Employee Participation and Performance: a cross-national study

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ABSTRACT

This paper uses a large cross-national database covering 32 countries to test the relationship between three different forms of employee participation: direct and representative participation, and financial participation (profit sharing and employee share ownership) and six performance measures. Direct participation is related to operational performance and profit sharing is related to all performance measures, more specific operational and profitability. Representative participation has slight negative relationships with the performance measures while employee share ownership shows no relationship with (financial) performance. Theoretically we explored the diverse voice mechanisms in the context of types of market economies suggesting that there are differences in the configuration in voice mechanisms and its relationship to specified performance indicators. However, the results suggest that there isa unique universal contribution of voice to performance. Practically, the results indicate that it may be relevant to explore the possibilities of profit sharing in combination with direct participation in order to improve performance.

INTRODUCTION

This paper uses a large cross-national database covering 32 countries to test the relationship between three different forms of employee participation and performance. Is there a relationship between greater direct voice for employees, or greater indirect voice through trade union negotiations, works councils or joint consultative committees, or employee participation via employee share ownership or profit sharing schemes and better firm performance? An additional issue is whether institutional differences between market economies may influence voice mechanism and moderate the performance effects.

The paper takes the following form: we outline the potential forms of employee participation and the issues associated with conceptualising and measuring firm performance; then we theorise the links between the two. We present the data that we use to test the potential relationship and the measures and tests that we use to assess that; and we draw out the conclusions and implications for theory and practice from our findings.

EMPLOYEE PARTICIPATION

Employee participation hasa number of faces. One of these is employee participation in decision-making which covers collective bargaining, consultation and various kinds of communication. Another is financial participation, which covers share option schemes and profit sharing schemes. A few papers (Poutsma, Hendrickx and Huijgen 2003; Poutsma, Kalmi and Pendleton 2006; Ligthart, Poutsma and Brewster 2009) have explored the relationship between these three form of employee participation and produced different findings. Ligthart et al. (2009), using the same database utilised here, found that participation varies with economic models and with a variety of demographic factors but that the relationship between employee voice and financial participation is weak. Employee voice and financial participation, except in a small number of specific cases, appear to be independent phenomena.

Neither employee voice nor financial participation is uncontroversial and the topics are plagued by varieties of definitions and unproven assumptions. Employee voice is hotly debated: does the term mean the same thing in different contexts (Gollan 2001)? Are consultative arrangements an attempt to undermine the independent employee voice provided by trade unionism or do they supplement it (Brewster et al., 2007)? Does individual communication undermine collective communication (Lansbury, 1995)? Financial participation is also much debated; it can be narrow-based, restricted to a small number of senior managers, or it can be broad-based, spread throughout the firm (Pendleton et al. 2001). It has been seen as an outcome of successful collective bargaining and as a contribution to keeping the unions out or reducing their influence. It has been seen as an element of wages and as a tool for control.

Direct voice mechanisms

Efficiency is associated with direct forms of participation. Much of the HRM rhetoric is based on the view that conflicts of interest between labour and capital have been overcome. Trade unions and representative participation are seen in some of the HRM literature as irrelevant, illegitimate and ineffective. It was presupposed that employees' representative participation was an obstacle to individual or direct participation. The individual employee became the company's prime resource; human resources should be deployed or managed on the basis of competence, not muscle power, and this competence should be released through greater autonomy. Direct participation may encourage employees to coordinate their work tasks without supervision, thereby saving management time. Joint problem-solving in the production/service delivery may facilitate organizational learning, leading to higher quality human capital and greater efficiency.

However, recent approaches of management towards employee involvement seem perhaps to take a broader approach to representative and direct participation. Research in the UK revealed a new mood towards both state regulation and trade unions among managers, with several adopting the language of 'partnership' (Guest and Peccei, 1998; Gollan 2001). Employee voice through trade unions or direct participation is taken for granted and is considered valuable in so far as it 'added value' to the business organization (Marchington 2001; Ackers, Marchington, Wilkinson and Dundon, 2006).

