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## THE PRACTICE OF FINANCIAL PARTICIPATION IN CORPORATIONS IN THE CEE COUNTRIES

### Abstract

*The application of financial participation, as a way of rewarding employees, is one of the most important topics in the modern practice of rewarding employees because it directly affects employees' attitudes and behaviour. The subject of the paper is the analysis of the application of the employee share scheme, profit sharing, and stock options in rewarding managers, professionals, and clericals in the corporations of nine Central and Eastern European (CEE) countries, members of the Cranet academic network, related to the policy and practice of human resource management in their country. The data, which were analyzed through the SPSS statistical program, were taken from the official Cranet database from 2016. This paper aims to determine the level of application of the three most important types of financial participation in rewarding employees. Various studies have pointed out the importance of applying financial participation to the satisfaction, motivation, and productivity of employees. Based on the theoretical development and empirical data, it has been found that companies in the CEE use a wide range of financial participation schemes and that financial participation is used mostly for managers and professionals.*

**Keywords:** *financial participation, stock, options, rewarding employees, CEE*

**JEL classification:** *M52, M54*

## ПРИМЕНА ФИНАНСИЈСКЕ ПАРТИЦИПАЦИЈЕ У КОРПОРАЦИЈАМА ЗЕМЉАМА ЦИЕ

### Апстракт

*Примена финансијске партиципације, као начин награђивања запослених, представља један од најзначајних тема у савременом награђивању запослених, јер управо њихова примена директно утиче на ставове и понашање запослених. Предмет рада представља анализу примене шема за поделу акција, подела профита и опције/право на куповину акција у награђивању менаџера, стручних радника као и административних и/или физичких запослених у корпорацијама девет земаља Централно-источне Европе (ЦИЕ), које су чланице Кранет академске мреже које се односе на политику и праксу*

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*управљања људских ресурсима своје земље. Подаци који су анализирани путем СПСС статистичког програма, преузети су из званичне Cranet базе из 2016. године. Циљ рада је утврдити ниво примене три најзначајније врсте финансијске партиципације у награђивању запослених. Разне студије су указале на значајност примене финансијске партиципације на задовољство, мотивисаност и прокутивност запослених. На основу теоријског развоја и емпијских података, утврђено је да компаније у ЦИЕ користе широк спектар шема финансијског учешћа, те да се финансијска партиципација користи углавном за менаџере и стручне раднике.*

**Кључне речи:** *финансијска партиципација, акције, опције, награђивање запослених, ЦИЕ*

## Introduction

Due to the escalating globalization that has a strong impact on business worldwide, companies have faced new challenges that leave great impacts on business (Lowe et al., 2002; Harvey & Moeller, 2009; Vasic, 2020; Gašić, 2021). Companies need to find adequate human resource management (HRM) practices to keep their best employees and motivate them to use their knowledge and efforts to influence the company's even greater business success so that it not only survives in a fiercely competitive market but also becomes a leader in its business (Lai, 2011; Darma & Supriyanto, 2017). Business cannot be imagined without the key resources, the employees. To remain the loyalty and satisfaction of employees, it is necessary to define an adequate compensation system consisting of basic salary, incentives, and benefits. HRM primarily involves the care of people, so the authors DeCenzo and Robbins (2002) point out that human resource management is responsible for the human dimension of the organization. The author Dessler (2002) emphasizes that human resource management refers to policies and practices that are necessary to perform managerial tasks, and these tasks relate to recruitment, selection, development, evaluation, and rewarding of employees. Authors von Bonsdorff and Moilanen (2005) point out that most scientists who study human resource management accept rewarding as one of the basic functions in the management of organizations. They also point out that the rewards don't apply only to the managers in the company, but to all employees, regardless of their gender, work experience, or age, and that reward has an indisputable influence on the motivation and productivity of employees, as well as that rewarding is a required managerial job.

The subject of the paper is the analysis of the application of the employee share scheme, profit sharing, and stock options in rewarding managers, professionals, and clericals in the corporations of nine Central and Eastern European countries, members of the Cranet academic network, of economic faculties related to the policy and practice of human resource management in their country. The data, which were analyzed through the SPSS statistical program, were taken from the official Cranet database from 2016.

