

Institution: Staffordshire University
Unit of Assessment: 19 – Business and Management
Title of case study: Development of Policies in the EU on Employee Financial Participation
<p>1. Summary of the impact</p> <p>Research by Prof Iraj Hashi has had a significant impact on the development of policies on Employee Financial Participation (EFP) by the institutions of the European Union. The impact has been achieved through the preparation of two major reports for DG V (Employment), a study for the European Parliament, and a study for the European Commission (currently underway). As a result of these works, various institutions of the EU have proposed policies to encourage employee participation in the results of their work (in the form of share ownership, profit sharing, share options, etc.). Most recently, the Commission has issued a call for tender for a “Pilot Project - Promotion of Employee Ownership and Participation”, and has also included EFP as an element of its Action Plan to reform European company law and corporate governance. These reports and the associated policy proposals have been informed by, and in turn facilitated, the research by Prof Hashi; in particular, Hashi (1998), Hashi and Hashani (2011) and Hashi and Hashani (2013).</p> <p>2. Underpinning research</p> <p>Professor Hashi has been involved in research and policy analysis on employee ownership and employee financial participation for over twenty years. Hashi (1998) investigated employee ownership as a privatisation method in Poland during the course of transition to a market economy, a method that was also used in other transition economies, though to a much lesser extent. The research focused on 20 employee owned firms in Poland, privatised in the period between 1990 and 1994. The study was conducted when firm-level data for firms privatised through this method was non-existent. Therefore qualitative, case study-type research was used to analyse the performance of these firms and to compare it with the performance of the manufacturing sector as a whole. The insights from this research were: (i) employee owned firms in a market economy do not suffer from the property rights deficiencies typical of labour-managed firms in former Yugoslavia; (ii) their pricing and output policies are not distorted as the traditional models of self-managed firms had suggested (Ward, B., 1958, <i>The Firm in Ilyria: Market Syndicalism</i>, <i>American Economic Review</i>, 48:566-589 and Vanek, J., 1970 <i>The General Theory of Labour-Managed Market Economies</i>, Ithaca: Cornell University Press, amongst many others); (c) the wage settlement and investment behaviour of employee owned firms do not support the predictions of the Ward-Vanek type models; and (d) employee owned firms can survive in a competitive environment, because of the strong motivation and commitment of employees and more effective peer monitoring.</p> <p>This work led to Professor Hashi’s engagement in a series of studies, reports and projects investigating the extent and the implications of employee financial participation in the proceeds of their companies in different EU member states and candidate countries. Firstly, the PEPPER III Report (Hashi et al., 2006), investigating the extent and nature of employee financial participation in the new member states and candidate countries (EU10+Bulgaria, Romania, Croatia and Turkey), was prepared in 2006 for the European Commission’s DG V (Employment). This was followed by the PEPPER IV Report (Lowitzsch, Hashi and Woodward, 2009) on ‘Benchmarking Employee Financial Participation in the EU and Candidate Countries’, also for the Commission’s DG V. The two Reports not only investigated the types of EFP schemes and their penetration in different member states (and candidate countries) and the nature of the legislation on tax and other implications of EFP, it also explored and assessed policies aimed at promoting EFP in different countries.</p> <p>Hashi and Hashani (2011) used two newly made available, large scale datasets - the European Company Survey 2009 (ECS) and the European Working Condition Survey (EWCS) 2010 - to study the firm and industry characteristics that influence companies to offer employee financial participation schemes (share ownership, profit sharing, etc.) to their employees and the factors influencing the decision of employees to take up these schemes. The availability of these datasets made econometric modelling possible (over 20,000 companies in the ECS and some 30,000 individuals in the EWCS). Both datasets cover all EU countries and, therefore, it was possible to</p>

compare the impact of different national policies, and the progress of these schemes, in different regions of Europe. The study concluded that larger firms, firms in the financial sector, firms with a more educated workforce (a higher proportion of staff with university education), firms with a higher proportion of male employees, and firms with more conducive HR practices were more likely than other firms to offer participation schemes to their employees. Firms in the Nordic countries, followed by those in UK-Ireland and Western Europe were also more likely to offer these schemes than were firms in Southern Europe or Eastern Europe. These results were confirmed when the employee dataset was analysed.

Hashi and Hashani (2011) provided the theoretical and empirical basis of, and informed the preparation of, a Study for the European Parliament (Lowitzsch and Hashi, 2012) which analysed the recent data on employee financial participation, the importance of this development for the performance of companies, their corporate governance, and social inclusion. The Study also provided recommendations for a new tax policy (the 28th regime) to be used as an alternative to national policies on the promotion of employee financial participation. This paper was further improved in the course of the preparation of the Study for the European Parliament and subsequently submitted to the journal *Advances in the Economic Analysis of Participatory and Labor-Managed Firms*, where it was accepted for publication (expected in 2013).