There are other arguments that suggest a more profitable combination of representative and direct participation. The development of direct participation with its responsible individual autonomy may have had negative outcomes due to a possibility of exploiting individual employees to unhealthy levels; after all stress is becoming one of main determinants for sickness leave. Both employers and employees are seeking collective regulations safeguarding flexibility and security: what Hagen and Trystad (2008) call 'local flexicurity'. Recently, Marsden (2007) suggests the complementary role of collective voice for procedural justice guiding individual employee voice in the development of certain system changes like performance management.

Indirect voice mechanisms

Indirect, representative participation is less likely to be a company initiative than a response to external pressures (e.g. unions) or legal requirements that may force the introduction of representative institutions, such as works councils. However, companies may benefit from representative participation in several ways. Employees may be more likely to accept decisions that they helped to make. Deliberations between employee representatives and management may improve the quality of decisions. Finally, representative participation may improve employee–management relations more generally (Gollan and Markey, 2001).

Indirect voice mechanisms encompass both union-centred and non-union mechanisms and the different forms may co-exist at workplace level. The choices made between the different forms, and between all of them and an absence of voice, are a function of government action, worker desires, union behaviour and employer choice. For employers, all forms of voice may serve as a mechanism for securing industrial peace and/or for promoting productivity and product or service quality. It has been argued that a combination of effective voice mechanisms has the potential to increase employee satisfaction and commitment. For employees, the democratic and existential benefits of having a voice at work have often been rehearsed. There is also evidence suggesting that high involvement workplaces are associated with higher earnings, and this relationship is particularly strong when new forms of participation and involvement are matched by a strong union presence. Thus, the co-existence of different forms of voice secures both existential benefits and higher pay for employees. In other words, there may exist mixed effects on performance; higher labour cost may reduce financial performance, while greater acceptance of decision making may increase operational performance.

However, union voice requires management to give up power, and come to terms with two channels of authority within the firm. The assumption in the USA is that no company would choose union voice or collective bargaining, but these assumptions are less appropriate in the European context. Neo-unitarist 'hard' HRM policies envisage no role for trade unions and attempt to derive the benefits of involvement without conceding collective bargaining, or by marginalising it. These policies are underpinned by views of unions as a market distortion, interfering with what would otherwise be efficient, individual rational choice based, interactions between employer and employee. Hence, a negative effect on performance is expected.

Financial participation

One of the most significant business initiatives in the 1980s was experimentation with employee participation in decision-making within enterprises. At the same time, employers in countries with market economies increased their experimentation with employee financial participation. The concept of sharing profits or other assets with employees is necessarily related to the profit-based private enterprise system; so it is not surprising that the countries in which private enterprise is the strongest are generally the countries where financial participation has flourished (Poutsma, 2001). The most obvious examples are the USA and the UK, where profit-sharing, gain-sharing, savings plans, share-based plans and employee share ownership plans (ESOPs) have become relatively widespread on a voluntary basis, with some government encouragement through tax laws. In continental Europe, employee financial participation has been more influenced by government policies attempting to encourage asset accumulation, a wider distribution of the ownership of capital or profit-sharing (Poutsma 2001). In part, the growing privatisation of State-owned companies has contributed to wider employee ownership.

The wide range of financial participation schemes that exist can be classified into the following broad generic categories, which may co-exist and/or overlap: Profit-sharing and Employee share/stock ownership. Profit-sharing, in the strict sense, means the sharing of profits between providers of capital and providers of labour, by giving employees, in addition to a fixed wage, a variable part of income directly linked to profits or some other measure of enterprise results (past performance). Contrary to traditional bonuses linked to individual performance, profit-sharing is a collective scheme applied to all or to a large group of employees.

Employee share ownership provides for employee participation in enterprise results in an indirect way (on the basis of participation in ownership), either by receiving dividends or by the appreciation of employee-owned capital, or a combination of both. While such schemes are not directly related to company profits, they are related to company profitability and so enable participants to gain indirectly from the company's added value (future performance).