The structure of the scientific article consists of four parts. The first part relates to the background of the research, where the employees' compensation system would be described, with the emphasis on financial participation, as a form of rewarding

employees in corporations. Three types of financial participation, employee share schemes, profit sharing, and stock options would be analyzed. This is followed by an analysis of HRM compensation practice, population, and GDP per capita practices for all nine CEE countries. The second part will explain the methodology used. The third part refers to the presentation of research results and discussions on the results of the financial participation in rewarding employees for all nine countries of Central and Eastern Europe, where a graphical presentation of all three types of financial participation will be performed, especially for managers, professionals, and clericals. The final part refers to the author's observations on the application of this type of rewarding employees in corporations of CEE countries, shows the advantages and disadvantages of application in selected countries, and provides directions for future research on this topic.

### Theoretical background

Rewarding employees is one of the most important practices in each HRM process. The authors Fay & Thompson (2001) define compensation as a systematic approach to providing a monetary amount as well as other forms of benefits to employees for their work, all to retain existing and attract new employees. Many studies have found that compensations have a great impact on the motivation of all employees, all to achieve the highest possible level of business performance of employees (Harris & McMahan, 2015; Bangun et al., 2019; Ghazanfar et al., 2011; Berber et al., 2017).

The following table shows the elements of the compensation system: basic pay, incentive pay (*individual, group, or organization level*), and benefits.

*Table 1: Compensation system elements*

Basic pay	The minimum level of pay that employees receive for their work. In some situations, it is a standard salary, while in others it is supplemented with other elements of salary.
Incentive pay	There are three types of incentive pay: individual, group, and organizational. An incentive of individuals refers to the success of the individual and his contribution to the business of the organization. Group incentives take into account the success of the whole group, while incentives at the organizational level represent the rewarding of all employees for the achieved performance of the organization.
Benefits	Benefits are an indirect part of the compensation system. They represent benefits above basic and incentive earnings. Examples of benefits could be health and pension insurance, unemployment insurance, a company car, a children's kindergarten, consulting services, etc.

*Source: Author based on Štangel Šušnjar et al., (2017, p. 457).*

Financial participation of employee is a form of employee participation and refers to cases where employees are shareholders of the company in which they are employed, which allows them to have private ownership, which includes participation in the distribution of company profits (Remus, 1983; Pendleton et al., 2003). The most important forms of financial participation that will be analyzed are employee share schemes, profit sharing, and stock options (Kalmi et al., 2006), which will be described below. Financial participation of employees exists as a part of the employment of an

increasing number of employees, especially in the industrialized world (Poutsma et al., 2012).

*Table 2: Theoretical overview of three types of financial participation in rewarding employees*

Employee share schemes	<p>Representing the right to own shares in the company, the company's management often decides to direct this type of participation towards managerial positions because the employees who are responsible for the business results of the organization are employed in these positions. There are mutual benefits for the company and managers such as dividend income or gains from the growth of the value of shares, provides the right to vote, etc.</p> <p>By the fact that managers own the company's shares, they will try to increase the value of the company, which automatically affects the increase in the value of the shares they own (Leković &amp; Šušnjar Štangl, 2009). Also, it can decrease the agency problem in corporations.</p>
Profit-sharing	<p>It is one of the most important components of financial participation in most countries (Welz &amp; Fernández-Macias, 2008). With this type of financial participation, companies have the opportunity to strengthen their image to increase the success and stability of their business. The advantages of using profit sharing as a type of incentive at the organizational level are increased identification of employees with the company, employees are motivated to increase productivity, creativity, and innovation, and cooperation between management and employees is strengthened. The disadvantages can be the following: the effort and the reward aren't always correlated, while the payment is often far from the effect (Yan et al., 2019). There are several types of profit-sharing in business practice: cash is the most popular type of profit-sharing in the form of cash among employees. An example is where the amount of 10-20% of the realized profit can be distributed to the employees in the company. Deferred profit sharing: in which companies remit the amount of the reward to the account of their employees, who can use it only when they retire. The company decides when and how much money it will pay to the employee's account (Štangl Šušnjar et al., 2017, p. 497).</p>
Stock options	<p>Author Bird (2018) defines this type of financial participation as the ability of employees to buy shares in the company in which they are employed at a defined price until a certain date (expiration date). The disadvantage of this type of rewarding of employees is that it is not guaranteed and if the company goes bankrupt, the shares will lose their value. Berber (2015, p. 207) points to changes in Serbia when the privatization process was in full swing in 2000, when large companies were transformed into private property, and when a significant share of foreign companies came into the domestic market. This was one of the possible reasons for the increased use of options. In that period, foreign companies opted more for this type of financial participation than for other forms.</p>