Lowitzsch and Hashi (2012), as well as the PEPPER Reports, were used as the basis for a tender by the European Commission on the “Implementation of the Pilot Project - Promotion of Employee Ownership and Participation”, announced in April 2013 to study the most recent data on Employee Share Ownership and the legal developments on EFP in different EU countries, to develop a platform to promote this policy across the EU, and to help the establishment of a European Centre for Employee Ownership and Participation. Professor Hashi is a member of a team who successfully competed for this tender and are now engaged in research on this Pilot Project. The tender document clearly refers to the PEPPER Reports and the Study for the European Parliament, and shows the impact of the previous work on the development of this Policy. Professor Iraj Hashi has been a full-time member of staff at the University since the inception of this research.

3. References to the research

- i) Hashi, I. (1998) Employee Ownership and Enterprise Behaviour: Evidence from Poland's Privatisation by Liquidation, *Russian and East European Finance and Trade*, Vo.34, Issue 2.
- Note: this journal has been discontinued under this title and is currently published as *Emerging Markets Finance and Trade* (ISI Impact Factor 2012: 1.190) (see <http://journalseek.net/cgi-bin/journalseek/journalsearch.cgi?field=issn&query=1061-2009> and <http://www.mesharpe.com/mall/results1.asp?ACR=ree>).
- ii) Hashi, I., Lowitzsch, J., Uvalić, M. and Vaughan-Whitehead, D. (2006), PEPPER III Report: An Overview of Employee Financial Participation, in Jens Lowitzsch (ed), *The PEPPER III Report: Promotion of Employee Participation in Profits and Enterprise Results in the New Member and Candidate Countries*, Dublin: The European Foundation for the Improvement of Living and Working Conditions. This is a report prepared for the European Commission, DG V. The Report and its background can be found on the website of the European Foundation for the Improvement of Living and Working Conditions, at: <http://www.eurofound.europa.eu/areas/participationatwork/pepperreports.htm>
- iii) Lowitzsch, J., Hashi, I. and Woodward R. (2009), *The PEPPER IV Report: Benchmarking of Employee Participation in Profits and Enterprise Results in the Member and Candidate Countries of the European Union*, Dublin: The European Foundation for the Improvement of Living and Working Conditions. This is a second report prepared for the European Commission, DG V, by a research team including Iraj Hashi. The Report and its background are available on the European Foundation's website at: <http://www.eurofound.europa.eu/areas/participationatwork/pepperreports.htm>
- iv) Lowitzsch, J. and Hashi, I. (ed) (2011), *Employee Financial Participation in Public Services in the European Union*, Brussels: The European Centre of Employers and Enterprises Providing Public Services, available at: http://www.ceep.eu/index.php?option=com_content&view=article&id=218:efp&catid=88:mapping&Itemid=147 (then click on Report) or at: <http://www.ceep.eu/images/stories/pdf/events/efp/reportEFP.pdf>

Impact case study (REF3b)

v) Hashi, I. and Hashani, A. (2011), Determinants of financial participation in the EU, Centre for Research on Emerging Economies Working Paper 2011/01; this WP was later submitted for publication and will appear as: Hashi, I. and Hashani, A. (2013), Determinants of financial participation in the EU: Employers' and employees' perspectives, *Advances in the Economic Analysis of Participatory and Labor-Managed Firm*, Vol. 14 (expected 2013).

vi) Lowitzsch, Jens and Hashi, Iraj (2012), *Employee Financial Participation in Companies' Proceeds*, Brussels: European Parliament. This is a study commissioned by the European Parliament, and is available at:

<http://www.europarl.europa.eu/committees/fr/studiesdownload.html?languageDocument=EN&file=76091>

The above research projects and reports, completed by Professor Hashi and his colleagues in various European universities, have been made possible by grants obtained through competitive bidding procedures from the European Union and other institutions. The receipt of these grants indicates the quality of the work produced by Professor Hashi and his colleagues.

Funding institution	Project Name	Period	Budget
European Commission, DG V (Employment)	PEPPER III Report: Countries (VS/2004/0478)	2004-2005	€200,000
European Commission, DG V (Employment)	PEPPER IV Report (VS/2006/770)	2007-2009	€160,000
European Commission, DG V Employment, Social Affairs and Equal Opportunities	Information and Communication Project: Promoting EFP in the EU-27 (VP/2010/013)	12/2010-11/2011	€191,159
CEEP (European Centre of Employers and Enterprises providing Public Services)	Financial Participation of Employees: Towards Initiatives in Social Dialogue (budget line 04.03.03.01)	03/2011-03/2012	€38,000
European Parliament, DG Internal Policies of the Union – Department A	Employee Financial Participation in Companies' Proceeds (FWC No. IP/A/ECON/FWC/2010-109 (Lot 5))	12/2011-06/2012	€41,520
European Commission, DG Internal Market and Services	Implementation of the Pilot Project- Promotion of Employee Ownership and Participation Contract No. MARKT/2013/0191F2/ST/OP	09/2013-08/2014	€295,000

Hard copies or scanned pdfs of the above documents are available on request.

