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Abstract

Using a survey of multinational companies (MNCs), we investigate the factors that determine the use and scope of financial participation in MNCs operating in Ireland. We explore the impact of six factors – country of origin, age, employment size (Irish and worldwide employment size), ownership structure, trade union recognition and sector. Descriptive results find that financial participation schemes are quite common within MNCs in Ireland. Many of these schemes are only available to higher levels of staff. Multivariate analysis reveals that five out of the six factors (the exception was sector) had varying impacts on financial participation schemes.

Introduction

Financial participation is a term used to "describe mechanisms through which employees can gain some form of financial or equity share in their companies through various profit sharing, share-ownership or similar schemes" (Authors 2004: 330). The Commission of the European Communities PEPPER II Report (1996, pp. 7) defines profit sharing as "the sharing of profits by providers of both capital and labour by giving employees, in addition to the fixed wage, a variable part of income directly linked to profits or some other measure of enterprise results" and employee share ownership as providing for "employee participation in enterprise results in an indirect way, i.e. on the basis of participation in ownership, either by receiving dividends, or the appreciation of employee-owned capital, or a combination of the two". Authors (2004) outline a number of reasons for establishing schemes of employee financial participation. In some cases, the primary motivation of management in establishing a profit sharing scheme is the attraction and retention of staff through encouraging employee attachment to the firm. In the wider society, the sharing of profits with employees helps project an image of the caring, socially responsible enterprise and a good employer. It has a practical benefit in that it is likely to widen the pool of potential recruits. From a strictly economic viewpoint, the apparent intangibility of these benefits to the enterprise is offset by tax concessions granted in many jurisdictions to companies operating such schemes. In many instances, the profit or share scheme is only one element in a package of benefits, additional to a standard wage or salary (D'Art, 1992). Profit sharing or employee shareholding can sometimes be used as a defence or deterrent against union organising drives (Authors, 1998). Other arguments for the existence of profit sharing and employee ownership scheme include improved collaboration and harmony between employees and management, wage flexibility and wage moderation, the alignment of employee and owners/shareholders interests, higher productivity and survival rates, better economic performance, and as a defence against takeovers (Dow, 2003; Poutsma, de Nijs, and Poole, 2003; Lepak and McGowan, 2010). Thus the use of financial participation schemes may form a key part of a wider human resource (HR) strategy in creating a competitive advantage for the company (Kochan and Osterman, 1994).

Poutsma, Ligthart and Schouteten (2005, pp. 108) identified two perspectives commonly found in the literature on financial participation schemes, the agency perspective and the human resource perspective, and use these to distinguish the factors impacting on the use of financial participation schemes among firms. They caution, however, that "the indicators used were very rough and there is a need for further exploration" (Poutsma et al. 2005, pp.: 119). Indeed in this call for the special issue for the *International Journal of Human Resource Management*, the guest editors note that "…the determinants literature suggests that the adoption of employee financial participation is likely to vary depending on a number of contextual factors, such as firm age and size, technology, capital intensity, trade union influence, industry, structure of ownership, and the geographical location of the company. Unfortunately, little is known about how decisions, reflected in the actual employee financial participation adopted by companies are affected by these contextual factors". Kabst, Matiaske and Schmelter (2006, pp. 565) similarly observe that "further theory-based and empirically tested research would enrich our understanding of financial participation".

Using a survey of multinational companies (MNCs) in Ireland we investigate this gap in the literature. Employing MNCs for our investigation provides a useful context for the study of financial participation schemes as the issue of how MNCs manage their foreign operations has been a long-standing area of academic debate and research. Gennard and Steuer (1971) noted that it is the "foreignness" of these MNCs that drive much of this interest. Indeed Ferner and Quintanilla (2002, pp. 245) argue that foreign-owned MNCs "act as agents of change by introducing innovations into their subsidiaries and thence into the host business system". The focus on Ireland is merited for two particular reasons. First the existing literature examining financial participation schemes in Ireland is quite dated with the latest figures from the 1999 CRANET study being the most recent investigation. Second, Authors (2000) note that there has been a paucity of research on financial participation schemes both in terms of their scope and coverage in Irish firms. As a result we address the following research question:

> *What are the factors that determine the use and scope of financial participation in MNCs operating in Ireland?*

The next section details the research context for the analysis of financial participation schemes. The following section outlines a model that we develop to explore the use of financial participation schemes, followed by details of the methodology. The findings are then presented before presenting our discussion and conclusions.

The context

In their country reports on financial participation Wilke, Maack and Partner (2007) note that Ireland has achieved a high level of integrated legislation and policy regarding financial participation. Financial participation schemes have received considerable support from the Irish government, trade unions and employer associations, particularly the country's system of centralised (national) wage agreements where financial participation has been the subject of attention. However, it was not until the passing of the Finance Act 1982 that financial participation schemes became popular in Ireland. This legislation incentivised employers to implement financial participation schemes through tax concessions. The espoused objective was to create a culture of increased productivity and a positive industrial relations climate. Subsequent legislation (Finance Acts, 1984, 1986, 1995) provided for a series of amendments designed to make the schemes more attractive to companies and participants. (Wilke et al. 2007). These various Acts offer tax concessions to companies and their employees, thereby providing a strong inducement for the adoption of profit sharing. In particular the 1995 Act increased the taxable limit on participant contributions from approximately €2500 to €12500. This provided a renewed stimulus for the adoption of such schemes. In the period 1983-2005 a total of 443 approved were established. From 1983 there was a steady annual growth in the number of schemes established and number of employees covered. Author (2006) suggest that over the period 1983-2003 some 237,000 employees were part of financial participation schemes (this equates to coverage of approximately two to eleven per cent of private sector employees in any one year).

