



HAL
open science

Financial Participation in Europe

Hiroatsu Nohara, Robert Tchobanian

► **To cite this version:**

Hiroatsu Nohara, Robert Tchobanian. Financial Participation in Europe: Inventory Study France. [Research Report] Nijmegen School of Management; Laboratoire d'économie et sociologie du travail (LEST). 2001, pp.26. halshs-00511403

HAL Id: halshs-00511403

<https://shs.hal.science/halshs-00511403>

Submitted on 7 Sep 2020

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.



Distributed under a Creative Commons Attribution - NonCommercial - NoDerivatives 4.0 International License

Financial Participation in Europe. Inventory Study France

Hiroatsu Nohara, Robert Tchobanian (LEST)

(extract from : Poustma E. (ed), (2001) Practices of Financial Participation in Europe: The Situation in Six Member States

Introduction

Financial participation has developed extensively in France, especially since the 1960s, largely due to the role of French legislation and tax incentives. But there are other reasons why it is still evolving.

Employee financial participation covers three areas that are only partially related:

- Sharing corporate profits and financial results which, subject to certain conditions, are distributed to the employees.
- Collective forms of employee saving - that is, in co-operation with the employer company. A large part of the sums devoted to profit sharing go into these employee saving schemes, which also receive additional voluntary contributions on the part of employees and matching contributions from employers.
- Such employee savings schemes may be used to buy company shares, thus promoting employee share ownership.

Nevertheless, these types of participation concerns only a limited part of the workforce today: civil servants are excluded by definition; and by the end of 1997, only 22% of employees in private and public companies who were eligible for financial participation schemes had savings invested in their companies (Burrigand, 2001). Employee share ownership (ESO) concerned an even smaller number of employees: an estimated 700,000 to 1,200,000 of them were shareowners in their own company. In 1999, 17% of companies with more than 500 employees had share-owning employees, but under 3% of smaller companies did (Jallet, Franceschi, 2001). Financial participation appears to be limited to the more privileged portion of the private sector's workforce. And yet, because of the corporate and social security tax concessions it offers companies and employees, the whole set-up is very costly for the State. The overall estimated cost for the French government is close to 5.5 billion euros (Balligand J-P, de Foucauld J-B, 2000). The role of employee financial participation in the French economic and social system remains to be clarified.

The three different types of financial participation differ in scope - for example, profit sharing involves many more employees than does share ownership. They differ in historical background, since share ownership has developed fairly recently. And the issues

for each type of financial participation are different with respect to the interaction of social participants, or their economic and social effects. This type of participation is also linked to other mechanisms. Profit sharing schemes interfere with companies' payroll policies. Employee saving schemes are developing as it becomes more and more difficult to finance pension schemes. Employee share ownership is linked to stock option practices, even though the latter primarily serves a rationale of building staff involvement and loyalty for part of the workforce. This type of financial participation also should open up possibilities for employee participation in company management and strategy, and therefore confront the issue of company control and employee representative action. More generally, the economic and social model for French enterprise faces increasing globalization of financial markets and of goods and services.

This is why the system is changing. Both economic growth in recent years and the development of financial markets are encouraging debate on a topic that used to be less newsworthy. Such growth is contributing to the development of the two legal profit sharing systems (mandatory profit sharing, and company performance-related bonuses). Managers are developing increasingly complex financial tools for optimizing employee saving schemes. Employee share ownership in large companies has been given impetus by the privatization of state-owned companies.

A law passed in early 2001 is an attempt to deal with the increasingly important role of financial participation. It will affect 1) employee saving schemes by spreading their use to small companies and increasing their term; 2) the role of collective bargaining in the development of employee saving schemes; and 3) the enhancement of shareholding-employee representation within corporate structures. These measures will only begin to take effect in coming years. Our study concerns the current situation and does not take the new provisions into account.

Legal context of financial participation.

Financial participation is under a high degree of legal supervision. One of its forms, deferred profit sharing, is mandatory for companies with 50 employees and more. The other forms are discretionary or optional, although they are subject to the regulations that apply to tax and social security tax exemptions. The State uses these laws to "soften" the relationship between company and staff, by giving employees the opportunity to benefit from company profits over and above their income from wages and salaries.

Employee financial participation in France has enjoyed legal status for a long time. France's co-operative manufacturing companies (SCOP) obtained legal status as early as 1915. Today they represent about 30,000 employee-owners, although the principle involved is not true financial participation, but a collective property administered by the employee-owners.