*Source: Authors*

Although financial participation has several advantages, shown in table 2, the authors Poór et al. (2012) found that variable earnings are used to a much greater extent in all categories of employees than financial participation. In situations where financial participation is applied, the authors Karoliny et al. (2009) point out that the most common form of application in rewarding was profit sharing. In the work of the author Berber & Štangl-Šušnjar (2013), a study of the practice of compensation for professionals was conducted and it was found that performance pay is more useful than the application of financial participation in companies from the CEE region. According to Svetlik et al.

(2010), financial participation techniques used in developed market economies such as employee share schemes, profit sharing, and stock options rights, are relatively low in terms of takeovers, while only 5-15% of companies use this type of rewarding employees. The reasons why financial participation is used less than other variable pay methods (i.e. performance-related pay), can be explained in terms of property rights sharing. According to Bryson et al. (2012) in the case of incentive pay for performance, “the schemes do not constitute an entitlement for the workers but are paid on a discretionary basis (tied to individual or group performance), while in the case of financial participation employees have a residual right to the firm’s surplus (income or wealth)” (p. 8).

The following table will present HRM practices as well as basic indicators such as population and GDP per capita (US \$).

*Table 3: Theoretical overview of three types of financial participation in rewarding employees*

Country	Population	GDP per capita (US \$)	HRM compensation practice
Croatia	4.047.200	14.134	The minimum wage is legally determined, and all aspects of variable remuneration are quite present in use. The most common group incentives are profit-sharing, and stock options (which are mainly used in rewarding CEOs) (Vokić et al., 2016).
Estonia	1.331.057	23.027	The minimum wage is defined and private pension funds, as well as schemes to reward employees with profits or shares, are used to a very small extent. There is a decentralized approach when defining the basic salary, for managers, salary is defined on an individual level and there is an increase in the use of incentives (Alas & Kaarelson, 2009).
Hungary	9.749.763	15.980	The Government of Hungary determines the minimum level of salary every year, while the payment is made based on hours or employees' performances. For managers, the compensation system is defined at the individual level, while for other employees, negotiation at the company level is more often applied. Variable earnings in terms of performance-based earnings are used more than financial participation (Karoliny et al., 2009).
Latvia	1.901.548	17.726	The minimum wage is defined by the Government. Civinskā & Dvorak (2017) notice that shares obtained on a privileged basis represent income from the work of the employee and that for this reason they are taxed in the same way as earnings. Since 2013, according to the new law on labour taxation (as well as the rules on tax exemption), employees have been able to acquire shares in their company for free or with a certain discount.

Lithuania	2.794.700	20.233	The minimum wage is set and there is an obligation that each employee must be aware of the total salary he receives. Compensation is influenced by factors such as inflation, unions, the labour market, etc. The payment of bonuses is mostly once a year, most often for the category of managers. Benefits are mainly related to health as well as travel insurance, while family benefits are used to a lesser extent (Pundziene & Bučiuniene, 2009, p. 75-76).
Romania	19.286.123	12.896	The minimum wage is defined by the law. Albu & Bormann (2006) point out that there is no special regulation regarding the distribution of profits other than the share in profits in state or municipal enterprises that are either constituted in the prescribed proper forms. Mass privatization has indirectly affected the growth of employee ownership. The MEBO method had a direct impact on the growth of ownership of shares and the growth of profit sharing.
Serbia	6.908.224	7.720	Earnings are mainly based on hours and seniority, there is a noticeable increase in the use of bonuses, collective bargaining on issues related to earnings, and decentralization in defining salaries. The Labor Law guarantees a minimum wage, and a low level of use of modern forms of variable wages as well as non-financial benefits was noticeable (Štangel Šušnjar & Leković, 2009).
Slovakia	5.458.827	19.266	The minimum wage has been set, but it is noticeable that private pension funds are used to a lesser extent. The highest level of earnings is recorded in the capital of Slovakia, variable earnings are directed more towards earnings for performance, incentives for managers and sales staff are noticeable (Kachanakova et al., 2009, p. 176-177).
Slovenia	2.100.126	25.517	Wages were bureaucratized in the pre-transition period while today they are more decentralized, mostly focused on rewarding employees according to performance as well as the application of financial participation such as share and profit-sharing. The minimum wage is defined by law (Svetlik, 2009, p. 23).