The CRANET surveys of 1992, 1995 and 1999 chart the incidence of financial participation schemes in Ireland (see Table 1, Pendleton, Poutsma, van Ommeren and Brewster (2001). Whilst there are some increases and decreases related to the different categories of employees across the different schemes these financial participation schemes have remained relatively stable. Focusing on the latest (Irish) CRANET data, 1999, 34 per cent of companies (200+ employees) in Ireland reported employee share ownership schemes and 29 per cent reported profit sharing schemes (Pendleton et al. 2001).

Insert Table 1 about here

The significance of MNCs within a host country is nowhere more evident than in Ireland. Inward FDI stocks as a percentage of gross domestic product (GDP) in Ireland were estimated at 73.6 per cent in 2007, compared to a 27.9 per cent world average (UNCTAD 2008). The proportion of employment in foreign-owned companies, as a percentage of total international trade-related employment in Ireland, is the highest in the world at 50.6 per cent (UNCTAD 2007). An important consequence of this heavy MNC investment is its impact on management practice. For example, Authors (2008, 2009 and 2010) point towards important changes in the Irish industrial relations system in Ireland which they attribute indirectly to the influence of MNCs.

Model to explore the determinants of financial participation schemes in Ireland

As noted by Bjorkman (2006), institutional theory has been used to further understand and explain MNC's human resource management (HRM) practices. Kostova and Roth (2002, pp. 215) argue that the central tenet of institutional theory is that companies "…sharing the same environment will employ similar practices and thus become isomorphic with each other". Such isomorphism may occur in three particular ways (Di Maggio and Powell 1983). First is coercive whereby an enterprise is forced to adopt specific practices due to pressures within the environment, often from governments or customers. Second is mimetic, where in times of uncertainty companies will adopt similar practices to what are perceived as successful companies. Third is normative where organisations such as universities, consultancies, professional bodies disseminate certain types of practices which companies then adopt. Focusing specifically on the extant literature on financial participation, it is established that financial participation is influenced by the institutional context it operates in and also by enterprise characteristics (Festing, Groening, Kabst and Weber 1999). We investigate the impact of a number of enterprise characteristics on the incidence of financial participation schemes within a single institutional context, namely country of origin, age, employment size (Irish and worldwide employment size), ownership structure, trade union recognition and sector. The following provides a synthesis of the literature on these types of variables and their impact on financial participation schemes, whilst also providing details on the variables that we use in our model.

Country of origin

The country in which the company originates is likely to have an impact on the presence of financial participation schemes. For example the country of origin effect is well accepted in the literature as a significant predictor of behaviour of MNCs (Ferner 1997). The argument here is that the characteristics of the MNCs home business system will inform the policies and practices of their foreign subsidiaries. Edwards, Edwards, Ferner, Marginson and Tregaskis (2007, pp. 44) note that differ in terms of their financial markets "…the notion of the 'share-owning democracy', pervasive in the US business culture, and to some extent (since the 1980s) in the UK, is much less developed in the economies of continental Europe or in Japan". However there are some reasons to believe that foreign-owned companies might be less likely to have such schemes in place. For example Pendleton et al. (2001, pp. 56) notes that foreign-owned companies may be less likely to have such schemes because for a variety of reasons including less solidarity with the host country (no moral obligations to provide such schemes), administrative complexities where foreign-owned companies shares are traded on an exchange outside the host country and in some instances local legislation may dictate that share schemes are restricted to companies registered in that particular country. The evidence regarding the impact of ownership on financial participation schemes is quite mixed. For example Pendleton et al. (2001) found that foreign-owned companies were much less likely to have profit-sharing and employee share ownership schemes whilst Poutsma and de Nijs (2003) found that domestically owned companies were more likely to have profit sharing and share ownership schemes. In the Irish context, recent evidence suggests that foreign-owned companies, particularly from the US and UK, are much more likely to have financial participation schemes (Geary and Roche 2001; Authors 2006).

Instead of simply distinguishing between foreign and Irish-owned MNCs operating in Ireland we identify MNCs that emanate from specific countries or clusters of countries. This allows us to provide a more nuanced view of the potential impact of a MNCs country of origin on the presence of financial participation schemes. In total we identify five countries/cluster of countries – Ireland, the US, the UK, Latin and Germanic. The rationale for creating two Latin and Germanic was theoretically driven but also informed by a degree of pragmatism. In particular, the incidence of small cell sizes for many countries meant that the creation of country clusters allowed us carry out more robust statistical analysis. In creating such clusters, one approach is to draw on empirical data on the incidence of financial participation schemes in particular countries and group countries accordingly – e.g. using CRANET or European Working Conditions surveys. However, such data indicate the usage of financial participation schemes among all company types e.g. both domestic and foreign-owned companies in that country. This presents the dilemma that the incidence of financial participation schemes may sometimes be explained by foreign-owned companies adopting such schemes rather than it being a more deeply embedded characteristic of that country's particular business system. We believe that clustering companies according to the particular characteristics and traditions of their business systems represents a sounder theoretical basis. To this end we are informed by Poutsma (2001) who suggests that Weimer and Pape's (1999) work on the taxonomy of systems of corporate governance offers a plausible explanation of the different patterns of financial participation found in European countries . Here the Latin and Germanic model (along with an Anglo-Saxon model) is identified, categorising specific countries under each model. The following table provides the details of each of these clusters, including the country and the number of MNCs originating from that country in parentheses. The Latin cluster includes France, Italy, Spain and Belgium whilst the Germanic cluster includes Germany, Netherlands, Switzerland, Sweden, Austria, Denmark, Norway and Finland.

