

Improving Performance, Sharing the Gains

Guidance for Employers and Unions on
Employee Financial Involvement

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Foreword

The new social partnership agreement, *Towards 2016*, renews the focus on workplace relations and the opportunities for employers, employees and trade unions to work together for the mutual benefit of organisations and their staff.

Towards 2016 also identifies Employee Financial Involvement (EFI) as a key workplace practice and one that requires urgent further action. This report — *Improving Performance, Sharing the Gains* — represents a response to that call for action by providing an agreed approach to the practical implementation of Employee Financial Involvement in Ireland.

It describes in detail different types of EFI schemes that are available, explores the potential of each one and provides a series of practical guidelines to support and facilitate employers and unions wishing to put such schemes into practice in Irish organisations.

It also sets out the business case for employers and employees. For employers, there is evidence that Employee Financial Involvement supports improvements in productivity, performance, the culture of the organisation and employer/employee relations. For employees, there are tangible monetary and financial gains, but also intangible gains linked to work satisfaction, involvement, responsibility and career development and learning.

We now have, for the first time in Ireland, a National Workplace Strategy. The Strategy provides a comprehensive analysis and overview of the role of the workplace in determining how we respond to domestic and international pressures to compete and innovate. In the context of Employee Financial Involvement, the National Workplace Strategy highlights EFI's critical importance as part of a broader approach to partnership and participation.

Improving Performance, Sharing the Gains also represents a further deepening of the social partners' commitment to partnership in the Irish workplace. The guidelines that have been agreed represent a shared vision of the potential future role of EFI, and the steps necessary to implement such schemes in practice.

It is important to note that this report does not reflect completely the policy positions of either ICTU or IBEC in relation to all aspects of Employee Financial Involvement, but is nevertheless fully supported by both organisations.

This report is the result of close co-operation and collaboration between the members of the EFI Working Group: Liam Berney (ICTU), Liam Doherty (IBEC), Katie Connolly (IBEC), Sean Heading (TEEU), Blair Horan (CPSU), Eugene Kearney (SIPTU), Brendan McGinty (IBEC), Jerry Shanahan (Amicus), Paul Sweeney (ICTU) and Larry O'Connell (NCPP Secretariat). The report also benefited from the

advice and guidance of Noel Cahill (NESC), Marie Bourke (Forfás) and Tom Neville (consultant). Collectively and individually, they deserve our sincere thanks.

The initial research underpinning the report and the final preparation of the document were generously guided and informed by staff from the Personal Income Tax Branch of the Revenue Commissioners. We would also like to thank the individuals at each of the companies who co-operated so generously in the research that made *Improving Performance, Sharing the Gains* possible.

Finally, thanks to Conor Leeson and Julia Kelly (NCPP) for editing and proofreading the report and for overseeing the production process.

A handwritten signature in blue ink that reads "Peter Cassells". The signature is written in a cursive style with a large, sweeping flourish at the end.

Chairman
National Centre for Partnership and Performance

A handwritten signature in blue ink that reads "Lucy Fallon-Byrne". The signature is written in a cursive style with a long, sweeping flourish at the end.

Director
National Centre for Partnership and Performance

SECTION ONE

Employee Financial Involvement: New Momentum

The momentum behind Employee Financial Involvement (EFI) in Ireland is building. Employers and unions alike are committed to developing practical models and assisting practitioners to establish, maintain and develop schemes for Employee Financial Involvement.

In *Towards 2016*, Government and the social partners agreed that the NCPP, in conjunction with IBEC/CIF and ICTU, would “bring to conclusion revised guidelines on employee financial participation”, within 12 weeks of ratification of the agreement.

This report presents those guidelines. It focuses on five kinds of EFI scheme currently in operation in Ireland, and the guidelines contained therein are based on intensive consultation with relevant professionals and with managers and employee representatives across a range of Irish companies.

The objective of the report is to help practitioners to improve business performance and the rewards available to employees. The report describes the five

schemes and summarises the perceived advantages and disadvantages of each. The report treats each scheme on an individual basis. The choice of scheme to implement is a decision which must be left to companies and unions within individual workplaces.

However, while the report is not a policy document, it is designed to enable and support policymakers in their deliberations. Its critical contribution in this regard is to provide greater transparency and clarity regarding the operational mechanisms involved in all five schemes.

The report is produced at a time when there is growing recognition among policymakers in Ireland, and in Europe, of the need to address and consider the broader question

of how schemes might be improved and customised to suit the changing requirements of organisations and employees.

The Enterprise Strategy Group (ESG) and the National Competitiveness Council (NCC) have both identified the importance of encouraging greater levels of Employee Financial Involvement and in particular the development of schemes suited to the specific needs of smaller businesses. There is clear recognition that barriers exist to development and diffusion of all schemes.

The Government and the social partners agree that barriers to the development of all forms of Employee Financial Involvement must be re-examined, with particular consideration afforded to the question of taxation

and Gainsharing. In fact, the National Workplace Strategy contains a specific recommendation to address this issue. It states that:

Operational concerns and perceived barriers to all forms of Employee Financial Involvement must be identified through research and consultation. The issue of taxation in relation to Gainsharing is one of a number of areas that must be examined in this context.

*National Workplace Strategy —
Recommendation 16*

Responsibility for follow-up action to implement this recommendation was assigned to the Department of Finance, NCPP, Forfás and the social partners. To this end, Forfas has recently completed a major analysis of the ways in which EFI might be extended in Ireland. In particular, its research looks at the needs of small businesses and high-potential start ups.

In the broader EU context, the European Commission believes that Employee Financial Involvement is vital for the creation of a more innovative and entrepreneurial climate within organisations. The Commission has developed a set of general principles highlighting the core elements which characterise most Member State schemes and policies, reflecting a general consensus at European level regarding best practice. These principles are outlined in Section 4.

Structure of the Report

Section 2 summarises national and international research in order to highlight the potential benefits associated with Employee Financial Involvement.

Section 3 describes each of the schemes. The five schemes covered are:

- Approved¹ Save-As-You- Earn Schemes (SAYE)
- Approved Share-Option Schemes (ASOS)
- Gainsharing
- Approved Profit-Sharing Schemes (APSS)
- Approved Employee Share-Ownership Plans (ESOPs)

Drawing on a number of sources, including IBEC, ICTU, the Revenue Commissioners and the European Commission, this section provides a template outlining ways to establish and maintain each scheme, as well the advantages and disadvantages of each.

The report also draws on the experiences of practitioners — both management and union representatives. Eight companies discussed their experiences with 13 different schemes. Interviews were conducted with management and union representatives in each of the companies. The companies and schemes in use at the time of the research are listed in Appendix 2.

Although the practitioners' experiences inform the guidelines, the report does not provide detailed case studies. Aspects of company practice are highlighted to illustrate key operational aspects for each of the schemes. In practice, schemes should be tailored to suit the particular circumstances within an individual company.

Finally, section 4 identifies EFI resources and reference material currently available to employers and employees in Ireland.

¹. 'Approved' indicates that approval from the Revenue Commissioners has been received for operation of the scheme.

SECTION TWO

National and International Evidence

Employee Financial Involvement (EFI) is an umbrella term that describes a company-based scheme designed to provide groups of employees with additional income based on the performance of their organisation: employees receive a financial or equity share in their organisation. The payments or bonuses can be linked to profits or other more operational measures. There are various forms of EFI, including Gainsharing, profit sharing, share-ownership, work-related savings schemes or various combinations of these schemes.

National and international research illustrates that EFI enhances competitive advantage and creates a very dynamic role for employees, as well as delivering financial gains. The research clearly indicates that EFI has the potential to make a real difference to organisations and to employees.

This section draws on work ongoing at the National Centre for Partnership and Performance, and in particular on work carried out for the Forum on the Workplace of the Future. It also examines a number of important international studies in this field.

Table 1 Percentage of Companies using EFI in Ireland by Sector

Sector	% companies with a scheme in place
Traditional Manufacturing	14.9
High-Tech Manufacturing	17.6
Construction	6.1
Distributive Services	10.4
Finance/Business Services	29.2
Hotels/Restaurants/ Transport/Other Services	11.1
Overall	14.4

Source The Changing Workplace: A Survey of Employers' Views and Experiences, Forum on the Workplace of the Future, Research Series, No. 3, ESRI/NCPP 2004.

Table 2 Percentage of Companies with EFI Schemes by Company size

Number Employed	% companies with scheme in place
0-9	13.5
10-19	14.1
20-49	14.1
50+	32.7

Source The Changing Workplace: A Survey of Employers' Views and Experiences, Forum on the Workplace of the Future, Research Series, No. 3, ESRI/NCPP 2004.

2.1 Irish Research

As part of the Forum on the Workplace of the Future, a nationally representative sample of employers was asked about their usage of progressive work practices such as Employee Financial Involvement.²

Employers were asked if they had an EFI scheme in place. The findings showed that just over 14% had some type of scheme in place. Table 1 shows the variance across different industrial sectors, with almost 30% of employers in financial services reporting schemes in operation, but only 6% in construction.

