

# **Financial Participation and Institutional Change in France, Germany, the Netherlands, the UK and Australia**

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## **ABSTRACT**

This paper investigates the inter-relationship in changes in industrial relations and developments of financial participation (employee share ownership and profit sharing) in companies using a triangulation of methods, including a longitudinal survey in selected countries. Financial participation is being viewed as part of a trend to establish payment at the company level. We draw on neo-institutional theory when comparing the national experiences and trends. Our results show that changes impacted by the introduction of FP, and the absence of these changes, are not only determined by the nature of institutions – being able to change and learn but also being ‘sticky’ with regard to their national setting. Also the actors who shape these institutions, most notably employers, trade unions and government bodies, differ profoundly between national systems in their attitude towards FP and, more general, in the way management proposals are received when introducing schemes of FP.

## **INTRODUCTION**

Over the last decades we have witnessed profound changes in institutions, especially in systems of collective bargaining and other elements of employment relations based on the notion of solidarity in the Fordist society. In most of the more stringently regulated national systems of collective bargaining, like Germany and the Scandinavian countries, changes took place towards the decentralisation of collective bargaining. Alongside with these changes in processes of collective bargaining, also the contents of pay systems changed towards a more fragmented and individualised system of wages (cfr. Traxler, *et al.* 2008). Financial participation (FP) is being viewed as part of this trend to establish payment at the company level. This leads us to the question, until what extent financial participation is just a management tool, of control and to promote organisational objectives and flexibility of capital, or whether this could be viewed as an expression of a new logic of post-Fordism with a substantial new quality of employment relations. Since FP addresses both the financial output of organisational processes and the ownership of capital, it is one of the instruments of modern HR which addresses the question of high performance and flexibility (Poutsma and De Nijs, 2003).

## **THEORETICAL OUTLINE AND METHOD**

The most relevant theoretical and policy debate for our paper is the debate on convergence and national institutional diversity and institutional change. We draw on neo-institutional theory when comparing the national experiences with FP. When attempting to explain these changes it is also needed to point to issues of power in shaping institutions (Mahoney and Russchemeyer, 2003). Actors involved – employers organisations, trade unions and government bodies - expect certain outcomes from institutional changes and, therefore, they may stimulate or impede the implementation of various forms of FP. In this constellation of national and global developments multinational corporations (MNCs) are a most relevant and powerful actor. We critically discuss their role as they may determine the changes addressed in this paper (Poutsma, Ligthart and Schouteten, 2005; Poutsma, Ligthart and Veersma, 2006).

We follow Ragin’s approach (1984) as far as it matches our aim of comparing national institutions as well as the attitudes of powerful actors with regard to the development of FP. A

triangulation of methods has been applied, including the analysis of a longitudinal dataset. The analysis is based on the CRANET data; a set of several waves of comparable representative surveys in the selected countries in order to trace developments across countries (1999, 2004). Differences between countries are explained by linking outcomes of the analysis with information from comparative studies on national trends with FP for which interviews were carried out with leading experts from trade unions, employer federations and government bodies (Pendleton and Poutsma 2004). Next, nation-specific institutional patterns of employment relations are looked at as input for the analysis of specific features of FP in the countries involved in this analysis. As far as we are aware of, this is the first attempt to analyse the link between financial participation and institutional change by using large-scale, internationally comparative trend data and qualitative data. The results of the analysis may have implications for the ongoing debate on the features and the impact of financial participation and its linkages with varieties of capitalism and institutional change (cfr. Streeck and Thelen, 2005; Mahoney, 2001).