Insert Table 2 about here

Size

It has been suggested that the size of the organisation, measured in terms of employment numbers, has an impact on the presence of financial participation schemes. Pendleton et al. (2001, pp. 47-48) summarises the theoretical arguments for the association between large sized companies and financial participation schemes - monitoring and co-ordination costs likely to be greater in larger companies; greater social distance between employees and management; and the possibility of the balance of power being tipped in favour of employees. Thus the use of financial participation schemes can alleviate many of these problems by encouraging greater cooperation, productivity and information sharing. In contrast, another line of thought is that the benefits accruing to employees from financial participation schemes in large companies are likely to be smaller and hence one may anticipate a negative relationship between employment size and financial participation schemes (Pendleton et al. 2001), i.e. the free rider problem associated with financial participation (cf. Alchian and Demsetz (1972) on the problems with profit sharing schemes when the number of employees increases). However a positive relationship between large companies and the presence of financial participation schemes is supported in empirical studies (Jones and Pliskin 1989; OECD 1995; Poutsma and de Nijs, 2003; Pendleton et al. 2001; Pendleton 2006; Welz and Macais 2007). Those working in large companies are four times more likely to receive payments from financial participation schemes than those in smaller establishments (Welz and Macais 2007). Other scholars have noted that size may in fact have a different impact depending on the actual financial participation scheme. For example, Pendleton et al. (2001) found a strong positive relationship between the presence of an employee share ownership scheme and overall organisation size, but no other scheme had a similar impact (Pendleton et al. 2001). In contrast, Welz and Macias (2007) found that employees are much more likely to receive income from profit sharing schemes in large companies. Whilst Festing et al. (1999) found that larger companies were more likely to have employee share ownership schemes and profit sharing.

Given that we are looking at MNCs, we identify two types of employment size; the employment size of the Irish operations and the overall employment size of the MNC (worldwide employment size). Irish employment size is divided into three categories, 100-499, 500-999 and 1000+ employees. For worldwide employment size, we identify four categories, 500-4999, 5000-29999, 30000-59999 and 60000+ employees.

Sector

Pendleton et al. (2001, pp. 53) posits that “there is no clear and unambiguous set of theoretical predictions concerning the effects of sector on the incidence of financial participation...[but] there are, however, various characteristics that are contingently associated with sectors that may be related to the use of financial participation”. For example, one argument is that companies operating in the financial services sector are much more amenable to financial participation schemes given their knowledge and administrative experience of such schemes. And this argument has some empirical support in the general literature with a number of studies pointing towards financial services companies being most likely to have financial participation schemes in place (Cheadle 1989; Poole 1989; Welz and Macais 2007). The sector variable may also proxy for capital intensity. It is suggested that capital intensive companies are more likely to have financial participation schemes (Authors, 2004; Kroumova and Sesil, 2006).

We identify five sector categories in which MNCs operate – traditional manufacturing, high tech manufacturing – both which are arguably high capital intensity sectors -, financial and business services, retail/ wholesale/ distribution/ hotels/ catering, and others MNC – low capital intensity sectors.

Age of operations

Another potentially useful predictor of financial participation schemes used in the literature is that of the age of organisation. The suggestion is that financial participation schemes will vary according to the different stages of a companies lifecycle and that such schemes are much more likely to be found in young, growing companies (Poole and Jenkins, 1990; Poutsma 2006). There are a couple of reasons to expect younger companies to have such schemes in place (cf. Pendleton et al. 2001). Firstly, when an organisation is in its infancy there is a strong need for high employment commitment and performance to grow the organisation, and the need for easy access to available capital (Pendleton et al. 2001). A second argument proposed is "that share options provide a useful form of reward for companies that have considerable potential, but have not yet secured a steady income stream to pay conventional wages and salaries" (Pendleton et al. 2001, pp. 58). Thirdly, the success of these companies may be "…highly dependent on employee knowledge and share schemes provide a way of 'locking-in' key employees" (Pendleton et al. 2001, pp. 58). It must be noted however that profit sharing schemes are less likely to be present in younger companies given the fact that they are unlikely to be making significant profits in the early years. Notwithstanding these arguments Pendleton et al. (2001) found that age had little or no impact on the presence of financial participation schemes.

Here we focus on the age of the Irish operations of the MNC, rather than when the organisation became a MNC. This distinction is critically important as the Irish operations may have been in existence long before it became a MNC. For example, you may have an organisation that was set up in Ireland in the 1960s but did not internationalise and become a

MNC until the early 2000s through a merger/acquisition. Thus definitional issues surrounding the age criteria of MNCs can have a significant impact on your findings. Indeed much of the literature using age as a predictor variable in the MNC literature fails to identify or address this important issue. The reason for choosing the age of the Irish operations (as opposed to that of the MNC) is that the presence or absence of financial participation schemes is more likely to be explained by the age of the organisation rather than it being related to issues around an organisation becoming a MNC. We categorise the age of the MNC into four distinct categories – 0-10 years, 11-25 years, 26-45 years and 46+ years.

Structure of ownership

One of the apparently strongest predictors of financial participation schemes is ownership structure, in this case whether shares in the MNC are publicly traded or privately owned. Kabst et al. (2006) explain that a strong link exists between publicly listed companies and financial participation schemes due to institutional pressures which predispose these types of companies towards offering employee share ownership and profit sharing schemes. They note that publicly listed companies "…are perceived as financially strong enough to implement financial participation instruments as well so that institutional pressure is higher for them…[and thus] it can be assumed that publicly listed companies adopt financial participation more often than others in order to meet societal expectations linked to their legal status" (Kabst et al. 2006, pp. 571). In contrast, privately held companies are more likely to be closed and so less likely to have such financial participation schemes in place– although succession and company crisis may encourage employee takeovers. The evidence overwhelmingly points towards a positive relationship between publicly listed companies and the presence of all types of financial participation schemes (Festing et al. 1999; Pendleton et al. 2001; Kabst et al. 2006).

