

## FINANCIAL PARTICIPATION PROGRAMS IN POLISH PUBLIC COMPANIES

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### **Abstract**

The major purpose of this article is to analyze the most important financial participation programs in Poland in order to increase the knowledge on the subject and to show the occurring relations between the programs applied and the socioeconomic results of enterprises. Efforts have been made to systematize the forms of participation presented here although due to their multitude, sometimes lack of clear dividing criteria and their different interpretation, the results appear not to be fully satisfactory. Nevertheless, because of the shortage of the literature concerning the financial participation's issues, this article attempts to fill in the gap to some extent and aims to increase interest in the above solutions. Additionally, it has also helped to separate some crucial characteristic features of the applied forms of financial participation.

*Keywords: workers' attitude, workers' ownership, financial participation, profit sharing, stock option*

## 1. THEORETIC BACKGROUND

Participation schemes based on company profits and employee share ownership are immensely popular in the European Union. In the four largest countries these schemes have covered around 17 million workers (19% employees from the private sector) (Pérotin & Robinson, 2002, p. 2). It is officially acknowledged that financial participation is in accordance with the state policy because it has positive influence on efficiency and employment as well as accelerates the fulfillment of other goals of the state policy, for instance: redistribution of wealth or the broader participation in creating welfare and overcoming conflicts in the company. Of course, it should be remembered that from the point of view of a country only some types of schemes will be preferred, purely those which to a great extent will contribute to the achievement of macroeconomic goals. Activities promoting implementation of participatory solutions are conducted in different countries in a varied manner and with a diverse intensity, therefore one should bear in mind that their spread in particular countries will differ. Nevertheless, there is a constant yet not very dynamic growth in the number of employees taking part in financial participation schemes and an increase their incidence. The research conducted by specialists in the EU countries and the USA provide us with a lot of significant information on the nature of these schemes and achieved results. The data is obtained from, e.g. questionnaires sent to enterprises which are listed on the stock exchange and to other large companies whose capital is estimated to be at least 200 million euro (Mathieu, 2009, p. 11). However, gaining information, convincing arguments and straightforward evidence about the schemes and their effectiveness is very troublesome for companies that want to implement financial participation schemes. The commonly shared belief is that companies through implementation participatory solutions want to motivate their staff to better and more efficient work and to convince them to stay with the company, but the evidence suggests that in the companies introducing employee participation schemes, the work efficiency does not change radically (Pérotin & Robinson, 2002, p. 3). Therefore, it can be assumed that this is not a direct reason for their implementation, and the schemes themselves are simply part of a set of employee participation tools (Kruse & Blasi, 1997; Long, 2002; Robinson & Wilson, 2001; Pendleton, 1997, pp. 103-119; Jirjahn, 2002; Kato, 2002; Shields, 2002). In turn, the analyses conducted in over 20 EU countries, comprising several thousand enterprises give evidence that financial participation has got a positive or at least neutral impact on efficiency. The achieved results are in favor of higher influence of participation in profit sharing on work efficiency over such influence arising from employee share ownership. This might be resulting from the differences in conditions in which those schemes are implemented, which in turn causes trouble with measuring the absolute effects achieved in different research in various countries.

## 2. THE ISSUES AND THE OBJECT OF RESEARCH

The object of research focused on collecting data and information about financial participation programs among Polish listed companies. It may be surprising that listed companies have been chosen as the object for an analysis, i.e. large companies, only some of which are privatized, and the rest of them are represented by domestic or foreign private firms. Therefore, they are the companies in which one could expect some significant remains of employee ownership after the privatization process. The intention of the author was to deal with currently existing large companies, regardless of their origin, and to check if they have any financial participation programs. The choice was also made on the basis of much better availability of information about listed companies.

