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The Impact of Economic Democracy

**Profit-sharing and employee-
shareholding schemes**

**Michael Poole and
Glenville Jenkins**



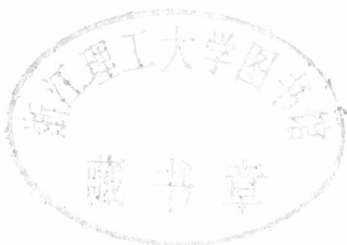
The Impact of Economic Incentives



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The impact of economic democracy

Profit-sharing and employee-shareholding schemes

Do profit sharing and employee shareholding help to reduce inflation and unemployment? What impact do such schemes have on productivity and employee satisfaction? Do they improve industrial relations?

These fundamental questions are explored in this unique study of profit-sharing and employee-shareholding schemes. A companion volume to *The Origins of Economic Democracy*, which focused on the origins of profit-sharing schemes, this book concentrates on their impact on the economic, industrial relations, and organizational performance of companies.

The authors analyse international research findings and research data from over 1,000 British companies and report on interviews with nearly 2,000 employees to demonstrate that there is indeed a link between the economic performance of companies and profit sharing. However, the relationship is a complex one: industrial relations may be improved by schemes, but good employers are likely to introduce profit sharing in any case; and though attitudes to work do change, schemes have more immediate impact on satisfaction and communications than on productivity and effort put into work.

These conclusions will be of great interest to academics and business people alike, lending support to the case for expanding economic democracy and casting new light on an issue of international importance.

The Authors

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The impact of economic democracy

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Preface

This is the second volume of a study concerning profit-sharing and employee-shareholding schemes in the company. The first book involved an account of the origins and development of schemes, while the second entails an assessment of their consequences for the economic and industrial relations performance of companies, the degree of satisfaction of employees, and the extent to which the introduction of profit-sharing and other related practices has occasioned changes in work practices and organizational flexibility.

The data presented in the two monographs derive from a project initiated in the Social Science Branch of the Department of Employment and sponsored by this particular governmental department. The early design work was undertaken by Gillian Smith who subsequently produced an article from the survey stage of the research entitled 'Profit sharing and employee share ownership in Britain' for the *Employment Gazette* (September 1986, pp 380-5). There were two principal phases to the project: (1) a survey of companies in Britain; and (2) case studies of selected firms derived from the enterprises included in Stage 1.

The survey commenced with a series of short telephone screening interviews in 1,125 companies that were designed to obtain information on the extent of profit-sharing and employee-shareholding schemes in Britain and to provide a sample for subsequent detailed interviews. This was followed by the so-called 'main stage' survey of 303 firms in Britain in which a wide range of data was gathered on the operation of schemes and the factors associated with their adoption or non-adoption. The questionnaires for the survey were developed jointly by IFF Research Limited, DE Social Science Branch, and Michael Poole. The fieldwork was carried out in May 1985 by IFF under the direction of Judy Morrell. In August 1985, a data tape was transferred to the University of Wales College of Cardiff (UWCC) to enable Michael Poole to conduct a more detailed analysis of the survey material. At this point, Joan Wright

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carried out the necessary computing work with considerable speed and skill.

At the design stage of the research, it was recognized that a further case study phase would be necessary in order to allow for a detailed exploration of the specific processes which lead companies to introduce profit sharing and the problems encountered developing schemes. Above all, it was considered important that an assessment should be made of the views of employees. In consequence, the Department of Employment commissioned Michael Poole to carry out the case study phase which included: (1) detailed interviews with key management respondents; (2) interviews with full-time trade union officers and lay representatives; (3) the gathering of data on company performance; and (4) the administering of a questionnaire to a substantial number of employees (approximately 2,000).

The case study phase of the research commenced in spring 1986 and involved 22 companies selected from the 303 firms in the 'main stage' survey. To ensure a regional balance, the companies were divided equally between South Wales/the South West of England and London/the South East of England (further details and the methods used appear in the Appendices). The case study phase was directed by Michael Poole, while Glenville Jenkins and Michael Gasiorek provided research assistance.

During the survey stage of the research Francis Butler was integrally involved in the project and Peter Brannen chaired various meetings of both the survey and case study phases. Towards the end of the case studies, Neil Millward assumed chairmanship of the steering committee meetings. At UWCC, Brian Moores and Andy Thompson provided valuable advice on statistical techniques for handling the survey data.