We use a simple dichotomous variable that distinguishes between MNCs that have their shares publicly traded or MNCs that hold their shares privately.

Trade union recognition

The influence of trade unions on the presence of financial participation schemes is quite complex, and is often dependent on the prevailing national industrial relations system. There are a couple of reasons why trade unions might be unsupportive of financial participation. First, a fundamental role of trade unions is to collectively represent their members on issues regarding pay and benefits, and financial participation schemes have the potential to reduce the security and stability of employees' earnings (Kabst et al. 2006; Authors, 1998). Another concern for trade unions is that financial participation schemes can be seen to "individualise the employment relationship and so weaken the collective" (Authors 2004). Thirdly Pendleton et al. (2001, pp. 18) also outline that the use of financial participation schemes may actually weaken established structures that are in place to deal with wage determination as part of the remuneration will be related to the performance of the enterprise and not to cost of living for example. Despite these arguments, some scholars have noted that the relationship may not be all that clear cut (Pendleton et al. 2001; Kabst et al. 2006; Pendleton 2006). Some suggest that trade unions may not be opposed to financial participation *per se*, but rather are more amenable to some schemes than others (Kabst et al. 2006). Others suggest that there are no relationships between trade unions and financial participation schemes (Kruse, 1996; Pendleton 2006).

The trade union movement in Ireland is generally in favour of such financial participation schemes. This positive attitude towards financial participation schemes is reflected in large part to trade unions participation in social partnership with government and employers at national and firm level since 1987 (Authors, 2000; Authors 2004).

We investigate whether a MNC recognises a trade union for the purposes of collective representation at any of their operations. Thus this is a dichotomous variable - MNCs that recognise a trade union and those that do not.

Methodology

The paper draws upon data from the largest empirical investigation of employment practices in MNCs operating in Ireland (see Authors 2009). A significant weakness in the MNC literature is its failure to adequately capture a representative profile of the MNC population (cf. Collinson and Rugman, 2005; Authors 2007; Edwards, Tregaskis, Edwards, Ferner and Marginson 2008). Our aim was to address this gap by carrying out the most representative investigation of MNCs operating in Ireland to date. Thus the unit of analysis is the MNC in Ireland with the respondent being the most senior HR manager with the capacity to answer for all of the Irish operations. In identifying MNCs operating in Ireland we distinguish between foreign and domestic-owned MNCs:

- Foreign-owned MNCs: All wholly or majority foreign-owned companies operating in Ireland, with 500 or more employees worldwide and 100 or more employed in their Irish operations.
- Irish-owned MNCs: All wholly or majority Irish-owned companies with 500 or more employees worldwide and at least 100 employed abroad.

A total of 260 interviews were completed, resulting in a response rate of 63 per cent, which is commendably high when compared with average response rates for organisational level surveys (circa 35 per cent) (see Baruch and Holtom, 2008). The survey responses were broadly representative of the total population and as a result, re-weighting was not necessary. Data on financial participation schemes was garnered during questioning of respondents on the area of “pay and performance management”, which was one of four substantive areas of employment practice addressed in the survey. In total three financial participation schemes were addressed:

- <u>*Approved employee share ownership scheme (AESOS)*</u> – “is where the organisation establishes a trust which acquires shares on behalf of employees and provides employees with part ownership of the company”.
- <u>*Profit sharing*</u> – “refers to rewards given to employees in addition to normal salary and bonuses which are dependent on the levels of profit in the business”.
- <u>*Share options*</u> –“is where employees are given the option of buying company shares, often at a reduced rate”.

The advantage of identifying different financial participation schemes is that we can get a more incisive view of the incidence and scope of financial participation within MNCs operating in Ireland. This approach to studying financial participation in companies has become more popular (e.g. CRANET, EPOC survey, European Working Conditions Survey, UK Workplace Employment Relations Survey) - the traditional approach was to simply view financial participation as a single variable rather than a range of different schemes. Each of the three schemes is clearly discernible, with the above definitions provided to respondents, and so we believe that the responses are likely to be reliable.

The presence of each of these schemes was investigated across three different categories of workers:

- *Largest Occupational Group (LOG)* - the largest non-managerial occupational group among the employees in the 'headcount' in Ireland.
- *Key group* – employees identified as critical to the firm's organisational learning and core competence.
- *Managers* - employees who primarily manage the organisation, or a department, subdivision, function, or component of the organisation.

Thus respondents indicate the categories of employees to which the three financial participation schemes apply to — LOG, key group and managers. Taking this approach we can then identify which categories the financial participation schemes cover. The use of the employee category 'the key group' also acts as a proxy for human capital where it is suggested that human capital intensive companies are more likely to report the use of financial participation schemes (Frye, 2004).

The analysis of the data is conducted using a combination of descriptive and multivariate techniques. The descriptive results profile the incidence and scope of financial participation schemes within MNCs operating in Ireland. The multivariate analysis explores and explains a range of factors (identified above) that impact on the presence or absence of financial participation schemes in MNCs. We run three separate logistical regressions for each of the three different financial participation schemes (employee share ownership scheme, profit sharing and share options). Suitability tests for each of the three regression analysis were carried out. The Hosmer and Lemeshow Goodness-of-Fit Test, a robust test for overall fit of a logistic regression model, showed up non-significant in all three tests, indicating the models adequately fit the data. All of the independent variables used in the logistical regressions were tested for multicollinearity with no problems reported.

Descriptive results

Financial participation schemes (approved employee share ownership schemes (AESOS), profit sharing and share options) within MNCs in Ireland are quite common with two-thirds (66 per cent) reporting the existence of at least one financial participation scheme. Over a quarter of MNCs have just one scheme (29 per cent), 25 per cent report the presence of two financial participation schemes whilst 12 per cent reported the existence of all three schemes.