In the first place the aim of a detailed analysis was to provide answers to the following questions:

- does the personnel structure decide about the type of employee participation program;
- is there a significant relationship between the type of business and the form of participation;
- does the date when participation was introduced have influence on employees' opinion about the effects of implementing one of three forms of participation;
- what type of personnel structure exerts influence on the opinions concerning the effects of participation;
- what factors (considered as barriers and facilitations) have decided about the percentage of employees covered by a participation program, allowing for the employee structure and the type of program;

The purpose of this work determines the research hypotheses:

1. Financial participation programs applied in enterprises contribute to the improvement of the conditions of functioning and have positive influence on the final economic results achieved by companies. One should bear in mind that there are also other factors which have an impact on the

economic upswing of the company, and attempts ought to be made to separate them from the variables covered by the research, although this requires using more advanced methods which can determine the type and the direction of the relationship more precisely. It must also be noticed that even the type of participation program will decide about the final results and their quality in different periods.

2. Financial participation programs only addressed to a narrow group of employees (usually – top management), give limited results. The efficiency of programs is higher if they are more easily available for more employees, regardless their position.

3. Applying various combinations of particular solutions with regard to financial participation has positive influence on the economic indicators of the company.

It can be assumed that these hypotheses should be more precisely defined, and then tested with more rigorous statistical methods, but because the western studies used similar methods, the Autor did the same.

### **3. A RESEARCH METHOD**

The research has been based on a questionnaire which was send via the electronic mail. It is assumed that the questionnaires are filled in by people whose answers are highly desired by the client. The questionnaire form was divided into three parts and contained 51 questions. Each of them had the additional sub-clauses which described the analyzed issues more precisely. The research was conducted on the sample of Polish companies listed on the Warsaw Stock Exchange. The general number of companies covered by the analysis was 645. Choosing the elements for the sample was conducted in a way which allowed for selecting out of the listed companies only those which have at least one out of three major financial participation programs, namely the share ownership, profit-sharing or stock option scheme. In order to collect this information and single out companies with financial programs, it was necessary to make phone calls to all the listed companies and receive an answer to the question whether a program had been introduced in a particular company. In this way 121 companies had been chosen and subsequently they were sent the questionnaire via the Internet. Monitoring the return of the forms was very difficult and time consuming because of a high number of firms and frequent necessity to remind the companies to send the form back. In many cases the interviewers had to visit the company personally in order to help with filling in the questionnaire. In general, the survey had been conducted form 3.11.2010 to 31.01.2011, yet in case of some companies this term was prolonged. Information was collected by five interviewers. In 28 instances, it was impossible to receive any return information, and before starting the statistical analysis, those entities which provided incomplete data in more than 50% had been removed from the survey. Consequently further analyses were based on the information achieved from 73 companies. It must be pointed out, that due to the methodology of research (which was not very scientifically rigorous), results could be considered only illustrative.

### **4. A PRELIMINARY CHARACTERISTIC OF THE RESULTS – MARGINAL DISTRIBUTIONS**

Considering the statistical compilation of materials, it must be noticed that the sample including 73 firms is too small in order to provide plausible statistical results which could be a generalization of the statistical measurement values – achieved on this basis – with regard to the population of enterprises in Poland which have introduced any form of financial participation program. Regarding statistical values one should think about the structural indicators and the contingency coefficients. A statistical analysis of the collected data will be conducted in several dimensions. The structural indicators as well as the relationships between significant, from the economic perspective, variables.

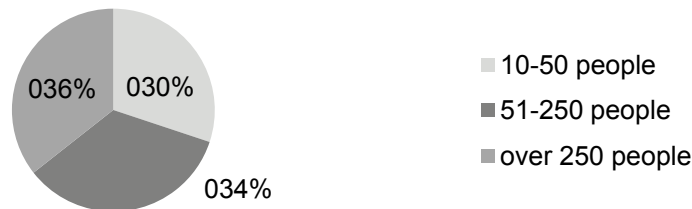
In the first part, devoted to analyzing the data, the focus is on the structure i.e. the so-called marginal distributions of variables, and further in the analysis emphasis has been put on the relationships existing between the questions, describing in a detailed manner the level of the contingency coefficients i.e. Pearson's C and Kramer's V, together with the accompanying levels of significance. The structure that is described refers to the most important characteristics of companies which have been examined. This allowed for making divisions according to significant criteria and showing the relative frequencies of the emerging variants of an examined feature, expressed mostly as a percentage value.