The French government established the first coherent framework for financial participation during the presidential term of General Charles de Gaulle (1958 à 1969). This was based on a model for associating capital and work that was defined by the post-W.W.II Gaullist

movement (Chérioux, 1999); at the time, it already provided for the three levels of financial participation.

Setting up a profit sharing system

A provisional Order (equivalent to a law) dated January 7, 1959 created a plan for a system of company performance-related bonuses, called *intéressement*, whereby the company pays its employees income that is independent of wages, but based on criteria that are defined in a company-wide agreement. This form of financial participation is collective, although it may be distributed in several different ways; it is also unpredictable, because it is determined using a formula based on the chosen criteria (in other words, a formula for sharing the company's profits as a function of financial, economic, or technical performance). The practice of company performance-related bonuses is discretionary, but adopting it results in some tax and social expense deductions for the company. Furthermore, if the sums paid out are frozen by the employees themselves within a saving scheme, they are income-tax free (see below). Although the conditions and scope of the system have been somewhat modified since then, they remain essentially the same.

Another Order dated August 17, 1967 instituted mandatory profit sharing for companies with 100 or more employees (50 since 1990). This type of financial participation, as its name indicates, is also a form of profit sharing. However, the Order established that, unlike the system of company performance-related bonuses, the sums of money involved in mandatory profit-sharing schemes would be made unavailable for a five-year period, with the exception of specific events in the lives of the employees (marriage, births, etc.). This brought up the question of what to do with the money while it was frozen, and as a result, financial participation was extended to include employee saving schemes.

Establishing medium-term employee saving schemes

Initially, funds from mandatory profit-sharing schemes could be kept within the company in the form of blocked accounts benefiting from a fixed rate of interest (the current legal base rate is 6%). The legislation provided for other forms of saving for the amounts from company performance-related bonuses and mandatory profit sharing, such as the purchase of company shares (frozen for five years in the case of mandatory profit sharing). This form of share ownership, however, did not catch on. Also, investing the frozen funds in securities required the use of financial instruments.

Therefore, a third Order also dated August 17 1967 established PEE (*Plan d'Épargne d'Entreprise*) company saving schemes that can receive the frozen amounts from mandatory profit sharing. PEE schemes can also receive voluntary employee contributions from company performance-related bonuses (in this case, they would be exempt of the major portion of income tax) and from additional independent employee contributions. A company may encourage this type of saving by making matching contributions, free of social security tax. The funds invested in PEE schemes are also frozen for five years. Like the blocked accounts, PEE schemes are an important tool for orienting employee savings towards investment in the company. While blocked accounts used to be more prevalent,

most employee saving is now organized through PEE schemes. Funds placed in a PEE stay there until they are invested in various collective investment schemes: mainly the FCPE (*Fonds Communs de Placement d'Entreprise*) company investment funds that were created in 1968. These pool employee savings to invest in various types of securities.

Slow development for employee share ownership

Investing their savings via FCPE funds is the main way that employees may acquire share ownership in their companies and benefit from the tax privileges associated with employee saving schemes. The law provides for both FCPE funds that invest entirely in company shares and diversified FCPE funds that invest mainly or wholly in diversified securities. Therefore, employee saving schemes can either serve to develop employee share ownership (ESO), or lead to financial investments totally unrelated to the economic life of the employer company. The direction this category of savings will take is a function of the reactions of the actors involved, in particular company management offices.

As a means of financial participation, FCPE funds have always combined profit sharing, employee savings, and employee share ownership. Contrary to the hopes of some of its promoters in the "leftist" component of the Gaullist movement, however, it has not led to a significant change in the social model and management practices of French business enterprises. For a long time, neither distributing shares directly nor investing employee savings in specific FCPE funds helped to develop ESO.

Since the early 1970s government policy has tended to encourage the establishment of ESO schemes. A number of government bills have been introduced, not always with real results:

- the January 1970 (Renault) and 1973 Acts (nationalized banks and insurance companies, public aviation) to further the development of ESO in State-owned companies;
- the December 1970 Act establishing stock option schemes;
- the December 1973 Act establishing ESO schemes in the private sector, amended in 1976 and 1980 to include provisions for the free distribution of shares to employees;
- the July 1984 Act concerning employee buyouts; and
- the August 1986 Act concerning provisions for privatization of State-owned companies, reserving 10% of the shares sold for company employees.