Insert Table 3 about here

Figure 1 below details the incidence of each of these financial participation schemes. We find very little difference between the incidence of AESOS and profit sharing schemes (32 per cent versus 34 per cent respectively), with share options being the most reported financial scheme (50 per cent).

Insert Figure 1 about here

Table 4 outlines the incidence of the three financial participation schemes by category of worker. A couple of trends are noteworthy. Firstly, there is little difference across the three categories of employees with regard to AESOS. Secondly, whilst there virtually no difference between the key group and managers in relation to the use of profit sharing schemes (35 per cent versus 34 per cent respectively), the LOG are somewhat less likely to have such schemes (27 per cent). Thirdly, a similar picture exists with regard to share options with managers the most likely to have these types of schemes (49 per cent), followed by the key group (40 per cent), and the LOG with just 24 per cent. In summary what we find is that the incidence of schemes is quite evenly spread between the key group and managers, with the LOG least likely to have these schemes.

Insert Table 4 about here

We further investigated the breadth of each of these financial participation schemes, by looking at who these schemes are available to. We consider the three groups of employees, the LOG, key group employees and managers. As evidenced in Table 5, 93 per cent of AESOS apply to all three groups of employees, with 5 per cent only applicable to managers only and 3 per cent applicable to the key group only. Just over three quarters (78 per cent) of profit sharing schemes apply to all three categories of employees, significantly less than that of AESOS. Profit sharing schemes applicable to managers only is quite significant at 18 per cent with just 3 per cent available to key group and managerial staff together and 1 per cent to key group employees only. Finally in relation to share option schemes, these are the least likely of the three schemes to apply to all three categories of employees, with just under half (47 per cent) applying to all the groups of employees. Again similar to profit sharing schemes, share option schemes applicable to managerial employees only is quite significant at 36 per cent. 14 per cent of schemes are available to both key group employees and managerial staff together, whilst 3 per cent are applicable to key group employees only and 1 per cent to LOG employees only.

Insert Table 5 about here

Multivariate results

In the regression analysis we entered the seven independent variables and tested these against each of the three financial participation schemes, Table 6 summarises the results. As we are testing the presence of three different types of financial participation schemes (AESOS, profit sharing and share options), three separate logistical regression analysis were run.

Focusing on the AESOS, we find that four out of the seven independent variables have a significant impact on the presence of AESOS, namely country of origin, age, Irish employment size, and ownership structure. The country of origin of the MNC proved significant with MNCs emanating from the Latin and Germanic clusters less likely to report the presence of an AESOS than their Irish-owned counterparts. In relation to the age of the MNC, older MNCs were much more likely to report AESOS than younger MNCs (0-10 years). MNCs aged between 26 and 45 years and 46+ years were both four times more likely to report such a financial participation scheme. Irish employment size also had a positive relationship with the presence of AESOS with MNCs with 500-999 employees twice as likely to have such a scheme compared MNCs with 100-500 employees. Finally the ownership structure of the MNC proved a significant predictor of the presence of AESOS. MNCs that have their shares publicly traded are four times more likely than MNCs that hold their shares privately to have an AESOS.

Insert Table 6 about here

Moving next to explaining the presence of profit sharing schemes we find that just two out of the seven independent variables proved statistically significant. Ownership structure again has a positive impact with MNCs that have their shares publicly traded twice as likely to have profit sharing schemes. Also, MNCs that recognise trade unions are significantly less likely to report the presence of profit sharing schemes compared with MNCs that do not recognise trade unions.

Finally to explaining the presence of share options schemes. Five out of the seven independent variables are statistically significant in explaining the presence of share options schemes. UK and Germanic MNCs are much less likely to have such schemes in place compared to Irish-owned MNCs. The age of the MNC once more proved significant in explaining share option schemes with MNCs aged between 26 and 45 years and 46+ years both four times more likely to have such schemes compared to younger MNCs. Worldwide employment size of the MNC proved statistically significant with MNCs that have 5000-29999 employees are less likely to have share options compared to MNCs with 500-4999. MNCs that have their shares publicly traded are significantly more likely to have share options schemes compared to MNCs that hold their shares privately. Finally MNCs that recognise trade unions are significantly less likely to have such schemes.

Discussion and conclusion

This paper has provided the first representative picture of the incidence and scope of financial participation schemes (AESOS, profit sharing and share options) within MNCs operating in the host environment of Ireland. At first glance the figures are quite positive in terms of the uptake of financial participation schemes with two-thirds of MNCs having one or more financial participation schemes in place. This high figure is to be expected given Ireland’s favourable tax and legislative framework for financial participation. So how does the incidence and scope of these schemes measure up against the general Irish and European literature? Although our findings are not strictly comparable with previous CRANET data (CRANET focused on companies with 200+ employees and included both indigenous and public sector organisations), they do provide a reasonably good benchmark for assessing the presence of financial participation schemes. The figures are quite similar, as noted earlier the most recent CRANET data found that 34 per cent of companies in Ireland reported employee share ownership schemes and 29 per cent profit sharing schemes, whereas we find 32 per cent of MNCs have AESOS and 34 per cent have profit sharing. This to some extent supports the contention that the popularity of such schemes has not improved significantly since the early 2000s. Despite the tight labour market that prevailed through the 2000s and the promotion of such schemes by various national actors and institutions, no discernible increase in the use of such schemes has been found. Notwithstanding this, according to Welz and Macais (2007), these figures are around the average for these types of schemes in across Europe. In terms of the incidence of financial participation schemes within MNCs, our findings point towards quite a high uptake of such schemes as compared to MNCs in the UK (Edwards et al. 2007).