Among the listed companies covered by the research the most popular ones were those operating in the field of real estate trading (17.8%) and the firms from the financial and insurance sector. Another large group included companies representing the following field: information and communication (12.3%), waste and sewage treatment. There were 6.8% of companies whose activity could not be covered by any of the established categories. Every tenth company taking part in the survey operated in the field of wholesaling and retailing as well as motor vehicle servicing and processing industry. The companies with the smallest number of representatives were the ones from the health care and social assistance sector as well as the firms from the recreational, entertainment and sports industry.

The analysis of the number of employees in the listed companies included in the research has shown that the highest percentage of them are those which hire more than 250 people (35.6%), which means that they are large enterprises. 34.4% are the companies which have between 51 and 250 employees. The least represented were small companies employing between 10 and 50 people (30.1%) (chart 1).

**Chart 1:** Division of companies according to their size (percentage)

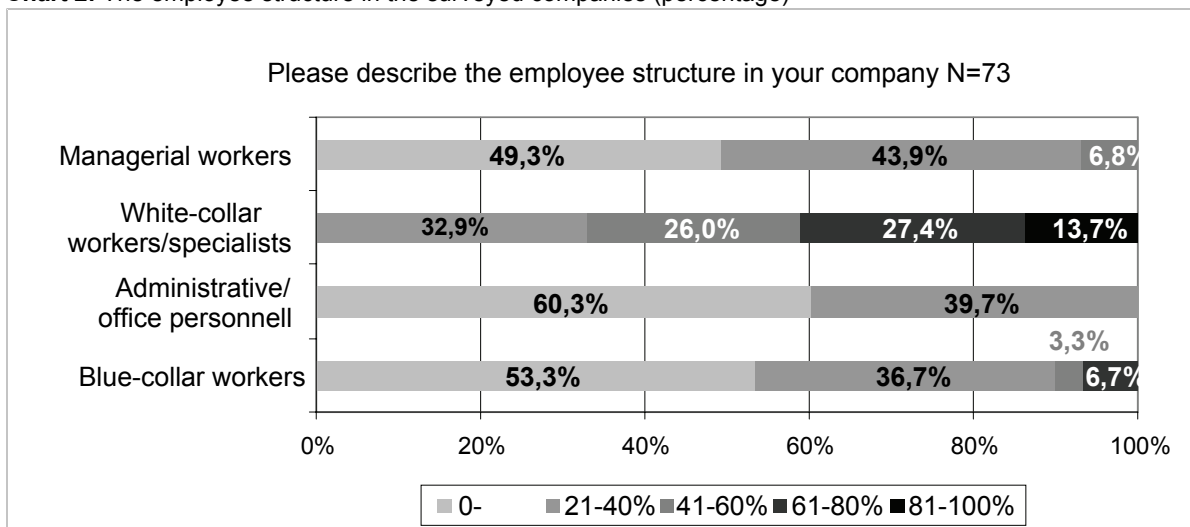
How many workers does your enterprise employ on a permanent basis? N=73



Source: Own work (all charts)

The analysis of the structure of employees has also been included in the research (chart 2).

**Chart 2:** The employee structure in the surveyed companies (percentage)



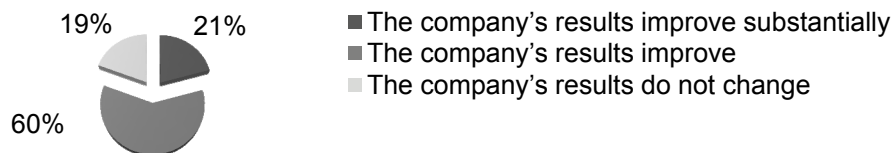
According to the opinions of the companies' representatives, it is clear that in every firm the highest percentage is represented by the white-collar workers/specialists. In every seventh company these workers represent at least 80%, and more than 2/3 claim that the percentage of specialists amounts to 40% of all the personnel. Six in tens respondents are of the opinion that the number of people represented by the administrative personnel in their company does not exceed 20% of all employed. In every second company, less than every fifth employee is a member of the management, and almost every fifteenth respondent declares that from 2/5 to 3/5 of all employed are members of the management.