4. Details of the impact

Professor Iraj Hashi's work on employee participation in the equity and profits of their companies has been influential in policy decisions made by a number of EU institutions, particularly the European Economic and Social Committee, the European Parliament and finally the European Commission. His work started with Hashi (1998) on employee owned companies in Poland, which was the basis of, and informed, his involvement in the preparation of two PEPPER Reports (Hashi, et al., 2006; and Lowitzsch, Hashi and Woodward, 2009). These Reports reignited the EU institutions' interest in the idea of employee ownership and participation.

The European Economic and Social Committee (EESC), a tripartite body representing employers, employees and other interested groups, published an 'Own Initiative Opinion' in 2010, encouraging the Commission to take more effective action in promoting employee participation across the EU (details below). This document clearly refers to the PEPPER Reports as laying the foundation for further work on EFP.

In 2010 the Commission opened a call for a project on "Information and Communication Project - Promoting Employee Financial Participation in the EU-27, ProEFP" (VP/ 2010/013);

<http://vimeo.com/34089754>, which aimed at opening a debate on, and promoting, the subject across Europe. The project involved organising national conferences in nine European capitals, culminating in a week-long programme (the Week of Employee Financial Participation) and a Conference on 17-19 October 2011 in Brussels, hosted by the European Economic and Social Committee (EESC). For details, see Conference Notice on: <http://vimeo.com/34089754>. Professor Hashi was one of the speakers at this Conference. Activities in the Week of Employee Participation

further attracted the attention of a number of European institutions to the relevance and importance of this topic.

A major employers' organisation, the European Centre of Employers and Enterprises Providing Public Services (CEEP) (whose members account for 30% of total employment in the EU), commissioned a report on the relevance of employee financial participation schemes for its members. A team of researchers, led by Prof Lowitzsch and Prof Hashi, successfully applied for this project and prepared a report (Lowitzsch and Hashi, 2011) for CEEP. This report was presented at a Seminar to members of the organisation and an invited audience. Professor Hashi was one of the presenters of the report at the Seminar.

In 2011 the European Parliament commissioned a Study on the present state of employee participation and policies aimed at facilitating and encouraging this phenomenon. A team of researchers, again led by Prof Lowitzsch and Prof Hashi, succeeded in bidding for this project and prepared the Study for the European Parliament. Prof Hashi's research on factors influencing the adoption of EFP schemes (Hashi and Hashani, 2011) informed this Study. The Study was presented at a conference in the European Parliament on 3 October 2012.

A public hearing held at the European Parliament on 22 March 2012 underlined the need to collect information on national legislation on employee ownership and participation in different EU countries, aiming to establish a European Centre for Employee Ownership in each Member State to deliver information, training and advice to employees, enterprises and the public in order to facilitate the promotion and implementation of appropriate legislation for better development of employee ownership and participation. In order to follow the conclusions of this hearing, on April 2013 the Commission published an open call for tenders (MARKT/2013/019/F) on the "Implementation of the Pilot Project – Promotion of Employee Ownership and Participation" (tender documents available on http://ec.europa.eu/dgs/internal_market/calls/ then choose MARKT/2013/019/F). The terms of reference of this tender clearly indicate that the PEPPER Reports and Lowitzsch and Hashi (2012) are the basis of further work in this area (see especially pp. 16-20). The Pilot Project will not only produce new research on the impact of EFP, it will also involve the establishment of a European Centre for Employee Ownership in each Member State. Prof Hashi and his colleagues have been awarded this project in a competitive tender and are currently engaged in this project (see section 3).

The European Commission has also included the promotion of employee share ownership and participation as a component of its Action Plan to reform European company law and corporate governance (COM (2012) 0740; Section 3.5, p 11 ff) (available at: <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0740:FIN:EN:PDF>). This will have a major impact on the development of EFP in European countries.

A Resolution is now being prepared for the European Parliament for a formal decision and Recommendation to the Commission on Employee Financial Participation.

5. Sources to corroborate the impact

- i) The Commission's open call for tender document (MARKT/2013/019/F) "Implementation of the Pilot Project – Promotion of Employee Ownership and Participation", 19 April 2013 (available at http://ec.europa.eu/dgs/internal_market/calls/ then choose MARKT/2013/019/F); esp. pp. 16-20, which explicitly refers to the PEPPER Reports and the EP Study (Lowitzsch and Hashi, 2012).
- ii) European Economic and Social Committee, "OPINION of the European Economic and Social Committee on Employee financial participation in Europe (Own-initiative opinion)", SOC/371, Employee financial participation in Europe, Brussels, 21 October 2010, esp. pp. 4-5 and 10, which explicitly refers to the PEPPER Reports (this is an official publication of the Commission and is available at: <http://www.eesc.europa.eu/?i=portal.en.soc-opinions.11454>).
- iii) The Professor at the European University Viadrina, Germany, who was an expert for the Employers Group on the European Economic and Social Committee, which produced the 'Own Initiative Opinion' in 2010 (details under ii above). He can corroborate all aspects of the case study.