## INCIDENCE OF FINANCIAL PARTICIPATION IN THE COUNTRIES

The tables below present features and determinants of financial participation divided into the main type of schemes: employee share ownership, including stock options (ESO) and profit sharing schemes (PS). It appears that the UK and Australia are countries where ESO is much more developed, while the other countries, Germany, France and the Netherlands have higher incidence of profit sharing. The high level of PS in France is also due to the partly obligatory system that is introduced by the state (see later). The regression table 2 shows that ESO and PS are found in larger enterprises. MNCs have higher levels of ESO, especially in Germany, but not PS. ESO is mainly found in companies listed on the stock exchange. The data show also that broad based (all employees eligible) FP is predominantly developed in companies with lower level, decentralised collective bargaining. Negative effects of unionisation were mainly found in Germany for both ESO and PS and in Australia for ESO. In the next section we elaborate more on these differences providing in depth insight into the institutional complementarities between business and industrial relations regimes and financial participation institutions.

Table 1 Incidence of FP per country and year (sample: 3196)

Country	Year	ESO	ESO	PS	PS
		1999	2003	1999	2003
United Kingdom	% within year	42.5%	35.4%	35.9%	29.5%
France	% within year	38.4%	32.8%	86.7%	93.0%
Germany	% within year	18.5%	17.5%	68.4%	82.1%
Netherlands	% within year	36.4%	21.7%	50.0%	57.3%
Australia	% within year	43.8%	34.6%	25.4%	30.7%

### State orientation in the development of IR and FP in France

Employment relations in France and its institutional setting have been viewed as primarily state-oriented. As Goetschy (1998) argues, the state played in various respects a main role in shaping responses to the crisis of Fordism and the fighting of high levels of unemployment accompanying this crisis. At the same time the state has been seen as hindering the emergence of strong and centralised trade unions and employers' associations. It was actually the period of the socialist government in the eighties, with a more favourable climate for trade unions, when the membership rates and influence of unions paradoxically dropped most drastically (Goetschy 1998: 369). One of the contributing factors is that unions' administrative capacity has been overloaded by the increase of their duties with the introduction of the Auroux laws and their involvement with state welfare (ibid).

Union membership rate is the lowest in Europe – about 8 % (European Foundation 2006). The main reason for low union density rates is the fragmentation of trade unions. The main union confederations (CGT, CFDT, CGT-FO, CFTC and CFE-CGC) are deeply divided along political

and religious lines. Also employer organisations have suffered from internal divisions. *MEDEF* plays the most important role as representation of employers. With the weak development of corporatist industrial relations the coordinating role of employers' organisations is weak.

Although the main level for setting collective agreements is the sectoral level, there is a statutory obligation – again under the Auroux legislation – for the parties to negotiate at three levels the multi-industry-level where a framework is set, the industry-level and also the company-level. At the company-level annual negotiations have to take place on pay and working time. There is however no requirement to reach an agreement at this level (Goetschy 1998: 379).

Table 2 Odd-ratios of **broad-based** Financial Participation (ESO, PS) across the five countries (n=2012, n=1993), (refcat= no ESO, no PS); Business units with > 100 employees.

	ESO Exp(B)*	PS Exp(B)*
Country		
Australia	0.73	0.77
France	0.32***	25.92***
Germany	0.17***	8.01***
Netherlands	0.37***	4.38***
United Kingdom (refcat)		
Size	1.42***	1.17***
Industry		
Construction	0.67	2.28**
Transportation	0.95	0.8
Banking and Finance	1.6*	1.2
Chemicals	2.03**	0.73
Other Industries	1.12	0.78
Manufacturing (refcat)		
Multinationals	1.3*	0.95
Trend 2003-1999	0.84	1.13
Stocklisting	5.36***	1.01
Unionisation	1	1
Availability PS	2.14***	
Availability ESO		2.41***
National or regional broad-based Bargaining	1.01	0.95
Company or site broad-based Bargaining	1.04	1.07*
No broad-based Bargaining	1.09*	1
Nagelkerke's Pseudo R_square	0.318	0.343
Chi-Square	505.6	586.8
Df	18	18
Sig.	0.000	0.000