One of the questions asked the companies' representatives referred to the changes in the ownership structure of the company which are planned to take place in the following years. The answers achieved in a cafeteria show that 50.8% of those interviewed say that the present model of the ownership structure will still be followed. This may suggest that half of the companies were satisfied with the current situation. It is also visible that every fifth respondent (19.7%) declared that the percentage of the regular workers in the company's structure will go up. The same percentage (19.7%) said that ownership will be in the hands of a narrower group of internal owners, which should be interpreted as a potential takeover of shares by one of the present owners. According to only 4.2% of the respondents there are attempts to take over the company and to increase the foreign capital. This may result in being more dependent on foreign entities or structural changes. Each of these options brings substantial alterations which, as it is clear from the answers, are not really desired by companies. Only 2.8% of the respondents stated that ownership will be in the hands of a narrower group of external owners or that ownership will be in possession of a narrower group of external owners and the percentage of regular works will be higher.

The respondents were also asked to answer a question of what is the influence of the increased percentage of the regular workers on the economic results of companies.

**Chart 3:** Percentage of the regular workers in the ownership structure in comparison to the economic results of companies

What, in your opinion, will be the influence of increasing participation of the regular workers in the company ownership on the economic results achieved by your enterprise?

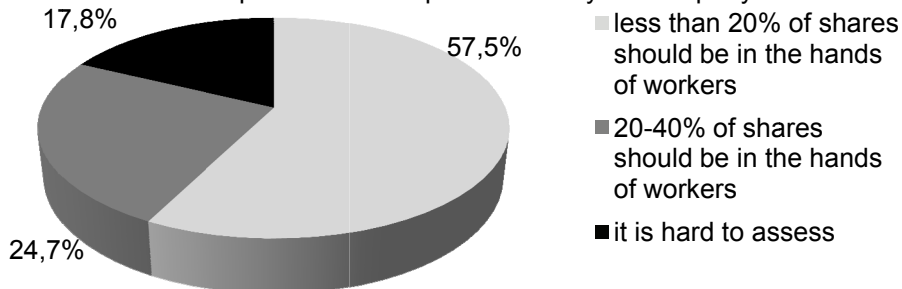


The representatives of most listed companies claimed that the increased percentage of the regular workers (the blue-collar workers) in the ownership structure of the company has positive influence on the economic results achieved by the firm. More than 4/5 are of the opinion that the results of the company simply are improving or definitely improving.

In spite of positive answers to a question concerning the relationships between the number of the regular workers possessing shares of the company and the economic results, in case of an optimal ownership structure their share in the overall capital of the company – according to the respondents – should not be higher than 40% (82.2%). At the same time the majority of respondents (57.5%) believe that in the best ownership structure the regular workers ought to be in possession of less than 20% of shares. Interestingly, 17.8% of the companies' representatives were not able to clearly define an optimal share ownership structure of a company (chart 4).