The main reasons for adopting a financial participation scheme differ. Profit sharing schemes appear to be adopted mainly for the shorter term productivity effects that they may deliver. Employee share ownership plans appear to address longer term objectives such as alignment and more commitment to company goals, while schemes that offer options may provide both productivity and retention of employees (Poutsma and Van den Tillaart, 1996). It must be noted that in many cases profit shares and shares or options are not evenly distributed among personnel. These schemes are much more focussed on key personnel and even in case of broad eligibility schemes may have a distribution pattern related to salary levels.

Various reviews of the empirical evidence (Doucouliagos, 1995; Jones et al., 1993; Kruse and Blasi, 1997; Kruse et al. 2004) conclude that complementarities between financial participation and other forms of participation have a beneficial impact on productivity and performance outcomes. The study of Kruse et al. (2004) found that employee ownership and direct participation enhances peer control of shirking behaviour of co-workers, an important 'solution' for the free rider problem.

There are two notable research results that shed another light on the complementarities. Robinson and Zhang (2005) found little evidence to support the notion that an employee share ownership contributes to the protection of valuable human capital; instead they re-emphasize the influential and independent role that ESO plays. Of the participative arrangements analyzed, only the size of trade union membership provided any, albeit statistically weak, evidence that it may complement the workings of employee share ownership. In this regard, trade unions may strengthen the perceived 'weak' voice and control element of employee share ownership as well as provide broader safeguards in terms of wages, working conditions and employment stability, which are required if these valuable investments in human capital are to be made. Another research project that casts some doubt on complementarity between financial and other forms of participation is from Kalmi, Pendleton and Poutsma (2005). They used a variable seldom used in this research but highly relevant, that is, the level of participation in equity based plans. When introducing this variable in the equation, higher participation in equity-based plans, but not in profit-sharing, is found to be associated with more successful outcomes. None of the other forms of employee participation was found to contribute to the success of financial participation. The main message from this research and that of Robinson and Zhang, is that the effects of financial participation develop more or less independently of other forms of employee participation.

FIRM PERFORMANCE

As with the definitions of HRM, little consistency exists about the definitions of performance. A first question concerns whether the organization's own measures are accepted, rather than, say, some measure of employee or public good. Among the most common performance measures used are profitability, productivity and service quality, usually separately. However, they have also been combined into a composite measure. Finally, studies from other disciplines demonstrate a significant relationship between such measures.

What limited theory is available is usually based around the sustainability, survival or success of the organization. This may be measured in simple financial terms, but scandals like Enron and Worldcom have shown that such measures are complicated and cannot always be relied upon. Looking across national boundaries complicates the picture even further. Accounting standards are still emerging in some countries or they differ from country to country. In some countries, no centrally collected financial information is available. Furthermore, organizations in some countries may be less fundamentally concerned with profit; financial experts will work to show high profits in countries where the stock market is strong and low or no profits where the stock market is weaker and the only effect of declaring large profits would be a large tax bill.

To overcome such problems, researchers have used perceptual measures. Subjective measures of performance from high-level employees correlate well with objective measures since perceptions of people at the top of organizations tend to be dominated by the same financial considerations captured by objective measures (Wall et al., 2004). Thus, for cross-national and cross-industry studies subjective data on performance may be preferable (Lahteenmaki, Storey and Vanhala, 1998).

Like Delaney and Huselid, (1996), we combined several items since this provided a more general test of performance and, in other studies, such measures showed high correlations among each other. Taking stock of the field we focus on several relationship of voice mechanisms on performance, since much of the 'bundles' literature has included forms of involvement as one of the main elements of a high performance work system. We include in the analysis several measures of performance. To avoid the line of sight problem in the relationship between some of the voice mechanisms we divided the performance measures in two clusters: operational performance and financial performance. We expect that direct participation is related to operational performance while financial participation, and especially employee share ownership, may be related to financial performance. Indirect participation may have mixed effects on both. Since nation states will differ in the development of voice mechanisms we included in the analysis type of market economy (liberal and coordinated).