Source: Authors based on <https://data.worldbank.org/indicator>; <https://www.sorainen.com/UserFiles/File/Publications/briefing.Employment-benefits-in-the-European-Union.2007-05-01.Clifford-Chanse-LLP.eng.andisb-agrirs-pdf>

This part of the paper presented the main ideas on financial participation and some empirical results from previous research in the field. The following sections present the methodology used and the results of the research in countries in the CEE.

## Methodology

Data used in the analysis were obtained from the Cranet Network survey. This research is conducted approximately every 4 years in over 40 countries (Brewster et al., 2011; Parry et al., 2011; Berber et al., 2014). The part in which the respondents had the opportunity to answer the questions about whether they offer some of the following

elements of earnings such as *employee share schemes*, *profit sharing*, and *stock options* is in the fourth part of the questionnaire. In addition to these types of salary elements offered to *managers*, *professionals*, and *clericals*, there are also incentives based on individual performance, bonuses based on individual goals/performance, bonuses based on team goals/performance, and bonuses based on organizational goals/performance and non-monetary incentives.

Cranet is an academic network of economics faculties that includes a wide range of countries that regularly collect unique and mutually comparable data related to their country's human resource management policies and practices. It was founded in 1989 based on cooperation between members from Great Britain, France, Germany, and Sweden. The Cranet survey uses a standardized questionnaire that has been translated into all the languages of the members of this academic network. This questionnaire is filled out by human resource management experts in companies with more than 50 employees. The survey can be conducted online, by mail, or through a personal interview with the respondent. The questionnaire contains questions related to the basic activities of HRM and consists of six parts: the first part refers to the activities of HRM in the organization, the practice of recruiting and selecting candidates in the organization, employee development, compensation, and benefits of organization, employee-employer relations and communication in the organization and the last part deal with information about the organization (Parry et al., 2013, p. 1). In the analysis of the application of financial participation in the remuneration of employees in CEE corporations, the database from 2016 was used, where an analysis of a total of 468 corporations was performed. During the analysis of the application of financial participation, a selection was made of companies belonging to the private sector and which are open joint-stock companies (listed on the stock exchange).

*Table 4: Overview of the CEE countries sample*

<b>Country</b>	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>
Croatia	51	10,9	10.9
Estonia	15	3.2	3.2
Hungary	45	9.6	9.6
Latvia	16	3.4	3.4
Lithuania	26	5.6	5.6
Romania	44	9.4	9.4
Serbia	37	7.9	7.9
Slovakia	208	44.4	44.4
Slovenia	26	5.6	5.6
Total	468	100	100

*Source: Authors based on data taken from the 2016 Cranet database*

The following table shows the size of the company according to the number of employees in the organization. Companies with 1-249 employees are described as small and medium, while companies with more than 250 employees are as large (Jovic et al., 2009).

Table 5: Overview of the size of the company according to the number of employees

Size of the company by number of employees	Frequency	Percent (%)	Valid Percent
SME	227	48.5	49.1
Large	235	50.2	50.9
Total	462	98.7	100
Missing	6	1.3	
Total	468	100	

Source: Authors based on data taken from the 2016 Cranet database

The following table will show the number of organizations based on their affiliation with the private or public sector. The private sector implies a part of the economy run by private individuals or groups of people to make a profit that is not under state control (Hancock et al., 2011) on the other hand there is a public sector that is part of the state (Serrat, 2017).

Table 6: Review of affiliation to the public or private sector

	Sector	Frequency	Percent (%)	Valid Percent
Valid	Private sector	460	98.3	98.3
	Public sector	8	1.7	1.7
	Total	468	100	100

Source: Author based on data taken from the 2016 Cranet database

Based on the data shown in table 6, we conclude that out of a total of 468 samples, the largest part belongs to the private sector as many as 460.