\* p< .05, \*\* p< .01, \*\*\* p< .001

FP in France is also strongly dominated by state involvement especially the development of PS. Started by General de Gaulle in the fifties to harmonise Capital and Labour the PS system evolved gradually in an elaborate system of PS and ESO. The lower levels of collective bargaining are used to develop and implement ESO schemes. The main form of financial participation over the years has been profit sharing, with two main schemes in operation. First, deferred profit sharing (*Participation*) is compulsory in firms with more than 50 employees. Profits are shared according to a mandatory pre-set formula or one settled by collective bargaining. The profit share is paid into a fund and attracts tax advantages if it is held there for at least three years. Second, cash profit sharing (*Interessement*) is a voluntary scheme. Tax benefits may be secured if the profit share is paid into a company savings scheme (*Plan d'épargne d'entreprise (PEE)*). Most of the funds savings plans are invested in *Fonds Communs de Placement d'Entreprise (FCPE)*, which in turn either invest in a diversified fund or in the shares of the employer. This is the most typical approach to promote employee share ownership in the French system: recent evidence indicates that nearly

half of PEEs are used as a means for employee share acquisition. Important is that *Interessement* can only be introduced through either a collective agreement with trade unions, or with the involvement of trade union representatives at enterprise level, or with the works councils, or with the agreement of a two-thirds majority of the employees. This reflects the state mandated multi-level bargaining. Recent French legislation also gives unions a seat on the boards of the funds which invest workers deferred savings.

### **Voluntarist employment relations and the development of ESO in the UK**

Contrary to employment relations in France the state in the UK has been as little interventionist as possible. Organisers of industrial action are protected from common law liabilities provided they are acting 'in contemplation or furtherance of a trade dispute' (Edwards *et al.* 1998: 5). A major development in industrial relations was the legislation aiming at limiting the rights of trade unions during the Conservative Thatcher government in the eighties. After the Blair government came into power in 1997 the role of the government changed slightly but not fundamentally. Especially when considering the implementation of legislation under EU law the Labour government has often been politically more opposed to certain legislation on employment rights than certainly most other social-democratic governments in EU member states.

The membership rate of trade unions has seen a gradual decline to 29 % (European Foundation 2006). The peak union organisation, the *TUC*, encompasses most unions. The pattern of trade unions is however rather complex and diverse with a high number of small unions and a decreasing number of larger unions as the result of a number of mergers that have taken place between unions. Most significant unions are nowadays general: multi-occupational and often multi-industrial (Edwards *et al.* 1998: 29). The position of the *CBI*, the *Confederation of British Industry*, as the peak organisation of employers is rather weak. The abandoning of industry-wide agreements is closely correlated with this weak position. Related to this, collective bargaining has undergone a much more rapid and radical change towards decentralisation of collective bargaining than in many other countries of the EU. Especially the employers of large companies have been the driving force behind the change of collective bargaining away from multi-employer bargaining.

The development of ESO in the UK is directly related to Thatcherism where the involvement of trade unions in pay setting was aimed at to be diminished. Developing capitalist entrepreneurship among employees is one of the driving concepts behind. Decentralisation of bargaining has further boosted the development. Deferred share-based profit sharing was introduced in 1978 though superseded by the Share Incentive Plan in 2000. Stock options have overall been the most dominant form of FP in the UK, with the approved schemes being SAYE (Save As You Earn) or Sharesave (the employee enters into a tax beneficial savings contract to finance the exercise of options), Company Share Options Plan (an 'American-style option' that may be restricted to selected employees), and Enterprise Management Incentives (aimed at smaller firms).

In the most important option plan SAYE (Sharesave), employees are allowed to take out options to be exercised in three, five, or seven years time, at up to 20 percent discount on market value at the time of grant. There is no income tax payable on the eventual sale of shares: there is a capital gains tax liability instead, but there is the provision of taper relief to the capital gains arising on share sale. The longer shares are held, the lower the CGT liability. The Share Incentive Plan provides substantial tax benefits for share purchases by employees and also for grants of shares to employees by companies. Employers can also choose to award free shares to employees, thereby providing an implicit form of profit sharing. At the same time the Enterprise Management Incentives plan introduced highly tax advantageous stock option arrangements for employees of smaller firms.