METHODOLOGY

The relationships are tested using multi-level modelling techniques on the company-level data from the multinational Cranet survey 2004. Cranet is an ongoing, collaborative network of HRM researchers from a wide array of countries. In the survey, senior HRM practitioners were asked to respond on items that operationalised HRM policies, practices and performance in the organisation. Organisations participating in this survey broadly matched the economy of each country involved (for a detailed description of the sampling procedure, see: Brewster et al., 2004). For this study, organisations were excluded from further analyses if they were: (a) public or semi-public, and (b) employed less then 100 employees. Response rates for the individual countries varied between 12 and 35 percent, acceptable for full population surveys, and analyses indicate no non-response bias.

For each type of financial participation we assess the extent to which it is offered across the company distinguishing between narrow-based (offered exclusively to managers) and broad-based financial participation. Representative participation is measured by the presence of a joint works council in the company and the company's recognition of trade unions representing employees in collective bargaining agreements. Direct participation is measured with respect to three domains of participation: on issues of strategy, financial performance, and organisation of work. A company's score on each domain depends on the number of the employee groups included in employee briefings on these topics. The scores for each domain range from 0 to a maximum of 4 given the four employee groups available in the Cranet survey. In addition, the level of bargaining (centralised or decentralised) is included in the analysis expressing the possible conjunction with increased direct participation under the framework of decentralised bargaining and the possible impact on performance.

The performance measures consist of 6 performance indicators: service, productivity, profitability, innovativeness, stock-market and gross-revenue. These are relative measures, i.e. the performance is rated against the average in the sector. We combined several indicators: general performance based on all six indicators, operational performance based on service, productivity and innovativeness, and financial performance based on the other three indicators. We conducted two dichotomisations on these indicators, i.e. based on top 50% and top 10% performance categories. Reliability analyses results in acceptable levels of internal consistency (Cronbach's Alpha) when the general business performance and operational performance are based on top 10% performance category division and the financial performance is based on top 50% performance categories division.

We note the varieties of capitalism debates and distinguish, based on the country in which the organisation is located, the relevant type of market economy: LMEs and CMEs, the Nordic, Mediterranean economies and a fifth category Others with two remaining Asian countries.

The study also includes some corporate characteristics as control factors: sector of operation, based on the EU NACE categories (Industry), the (logarithm) number of employees (lnSize), the company's stock market listing, the (multi)national character of the company, and the proportion of unionisation of the employees.

FINDINGS

Table 1 presents the main findings for the combined measures. We also analysed the relationship between voice mechanism and each individual performance measure, not presented here, but this does not change the overall picture. In addition we added several interaction terms (not presented here, available from authors) but that does not change the overall pattern much; only the negative effect of representative participation changed to insignificant.

The findings are straightforward and, linked with other analyses based on the same data, clarify a number of relationships. This means that the findings show that as expected direct participation is related to operational performance (Brewster et al 2007) and that profit sharing is related to all performance measures, more specific operational and profitability. Representative participation has slight negative relationships with the performance measures while employee share ownership shows no relationship with (financial) performance. From the control variables it is noted that unionization has a slight negative effect but this appears to be mainly on the indicator of gross revenue.