Looking at the incidence of these schemes according to the category of worker some interesting results emerge. Firstly, the fact that such schemes are much more likely to apply to higher levels of staff is well documented in the literature, for example the percentage of employees who receive payments based on financial participation schemes is much higher for managers, professionals and technicians than for everyone else (Welz and Macais 2007). This finding is in line with emerging discussions on talent management whereby certain categories of workers are seen as key to the companies' success (Authors 2009; Authors forthcoming) and thus one would expect that such categories of workers would be more likely to be offered such financial participation schemes. Furthermore, our findings in relation to the high incidence of financial participation among the 'key group' category also supports the literature which identifies human capital as an important determinant of financial participation schemes (Frye, 2004; Jones et al., 2006; Kroumova and Sesil, 2006). Secondly, whilst previous CRANET data found managers to be overwhelmingly the most likely category of worker to have access to such financial participation schemes our findings in contrast show that the key group category of worker is the most likely to have access to such schemes. The addition of this "self-identifying" group in the research is an innovation and its inclusion throws up some interesting results. It suggests, as outlined earlier, that these financial participation schemes are used as a means of locking in key employees as suggested (Pendleton et al. 2001).

Turning now to the coverage of such schemes we can draw some tentative conclusions with previous literature. Much of the literature on financial participation schemes makes the distinction between broad and narrow based schemes, and whilst our data asks of the financial participation schemes across just three categories of employees, it nonetheless provides some insight into the broad versus narrow based schemes debate. Examining the three financial participation schemes we find that a significant majority of both AESOS (93%) and profit sharing schemes (78%) apply to all three categories of workers. However share options schemes are much less likely to apply to all groups at just 47%. Indeed the majority of these share option schemes apply to managers only. This suggests that the use of share option as a financial participation device is not designed to reduce income inequalities but rather is used as a means of impacting managerial performance (Pendleton et al. 2001).

Country of origin of the MNC emerged as statistically significant in two out of the three regression analyses demonstrating that the country from which MNCs originate impacts on the use of financial participation schemes. MNCs from the Latin and Germanic cluster were unlikely to have an AESOS whilst MNCs from the UK and Germanic cluster were unlikely to have share options. However, one should exercise some caution in interpreting results regarding country of origin where countries are grouped together. The clustering of countries can understate unique historical differences and potentially fail to pick up on particular ‘within cluster’ variation. For example, the widely referenced ‘varieties of capitalism’ literature identifies fundamental and contrasting characteristics of liberal market economies (LMEs) versus coordinated market economies (CMEs), (Hall and Soskice, 2001). However, we also know that there remain important differences in labour market regulation and industrial relations systems within the LME categorisation, for example, between Ireland, the UK or the US (Freeman, Boxall and Haynes, 2007). Nonetheless we make some tentative conclusions. Firstly, French and Belgian MNCs dominate the Latin cluster, and we note that financial participation has a long tradition in France, whilst in Belgium financial participation is line with the European average (Wilke et al. 2007). Notwithstanding this, our evidence demonstrates that MNCs from these countries are in fact less likely to report employee share ownership schemes despite their prevalence in the home countries. Secondly, the countries which constitute the Germanic cluster, comparatively are at the European average in terms of the uptake of financial participation but again our evidence shows that MNCs from these countries are indeed less likely to have financial participation schemes in their organisations (Wilke et al. 2007). Thirdly, the prevalence of financial participation among companies in the UK and the US is relatively high (Blasi, Kruse, Sesil and Kroumova, 2003; Wilke et al. 2007) but this is not transferred among MNCs emanating from there. For example we found no evidence that UK or US owned MNCs were more likely to have any of the financial participation schemes whereas we found that statistically UK MNCs are unlikely to offer the share options scheme.

On the whole, we find that foreign-owned MNCs are significantly less likely to have such schemes compared to their Irish counterparts. These findings differ to previous Irish research where a higher uptake of financial participation schemes was noted among foreign-owned companies, particularly US and UK-owned companies (Authors 1997; Geary and Roche 2001). However our findings are supported in the general literature on financial participation schemes which identifies domestically owned companies as being more likely to have such schemes (Pendleton 1997; Pendleton et al. 2001). Further support is provided by similar research on MNCs in the UK. Here Edwards et al. (2007) found that whilst US MNCs were significantly more likely to have financial participation schemes, MNCs from Germany and France were no more likely to report these types of schemes, despite the prevalence of such schemes in these countries. It appears that despite the home country business system supporting financial participation schemes, MNCs do not look to transfer these schemes to their subsidiaries. Whereas Irish MNCs are more familiar with the Irish financial regulation system, for instance many Irish MNCs were formally either all or part state owned, and thus this familiarity makes them more likely to have these financial participation schemes.

Whilst both Irish and worldwide employment size have significant associations with AESOS and share option schemes respectively, it is very difficult to draw any meaningful conclusions from them. For example in relation to Irish employment size, MNCs that have 500-999 are more likely to have an AESOS but this positive association does not continue as MNCs Irish employment size gets larger. Similarly, in relation to worldwide employment size, MNCs with 5000-29999 are less likely to have a share options scheme, but again this significant relationship does not continue as MNCs worldwide employment gets larger. So in effect what we find is that the impact of employment size is quite varied.