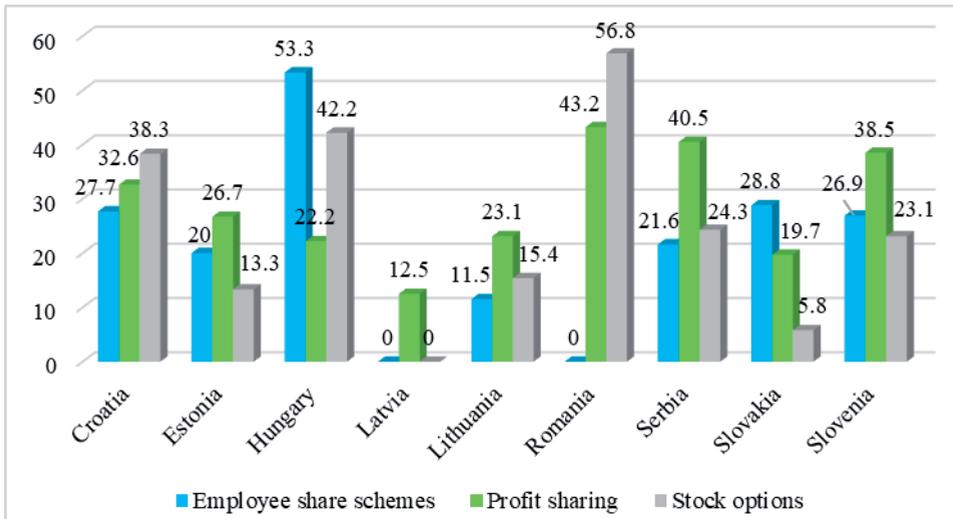
Also, the largest number of organizations serve the national market (181), followed by the world (124), regional (76), continental (73), and local market (12). According to the analysis of the sample according to the main sector of operations to which they belong, out of a total number of companies 43% belong to manufacturing and 57% to the service sector.

### Research results and discussion

In this part, a graphical presentation of the results will be performed based on the analysis of data from the 2016 Cranet questionnaire. The analysis was performed for three groups of employees, managers, professionals, and clerical/manual workers, for all three forms of financial participation, employee share schemes, profit sharing, and stock options for all nine CEE countries.

The following chart shows the percentage of the implementation of *employee share schemes*, *profit sharing*, and *stock options* for managers for nine CEE countries.

Figure 1: Percentage application of financial participation for CEE member

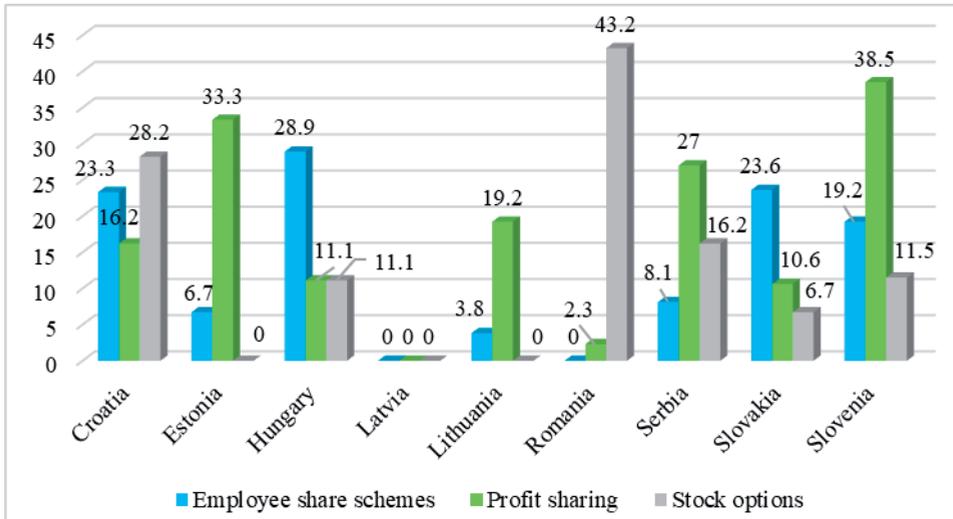


Source: Authors based on data taken from the 2016 Cranet database

Based on figure 1, we conclude that out of a total of nine countries, seven use *employee share schemes* as a form of financial participation for managers. Hungary mostly uses this type of financial participation in rewarding managers with as much as 53.3%, which is a significant application compared to other countries, followed by Slovakia, Croatia, Slovenia, Serbia, and Estonia, which have a percentage between 20 and 29, while Lithuania has a slightly lower percentage of only 11.5. The countries that don't use this type of rewarding employees at all are Latvia and Romania. Comparing the use of *profit-sharing*, we conclude that Romania has the largest percentage with 43.2%, followed by Serbia with 40.5%, while other countries record percentages below 40 such as Slovenia, Croatia, Estonia, and Lithuania. Hungary and Slovakia, while the lowest percentage of implementation of this type of financial participation is used by Latvia with only 12.5%. Comparing stock options, we conclude that Latvia is the only country that doesn't use, while the largest percentage is recorded by Romania with 56.8%, followed by Hungary with 42.2%, Croatia with 38.3% while other countries record slightly lower values. Based on the conducted analysis, we come to the conclusion that the highest priority in rewarding managers in nine CEE countries is recorded by *profit sharing* (26.3%), followed by *employee share schemes* (25.4%) while the lowest level of application in rewarding is *stock options* (20.5%).