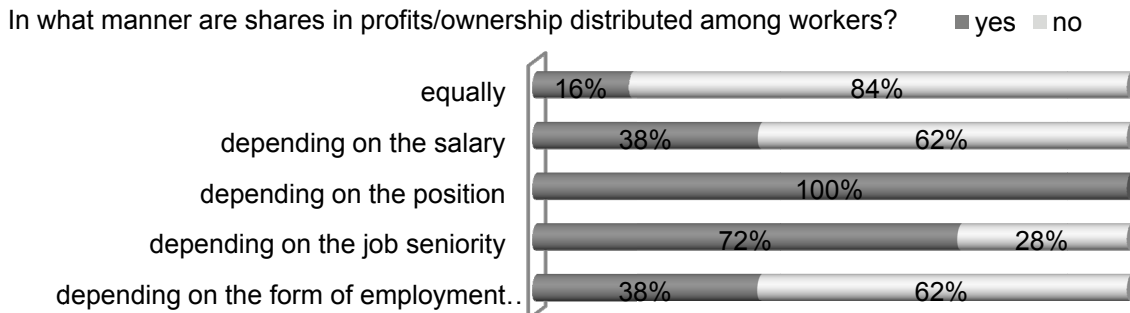
**Chart 4:** An optimal ownership structure in the surveyed companies

What should be an optimal ownership structure in your company? N=73



Regarding the question of the method of distributing participation in profit-sharing/share ownership, all the entrepreneurs claim that the most important determinant having influence in this case is the position held i.e. the personnel group. It may happen so due to the position of the people questioned, most of whom were managerial mental workers. Another important factor determining the method of distribution of company's shares is the job seniority – in the process of time one becomes more privileged. Only in over 1/3 of companies the level of remuneration and form of employment decide about the way in which shares are distributed inside the firm. In 62% of companies, the respondents said that the method of distribution does not depend on the form of employment. The level of remuneration reflects the dignity of a particular post: the higher the wages, the more profits the company gains – in this case 100% of the respondents expressed their positive conviction (chart 5).

**Chart 5:** Distribution of stocks/shares among employees in the surveyed companies



As is commonly known, bonuses from profits or purchasing stocks of companies should reflect the economic results. This was a question asked the respondents. Almost  $\frac{3}{4}$  of the interviewees stated that the money received from financial participation (stock- or cash-based) are connected with the general financial results of the firm. It means that in the surveyed companies there is a positive relationship between these variables. It can be assumed that owing to the introduced participation programs the results of the firm are improving.

According to the assumptions, financial participation programs are advantageous for the companies' activity, in which they were introduced. In the opinion of entrepreneurs motivating employees through additional financial incentives, apart from the regular pay, is even more significant from the company's perspective, but not a person who makes use of this program. The mechanism of relationship may be as follows: participation in shares or profits subliminally leads to increased willingness and involvement to perform one's work much better, and at the same time it contributes to the success of the parent company to a high degree. Higher results make the shares more expensive and consequently the people involved in the company become richer. These relationships are quite complex and not always so obvious, yet they may occur.

Chairmen and directors of finance frequently ask themselves questions whether all personnel groups should be motivated in the same way, whether the regular workers should be given the same rewards as managers? Considering the benefits from financial participation, the answer is not obvious. It is difficult to choose incentives which would encourage for better work because their impact varies in case of different personnel groups, and that is why they should be differentiated. There respondents expressed their view that the management personnel is much more attached to the company which results from the post held. It can be assumed that the higher the position, the stronger the attachment to the company.

Table 1 contains collective information about the major financial participation programs offered to the companies' workers.



**Table 1:** Employee financial participation programs in the surveyed companies offered to particular personnel groups.

Does your firm offer one of the following employee financial participation programs to particular groups of personnel (% of companies)										
Personnel group	Stock/share ownership		Cash-based profit-sharing		Deferred profit-sharing		Stock/share options		Pension schemes	
	yes	no	yes	no	yes	no	yes	no	yes	no
Managerial workers	79,5	20,5	11,0	89,0	0,0	100,0	30,1	69,9	0,0	100,0
White-collar workers/specialists	23,3	76,7	8,2	91,8	0,0	100,0	12,3	87,7	0,0	100,0
Administrative/office personnel	19,2	80,8	8,2	91,8	0,0	100,0	0,0	100,0	0,0	100,0
Blue-collar workers	0,0	100,0	0,0	100,0	0,0	100,0	0,0	100,0	0,0	100,0

