG, KgaA)[b]	0.289***	0.041*
constant	-0.628***	-0.163***
case number	992	992
log likelihood	-592.260	-180.130
LR	84.12***	54.27***
pseudo R2	0.079	0.164

significance level: <0.01(***), <0.05(**), <0.1(*).
(+) sum of standardised individual variables for the existence of: team work, quality circle, staff survey, target agreements, downward shift of decision making, other (e.g. suggestion system).
[a] Ltd./limited partnership with a limited liability company as general partner
[b] plc/associations limited by shares

Table 13: Determinants of financial participation – spread (logit - marginal effects)

Next, factors influencing the intensity of the use of financial participation were estimated with the help of an OLS-regression, also following Poutsma et al. (2006). Now the dependent variable is the percentage of employees who participate in profit sharing or share ownership schemes. As the participation rate equals zero in businesses that do not have financial

participation, we considered only those businesses in this estimate that have implemented schemes. The explanatory variables are analogous to our first analysis.
There are no significant differences for the intensity of share ownership regarding the business characteristics we considered (Table 14). It should be noted here that, on the one hand, the underlying number of cases is very small. On the other hand, the descriptive results of the previous section already show a high level and low variance of participation rates.
This means that businesses with share ownership offer this form of financial participation to the vast majority of their employees – none of the parameters that we took into account here were essential for the extent. In contrast, several statistically significant determinants could be found for the intensity of profit sharing. For example, the rate of employees participating in profit sharing schemes was 26 percentage points higher in businesses from the energy and mining industries in comparison with the reference group (building, trade, transport, communication). For businesses from raw material processing, this value is 18 percentage points. Moreover, businesses that not only have a profit sharing, but also an employee share ownership scheme and which are based in East Germany, have a higher participation rate.

	participation rate	
	profit sharing	**employee share ownership**
financial participation		
employee share ownership (ref. No)	17.38**	
profit sharing (ref. No)		-10.33
organisational participation		
indirect: works council (ref. None)	4.14	-1.57
direct: sumscore (+)	0.76	-1.77
industries (ref. building, trade, transport, communications)		
processing industries		
raw material processing	18.42**	-8.65
capital goods	6.65	18.32
consumer goods	12.16	38.20
energy and mining	26.08**	42.82
services		
credit and insurance industries	11.18	38.60
other services	10.35	10.91
region		
location of industrial premises (ref. West Germany)	12.93*	29.90
foreign headquarters (ref. Germany)	-4.80	-8.04
business size (logarithmised)	-1.30	-3.32
legal form (ref. other)		
GmbH/GmbH & Co. KG[a]	-9.64	0.00
corporation (AG, KgaA)[b]	-4.44	24.01
constant	66.47***	89.28*
case number	330	50
adj. R2	0.097	0.277

significance level: <0.01(***), <0.05(**), <0.1(*).
(+) sum of standardised individual variables for the existence of: team work, quality circle, staff survey, target agreements, downward shift of decision making, other (e.g. suggestion system).
[a] Ltd./limited partnership with a limited liability company as general partner
[b] plc/associations limited by shares

Table 14: Determinants of financial participation – intensity (OLS - Beta-Coefficient)

5 CONCLUSION

With these analyses we have presented first results of what is so far the only representative study in Germany that solely and comprehensively looks at the use and spread of quasi-entrepreneurial remuneration schemes in companies – from the point of view of management and works councils. Even if participation schemes are a popular topic in current public and scientific debates, we could show that quasi-entrepreneurial remuneration schemes still play a rather insignificant role in German businesses. The business survey confirms, amongst others, the results of the IAB Establishment Panel (Bellmann & Leber, 2007). The spread of financial participation in Germany is low, yet the average share of employees per company who are involved in a participation scheme is very high. At the same time there is an interrelation between profit sharing and employee share ownership. Companies that have experience with profit sharing schemes will also rather use employee share ownership and vice versa.

The main motives for businesses to introduce financial participation refer primarily, directly or indirectly, to positive effects in productivity. For example, the objective might be that employee motivation increases and performance improves. In addition to that, it is expected from the business representatives' point of view that employees act more like co-entrepreneurs in their company as a result of profit sharing or share ownership and that ultimately staff retention is increased. The latter is probably the critical point when it comes to retaining highly qualified staff in the company and avoiding migration of human capital. Therefore, it is primarily the highly qualified members of staff who participate in the company's success (Bispinck, 2007).

From their point of view works councils assessed the company's motives similarly, though less important. On average the ranking of motives, according to the works councils' assessment, roughly corresponds with the ranking of company representatives. There are differences in the assessment of target achievement. A more flexible remuneration has only partly been accomplished from the works councils' perspective, while management boards are rather satisfied with that.

Obstacles are clearly rated by the companies, whether they have implemented profit sharing or employees share ownership or not, whether they are planning to do so or have even abandoned it again. Most companies feel that introducing a financial participation scheme is too expensive, too complicated and too laborious. Based on the WSI Works Council Survey, Bispinck & Brehmer (2008); Bispinck (2008) studied the views of works councils on profit sharing, amongst others. They emphasized this form of remuneration as an important point. Ultimately, the implementation of financial participation instruments can only work out if there is a good partnership and climate between company, works council and employees. That should also be clear to companies. From the view of business representatives, neither trade unions nor employee representatives or staff are considered as obstacles. Works councils consider it a problem that employees have little influence on the company's success, that inequalities are created between staff and superiors and that the potential for conflict increases. However, works councils confirm that with financial participation there is rather an increase than a decrease in support and cohesion among staff and that the number of conflicts between superiors and staff changed only moderately and on a small scale. Works councils generally consider financial participation as an appropriate way of letting employees partake in the company's success and would rather not agree that room for salary negotiations is limited or employment security at jeopardized. A study based on the IAB Establishment Panel 1998 confirms this. Ugarkovic (2007) concludes that financial participation does not lead to a lowering of base salaries but that companies pay it as an additional salary component.

In the end the regulatory framework determines the level of utilisation (spread and intensity). In Germany one counts on the principle of voluntariness between labour and management, following the industrial relations systems. It is obvious that both parties pursue different interests. The bill for the law on tax incentives for employee share ownership, which came into force in 2009. The German Association of Trade Unions (DGB) welcomed the presented draft and law as "a step in the right direction" but sees a need for improvement. They

criticized, among other things, the low scope (Hexel, 2008). It is likely that it will not have a particular effect on the spread. Furthermore the DGB considers it an essential necessity to provide security for employee share ownership schemes making them low-risk. Employees will not be interested in shifting part of the corporate risk over to their side.
Other countries, e.g. the USA and France, have shown that it is possible to increase the spread of financial participation with consistent tax incentive schemes and legal intervention. The reform pursued by the government focuses mainly on the adjustment and increase of tax deductibles and only on one form of financial participation. Support and promotion of profit sharing schemes is still excluded.

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