It is also clear that the incidence and usage of schemes varies according to the size of the company. Table 2 shows that larger companies are more likely to have schemes in place. However, it is important to note that 1 in 6 small companies reported that they have a scheme.

2. This national survey, conducted by the ESRI and the NCPP, examined the experiences of 1,498 senior managers in the commercial sector. Carried out in 2003, the survey focused on internal and external pressures, business priorities, organisational change and future challenges. The question on Employee Financial Involvement asked: 'Are the following types of employment practice being implemented - 'profit sharing/share options/Gainsharing for employees?' It did not ask specifically about SAYE schemes.

3. The Changing Workplace: A Survey of Employees' Views and Experiences, Forum on the Workplace of the future, Research Series No. 2, ESRI/NCPP 2004.

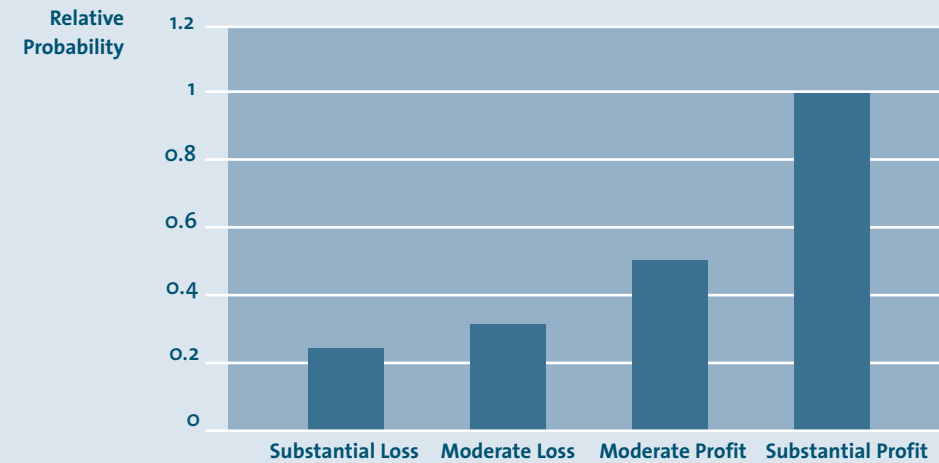
The Forum also undertook research among 5,000 employees relating to their attitudes to, and experience of, change in the workplace.³ The findings provide additional insight on Employee Financial Involvement in Ireland.

Among employees who reported that schemes were available in their workplace, 73% stated that they were personally involved. This suggests that EFI schemes in operation in Ireland have broad coverage.

There are other sources of data that provide a more detailed picture in relation to specific EFI schemes. The Revenue Commissioners provide some breakdown in relation to approved schemes. The most recent figures available show that, in November 2006, there were:

- 482 Approved Profit-Sharing Schemes (APSS)
- 110 Approved Save-As-You-Earn Schemes (SAYE)
- 32 Approved Share-Option Schemes (ASOS)
- 10 Employee Share-Ownership Plans (ESOPs)

Figure 1 Probability of using EFI at different profit levels



There is also some specific information on Gainsharing: surveys estimate that between 4% and 7% of companies have Gainsharing programmes in place.⁴ In addition, SIPTU represents workers in 100 companies that have used Gainsharing.

The ESRI/NCPP workplace survey examined the impact of EFI schemes on business performance. The results show that companies which are performing well are

more likely to have EFI schemes in place. In fact, a company making substantial profits is four times more likely to have an EFI scheme in place than a company that is making losses (see Figure 1). It should, however, be noted that the use of EFI is not necessarily the sole cause of improved performance.

Even when one allows for the impact of sector, size and foreign ownership, it remains the case that EFI is strongly and significantly

4. IBEC HR Surveys (2002 and 2004) and McCartney & Teague (2004)

linked to business profitability. In the research conducted, no other employment-related practice was so clearly linked to profitability.

The potential for additional income is the key benefit for workers. However, the research found evidence that EFI schemes are also linked to higher levels of job satisfaction and lower levels of stress.

2.2 International Research

Studies and examples from abroad indicate that, if introduced in the right way, Employee Financial Involvement can enhance the productivity, competitiveness and profitability of enterprises, encourage greater worker involvement, lead to higher levels of earnings, improve the quality of work and contribute to greater social cohesion (European Commission, 2002).

Table 3 provides a summary of the key studies that have quantified the gains. The weight of international evidence confirms Irish findings that schemes for EFI have significant potential.

In a major review of studies conducted in France, Germany, Italy, the UK and the US, the OECD found higher productivity levels in every case where profit sharing was introduced (OECD 1995).

2.3 Delivering the Gains

The gains associated with EFI are not automatic. Critically, across the international and domestic evidence studied, EFI is linked with higher performance effects when it is implemented in parallel with a range of other employee-involvement practices. In other words, linking employees' financial rewards to productivity improvements works best when employees have more say and influence over these outcomes.

In a review carried out for the National Economic and Social Council (NESC), Noel Cahill argues that, in both the UK and US research, strong claims are made that EFI is most effective when combined with other forms of employee involvement (Cahill, 2000). For example, a study of 45 companies in the US showed that the performance of each

varied significantly before and after the introduction of an Employee Share-Ownership Plan. Further, sales and employment growth in these companies, relative to five or more companies of similar size and sectoral activity, increased by 3-3.5 %. The key characteristic associated with this improved performance was the level of employee involvement (Quarrey and Rosen, 1997).

In a similar study in the UK, the experience among 54 companies with a strong commitment to partnership suggests that new work practices deliver greater benefits to organisations and employees when financial involvement is included (Guest and Peccei, 2001).

Table 3 International Research Studies on Employee Financial Involvement

Impact	Study	Source
3–5% increase in productivity	US and UK survey work on profit sharing	Kruse (1992) and Wadhvani and Wall (1990)
Share price growth double average between 1992 and 1999	UK study of companies with 10% employee ownership	Quarrey and Rosen (1997)
3–3.5% higher sales and employment	45 ESOP companies in the US	Conte and Svejnar (1990)
19–32% increase in productivity	Profit sharing: 52 German engineering firms	Blasi et al (1996)
Productivity differential of 30%	Share ownership: companies where employees held at least 5% of stock	Industrial Relations Services (1996)
Employee reward 3% of salary	Gainsharing case: Owens Corning (UK)	Jones and Kato (1995)
Productivity improved by 5%	US and Japanese studies of ESOPs	Kim (1996)
Cumulative productivity gain of 17% by year 3 of scheme	US study of Gainsharing at 100 companies	www.nceo.org

Step-by-Step Guidelines to EFI in Ireland

Successful Employee Financial Involvement is contingent on choosing the scheme that is most appropriate to the specific circumstances of a particular organisation. The exact competitive context, performance objectives, ownership and governance structure, needs of employees, employer/employee and union relations, tax and other incentives, national regulations and current trends – all will heavily influence the final choice of scheme or schemes.⁵

It is important that employers and employees are fully aware of the diversity of schemes that exist. This section examines five schemes which are important in an Irish context. Many of the schemes have detailed legal and financial regulations that govern their operation. These are not described in any great depth, nor indeed should this report be relied upon as a primary source for that information. The Revenue Commissioners should be approached directly for the detailed rules that govern any Revenue-approved scheme.

There are also a number of difficulties that arise for private or unquoted companies, many of which are also small companies, in

relation to Employee Financial Involvement in general, and to APSS, ASOS, SAYE and ESOPs in particular. These include the perceived administrative burden, concerns around disclosure of information and the determination of share price and market value. Even in a private or unquoted company, it is possible to determine a nominal share price and market value. In approved schemes, agreement must be reached with Revenue Commissioners on the valuation of shares.

This section draws on the experience and expertise available within IBEC and ICTU. Both organisations provide assistance (to employers and unions, respectively) in the

area of Employee Financial Involvement. The section also draws on the experience of practitioners, both management and employee representatives, to help to illustrate various aspects of the schemes.

The section looks at each of the five schemes in detail and considers the following issues:

- Definition and overview
- Establishing the scheme
- Maintaining the scheme
- Advantages and disadvantages

⁵ For a full review of the issues that may arise, especially for a company operating in more than one country, see the EU's High-Level Report on Obstacles to Financial Participation of Employees (EU, December 2003)

3.1 Approved Profit-Sharing Scheme: Definition and Overview

The aim of an Approved Profit-Sharing Scheme (APSS) is to encourage share ownership at all levels within an organisation and to support effective employee involvement in business improvement.

In an APSS, performance criteria and appropriate indicators are set, based on pre-tax profit or some other operational measure. The company then pays each employee on similar terms, based on certain agreed performance indicators. The employee can elect to take their element of the profit share in cash, subject to tax in the normal manner, or in the form of shares in a tax-efficient manner.