The second chart shows the percentage of the implementation of *employee share schemes*, *profit sharing*, and *stock options* for professional workers for nine CEE countries.

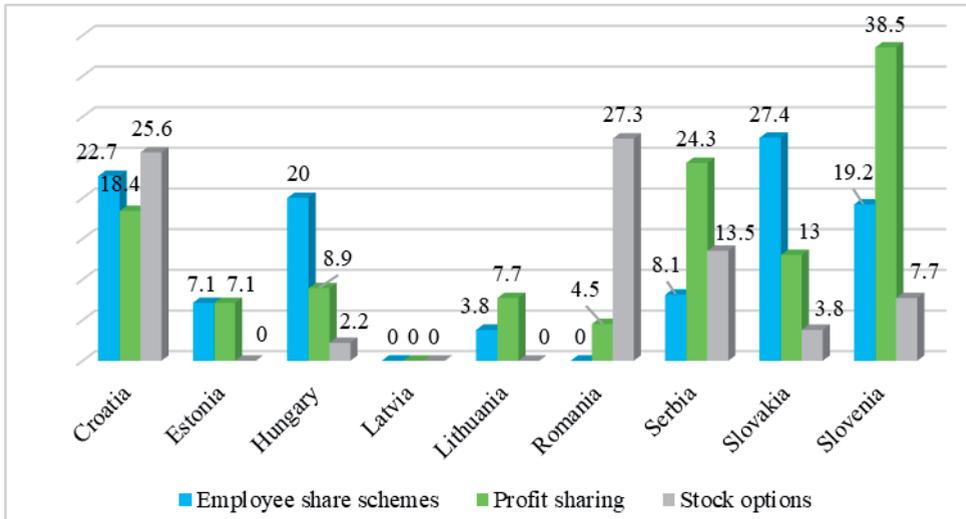
Figure 2: Percentage of application of financial participation for professionals of CEE members



Source: Authors based on data taken from the 2016 Cranet database

Based on figure 2, we conclude that out of a total of nine countries, Latvia and Romania don't use employee share schemes to reward professionals. The largest percentage is recorded by Hungary at 28.9%, followed by Slovakia, Croatia, and Slovenia, while Serbia, Estonia, and Lithuania have a slightly lower percentage of implementation. Comparing profit sharing, we conclude that out of nine countries, Latvia doesn't use this type of financial participation in rewarding professionals, while Slovenia has the largest percentage of 38.5%, followed by Estonia and other countries, with slightly lower application rates. Romania has the lowest value of eight countries using this type of reward with only 2.3%. Comparing stock options as a form of rewarding professionals showed that out of a total of nine countries, as many as three: Estonia, Latvia and Lithuania don't use this type of financial participation in rewarding professionals. Romania has by far the largest percentage of implementation at 43.2%, followed by Croatia with 28.2%, and other countries: Serbia, Hungary, Slovenia, and Slovakia have a slightly lower percentage of implementation. Based on the conducted analysis, we conclude that the highest priority in rewarding managers in nine CEE countries is recorded by *employee share schemes* (17.8%), followed by *profit sharing* (14.1%) while the lowest level of application in rewarding is *stock options* (12.7%).