Table 1 Voice and performance; Odd ratio's for voice determinants

Determinants		general performance	operational performance	financial performance
Direct Participation	Strategy bb Briefings	1.031	1.069	1.009
		(0.0274)	(0.0404)	(0.0255)
	Financial Performance bb Briefings	0.983	0.972	0.996
		(0.0289)	(0.0422)	(0.0518)
	Organisation of Work bb Briefings	1.047	1.072*	1.065
		(0.0264)	(0.0365)	(0.0416)
MarketEconomy	LME (reference category)			
	CME	0.851	0.948	0.781
		(0.283)	(0.206)	(0.217)
	Mediterranean	1.311	1.572	0.965
		(0.392)	(0.561)	(0.252)
	Nordic	1.085	1.171	1.081
		(0.369)	(0.276)	(0.226)
	CEE	0.886	0.958	0.766
		(0.286)	(0.0854)	(0.208)
	OtherME	1.585	3.555*	0.543
		(0.779)	(2.051)	(0.222)
Representative Participation	no JWC and drecTUCB (refcat)			
	only JWC or drecTUCB	0.810*	0.789*	0.758*
		(0.0822)	(0.0737)	(0.0886)
	both JWC and drecTUCB	0.781*	0.820	0.717*
		(0.0885)	(0.109)	(0.110)
	missing JWC or recTUCB	1.055	0.940	0.957
		(0.161)	(0.162)	(0.131)
Collective Bargaining	national/ regional coll bargaining	0.928	0.888	0.932
		(0.0405)	(0.0689)	(0.0471)
	corporate/ site coll bargaining	0.987	0.949	0.952
		(0.0313)	(0.0441)	(0.0337)
Financial_Participation				
Employee Share Options Schemes	no ESOS (refcat)			
	narrow_based ESOS	0.883	0.840	0.939
		(0.0857)	(0.141)	(0.0969)
	broad_based ESOS	1.007	0.938	1.106
		(0.0849)	(0.0940)	(0.107)
Profit Sharing Schemes	no PS (refcat)			
	narrow_based PS	1.315*	1.488*	1.370*
		(0.142)	(0.234)	(0.205)
	broad_based PS	1.273**	1.303**	1.395**
		(0.0993)	(0.129)	(0.170)
Corporate_Characteristics				
(multi)nationals	Multinationals	1.176*	1.092	1.193**
		(0.0779)	(0.0877)	(0.0815)

Determinants		general performance	operational performance	financial performance
Industry				
	Manufacturing (refcat)			
	Construction	0.949	0.899	1.626
		(0.150)	(0.218)	(0.429)
	Transportation	0.998	1.187	0.845
		(0.155)	(0.194)	(0.176)
	Banking and finance	1.178	0.958	1.212
		(0.140)	(0.112)	(0.187)
	Chemicals (energy; non-energy)	1.159	1.029	1.505*
		(0.146)	(0.181)	(0.280)
	Other industries (eg services)	1.100	1.200*	0.874
		(0.0865)	(0.0917)	(0.0873)
Size	lnSize	1.144***	1.112	1.189***
		(0.0322)	(0.0638)	(0.0461)
StockListing	Indicated	2.104***	1.353**	1.602***
		(0.149)	(0.146)	(0.145)
Unionization	Proportion	0.997*	0.998	0.995***
		(0.00131)	(0.00215)	(0.00109)
		2986	2986	2986
Exponentiated coefficients; Standard errors in parentheses ="* p<0.05 ** p<0.01				
Bb= broad based				

CONCLUSIONS, LIMITATIONS AND IMPLICATIONS

Before outlining the conclusions and implications of this research it is worth noting some of the limitations of the analysis. Perhaps generally, but certainly in cross-national research, simple measures of firm performance, such as profitability, are inappropriate. We have therefore taken a broader definition of firm performance: obviously there are a myriad ways that we could have weighted the different elements of that and these might have impacted the results. However the overall pattern and the fact that the relationship with the six individual performance measures does not change this pattern shows, we think, that the use of our indicators is a fruitful contribution to the research in this domain.

The measures that we used for firm performance are perceptual, but there is now an increasing body of evidence that if the data is drawn from senior, knowledgeable people, as this survey was, then there is a close correlation between perceptual and hard data – in other words they are accurately aware of the performance of their organisation.

The survey methodology leaves us open to issues of common method bias and of attempting to establish linkages that would inevitably have a time-lag with cross-sectional data. We believe that the fact that the respondents were senior officials who only had responsibility for the participation aspect of the correlations reduces the common method issue and we have been careful to discuss correlations and not draw causal connections. Future research should attempt to collect data from more sources within the organisation and to utilise panel data.

Despite these limitations, the conclusions of this research are clear. They have implications for theory and for practice. Theoretically we explored the diverse voice mechanisms in the context of type of economies suggesting that there are differences in the configuration in voice mechanisms and its relationship to specified performance indicators. However, the results suggest that there is a unique universal contribution of voice to performance. Practically, the results indicate that it may be relevant to explore the possibilities of profit sharing in combination with direct participation in order to improve performance.

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