In addition, employees can match the employers' contribution by choosing to forego an element of their salary (up to a maximum of 7.5% of basic salary).

Salary Foregone

At Diageo Baileys, an employee can allocate a sum of money from his gross salary every month for 11 months. In the 12th month, that money, as well as bonus money paid to employees, is used to purchase shares in the company. An employee cannot avail of the salary sacrifice scheme without pledging a commensurate amount of his gross bonus.

All eligible employees and full time directors must be eligible to participate in an APSS on similar terms in order to receive approval from the Revenue Commissioners. A scheme cannot be approved if it is only open to certain categories of employees, for example, to full but not part-time employees. A minimum period of service for participants of up to three years may be applied.

'Similar terms' do not necessarily mean that every member of the scheme will get exactly the same APSS bonus. However, it does mean that the formula for calculating each member's bonus must be transparent and non-discriminatory.

There is a maximum limit on the value of shares which may be appropriated to an employee in any one year. This is currently €12,700, measured by reference to the market value of the shares at the date of appropriation. While the shares are held in the APSS, employees are entitled to receive the dividends and any other distributions attaching to the shares which have been appropriated to them. Such monies are considered as taxable income.

After a minimum three-year holding period, no income tax is payable by an employee on the value of shares released by the trustee. However, capital gains tax is payable on any rise in the capital value of the shares, on disposal by an employee of his shares subject to the normal exemptions and reliefs. In normal circumstances, the shares must be held within the trust for at least two years. If, at the request of a participant/employee, the shares are sold by the trustees between the second and third anniversaries of the appropriation date, the employee will be liable to pay income tax on the original market value of the shares appropriated to him/her.

3.1.1 Establishing APSS: Key Considerations

The aim of an Approved Profit-Sharing Scheme (APSS) is to encourage share ownership at all levels within an organisation and to support effective employee involvement in business improvement.

The establishment of an APSS must address a number of key considerations:

- The trust mechanism
- Mechanics of the APSS
- Communication and education
- Resources

Trust Mechanism

A trust which complies with the requirements of the APSS legislation must be established. A trust deed, which is a legal document, must be developed. Trustees must be appointed or elected, and their specific function is to represent the interests of the members of the scheme.

The trustees use the funds to acquire shares in the company, either through a purchase in the market or by way of a subscription to newly issued shares. The trustees appropriate the shares to employees and, at

the end of a holding period, the employees receive the shares without incurring any income-tax liability. Careful consideration needs to be given by the trustees to determine the optimum time to acquire shares, having regard to, for example, the funds available, the price of the shares and the entitlement of employees. Typically, the funds are used to acquire the shares at the earliest opportunity for onward appropriation to employees.

Mechanics of the APSS

A key consideration is the actual design of the mechanics of the scheme. Issues to be decided at this stage include:

- The date on which the scheme will commence
- The performance criteria on which to base the scheme
- The formula for calculating individual bonuses
- The frequency and dates of the payment of bonuses
- The frequency and dates of re-measuring performance

In order to maximise the performance of the scheme, care should be taken at this point to ensure that the APSS is combined with a structured approach to employee involvement in problem solving and decision making within the business.

Communication and Education

As many employees may not have acquired shares prior to the introduction of an APSS, it is critical that the details of the scheme are clearly communicated to employees. A fact sheet or a Question & Answer document, which sets out in simple and clear terms the essence of the APSS, is particularly effective.

Unions play a key role in ensuring that employees fully understand the scheme. The person responsible for administering the scheme in-house should also be available to employees to answer any questions they might have.

It is very important, however, that neither management nor union representatives oversell the APSS, but take care to communicate that, as with any investment, there are associated risks. APSSs are subject to stock-market volatility and this should be communicated and explained to employees.

In order to make informed decisions as to whether to participate in the scheme, employees may need to be provided with some education in the financial area. Financial literacy, including the ability to understand a profit-and-loss account and a balance sheet, is an important competency that should be acquired in order to understand a company's financial position.

It is also worth making employees aware of sources of information to assess developments in the company's sector generally, and the way in which the markets are developing (for example, trade magazines or websites).

Communication

Marks and Spencer hold briefing sessions for small groups to explain exactly what their profit-sharing scheme entails, the link between the profits shared and the purchase of shares for employees, and tax savings. These sessions also focus on explaining the business context. Employees are also briefed near the end of the three-year period on how to sell their shares.

Education

Diageo Baileys developed a financial literacy programme as part of an ADAPT project focusing on how business works and on understanding the basics of financial statements.

Resources

In establishing any scheme of this type, it is important to ensure that adequate resources are allocated from the outset to administer it. This will facilitate its smooth running on an ongoing basis. The scheme should also be jointly assessed and reviewed on an ongoing basis.

3.1.2 Maintaining and Reviewing an APSS

Following the establishment of an APSS, it is important to take action to maintain the effectiveness of the scheme for employers and employees. This will require periodic and systematic operational and strategic reviews.⁶

The operational review should focus on the mechanics of the process, such as formulas, criteria and payouts.

The strategic review should examine:

- The extent to which the scheme is meeting its overall objectives and any changes that might need to be made as a result
- The level of employee understanding and satisfaction with the schemes
- The impact on performance
- The effectiveness of the trust
- Issues around education and resources

The scheme should operate for an agreed initial period before a detailed review is undertaken. This process of review should provide feedback mechanisms through which the views of the scheme's participants can be taken on board.

Maintaining the scheme

At Waterford Crystal, the payment of dividends by the company helps to retain a degree of faith in the APSS scheme on behalf of employees, particularly when the share price is extremely low. The company also arranges a selling service for employees that wish to dispose of their shares through a broker.

⁶ The monitoring and review process for all schemes should lead to appropriate actions where necessary. In practice, these reviews should take explicit consideration of the effectiveness of the schemes both from an organisational and employee perspective. In this sense, there is a strong rationale for a joint review process.

To maintain the scheme, ongoing communication is essential. It is important that company and union information services provide employees with regular updates in relation to the APSS. Newsletters, display boards or company intranet sites all provide an effective way to communicate information about the share price. For example, at Diageo Baileys, the share price is communicated in weekly *Team Briefs* and is also on display in the main reception area of the plant.

3.1.3 Advantages and Disadvantages

This section outlines the key advantages and disadvantages associated with APSS. Table 4 below summarises these.

The most obvious advantage of an APSS is that employees acquire shares in a tax efficient manner.

There are also, however, a number of potential disadvantages which may arise in particular circumstances. There may be issues for unquoted companies in relation to the valuation of their shares, and the need to agree a basis for the valuation with the Revenue Commissioners. While it is not a disadvantage of APSS *per se*, some companies may perceive that the disclosure requirements are too onerous and this can subsequently act as a disincentive to implementation.

Table 4 Advantages and Disadvantages of APSS

Potential Advantages	Potential Disadvantages
Employees acquire shares while minimising income-tax liability	Complications for unquoted companies
Enhanced employee interest in competitiveness and performance	Time lag between purchase of shares and receipt of same
Alternative approach to achieving change in the workplace	Risks associated with any stock market investment
Basis for genuine workplace partnership	
Creates innovative and new relationship among unions and management	
Staff retention	

A perceived disadvantage for employees may be the time lag between the purchase of the shares and the employee actually receiving them, but it must be remembered that the employee does have beneficial ownership of the shares from the date of appropriation. This may be a disincentive for those who have not been involved in share purchases before.

Finally, in a general sense, it is important to reiterate that participation in an APSS, like any investment, is subject to risk and in particular to stock market volatility. It is important that employees understand the nature of an APSS and its dependency not just on company performance but also on stock-market fluctuations.

3.2 Save-As-You-Earn Schemes: Definition and Overview

Save-As-You-Earn (SAYE) schemes are both an effective method of saving and a mechanism for employees to acquire shares in their company. The total amount saved over a period can be used to fund an option to buy shares.

SAYE combines a savings scheme with an Approved Share-Option Scheme. A savings institution operates the savings element. SAYE must be open to all employees on similar terms. The aim is to encourage share ownership at all levels within an organisation, and to increase employee involvement.

The employees enter into contracts with the savings institution to make regular savings for a period of three to five years (a seven-year option is also available, although this is used less frequently). Employees are given the right (called an 'option') to buy shares on some future date, at a price set at the beginning of their savings period. At the expiry of the savings contract, a tax-free terminal bonus is paid to the employees by the savings institution. This, together with the accumulated savings, can be used by employees to acquire shares at the price set at the beginning of the savings contract.

There is no income-tax liability provided the scheme is approved by the Revenue Commissioners. To be eligible for advantageous tax treatment, the scheme rules must comply with the requirements of the tax legislation introduced in the Finance Act 1999.