### **Social partnership and dialogue shaping FP in Germany**

Employment relations in Germany are known for the typical forms of social dialogue and partnership which can be found at various levels: the sectoral level and at the company level. Most important is the dual system of representation, where workplace representation is separated from the system of collective bargaining. Although employee representation through works councils is

strictly regulated by law, the social partners are autonomous with regard to collective bargaining. They value the *Tarifautonomie* – autonomy of collective bargaining – as a fundamental principle of industrial relations.

Trade unions are mainly organised in the DGB – beside two smaller peak organisations. *Verdi* and *IG Metal* are the biggest unions and are most powerful. Overall the organisation rate of trade unions has decreased to 18 % (European Foundation 2006), which is well below the EU average. The most important level for affiliation is the sectoral level, where social dialogue not only affects wage setting but also other arrangements, like with regard to vocational training, pensions and other welfare provisions. Employers are organised in the *BDA* and the *BDI*. Within these peak organisations sectors and the regions of Germany are most relevant for coordinating policies.

There has been a decentralisation of collective bargaining but the sectoral level is still the dominant level of collective bargaining. Collective agreements are usually declared binding, which does not prevent the coverage of employees by collective agreements being just below the EU-average, which is 63 % (European Foundation 2006). Works councils have most influence with regard to social and personnel matters, while their impact on strategic issues is still limited. Although works councils have a relatively strong position vis-à-vis management, workplace representation is at the average level of the EU: 52 % of employees have a form of employee representation at the workplace (European Foundation 2006).

In Germany, financial participation is viewed as a form of participation with productive capital or with capital principally aiming at wealth redistribution. This development did however not start with the intention to develop entrepreneurial attitudes. It is conceptually distinct from profit sharing, though they are in practice often linked with each other. The legal framework provides a preferential tax treatment of employer payments to various forms of employee investments. These are supplemented by a tax-free government savings premium. These capital formation payments have been agreed by industry collective agreements, and nearly all employees covered by collective agreements are entitled to them. Capital participations are further subject to codetermination at company level. The savings arrangements are limited to workers below a certain taxable income level (after social security contributions and allowances) but in practice this threshold is set at a level that most workers qualify. This feature reflects the long-standing concern in Germany to use savings plan arrangements to counter inequalities in wealth.

Traditionally this system has been primarily concerned with employee participation in productive capital in general. Since 1999 this system has been modified to favour employee share ownership. Profit sharing can be used to supply the payments to savings/investment arrangements. Employer associations have favoured the development of profit-related payments in recent years and it has been an integral component of their demands for greater flexibility in the pay determination system. Stock options are a recent innovation in Germany. They were in effect prohibited by company law until 1998. Broad-based option plans in Germany fall under the remit of Works Council co-determination rights. This has been a more contentious development than promotion of investment in productive capital because it helps to decentralise the collective bargaining system and it potentially facilitates salary substitution over time.

### **The *poldermodel* and the development of FP in the Netherlands**

Employment relations in the Netherlands resemble in many respects employment relations in Germany. Also here, the main level of collective bargaining is the sectoral level and social partnership is even more developed than in Germany. The basis for, what is called the *poldermodel* is the interaction between government and the social partners, represented in the *Foundation of Labour*. This appears to be most effective in establishing coordination of employment and labour market policies, specifically with regard to flexible labour and '*flexicurity*'.

The union density is at the level of the EU average: 24 % (European Foundation 2006). Dutch unions are divided between three peak organisations: *FNV* – the biggest, general trade union –, the Christian *CNV* and the *VHP* for white collar workers. The internal organisation of the trade unions is according to sectors. Employers are organised in the *VNO-NCW* and – representing SMEs - the *MKB*. The peak organisations exert a strong co-ordinating role with regard to collective bargaining and representing employers in various corporatist bodies.

Collective agreements are usually set at the sectoral level except for some big companies and mainly companies in new sectors, like consultancy and IT. Collective agreements have a legally binding status. Although some decentralisation has taken place the sectoral level is still most relevant for collective bargaining. The coverage of collective agreements among employees is 81 %, which is above the average in the EU (European Foundation 2006).