Figure 3: Percentage of application of financial participation for clericals/ manual workers of CEE members



Source: Authors based on data taken from the 2016 Cranet database

Based on figure 3, we conclude that out of a total of nine countries, Latvia and Romania, don't use employee share schemes to reward clericals. The largest percentage of implementation is recorded in Slovakia with 27.4%, followed by Croatia at 22.7%, Hungary at 20%, and Slovenia at 19.2%, while Serbia, Estonia, and Lithuania have lower percentages. Comparing profit sharing in the remuneration of clericals, we conclude that only Latvia doesn't use this type of financial participation in remuneration while other countries use it to some extent, so Slovenia has the largest percentage of 38.5 %, then Serbia with 24.3%, Croatia 18.4% while other countries record slightly lower values. Comparing stock options of rewarding clericals showed that out of nine countries, as many as three: Estonia, Latvia and Lithuania don't use this type of financial participation. Compared to other countries, the largest percentage of implementation is recorded by Romania with 27.3%, followed by Croatia with 25.6%, and then other countries with a slightly lower percentage of implementation. Based on the conducted analysis, we conclude that the highest priority in rewarding managers in nine CEE countries is recorded by *employee share schemes* (18.7%), followed by *profit sharing* (13.7%) while the lowest level of application in rewarding is *stock options* (8.4%).

### Conclusion

Based on the analysis of the application of financial participation (employee share schemes, profit sharing, and stock options) in rewarding employees (managers, professionals, clerical and manual workers) in corporations from the CEE, we conclude that the highest application is the rewarding of managers in all three types of remuneration, so in the case of employee share schemes, (24.4%) concerning clericals

(18.7) and professionals (17.8%). In the case of profit-sharing, managers (26.3%), professionals (14.1%), and clerical (13.7%). When comparing the application of stock options in rewarding employees managers (20.5%), professionals (12.7), and clericals (8.4%). The analysis of the application of financial participation for managers shows that some countries don't apply all types of participation for managers, so Latvia doesn't apply employee share schemes and stock options, and Romania doesn't apply employee share schemes. If we look at the highest level of financial participation as a form of rewarding managers, we conclude that Hungary has the highest level of implementation of the employee share scheme. Analyzing the application of financial participation in the remuneration of professionals from CEE member states, we conclude that Latvia doesn't use this type of financial participation in remuneration at all, while Hungary has the largest application of the employee share scheme, followed by Serbia and Croatia. Slovenia records the largest use of profit sharing and Romania stock options. By analyzing the application of financial participation in the remuneration of professionals, we conclude that Latvia doesn't apply any of the analyzed types of remuneration. Slovakia has the largest application of the employee share scheme, Slovenia uses profit-sharing, and Romania the stock options in rewarding professionals. In summary, Latvia records the lowest level of application of these types of rewards for its employees, while other countries record significantly higher levels of application.

Financial participation, as a form of rewarding employees in the business of every company around the, could have a significant impact on increasing employee satisfaction, and motivation and thus affects the growth of productivity and efficiency. On the other hand, there could be found a reduction in operating costs which could be used to reward employees and invest in business development. Also, the contemporary pandemic crisis raised several issues in business. For example, flexible work arrangements have changed the business of corporations around the world and have a significant impact on employee attitudes and behaviour (Gašić & Berber, 2021), as well as on corporate efficiency (Gašić, 2021). Employees around the world suffered social distance and lack of face-to-face cooperation for almost two years, so the problem of the lack of motivation, team cohesion, and potential turnover intentions are becoming more threatening factors for HRM professionals in companies. The potential that lies in financial participation, as employees' reward techniques, relates to ownership. If employees own a certain amount of ownership in the company in which they work, such as shares (equity securities according to Rydqvist et al., 2014), they will be focused on securing their share of ownership, increasing value because they know that if there is a loss in the company, there would be a decline in the value of their share owned by the company. Also, financial participation could reduce the agent-principal problem, since managers, that would have shares in companies where they are employed, would be more oriented to business goals and organizational performance, to increase the value of the companies, and by that, their value. According to Denis et al. (1997), "as managers' ownership stakes increase, they bear a greater fraction of the costs associated with value-reducing actions and are therefore less likely to adopt policies that reduce shareholder wealth" (p. 140). McConville et al. (2020) found that employees' share ownership schemes led to a greater sense of inclusion of employees, which is important for enhancing their loyalty and satisfaction.

Although there are many observed benefits of financial participation, companies from the sample in the CEE countries still use them on a lower level. McConville et

al. (2020), based on semi-structured interviews with 37 participants in nine companies in the United Kingdom, found that employees felt that share ownership schemes had “not increased their motivation, commitment or performance because they were already exhibiting these at a high level, as any good employee should” (p. 2340). Also, employees stated that the payoff of that kind of incentive is too in the future so they can't feel the real effect in present.

Future directions of research development are reflected in getting a larger sample, as well as in a deeper analysis of the financial participation in corporations in the CEE countries and organizational and workers performances.

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