Where an individual scheme is in place, the fixed contribution must be between €12 (minimum) and €320 (maximum) per month. The price at which shares may be acquired under the scheme must be fixed when the rights to future purchases are granted. The option price may be at market value or at a discount of up to 25% of the market value at the date of the grant, without the scheme losing the approval of the Revenue Commissioners. The option price, the maximum number of shares available for that offer and the savings periods available to employees, must be determined at the time the offer is made to employees. The employees then determine their individual monthly level of contributions to the savings contract and the savings period. Subject to certain exceptional circumstances, the option may typically only be exercised within six months following the bonus date on maturity of the savings contract.

At the end of the savings period, the appropriate bonus is paid. The employee may then choose whether or not to purchase the shares granted within six months. On exercise of the option and payment of the option price (out of the accumulated savings plus interest or bonus), they will receive their shares in the company. Alternatively, if the share price is lower than the predetermined fixed price, the employee may simply take the proceeds of the savings contract, together with tax-free interest or bonus, without taking up the shares and the offer will lapse.

No income tax is payable if the scheme has been approved by the Revenue Commissioners. Deposit Interest Retention Tax (DIRT) is not deductible from interest paid on funds accumulating under a savings contract or on the terminal bonus, which is tax-free. When an employee disposes of the shares he/she has acquired on exercise, he/she will be liable to pay capital gains tax on the difference between the proceeds and the option price, subject to the normal exemptions and reliefs.

Any quoted company (or subsidiary of a quoted company) can design a scheme. Once designed, the company must seek approval from the Revenue Commissioners and select a savings institution (e.g. a bank, building society or credit union) to be the savings vehicle for the scheme.

3.2.1 Establishing SAYE: Key Considerations

The establishment of an SAYE must address a number of key considerations:

- Mechanics of the SAYE
- Communication and education
- Administration and resources

Mechanics of the SAYE

A key consideration is the actual design of the mechanics of the SAYE scheme. The issues to be agreed at this point include:

- The starting date of the scheme
- The discount at which the predetermined share price is set
- The identity of the savings institution involved
- The level of the terminal savings bonus

The decision relating to the purchase price of shares is a discretionary issue, and shares can be offered at a discount of up to 25% of their market value at the time of the granting of the option. At Diageo Baileys and Waterford Crystal, for example, the discount is 20%. The number of shares and the level of the discount⁷ may be influenced by whether the scheme is related to a union/management agreement on issues such as change.

Communication

It is important that the principles underlying SAYE schemes are clearly communicated to employees, as it will for many be their first opportunity to purchase shares. In practice, a fact sheet or a Question & Answer document, which outlines in clear terms how the SAYE scheme works, is a popular method of communication.

It is important to emphasise to employees that, although the purpose of the scheme is clearly to facilitate the acquisition of shares by employees in a cost and tax-efficient manner, they are not compelled to take up any offer to buy shares at a predetermined price. Ensure also that the consequences of

not completing the specified period of saving are set out clearly for employees to consider in advance, i.e. that the level of interest payable is likely to be less and that the option will lapse. The in-house administrator of the programme can be of significant assistance to employees in this regard, dealing with any queries they might have.

As with an APSS, employees considering participation in a SAYE scheme may need to be provided with some education in the financial area.

Administration and Resources

The company should make arrangements for deductions from wages, and for monies to be remitted within the specified timeframe to the designated savings institution. The savings institution must be approved by the Revenue Commissioners.

Finally, a SAYE scheme requires administrative resources from the outset to facilitate its smooth running on an ongoing basis.

7. The Irish Association of Investment Managers has published guidelines relating to the discount factor.

3.2.2 *Maintaining and Reviewing an SAYE*

Following the establishment of a SAYE scheme, it is important to take action to maintain the effectiveness of the scheme for employers and employees alike. This will require periodic and systematic operational and strategic reviews. The scheme should be in operation for an agreed initial period before a detailed review is undertaken.

The operational review should focus on the mechanics of the process, i.e. discounts, share prices and bonuses.

The strategic review should examine the extent to which the scheme is meeting its overall objectives and any changes that should be made. It should consider issues such as:

- Whether the savings institution has provided fair value?
- Has the share price been set at a fair price?
- How many employees have availed of the scheme?
- How many employees (if any) have abandoned the scheme and why?
- The effectiveness of the administrative procedures

The process of review should provide feedback mechanisms through which the views of the scheme's participants can be taken on board.

Review

At Diageo Baileys, an average of about 40% of employees availed of the SAYE scheme at any one point. Levels of interest in the scheme can vary significantly, depending on the share price at a given time. Initially, the savings element of the scheme was based on five years, but after review it was found that the three-year scheme suited employees better because it meant that their money was not tied up in savings for a longer period.

On completion of the scheme, it is important to monitor the numbers that have actually exercised their options within the specified time period. In many cases, it can be advisable for the company to recommend and arrange selling facilities for those who wish to sell their shares immediately upon purchase.

To maintain the scheme, ongoing communication is essential. It is important that company and union information services provide employees with regular updates in relation to the SAYE. Newsletters, display boards or intranet sites all provide an effective way to communicate information about the performance of savings schemes and share price movement.

3.2.3 *Advantages and Disadvantages*

This section outlines the key advantages and disadvantages associated with SAYE schemes. Table 5 below summarises these.

The most obvious advantage of a SAYE scheme is that it encourages employees to save because there is a tax benefit in doing so. It also enables employees to purchase shares in their company at a discount to current market value. There is less risk involved for employees, in comparison with some other EFI schemes, as they do not have to commit to the share purchase until the savings contract matures, at which point they can assess the share value. If the share price exceeds the option price, then the savings can be taken in cash.

There are, however, a number of potential disadvantages which may arise in particular circumstances. From the employee's perspective, the shares have to be purchased rather than being funded by the company, as would be the case in an APSS or ESOP. Employees have to buy the shares using their net, as distinct from gross, pay – even if the shares are purchased at a discount. There is also a limited six-month period at the end of the savings contract within which employees must decide whether to buy the shares or not. Thereafter, the option to purchase the shares lapses.

In a general sense, it is important that neither management nor union representatives oversell SAYE schemes. It provides an option to employees to acquire shares; it is not a requirement to do so. It should be explained that the level of interest or bonus on the savings is dependent on completing the savings contract, as is the option itself. However, the ultimate value of any shares purchased cannot be guaranteed and this should be explained at the outset. It is important that employees understand the nature of SAYE schemes is that, like any other shareholding, the ultimate value of the shares acquired is subject to stock-market fluctuations.

Table 5 Advantages and Disadvantages of SAYE

Potential Advantages	Potential Disadvantages
Encourages saving among employees	Employees are not given the shares
Less risk for employee as savings can be taken as cash	Shares must be purchased from net pay
Enhanced employee interest in company's competitiveness and performance	Limited period at the end of the contract to decide whether to purchase or not
Alternative approach to achieving change in the workplace	Subject to stock-market fluctuations
Tax-efficient method of saving	
Basis for genuine workplace partnership	
Creates new and innovative relationship among unions and management	

3.3 Approved Share-Option Schemes: Definition and Overview

Approved Share-Option Schemes (ASOS) give employees the option of buying shares in their company at a future date, but at a price that is fixed at the outset of the ASOS.

The principal difference between the ASOS and the SAYE scheme is that the former does not have an associated savings contract. Therefore, on exercise of the option, the employee needs the resources to fund the exercise.

Shares are purchased at the option price that is fixed at the start of the scheme. This fixed price cannot be lower than the market price at the time the options are granted. If the market price of the shares increases between the time the options are granted and the time they can be exercised, it is possible for participants to benefit.

Current legislation allows for two types of ASOS. The first, “the all-employees scheme”, grants all employees and full-time directors the right to purchase shares at a price which is not less than the market value of the shares (at the time the right is granted). The shares are made available on similar terms

to all employees and full-time directors, subject to a minimum service period of three years.

Legislation also provides for the possibility of a supplementary “key employees” scheme. This scheme can reserve up to 30% of the total number of shares granted in the ASOS for designated ‘key employees’ in a year of assessment. The legislation states that key employees must have specialist skills, qualifications and relevant experience vital to the future success of the company. In practice’ very few companies have implemented an ASOS with a key employee’s clause and while it is a facility that is supported by IBEC, it is opposed by trade unions.

The share options can be exercised after a specific date, set when the option was granted, or on the death of the option holder. Income-tax relief applies to the acquisition of shares through an ASOS, once the shares are held for a period of three years after the date of grant. It is important to note that the sale of even one share on a grant date before the end of the three-year period would lead to withdrawal of relief for all shares granted on that date. Normal

capital-gains tax rules apply on the sale of the option shares. On subsequent sale of the option shares, the base cost for capital-gains tax purposes is the actual price paid for the shares at the time of exercise.

Finally, it is important to mention that changes in accountancy practice may negatively affect the popularity of share options. Traditionally, companies accounted for share options as an ‘off balance-sheet’ item. However, efforts to improve the transparency of corporate governance mean that options must now be accounted for as a debit on the company’s profit and loss account.⁸ As this would have the effect of weakening the company’s bottom-line position, it may be a serious disincentive for companies to use option-based schemes.