The conventional wisdom with regard to the impact of age on the presence of financial participation schemes were largely based on the assumption that newer/younger companies are much more likely to have such schemes in place. Our findings support the contention that age does have an impact, but the effects are opposite to the conventional thinking. In two out of the three tests, the older the MNC the more likely they were to have such a scheme in place as compared to younger MNCs. Whilst Pérotin and Robinson (1998) postulate that financial participation may be more attractive to older companies, they do so on the basis that these older companies are operating in declining markets and thus financial participation schemes are used as part of a change management or restricting programme. We cannot ascertain whether this may be the case in our data, but certainly older MNCs are much more likely to have such schemes. One possible explanation is that the big drive for such schemes in Ireland was in the early 1980s and 1990s and thus MNCs that have located here since this time have not been subjected to the same institutional pressures to introduce such schemes. Indeed much of the literature in the Irish context notes significant increase in such schemes in the late 1980s/1990s but the late 2000s have since seen a decline. For example between 1982 and 1994, the annual average growth rate for such systems was approximately eleven schemes per year; between 1995 and 2001 this figure increased to approximately 37 schemes: but between 2002 and 2005 the average growth rate had decreased to approximately 11 schemes per year (Wilke et al. 2007). Whilst there have been some discussions regarding financial participation schemes in the last decade, most notably the national wage agreement (Partnership 2000), it appears to have had no significant effect on their uptake.

Whether MNCs list their shares publicly or hold them privately has a statistically significant impact on the presence of the three financial participation schemes. Across all three tests, MNCs that have their shares publicly traded are significantly more likely to have such schemes in place, consistent with the existing literature (Festing et al. 1999; Pendleton et al. 2001; Kabstet al. 2006). The dominance of this variable in our analysis is similar to that of Pendleton et al. (2001) who found that this variable was the most significant determinant in their study. This supports the argument that publicly listed companies are more predisposed towards financial participation.

The presence of a trade union in the MNC also had quite a significant impact on the uptake of such financial participation schemes. In relation to profit sharing schemes and share option schemes the presence of a trade union had a negative effect with MNCs that recognise trade unions less likely to have such schemes in place. There is a positive relationship between trade unions and AESOS but this is not significant. Our findings in relation to negative associations between trade unions and profit sharing are supported in the literature, for example Festing et al. (1999) found that unions were negatively related to both AESOS and profit sharing whereas Kruse (1996) found that trade unions are more common in companies with employee share ownership and less present in companies offering profit sharing. However whilst our findings find support in the general literature they are quite noteworthy from the perspective that trade unions in Ireland have broadly supported the introduction of such financial participation schemes. So in effect what we find is that at a policy level trade unions are favourably disposed towards financial participation schemes but the empirical evidence demonstrates a negative relationship between trade unions and such schemes. One possible explanation for this is that the two schemes (profit sharing and share options schemes) that have a negative association with trade unions are also the two schemes that are less likely to apply to all categories of workers. Also, trade unions negative relationship with profit sharing schemes may be explained by their dislike for the downside flexibility of total remuneration associated with such schemes. And so it may not be a case of MNCs being against financial participation *per se,* but rather the critical issues are the type of scheme and who it applies to. It must also be noted that our findings of negative relationships between trade unions and financial participation schemes are consistent with previous studies which found that unionisation was negatively associated with the presence of a profit sharing scheme (Authors 2004; Authors, 1998).

The only independent variable which did not show up as a significant predictor of the financial participation schemes was sector. As noted earlier a considerable body of literature points towards companies operating in the financial and business services sector as more likely to have financial participation schemes, however MNCs operating in this sector did not show up as statistically more likely to have such schemes in our analysis. Indeed our finding of no sectoral impact is not unusual as for example Pendleton et al. (2001) found that none of the sectoral dummies were significant in their regression analysis, despite earlier cross-tabulation analysis suggesting financial participation schemes were more likely to be found in the finance and business services sector. Using sector as a proxy for capital intensity we find no support for the argument that capital intensive companies are more likely to have financial participation schemes – of course this is based on the assumption that our sector variable is an adequate proxy for capital intensity which may or may not be the case.

As noted earlier, Ireland boasts a favourable regulatory framework which incentivises the use of financial participation schemes in companies operating in Ireland. Notwithstanding this our findings demonstrate that there are a range of company characteristics that help to explain the presence of financial participation schemes. Factors such as age, structure of ownership, country of origin, trade unions, and size all had varying impacts on the presence of the three financial participation schemes. Thus this paper makes both an empirical and theoretical contribution to the study of financial participation schemes within MNCs operating in Ireland. Its empirical contribution is noted by profiling the incidence of different financial participation schemes within MNCs operating in Ireland and identifying factors that determine such schemes. The paper also makes a theoretical contribution in relation to the impact of country of origin effects on employment practice within MNCs. Whilst country of origin emerged as a factor in explaining financial participation schemes, these effects were somewhat at odds with what you would expect.

The findings from this paper identify a number of issues which are worthy of further investigation. These include:

- More qualitative, in-depth case study analysis of the impact of country of origin effects in relation to financial participation. As noted above, the country of origin effects found in our analysis appear contrary to what you might expect and further analysis may offer some explanations. The ‘within cluster’ variation is a particularly interesting angle that requires further enquiry.
- Further investigation as to the reasons why newer MNCs are less likely to offer financial participation schemes. A number of observations were noted above, but these explanations lack empirical investigation and would benefit from further analysis.
- Further investigation into the relationship between trade unions and financial participation schemes. Again we made a number of explanations as to why the trade union variable had a negative effect on financial participation schemes yet at policy level many trade unions support such schemes. An analysis to reconcile these findings would be useful and welcomed.
- Whilst this paper has looked at variation between MNCs with regard to financial participation, an area worthy of further investigation is variation within MNCs, i.e. explore the incidence of financial participation schemes within the same MNC across its subsidiaries in different countries. This research would make a valuable contribution to the body of work on MNCs that explores the transfer of practices within MNCs. This type of analysis would inform debates around the impact of home versus host country business system, specifically as it relates to financial participation. For example financial regulation and laws and culture within a host business system may have a greater impact on the incidence of financial participation schemes among MNCs than the impact of the MNCs home country influences or their willingness and capacity to transfer financial participation schemes across subsidiaries.