Throughout the survey and case study stages, Gillian Smith handled the project with considerable skill and thoroughness. Valuable comments were provided by members of the steering committee for the case studies and especially by Stephen Creigh, John Cullinane, Dorothy Green and Michael Lott. In the case study companies, there were many respondents who gave considerably of their knowledge and time and, without such assistance, the project could not have been a success. The comments of Euan Cameron were particularly insightful in this respect. Richard Long helped considerably by providing a copy of a questionnaire from his own research which helped to inform many of the items in the employee attitudes survey. IFF Research and, especially, Judy Morrell, offered very valuable assistance to the UWCC research team to secure contacts with the case study companies. Moreover, for their

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considerable efforts in typing this monograph a special word of thanks is due to Marina Miller and Karen Owen.

It is hoped that the two volumes of this study on profit-sharing and employee-shareholding schemes, *The Origins of Economic Democracy* (published in 1989) and the current volume will help to shed considerable light on the operation of profit-sharing and share-ownership schemes in Britain. The Department of Employment deserves particular gratitude for funding the research though, naturally, any views expressed are those of the authors and do not necessarily reflect those of the funding body.

Michael Poole and Glenville Jenkins

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Introduction

Profit-sharing and employee-shareholding schemes may be interpreted from a number of distinctive vantage points. In the first place, they may be understood in terms of the spread of ownership rights to the workforce. On this view, the aim is to eradicate permanently the longstanding antagonism and opposition of capital and labour. Secondly, they may be linked with policies on employee participation and organizational democracy, with the objective of increasing the sense of identity of employees with the companies in which they work. And thirdly, the case may be advanced in terms of competitiveness. Profit sharing and employee shareholding are seen to advance this through improved motivation and commitment of the workforce, together with greater flexibility and adaptability and higher levels of productivity and profitability. Moreover, these policies are further linked with the broader economic objectives of reducing unemployment and inflation.

These various arguments in favour of employee financial participation are examined in depth and detail in this volume. But it is essential to point out at the outset that there are many and varied forms of this phenomenon, the effects of which will probably not be homogeneous. For example, ownership rights are likely to be enhanced most dramatically through producer cooperatives and worker buyouts. By contrast, profit sharing through share schemes may be sufficient to occasion a sense of participation. And cash-based forms of profit sharing are likely to have the most immediate and direct effects so far as competitiveness is concerned.

Financial participation by employees is thus a complex and multi-dimensional phenomenon. The first volume on this issue, *The Origins of Economic Democracy*, was designed to uncover the forces which underpin the growth of profit-sharing and share-ownership schemes and their varied rates of adoption by companies. This second volume has a different focus: to examine the consequences of the introduction of schemes for company and

individual performance. In the first chapter, the growing literature on this issue is examined in relation to the economic, industrial relations and organizational impact of schemes. This is followed by the specification of a number of analytical frameworks and models in Chapter 2. Evidence from the Department of Employment sponsored research of profit sharing and share ownership is then examined in relation to the impact of schemes. Following this analysis, the varied sets of data are interlinked by means of detailed case studies. Finally, an evaluation of the consequences of profit-sharing and employee-shareholding schemes is undertaken in relation to the main debates on this subject in Britain and overseas.

Profit-sharing and share-ownership schemes are connected with a number of diverse forms of industrial organization where at least part of the equity is owned by the workforce and/or part of total employee remuneration is linked with the profit performance as an addition to existing pay arrangements. In the first volume of this study we showed that the number of profit-sharing and share-ownership schemes in the late 1970s and 1980s has expanded considerably, even though only a minority of employees is currently covered by schemes of this type. It was also observed that growth has particularly occurred in firms in the financial sector and in companies with managements broadly committed to developing employee involvement. Moreover, there is no doubt that the recent advancement of schemes has been stimulated by facilitative legislation and tax incentives. And the expansion of schemes can also be linked with the wider share ownership movement as a whole (Grout, 1987).

Turning, then, in this volume to examine the impact of schemes, profit-sharing and share-ownership schemes are widely held to have had a substantial potential effect upon economic and industrial organization. This potential is embodied in a complex of economic, industrial relations, sociological and psychological interpretations. For economists, profit sharing is viewed as a way to improve a company's financial performance and to control inflation, increase levels of employment, improve the distribution of wealth and occasion economic stability. For the industrial relations scholar, it is seen as radically influencing the relationship between managers, employees and unions, redesigning methods of remuneration and reducing conflict and antagonism in the workplace. For the sociologist, the impact is in terms of changing the nature of social relations and attitudes to work. And, for the psychologist, improvements in morale and motivation of the workforce are envisaged resulting in higher output and productivity in the firm as a whole. The breadth of the potential impact thus makes an