3.3.1 Establishing an ASOS

The establishment of ASOS must address a number of key considerations:

- Mechanics of the ASOS
- Communication and education
- Administration and resources

8. Since January 1st 2005, the International Accounting Standards Board (IASB) has adopted IFRS2, a regulation requiring companies to expense their share options. Privately-held companies operating in accordance with local accounting standards will be covered by the equivalent FRS20.

Mechanics of the ASOS

A key consideration is the actual design of the mechanics of the ASOS scheme. Issues to be decided at this point include:

- Option price
- Determination of the exercise date
- Performance targets
- If it is used then the impact of the 'key employee' element needs to be considered

Options

At Analog Devices, the amount that any one employee may receive in stock options is determined by dividing 10% of their annual base pay (plus shift differential) by the stock price on the grant date, subject to plan limits. Once the options vest (after two years), the employee has the right, but not the obligation, to exercise their option. This option can be exercised for an eight-year period, so the employee can choose the most advantageous time, from their point of view. The scheme and its operating features are outlined comprehensively in a brochure available to all employees.

Communication and Education

It is important that the principles underlying ASOS schemes are clearly communicated to employees. This is particularly important as it may be the first time that many of them have had an opportunity to purchase shares. This can often be done by means of a jointly produced fact sheet, or a Question & answer document, which sets out in simple and clear terms how the ASOS scheme will operate.

In particular, where the granting or, more likely, the exercise of options is linked to performance targets, it is important to ensure that these targets are clear and understood.

In order to make informed decisions as to whether to participate in the scheme, employees may need to be provided with some education in the financial area. Some degree of financial literacy is important in assisting employees to evaluate whether or not they should exercise their options, and whether or not they should retain their shares for a period of time,

3.3.2 Maintaining and Reviewing an ASOS

Following the establishment of an ASOS, it is important to take action to maintain the effectiveness of the scheme for employers and employees alike. This will require systematic and periodic operational and strategic reviews.

ASOS are not overly complex, and decisions made at the outset, pertaining to share price, the basis upon which the options are granted and how these are linked to performance targets, are critical.

The operational review should focus on the mechanics of the process: the appropriateness of the performance targets, the level of employee participation and the movement of the share price. The strategic review should examine the extent to which the scheme is meeting its overall objectives and any changes that might need to be made as a result. It should consider the overall economic performance of the organisation, broader forces influencing share price and levels of employee understanding of, and satisfaction with, the scheme. The review process should provide feedback mechanisms through which the views of the scheme's participants can be taken on board.

3.3.3 *Advantages and Disadvantages*

This section outlines the key advantages and disadvantages associated with ASOS. Table 6 below summarises these.

The most obvious advantage of an ASOS is that it encourages employees to purchase shares because there is a tax benefit in doing so. There is also greater flexibility, as unlike the APSS, the employee chooses the time at which she/he can exercise the option to purchase shares within certain limits.

There is also a number of potential disadvantages which may arise in particular circumstances. Under the ASOS, the shares must be purchased and paid for out of net income. By contrast, in an APSS, the employee can use his/her profit share to purchase shares in a tax-efficient manner.

Unlike the SAYE scheme, the options are not granted at a discount, although ultimately the option will be exercised at a discount to the then current market value. There is no guaranteed return in the sense that the share price over the period during which the

share option can be exercised may be lower than the actual option price. However, neither is the employee required to commit any funds until he/she is satisfied that the market value is in excess of the option price. In general, share-option schemes provide no benefit in a falling stock market.

There are mixed views in relation to the 'key employees' clause. Trade unions have long been of the view that its application can cause serious difficulties. They argue that it singles out particular groups of employees and, therefore, has the potential to cause divisions and/or disagreement within the workplace. As a consequence, this can make the environment for workplace partnership more difficult. Therefore, trade unions find it difficult to reconcile the 'key-employees' clause with efforts to develop a partnership approach in workplaces.

For its part, IBEC argues that the facility should be available for those companies that wish to exercise the option, particularly where they need to attract, retain and reward certain employees in their organisation for valid business reasons.

In a general sense, it is important to reiterate that an ASOS, like any investment, is subject to risk and in particular to stock market volatility. It is important that employees understand the nature of ASOS and its dependency on the stock market. It is very important that neither management nor union representatives oversell the share-option scheme, and take care to explain that, as with any potential investment, there are associated risks. For example, the option price is fixed throughout the timeframe of the scheme, but the market price will vary considerably. It is up to employees to judge when to exercise their options, based on the range of prices they face for the different options they have.

Table 6 Advantages and Disadvantages of ASOS

Potential Advantages	Potential Disadvantages
Tax and cost-efficient way of acquiring shares	Employees must purchase the shares
Improves staff retention	Shares are not offered at a discount
Greater choice around the time of exercise of options	Can make the environment for work place partnership more difficult
An innovative approach to reward	Stock market depreciation
Improved employee interest in competitiveness and performance	Valuing shares in private companies
Alternative approach to achieving change in the workplace	
Creates new and innovative relationship among unions and management	
Enhance employee involvement and partnership	

3.4 Employee Share-Ownership Plans: Definition and Overview

An Employee Share-Ownership Plan (ESOP) is a share scheme which is open on similar terms to all employees at a given point in time. An important feature of an ESOP is an Employee Share-Ownership Trust (ESOT), which is normally established on behalf of the employees to hold shares funded by the company and/or the employees.

Typically, shares are acquired by an ESOT once it has been established. The ESOT may borrow money in order to fund the purchase of the relevant number of shares. Each individual participating in the ESOP is allocated a notional number of shares, but legal ownership remains vested in the ESOT. This is not transferred until the shares are appropriated to the individual employee through the APSS mechanism, as discussed before.

An ESOP typically comprises an Employee Share Ownership Trust (ESOT) and an Approved Profit-Sharing Scheme (APSS). The ESOT acts as a 'warehouse' to hold the shares. The APSS is the vehicle by which the shares are delivered from the ESOT to the employees. This section provides a summary of how ESOPs work in practice.

In general, shares are free to be transferred to the APSS mechanism at any time, and the normal APSS limits apply in terms of the value of shares that may be appropriated to an employee in any year. In a situation where the ESOT shares are pledged as security for borrowings, the shares will typically be held within the ESOT for an extended period. In these exceptional circumstances, a one-off allowance of €38,100 in any given year can be made in certain limited circumstances.

The employee is not liable to income tax on the value of shares received, once he satisfies Revenue Commissioners' requirements that the shares have been held for a minimum period of three years between the ESOT and the APSS. However, the employee will be liable for capital-gains tax in the normal manner.

It is important to note that a key driver behind the decision to set up an ESOP is often the need for significant transformation and change within an organisation.

Transformation

The key challenge facing Eircom in the mid to late-1990s was market liberalisation. Following joint analysis by the company and the unions, it was agreed that the company needed a growth strategy going forward, and a radical transformation in the way it did its business. The scale of change was so great that traditional methods of dealing with change would not be sufficient, and both jointly began the search for alternative models with which to approach the transformation issue. The company and the unions decided on combining an ESOP with a partnership approach to achieve the transformation required.

3.4.1 Establishing an ESOP

The establishment of an ESOP must address a number of key considerations:

- Magnitude of the process
- Inclusion and communication
- Establishment of the trust mechanism
- Similar terms principle
- Education and communications

It is important to note at the outset, that ESOPs are a highly complex area in legal and financial terms, and it is necessary to gain expert advice in relation to everything from the establishment of the scheme to the legal rules regarding the trust.

Magnitude of the Process

An ESOP, while obviously an EFI scheme, falls into a different category to the other schemes described to date, because the size of its shareholding can be significant.

The shares are typically funded by borrowings or some other appropriate funding mechanism. Employees are also given a percentage of shares linked to successful transformation/change within the organisation. In establishing an ESOP, therefore, there is often intense negotiation between unions and management. The Revenue Commissioners will be involved too, as each individual ESOP has to be approved by them.

Funding

The Eircom ESOP received 5% of the equity of the company in return for agreed workplace transformation, with a right to purchase a further 9.9% from its own funds, through borrowings or, as in this case, borrowings and a one-off contribution by the company in return for which employees made a contribution to the pension scheme.

It will probably be the case that a joint union/management working party will be largely responsible for the putting together and design of the deal in the first place, and that this working party will be assisted both by independent professional experts and by full-time union and employer officials.

Inclusion and Communication

The importance of putting clear mechanisms in place to ensure that employees and their representatives are formally involved in the design of the ESOP, and that they ‘buy into’ the ESOP concept, cannot be overemphasised. Once the scheme has been jointly designed and agreed, clear emphasis should

be placed on communicating the essence of the scheme to potential participants. The media used to explain the scheme are typically briefings and documents, such as an explanation of the terms of the ESOP, and a Question & Answer sheet that deals with all key issues effectively.