Tables and Figures

Table 1 Financial participation schemes in Ireland (CRANET data 1999)

	1992		1995		1999	
	Employee share ownership	**Profit sharing**	**Employee share ownership**	**Profit sharing**	**Employee share ownership**	**Profit sharing**
Managers	41	20	33	29	34	25
Prof/technical	21	14	14	22	27	24
Clerical	16	14	14	20	15	23
Manual	16	13	12	16	12	18

Source: Pendleton et al. (2001)

Table 2 Details of the Latin and Germanic clusters according to country

Latin cluster	Germanic cluster
France (7)	Germany (19)
Belgium (5)	Switzerland (10)
Italy (3)	Netherlands (9)
Spain (1)	Denmark (3)
	Finland (2)
	Sweden (2)
	Austria (1)
	Norway (1)

Table 3 Incidence of financial schemes

Financial scheme	%
No financial participation scheme	34%
One financial participation schemes	29%
Two financial participation schemes	25%
Three financial participation schemes	12%

(n=259)

Table 4 Financial participation schemes by category of employee

Category of employee	Approved employee share ownership scheme (AESOS)	Profit sharing	Share options
LOG	30%	27%	24%
Key Group	35%	35%	40%
Managers	32%	34%	49%

(n varies between 124 and 254 depending on scheme and category of worker)

Table 5 Breadth of financial participation schemes

Type of scheme	Approved employee share ownership scheme (AESOS)	Profit sharing	Share options
All groups	93%	78%	47%

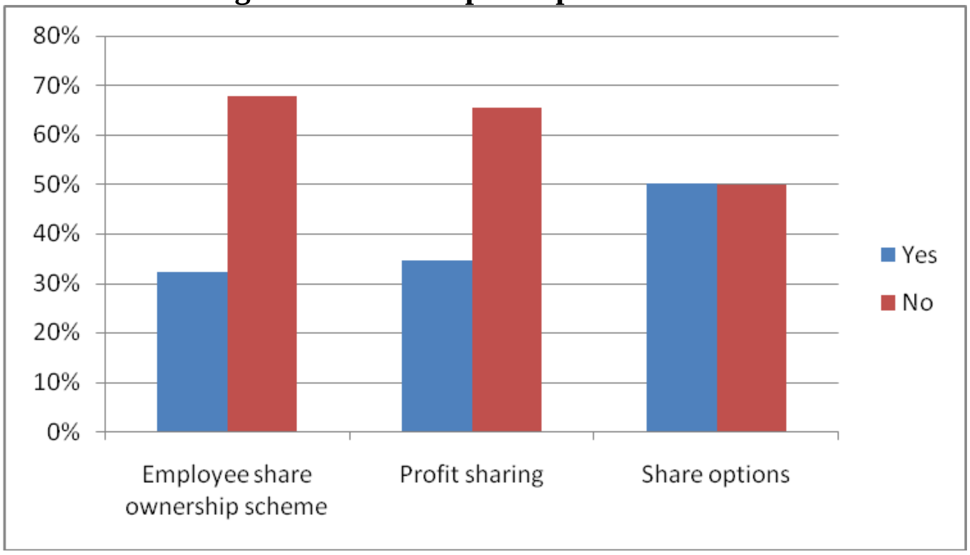
LOG only	-	-	1%
Key group only	-	1%	3%
Managers only	5%	18%	36%
LOG & Managers	-	-	-
LOG & Key group	-	-	-
Key group & Managers	3%	3%	14%

Table 6 Logistical regression results for financial participation schemes

	Approved employee share ownership (AESOS)		**Profit sharing**		**Share options**	
Independent variables[a]	Odds Ratio	Coefficient	Odds Ratio	Coefficient	Odds Ratio	Coefficient
Country of Origin						
Ireland						
US	.915	-.089	.534	-.628	.764	-.269
UK	.783	-.245	1.518	.417	.268	-1.317 *
Latin	.105	-2.256 *	.782	-.246	.304	-1.190
Germanic	.333	-1.099 *	.538	-.619	.224	-1.497 **
Age						
0-10 years						
11-25 years	1.849	.614	2.296	.831	1.610	.476
26-45 years	4.514	1.507 ***	.791	-.234	4.557	1.517 **
46+ years	4.743	1.557 **	2.461	.901	4.234	1.443 **
Irish worldwide employment						
100-499						
500-999	2.587	.950 **	1.180	.166	1.945	.665
1000+	1.489	.398	1.250	.223	1.689	.524
Worldwide employment size						
500-4999						
5000-29999	1.128	.120	1.794	.585	.398	-.922 *
30000-59999	1.570	.451	1.215	.195	1.013	.013
60000+	1.506	.410	1.752	.561	.687	-.376
Ownership						
Shares held privately						
Shares publicly traded	4.181	1.431 ***	2.183	.781 *	25.953	3.256 ***
Trade union recognition						
No						
Yes	1.138	.129	.360	-1.023 **	.300	-1.205 **
Sector						
Traditional manufacturing						
High tech manufacturing	2.215	.795	.893	-.113	1.463	.381
Financial & business services	1.695	.528	.717	-.333	1.357	.305
Retail, wholesale, distribution, hotels, catering	1.473	.387	.624	-.471	1.226	.203
Other	.387	-.949	1.455	.375	.684	-.379

N= 228, 213 and 220 respectively - varies between schemes due to missing data in some variables
Levels of significance: * = 10% level, ** = 5% level, *** = 1% level.
[a] All independent variables are categorical variables.
The reference categories are in italics.

Figure 1 Financial participation schemes



(n = 255, 238 and 246 respectively)

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