From the information achieved, it is clear that the management is offered shares/stocks in the company (79.5% of firms), and stock/share options (30.1%). Cash-based profit-sharing is offered to the management in every ninth company covered by the survey (11.0%). The blue-collar workers/specialists participate in share ownership in almost every fourth company – 23.3%, in every eighth firm (12.3%) they are granted share/stock options, and in every twelfth (8.2%) they participate in cash-based profit-sharing. The administrative personnel may count for share/stock ownership in almost every fifth (19.2%) listed company included in the analysis, and in every twelfth (8.2%) for cash-based profit-sharing. With regard to deferred profit-sharing and pension schemes, no answer was received. The absence of broad-based financial participation programs in the surveyed companies confirms an opportunistic attitude of the regular workers, and these schemes are offered in Poland to every personnel group, except the regular workers, whereas in foreign enterprises they cover both the high-level and low-level workers. It is reflected in the economic results achieved by companies and the relationships between the structure of employees covered by participation and these results. As is seen from the international research, the economic results are higher if the availability of programs for all employees is better. In the analyzed Polish companies there have been no such relationships. This agrees with the results of the international research, in which only the participation on the side of the managerial workers had no impact on the economic results or this influence was even negative (Braam & Poutsma, 2010, pp. 18-20).

Another question asked the respondents referred to defining the factors which may have influence on the realization of each of three programs: share/stock ownership, share/stock options, profit-sharing. The interactions have been classified as: barriers, facilitations and no effect.

For the first of the above mentioned programs the crucial facilitations were as follows: tax incentives (79% of the companies), costs of social insurance (59%), employees' interest (68%), owners' interest (84%), owners' decisions (62%), company culture (66%). A serious barrier was presented by the accountancy regulations (42%), the requirements concerning the securities as well as the level of knowledge about the program (38%). According to the respondents the greatest difficulty in the realization of a share ownership program was the presence of other incentive stimuli for the workers (72%). In the opinion of the same number of interviewees, the personnel structure (52%) and the market conditions (52%) facilitate the realization of the program in the company. The second most popular participation scheme in the enterprises is share/stock option program. In this case, the factors that make its realization easier include owners' decisions (64%), company culture (59%), employees' interest (50%), tax incentives and costs of social insurance (both 44%). Regarding the factors which are considered as the barriers for the realization of this program, the most frequently chosen are: the level of knowledge in this field (96%), the structure of the scheme, the accountancy regulations (both 68%), and the costs of administering the program (44%). It appears that the structure of the program and not very clear regulations are mostly the result of the lack of proper knowledge about the matter, which definitely discourages entrepreneurs from introducing option programs.

While analyzing the factors which may exert influence on the realization of profit-sharing programs, despite a small percentage of the respondents who declared that this scheme had been or was introduced in the enterprise, the barriers are very clear and visible. All the respondents stated that that the main factor disturbing the realization of schemes is the costs of social insurance. Whereas with

regard to the factors facilitating the realization of this particular program, the representatives of different companies pointed out to several equal options: level of interest and owners' decisions, company culture, perceived as a set of values which help members of the organization to understand what is the attitude of the organization, how it works, and what it considers to be important (Nogalski, 1998, p. 105; Kostera, 1996, p. 56), international regulations, company structure, market conditions, labor law, benefits which may be offered to the workers who earn less.

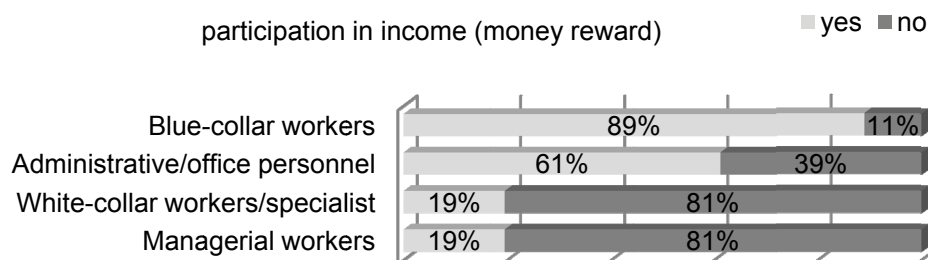
Having examined the major programs and factors which have influence on their realization in the company, in spite of the multitude of programs, there emerges some scheme. The determinants of barriers in the introduction of financial participation schemes are: the level of knowledge in the field of the realization of a particular scheme, and then the accountancy regulations. One thing that comes to mind is the fact that either these regulations are not clear enough, or they simply do not exist. However, there is definitely more factors which can make the realization of these programs easier. They include: tax incentives, employees' interest, owners' reactions (interest and decisions), company culture and its ownership structure.