Trust

As previously indicated, an Employee Share Ownership Trust (ESOT) must be established. An ESOT is a form of employee-benefit trust governed by tax legislation. It is administered by trustees, of which there generally must be a *minimum* of three. The ESOT holds shares on behalf of the participants.

The ESOT will be managed by the ESOT trustees, one of whom must be a professional trustee. Subject to the terms of the ESOT, they have powers to vote the stock held in the ESOT on behalf of participants, to consult with the ESOT director and to administer the ESOP. The ESOT trustee has a duty to act fairly and in the best interests of the members of the scheme (i.e. the employees), and is independent of both the company and the trade unions.

It is important that an appropriate mechanism be established for appointing trustees. Typically, there will be four union representatives, two management representatives and an independent trustee, although it depends on the particular circumstances of the ESOT. It should also be clarified whether or not an ESOT director will be appointed to the main board of the company, and the mechanism for doing so.

Similar Terms Principle

In establishing an ESOP, the ‘all-employee’ principle applies, as does the requirement that employees be treated on similar terms. It is important to be clear about what ‘similar terms’ mean in this situation. In addition, it is vital to establish how both departing and new employees will be treated under the rules, as the total amount payable to each employee may be quite substantial, and employees need to be clear from the outset about the basis on which it is allocated.

Similar terms

At Irish National Petroleum Company (now part of the ConocoPhillips group), agreement was reached whereby all 234 employees would benefit from the ESOP on the 'similar terms' principle. In the INPC case, the application of the similar terms principle resulted in an equal amount of shares being allocated to each eligible employee.

Education and Communications

In view of the fact that only a limited number of ESOPs have been established in Ireland, potential ESOP creators should endeavour to consult with those who have had hands-on experience of designing and implementing their own such plans. While this advice applies in general to all Revenue-approved schemes, it is particularly relevant to ESOPs, owing to their complexity and the fundamental change in union/management relationships that occurs as a result.

The issue of financial literacy is very important. Employees need to have the tools to understand fully the company's performance, and the way in which its share price reflects this. This may, for example, mean

being able to read profit-and-loss accounts and balance sheets, or understanding a little more about the economics of the sector in which their company operates.

3.4.2 Maintaining and Reviewing an ESOP

A joint monitoring and review group should be put in place to assess how the scheme is progressing, to assess both operational and strategic issues and reflect these back to the general membership and the trustee body.

Effective communication mechanisms must be in place throughout the lifetime of the ESOP. Communication on issues such as day-to-day management of the ESOP, receipt of dividends and what happens to the proceeds, and the way in which an ESOP-nominated director exercises his/her vote, are all extremely important.

In a similar vein, because an ESOP is typically linked to significant transformation within the organisation over a period of time, it will be important to communicate the change that is happening and the subsequent impact on company performance.

Sometimes in a company with an ESOP, an APSS may be introduced separately and it is normal practice that this would take place at

the same time. Employees wishing to avoid an income-tax liability must not exceed their annual APSS limit, and the monitoring group should keep them informed of this.

3.4.3 Advantages and Disadvantages

This section outlines the key advantages and disadvantages associated with ESOP. Table 7 summarises these.

The most obvious advantage of an ESOP is that it offers employees a Revenue-approved method of distributing shares in an organisation, while using the tax-efficiency of the APSS to acquire the shares. It is also advantageous for the organisation as it facilitates significant transformation and change within it. Typically, a percentage of the shares will be granted by the company on the basis of a transformation agreement between unions and management.

The fact that employees hold a significant shareholding in their company means they have an added interest in its economic success. This can assist in increasing the productivity and competitiveness of the organisation, while at the same time enhancing employee satisfaction in the workplace. This is particularly the case with

an ESOP, since the employee shareholding may often be higher than under other EFI schemes.

ESOPs provide a means of genuinely involving employees in influencing the way their workplace is shaped and the performance of their organisation. This usually works best when embedded in a partnership setting within the enterprise. It is also the case that, where an ESOT trustee is appointed to the board of the wider company, employees can gain an additional opportunity to have real influence over company policy.

On the negative side, an ESOP can be complex and difficult to explain to employees. It must also be crafted to the individual needs of each company. This can be extremely time consuming. Finally, as with any share scheme, there is a risk that share prices can decrease as well as rise.

Table 7 Advantages and Disadvantages of ESOP

Potential Advantages	Potential Disadvantages
Tax efficient way of acquiring shares	Technical and financial complexity
Enhance employee involvement and partnership	Need for customisation
Facilitates major programmes of organisational change	Stock market depreciation
Basis for genuine and effective partnership	
Creates new and innovative relationship among unions and management	

3.5 Gainsharing Schemes: Definition and Overview

Gainsharing provides a structured mechanism for involving employees in the generation of operational efficiencies. It offers a means of sharing the monetary value of the gains made between the company and its employees.

Gainsharing schemes are typically negotiated between management and unions at the enterprise level, and will vary from company to company according to the specific circumstances of the company and its employees.

There are three general types of Gainsharing plans:

- **THE SCANLON PLAN**, which operates by calculating the ratio of total labour costs to the sales value of production. A saving is made when the ratio is reduced and that saving is then divided between the company and the employees on an agreed basis.
- **THE RUCKER PLAN** is based on a similar principle, except that it takes sales-less-materials and overheads-to-labour costs

as its ratio. Where a gain is made as above, the saving is divided between the company and the employees on an agreed basis.

- **KEY PERFORMANCE INDICATOR PLANS** operate by reference to agreed indicators and formulas for sharing consequent gains. These are now the most common form of Gainsharing plans in operation in Ireland. The following section focuses on Key Performance schemes.

3.5.1 Gainsharing: The Irish context

National and international research and experience suggests that Gainsharing is an important and legitimate approach to Employee Financial Involvement (Bowey, 2000).

Its unique contribution is the emphasis it places on very tight and transparent linkages between employee actions and performance; and its broad applicability to all companies, both quoted and unquoted. It is a very powerful basis for real and significant change and improvement, and for reversing poor performance and underpinning turnaround strategies.

In Ireland, there are no fiscal advantages linked to Gainsharing at present. In fact, there is no legal framework in Ireland for Gainsharing, and since Gainsharing schemes are not approved by the Revenue Commissioners, no tax advantages may accrue from payments received as a result of such schemes. This is not a disadvantage of Gainsharing *per se* but it does make it relatively less attractive when compared with other EFI schemes. As a result, there is a real danger that many of the unique attributes of Gainsharing – including clear performance links and broad applicability – will continue to be undersold in an Irish context.

Gainsharing is an adaptable form of Employee Financial Involvement that could be applied to both the public and not-for-profit sectors as well as the private sector (EU Commission, 2003). Forms of Gainsharing vary widely and can include both bottom-line cost reduction criteria or qualitative criteria, such as customer-complaint levels or service-delivery standards.

3.5.2 Establishing Gainsharing

This section provides information on the steps required to implement Gainsharing. The Revenue Commissioners do not provide any guidance on Gainsharing, although ICTU, SIPTU, IBEC and IPSA have all produced their own guidelines.

To establish Gainsharing based on Key Performance Indicators (KPIs), consideration must be given to a number of areas. In particular, the following require detailed attention:

- Development of joint structures
- Areas for improvement and employee involvement
- Measurement and outcomes
- Communication and openness
- Review and reassessment

Table 8, right, outlines a 12-step guide to consideration of these issues in an organisation.

Table 8 Gainsharing — 12 steps

- | | |
|--|---|
| 1. Establish a joint union/management working group to assess Employee Financial Involvement opportunities within the organisation | 7. For each KPI, gather factual information on current performance and agree how gains, for the purposes of Gainsharing, will be defined |
| 2. Agree the potential associated with Gainsharing as an appropriate EFI mechanism for both the company and its employees | 8. Establish clearly what gains in each KPI are worth in monetary terms. For example, a 5% reduction in scrappage means what gain to be shared in money terms? |
| 3. Agree the general areas that are of importance to the organisation, and which might be open to improvement through the introduction of Gainsharing arrangements | 9. Agree the ratio in which gains will be shared between the company and the employees |
| 4. Investigate these areas, assess their suitability and agree the areas that will be addressed | 10. Agree the frequency of payouts, i.e. quarterly, monthly or yearly |
| 5. Agree the relevant KPIs, i.e. measures of performance for each area | 11. Communicate, in a clear and transparent manner to all parties, both the agreed initial baseline measure and the formula for sharing the gains |
| 6. Agree structures for involving employees in continuous improvement activities in each area | 12. Agree arrangements — based on periodic joint review and overall assessment of the scheme's effectiveness — to allow agreed changes to the scheme to be introduced |

3.5.3 *Maintaining and Reviewing Gainsharing*

Gainsharing is an ongoing approach to organisational change and improvement and, as such, will require ongoing support and review. Administrative and human resources are required to manage the scheme throughout its existence.