Like in Germany works councils are strongly developed at the company- and generally the plant- and the divisional level of companies. Works councils are consulted with regard to social policies and with regard to strategic issues.

Like in France and Germany, employee savings schemes are at the centre of financial participation. Two forms of company saving schemes were introduced in 1994. One provides for employees to subscribe to a savings plan from post-tax salary with a 1 for 1 match by the employer. The other provides for employees to subscribe pre-tax pay or the proceeds of a profit sharing scheme but without the employer match. In both cases the employee can withdraw sums from the fund after four years tax-free. The profit share form is by far the most popular, with nearly 3 million participants in 2000. Due to this success and as a consequence of heavy loss in tax the Dutch Government decreased the profitability of the schemes in 2002.

Savings funds may be used to operate broad-based stock option plans, with the exercise of shares financed by savings in the fund. This type of stock options plan allows employees to receive double the amount of options tax free than is normally permitted. These plans are required to be open to three-quarters of the workforce and they have to be approved by the Works Council.

### **Australian employment relations and FP: again an Anglo-Saxon model?**

Australian employment relations resemble British employment relations, although the state played a somewhat different role with regard to collective agreements. According to Bamber *et al.* (2004) in the development of the system of industrial relations, with the introduction of the award system for conciliation and arbitration, the power of the state was used to prevent the widespread reappearance of class conflict (p. 121).

The main confederation of trade unions is *ACTU*. Compared to Britain the trade unions have however a weaker workplace presence. This is mainly due to the strong reliance on the arbitration system rather than on enterprise-level bargaining (*ibid*: 126). Union membership has been steadily declining to 22 % (European Foundation 2006). Compared to Britain the peak organisation has considerable control over its affiliates, which is also reflected in the social compact in which *ACTU* was engaged from 1983 until 1996 (Bamber *et al.* 2004: 128).

Employers are organised in numerous organisations, of which the *CAI (Confederation of Australian Industry)* and the *BCA (Business Council of Australia)* are most influential. Traditionally employer organisations in Australia played an active role in the settlement of industrial disputes and the setting of wages and conditions. Pay levels would be applied to entire industries and occupations, implying a most effective coordination of multi-employer bargaining by employers' organisations. The system of collective bargaining and dispute resolution has, since the nineties, become more decentralised through the introduction of enterprise-bargaining and also the increase of individual (non-union) contracts. Therefore, the system has changed dramatically, from one that was highly centralised to an increasingly fragmented, decentralised structure and the relevance of the award system has accordingly decreased (European Foundation 2006).

In Australia profit sharing has been in existence since at least the mid-eighteenth century. In addition to this long history there is evidence in Australia of cyclical levels of interest in these forms and the broad linkage of participation and performance seems to be 'in a state of continual rediscovery' (Lansbury and Davis, 1996: 1). ESO has enjoyed bipartisan support in Australia for more than 30 years now. More recently, the so-called Nelson Committee of the House of Parliament examined ESO schemes. The *Shared Endeavours* Majority Report made a number of recommendations, which, however, were not fully supported by Federal Government. In 2003 a promotional agency was established: 'Employee Share Ownership Development Unit' (ESODU) based in the Department of Employment and Workplace Relations. In February 2004 the Minister for Employment and Workplace Relations, Kevin Andrews, announced a target of doubling the number of employees falling under ESO schemes from 5.5% to 11% by 2009.

The regulation for ESO is made up of tax concessions and certain requirements laid down in corporate law. There is only support for a 'subscription plan', which is a plan with fully paid options or shares funded by profits, remuneration sacrifice or bonus. To qualify for tax concessions the employee must not hold or control more than 5% of the shares in the employer company, and the scheme must be offered to at least 75% of permanent employees. The employee may elect to obtain either a \$1,000 income tax reduction or to defer tax liability on the shares/options for up to 10 years.