It should be noticed that the majority of highlighted factors which facilitate the realization of a scheme are endogenic by nature. The aforementioned factors should be firmly considered only as the declared expectations in this matter because the percentage of companies having participation schemes could have been higher if, for instance, the interest in their implementation had been more extensive or the tax incentives had been more stimulating for the development of such schemes.

The analysis of the data concerning which form of stimulation and in what manner influence the particular personnel group, shows that the higher the position, the more interested the workers are not only in a financial reward, but rather in having their share in the ownership of the firm (chart 6).

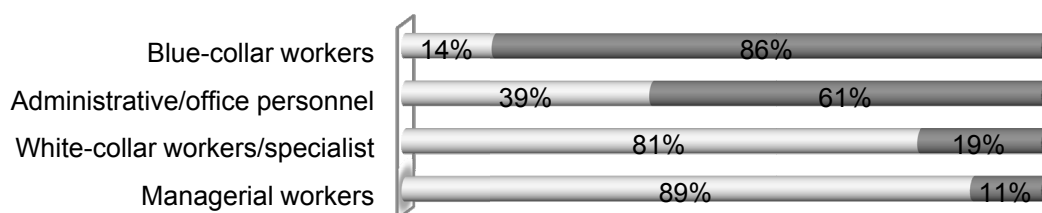
**Chart 6:** The type of program as a stimulus for particular groups of personnel in the surveyed companies

Which form of financial participation in your opinion is the most stimulating for particular groups of personnel? N=72



Almost nine in ten representatives of the management would decide on company shares, and only every fifth of them – a cash reward. With regard to the physical workers only 14.2% would choose company shares as a form of additional remuneration, in comparison to 89% of the examined companies, in which the regular workers would opt for profit-sharing.

participation in the ownership structure (rewarding based on company's shares)      ■ yes ■ no





This may mean that employees in Polish companies still do not think ahead and do not see themselves as potential managers. Similar attitudes are expressed by the administrative/office workers, ¾ of whom, according to the research, are driven by a short-term desire to maximize their profits. Completely different attitudes are shown by the mental workers, who in 70% of the companies were more interested in maximizing their profits in a longer run.

## 5. CONCLUSIONS

Having conducted the analysis of the factors which may exert influence on the realization of particular programs, now it is a good moment to display the effects of the introduction of all participation solutions. Considering the ownership of stocks/shares, it turns out that this program exerts positive influence on profitability and opportunity to show the workers that their company really appreciates them (both 96%), work motivation and satisfaction (both 92%), identifying oneself with the company (75%). On the other hand, in the opinion of the respondents the factors which may be influenced negatively by the program include: relationships between the workers and the management (43%), and the workers themselves (24%). With regard to profit-sharing the respondents have identical views. The program has positive influence on most of the factors listed in the questionnaire. There were not any negative results of implementing the scheme given by the interviewees. Stock/share options is a program which has a positive impact on such attitudes as identifying oneself with the company, opportunity to show that the firm appreciate its workers, the value of the enterprise (all 100%), profitability, acquiring suitable employees, work motivation, enterprising attitudes and behavior of the employees, identification with the organization, direct participation, satisfaction with work and safety (all 95%). The effect of analyzing the structure is the conclusion that financial participation programs, generally have positive influence on the functioning of the enterprise. However, the effects are rather social than economical. More rigorous statistical analysis carried by the author didn't bring satisfactory results.

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