It is advisable that a joint monitoring and review group be put in place to assess how the scheme is progressing (this too should function throughout the running of the scheme). The group, which may or may not benefit from the assistance of an external facilitator, should engage in two types of review. The first, an operational review, should be ongoing and may deal with issues such as glitches in the running of the scheme.

The second type of review, which will be more strategic in nature, will relate to the extent to which the scheme is meeting its overall objectives, and may recommend agreed changes to be made as a result. The scheme should be operating for an agreed initial period before a detailed review is undertaken to give an opportunity for the initiative to bed itself in.

The monitoring team should also be responsible for observing the extent to which the

scheme is being effectively communicated to those involved. Clear communication of the results, in both KPI and financial terms, is important, as is dissemination of decisions taken to address particular issues.

Employing different types of teams throughout the initiative may be necessary. A pilot team might be established to try innovative approaches to addressing a particular challenge, which – if successful – could then be mainstreamed.

‘Real change for real benefits’

At Bausch and Lomb, a new three-year Gainsharing scheme was introduced in 2006 to facilitate a significant programme of investment. Key performance indicators were set across five manufacturing areas. A joint management/union review committee will monitor progress. The scheme is designed to support a process of ongoing improvement and to reward employees for their role in it. In this context, the scheme has been described as one of ‘real change for real benefits.’

3.5.4 *Advantages and Disadvantages*

This section outlines the key advantages and disadvantages associated with Gainsharing. Table 9 below summarises these.

Gainsharing can provide an element of additional remuneration above basic pay to employees. It can also provide a foundation for more significant programmes of change, improvement and turnaround in different types of organisations. It can be tailor made for the organisation and employees in question and can lead to improvements in relations between employers, unions and employees.

The implementation of a well-designed Gainsharing scheme can help to improve both the operational and financial performance of the company. Critically, reward can be separated from the price performance of the company's shares. The variable which the employee is seeking to influence is within their, or their team's, control to an appreciable degree. With Gainsharing, employees can be rewarded for contributions made to gains. In this sense, Gainsharing creates both an opportunity and a rationale for greater employee involvement.

It is also applicable in a wider set of contexts than other EFI schemes. It can be applied just as readily to quoted and non-quoted, large and small companies, and companies in different sectors. It can be used where the company is making a profit, but can also apply in a situation where a company is

non-profit making as part of a strategy to make the company profitable, subject to the agreement of the company, the employees and their representatives.

Gainsharing can strengthen the relationship between unions, employees and employers. It can help to build trust because the process can be made very clear and transparent. The co-operation that often arises between management and unions as a result of designing and implementing a Gainsharing scheme can have a positive impact on negotiations in the mainstream industrial-relations arena within the company. In that context, it can help to foster a partnership approach, and indeed works best when a partnership approach is in place.

There are also a number of potential disadvantages. Complex multi-factor schemes can be unwieldy and some of the motivational aspects for both the company and its employees may be lost in that context. It is often useful to limit schemes to a small number of well-prioritised and easily-measured KPIs. There may also be frustration if the scheme is set up in such a way that it is difficult, for example, to change the KPIs.

Table 9 Advantages and Disadvantages of Gainsharing

Potential Advantages	Potential Disadvantages
Tight and meaningful link between employee actions and performance	Attractiveness reduced due to current absence of tax breaks
Improves operational and financial performance	Can be overly complex and rigid
Role in corporate turnaround or loss making companies	Needs to be reviewed and managed on an ongoing basis
Suitable for a wider range of organisational types	
Creates more co-operative relationship between unions and management	
Flexible schemes — can be customised to suit each company's situation	
Fosters partnership on a real and meaningful basis	
Can support a more flexible approach to work	
Improves employee motivation and interest	

SECTION FOUR

Conclusions

This report concludes by identifying a number of common steps that apply to each of the schemes. It also presents a list of additional resource and reference material identified by the NCPP during the course of this project.

Basic Steps for EFI

In practice, there are many ways in which Employee Financial Involvement can become part of mainstream corporate strategy in Ireland. The initiative and driving force for EFI can come from management, from management and unions, from unions or from employees.

This report is a joint collaboration between IBEC and ICTU that aims to support the general development and diffusion of Employee Financial Involvement across all sectors of the Irish economy. The report draws particular attention to one issue — joint management/union collaboration.

In this respect, the report concludes that there are a number of basic steps that are important regardless of the particular EFI scheme that is being put in place (see Table 10).

Step 4 is a reflection of the acknowledgement that Employee Financial Involvement can be legally and technically complex, and that third-party expertise may be helpful in assessing the suitability of schemes and in relation to the choice of specific schemes. There is a range of expertise available both within employer and employee-representative organisations, and from specialist service providers.

Table 10 Seven Basic Steps for Employee Financial Involvement

Step 1	Establish a joint union/management working group
Step 2	Examine the requirements and key concerns of management/employers and employees
Step 3	Identify the outcomes that each group requires – and the possibility for sustainable mutual gains
Step 4	Assess the need for outside expertise to assist in this evaluation
Step 5	Examine each of the available schemes in the light of those needs
Step 6	Inform, consult with and educate employees about the concept and what is involved
Step 7	Establish and use an effective feedback process

NCPP Guide to Additional Resources

The Guidelines agreed by the social partners in this report provide a detailed template which will assist practitioners in designing and implementing appropriate EFI schemes. However, additional resources are also available to practitioners. Appendix 3 provides a list of sources and contact details.

This section briefly describes some of the resources and reference material identified by the NCPP as important additional sources of information and assistance.

Firstly, the *European Commission* has developed a set of guidelines which can help to inform debate at company level. The Commission listed eight general principles which can act as a reference point for the identification of best practice (European Commission, 2002). The principles highlight the core elements which characterise most Member State schemes and policies, and reflect a consensus at European level regarding best practice.

The eight principles are:

1. Voluntary participation
2. Extending the benefits of financial participation to all employees
3. Clarity and transparency
4. Predefined formula
5. Regularity
6. Avoiding unreasonable risk for employees
7. Distinction between wages and salaries and income from financial participation, schemes
8. Compatibility with worker mobility

Work is currently underway to develop indicators based around these principles. This work is focused on the level of usage, the nature of Employee Financial Involvement and trans-national barriers. The Commission is currently piloting this approach (European Foundation, 2003). Appendix 1 provides a full description of each of these principles.

Secondly, the *Irish Revenue Commissioners* provide detailed information in relation to each of the four schemes it has approved. This includes brochures on each of the schemes, providing sufficient information for a company to develop and implement Employee Financial Involvement schemes. The possible exception is an ESOP but in this case, as with other schemes, it is possible to get direct assistance and advice from the Revenue Commissioners.

Thirdly, the *Irish ProShare Association*, an independent association within the Irish Business and Employers Confederation (IBEC), is engaged in promoting the various forms of Employee Financial Involvement. It provides direct assistance to companies and has a network of key service providers offering technical and legal assistance.

Fourthly, *ICTU and affiliate unions* have carried out extensive research and offer valuable expertise on various aspects of EFI.

Finally, the *National Centre for Partnership and Performance* offers a range of resources to support the effectiveness of Employee Financial Involvement. Chief among these is a competency framework to develop the skills and management capabilities required to work in a more participative style.

The NCPP continues to address the issue of Employee Financial Involvement. A key concern is the link between EFI and organisational performance, i.e. how it supports and sustains ongoing workplace innovation and business improvement. In conjunction with the social partners and organisations such as Forfas, work will also focus on the practical concerns and challenges facing employers, unions and employees as they endeavour to establish and develop Employee Financial Involvement schemes across Ireland.

Appendices

Appendix 1

European Commission: Communication on a Framework for the Promotion of Employee Financial Participation

General Principals

The overview of different forms of financial participation has shown the great variety of financial participation schemes. At the same time, there also exist a number of core elements and principles which characterise most financial participation schemes and Member States policies. The general principles identified here reflect this basic consensus and can act as a reference point for the identification of good practice. They should thus inspire the promotion of financial participation schemes across Europe and serve as a guideline for Member States, social partners and enterprises.

Voluntary Participation

Financial participation schemes should be voluntary for both enterprises and employees. The introduction of financial participation schemes should meet the actual needs and interests of all parties involved, and should therefore not be imposed. Obviously, this does not preclude that some elements of financial participation are made mandatory, or that financial participation is introduced on the basis

of legislation or collective agreements. Government support programmes and the provision of a clear legal framework are important elements in promoting the use of financial participation schemes. The involvement of the social partners can also be a major factor in making sure the success of financial participation.

Extending the Benefits of Financial Participation to all Employees

Access to financial participation schemes should in principle be open to all employees. While a certain differentiation may be justified in order to meet the different needs and interests of employees, financial participation schemes should aim at being as comprehensive as possible and treating employees on similar terms.