Ideas to encourage ESO schemes in contemporary discussion are rather broad and suggest a policy towards extra savings and 'democratisation of wealth' by dispersing ownership within capitalist societies. In 2004, a large scale survey found that businesses more likely agree with organisational culture change and the improvement of workplace relations rather than 'just' increasing levels of performance. The Shared Endeavours Report note that, in order to align more closely the interest of employers and employees, such outcomes appear to be most likely the objective in the public debate. This also fits neatly with the change towards, what could be labelled as organised decentralisation in wage bargaining in Australia and the change towards the 'privileging of individualism in Australian industrial relations' via Australian Workplace Agreements facilitated by 'WorkChoice' legislation (Waring and Burgess, 2006). However, ESO schemes hardly appear in this kind of agreements or other collective agreements. They are more likely to be based on management prerogatives organised and settled outside the bargaining domain. Trade unions are generally sceptical about these schemes, although Lenne *et al.* (2006) observed that ESO schemes may in fact increase trade union voice through share holder activism by highlighting employee issues

## CONCLUSIONS

Profit sharing, in a variety of forms, is an important component of financial participation in most countries. Clearly it is most important and widespread in France, where *Participation*, is compulsory. There are variations in the implementation of profit sharing: in France and the Netherlands profit shares are channelled into employee savings plans, and in Germany into various forms of asset formation, whereas in other countries profit shares may be acquired more or less directly by employees. All-employee share plans (including all-employee stock options) are quite widespread in France, Netherlands, Australia and the UK. A key influence on the incidence of share plans would appear to be the provision of mechanisms to facilitate employee acquisitions of shares: all three countries have savings plan arrangements to support share acquisition. Germany has widened the scope of its asset formation arrangements to include employee shares.

There is quite a wide variation in the perceived merits of financial participation and in national policy objectives. In some cases the capacity of financial participation to enhance medium and long-term employee savings (Germany, France, Netherlands) is viewed as a key benefit, whereas in others (the UK, Australia) the contribution of financial participation to productivity enhancement is more dominant as a catalyst behind FP.

Three positions can be discerned on the linkages between financial participation and industrial relations. One category of countries has mandated the involvement of employee representatives in financial participation. Various French governments made it obligatory financial schemes to be subject to agreement with employee representatives (though an employee ballot could be an alternative). Recent French legislation also gives unions a seat on the boards of the funds which invest workers deferred savings. A second category of countries set the rule that financial participation plans are to be agreed between the social partners, but usually they do not specify how this should be shaped. The Netherlands and Germany are good examples here. The third position is that of the Australian and the UK government, promoting the principle that implementation should be left to the company level without leaving an explicit consultation role for social partners.

The role of unions can have a different outcome in practice. Even when they are in principle critical of financial participation, they may have some pragmatic involvement in the development of financial participation. Common objections are that profit sharing could be too closely linked with wages, so it may facilitate wage substitution, decentralisation of collective bargaining and possibly

weaken systems of collective pay determination. In fact, the evidence provided with our analysis supports this view of FP. A major risk of employee share ownership is that employees' wealth will be subject to market sentiments. Furthermore, extreme reliance on stock-based remuneration for top managers may lead to short-termism and manipulation of earnings by managers. Both trends may lead to adverse consequences for employees. Union hostility to financial participation has therefore to be placed against the background of a broader concern of defending existing patterns of collective bargaining and pay determination.

Although FP is generally diffused in large parts of businesses, there is hardly any evidence of final convergence of forms of FP as they function within the setting of various logics dominating employment relations and national business systems. In that sense a pattern of both convergence and persistent differentiation exists and continues to take place, differing between countries and organisations (Djelic *et al.*, 2005). The changes impacted by the introduction of FP, and possibly the absence of these changes, are not only determined by the character of institutions— being able to change and learn but also 'sticky' with regard to their national setting. Also the actors who shape these institutions, most notably employers, trade unions and government bodies, differ profoundly between national systems in their attitude towards FP and, more general, in the way management proposals are received and acted upon when introducing schemes of FP.

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