Among the main benefits of employee financial participation are the increased identification of employees, creating a feeling of belonging and improving the motivation of staff. Any discrimination between employees would run completely counter to these objectives and should therefore be avoided.

Clarity and Transparency

Financial participation schemes should be set up and managed in a clear and transparent way. This is important for the acceptance of such schemes and allows employees to assess fully the possible risks and benefits involved. Priority should be given to clear, comprehensible plans, with an emphasis on the transparency for employees. In this relation it is particularly important that employees or their representatives are informed and consulted about the details of financial participation schemes which are to be introduced.⁹

Share-ownership schemes in particular will almost inevitably involve a certain complexity. In this case, it is important to allow for adequate training for employees to enable them to assess the nature and details of the scheme in question.

Schemes should also be managed in a transparent way. Enterprises should strictly adhere to existing accounting standards and disclosure rules. In addition employees should receive regular information and should be informed about any developments which may have a major impact on their investment.

Predefined Formula

Rules on financial participation in companies should be based on a predefined formula clearly linked to enterprise results. This is a major element in ensuring the transparency of such schemes. Also with a view to the motivation, commitment and identification of staff it will obviously be preferable to adopt a clear and predefined formula rather than decide on any profit-sharing scheme only ex-post.

Regularity

Financial participation schemes should be applied on a regular basis and should not be a one-off exercise. This is particularly important if such schemes are aimed at enhancing and rewarding the long-term commitment and loyalty of staff. It is obvious that this regularity in the application of schemes does not imply that the benefits derived from them remain stable over time. It lies in the nature of financial participation schemes that the bonuses received will vary depending on enterprise results and profits and that in some years no bonuses will be paid at all or that there may be a fall in the value of employees' investments.

Avoiding Unreasonable Risk for Employees

Compared to other 'investors' employees tend to be more exposed to adverse economic developments affecting their enterprise. For them, it is not only their investment that is at stake, but potentially also their income and their job itself.

The extent to which financial participation schemes involve risks for employees depends, however, on the details of each scheme. In general, cash- or fund-based schemes are likely to involve only limited risks. Also in relation to share-ownership plans possible risks for employees depend to a large extent on the details of each plan, including for example the length of any retention period, provisions concerning an earlier sale of shares, or ceilings on the amounts that can be invested.

Given the potential risks for employees involved, due consideration should in any case be given in the introduction and running of financial participation schemes to the avoidance of any unreasonable risks. At the very least, employees have to be warned of the risks of financial participation resulting from fluctuations in income or from

9. This results also from the obligation under Directive 2002/14/EC of the European Parliament and of the Council of 11 March 2002 establishing a general framework for informing and consulting employees in the European Community to inform and consult employees or their representatives on changes in relation to work organisation or contractual relations.

limited diversification of investments. As set out above, financial participation schemes should also be introduced and managed in a clear and transparent way. When designing financial participation schemes, consideration should be given to develop mechanisms or to give priority to such schemes, which avoid excessive risks for employees taking into account the objectives pursued with the respective scheme.

Distinction Between Wages and Salaries and Income from Financial Participation Schemes

A clear distinction has to be made between income from financial participation on the one hand and wages and salaries on the other. In some specific cases (for example for top executives or in the case of start-up firms) income from financial participation, and in particular stock options, may constitute an important part of the overall remuneration. In general, however, financial participation cannot be a substitute for pay and fulfils different, complementary roles.

Any income from financial participation should therefore be paid in addition and above a fixed wage, which is determined

according to national rules and practices. In this respect, social partners can of course bargain over pay and terms of financial participation as they see fit.

Compatibility with Worker Mobility

Financial participation schemes should be developed in a way that is compatible with worker mobility both internationally and between enterprises. Policies towards financial participation in particular should avoid creating barriers to the international mobility of workers.

One of the main objectives of financial participation obviously is to enhance the long-term commitment and loyalty of employees to their enterprise. However, at the same time more and more employees are faced with increased demands for mobility and flexibility in working life. Adequate provisions that take into account both the company's interest in a long-term commitment of their employees and the employees' right to mobility should therefore be made in the design of financial participation schemes for dealing with any problems resulting from a termination of contracts.

Appendix 2

List of Companies Consulted and Schemes in Operation¹⁰

Company	Scheme(s)	Employees	Union(s)
Marks and Spencer	APSS	1,300	Mandate and SIPTU
Diageo (Bailey's Irish Cream)	APSS and SAYE	270	SIPTU and TEEU
Waterford Crystal	APSS and SAYE	1,600	ATGWU and TEEU
Analog Devices ¹¹	ASOS and Employee Share Purchase Plan (ESPP)	1,300	SIPTU
First Active ¹²	APSS, SAYE and Share Options	650	SIPTU
Eircom	ESOP	9,045	CWU, CPSU, IMPACT & PSEU
Irish National Petroleum Company ¹³	ESOP	234	SIPTU, TEEU and Amicus/MSF
Bausch and Lomb	Gainsharing	1750	SIPTU (1200 employees)

10. Initial consultation/research with companies was conducted in 2003. Follow-up interviews took place in 2006 to ensure that all schemes were still in operation. While activity levels in a number of share-related schemes are lower than in 2003, all of the schemes remain in place at the time of publication.

11. ESPP scheme not approved by Revenue Commissioners.

12. First Active is now part of the Royal Bank of Scotland Group.

13. Shortly after the ESOP was established, INPC was sold by the Irish Government to Tosco. Tosco was then taken over by Phillips, who subsequently merged with Conocco to form ConocoPhillips.

Appendix 3

Employee Financial Involvement — A Resource List

Source	Type of material available	Contact/ Link
Revenue Commissioners Personal Income Taxes, Direct Taxes Interpretation and International Division	Detailed requirements for each scheme: booklet List of participating companies	www.revenue.ie 01 647 5000
Irish ProShare Association (IPSA)	Guidelines, advice and consultancy Review of benefits List of service providers	www.ibec.ie/ipsa www.ibec.ie 01 660 1011
ICTU	Guidelines on Gainsharing, profit sharing and ESOPs	www.ictu.ie 01 889 7777
SIPTU	Guidelines, advice and consultancy	www.siptu.ie 01 874 9731
Irish Association of Investment Managers (IAMI)	Guidelines on shares and options Irish Association of Investment Managers	www.iaim.ie
European Foundation for the Improvement	Recent EFI trends in Europe Indicators to measure the success of national policies	www.eurofound.ie
European Commission	Framework for the Promotion of Employee Financial Participation Identification of transnational barriers	www.ec.europa.eu/ employment_social
National Centre for Partnership and Performance	Competency Framework for Managing Change Through Partnership Partnership Works: The International Evidence Information and consultation	www.ncpp.ie

Glossary of terms

Term	Description	Term	Description
APSS	Approved Profit-Sharing Schemes are share schemes that are open to all employees on similar terms. They provide a tax-efficient method of offering shares to employees.	Forfás	Ireland's National Policy and Advisory Board for Enterprise, Trade, Science, Technology and Innovation
ASOS	Approved Share Options Schemes give employees the option of buying shares in the company at some future date, but at a price that is fixed at the outset of the scheme.	Gainsharing	Gainsharing provides a structured mechanism for involving employees in the generation of operational efficiencies. It provides a mechanism for sharing the monetary value of gains made between an organisation and its employees.
EFI	Employee Financial Involvement. Usually refers to a company-based scheme designed to provide employees with additional income, based on the performance of the organisation. Employees gain a form of financial/equity share in their organisations.	IBEC	Irish Business and Employers Confederation
ESOP	Employee Share Ownership Plans are share schemes that are open to all employees on similar terms. They are made up of two components: an Employee Share-Ownership Trust (ESOT) and an Approved Profit Sharing Scheme (APSS).	ICTU	Irish Congress of Trade Unions
ESOT	An ESOT is a form of employee benefit trust governed by tax legislation. It is administered by an ESOT trustee, and holds shares on behalf of its participants.	IPSA	Irish ProShare Association
		NCPP	National Centre for Partnership and Performance
		NESC	National Economic and Social Council
		SAYE	Save-As-You-Earn schemes are a method of saving and a mechanism for employees to acquire shares in their company.
		SIPTU	Services Industrial Professional and Technical Union

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The National Centre for Partnership and Performance (NCPP) was established by Government in 2001 to promote partnership-led innovation and change in the Irish workplace.

The NCPP is one of three Government institutions of social partnership which together comprise the new National Economic and Social Development Office (NESDO). NESDO's other constituent bodies are the National Economic and Social Council (NESC) and the National Economic and Social Forum (NESF).

The NCPP's mission is to:

- Build commitment to a broader approach to innovation which focuses on innovation in the workplace
- Be proactive in the implementation of the National Workplace Strategy
- Promote capacity to manage change through active employee engagement and commitment, supporting management skills and a better quality of working life.