At the same time, the employees savings system was improving by stages. Legal provisions were added to encourage ESO schemes as a means of saving. An Order dated October 1986 provided for the issue of shares reserved for employees in PEE company saving schemes at a preferential price (on top of the tax deductions granted for such schemes). The 2001 Fabius Act is overhauling the entire employee saving system. Even though ESO is only a partial objective, the Fabius Act promotes it through restricted capital increase or partial privatization of State-owned companies.

Government policy in favour of financial participation: initial assessment

The legislation developed over a period of forty years, via governments with different political orientations and in changing economic situations. The initial drive during the Gaullist period was towards a compromise between work and capital. At the time, however, neither management nor most of organized labour were seeking any real change. During the 1980s, government policy alternated between nationalization (1982) and privatization (from 1986 to 1988), which explains why debate on employee savings and ESO picked up again. During the 1990s, these political and ideological objectives gave way to economic and social considerations (a significant upswing in the stock market and worries about the future of retirement funds).

Despite the divergence, a number of common characteristics have gradually emerged as a framework for the French model for financial participation:

- The State has played a decisive role in the development of profit sharing, providing a framework, obligations, and a system of financial incentives. However, this has encouraged employee savings more than ESO.
- Financial participation was clearly distinguished from payroll: barring exceptions, the amounts involved must be independent of company payroll policy. Unlike wages, financial participation is unpredictable and subject to fluctuation over time because it is linked to performance (qualitative or quantitative).
- Financial participation is not a strategy for incentivizing individuals personally or selectively, unlike certain types of stock option. Because it is designed to be collective, it concerns all company employees.
- The collective aspect justified setting up a system of social dialogue within companies for organizing financial participation, utilizing the results, and monitoring the schemes. Negotiation is an important component of such dialogue, but when it began to develop, collective bargaining played a very minor role in business enterprise. Therefore, financial participation appeared in forms that were "tolerated" as exceptions to the French system of industrial relations.
- Financial participation has developed in the mainstream of the productive system, i.e., in medium-sized and large business enterprises. It is spreading slowly to smaller companies.

Schemes and types of financial participation

The various types of financial participation have already been mentioned in the brief history of the French model. Each scheme follows its own logic, but is part of a complete system that combines three levels of employee financial participation (profit sharing, savings, share ownership) in different ways as the case may be. The four basic schemes are 1) mandatory profit sharing; 2) company performance-related bonuses; 3) company saving schemes; and 4) the FCPE investment funds.

Mandatory profit sharing

Since 1990, companies with 50 or more employees (previously 100 or more) are required to distribute part of their profits. When any after-tax profits exceed a certain percentage (5%, subject to exceptions to the benefit of employees) of company capital, half of the additional profit, weighted by the importance of wages in value added, is allocated to a special mandatory profit-sharing fund (the RSP) for employees. In companies with fewer than 50 employees, this type of profit sharing is discretionary.

All employees who have been with the company at least six months are eligible for mandatory profit sharing schemes, although the parties may agree to set a lower minimum seniority limit. The 2001 bill contains a provision limiting it to three months. Mandatory profit-sharing schemes don't pay out to employees immediately. The sums involved are frozen for five years, although in certain cases (marriage, birth of children, etc.) the money may be unfrozen before maturity; they are also subject to certain social security taxes that apply to all income.

Although mandatory (50 employees and more), these profit sharing schemes are organized as a function of negotiated agreement between employer and employees or their representatives. There are four types of agreement: the company may 1) adhere to a collective labour agreement that is signed at the industry-segment level; 2) sign an agreement with one or several union organizations represented within the company; 3) sign an agreement with the elected works council (*Comité d'entreprise, CE*); or 4) have an agreement ratified by two-thirds of the workforce in a referendum. Combination types involving several intermediaries are also possible. In the absence of an agreement, the organizational conditions for mandatory profit sharing are defined by law.

A three-year agreement stipulates the conditions, in particular the minimum seniority limit for benefiting from the scheme (if the limit is lower than the one under the law); the terms and conditions for defining and distributing the funds (chosen from those provided for by the law, with possibility for exceptions in favour of employees); and how the money will be invested while it is frozen (blocked account, PEE scheme, FCPE fund, etc.). The parties may agree to lower the freezing period from 5 to 3 years, with a reduction in tax privileges. When the 2001 bill is implemented, this reduction will no longer apply to new agreements.

Company performance-related bonus schemes (intéressement)

Company performance-related bonus schemes are discretionary, but they must also be negotiated. The agreement may be signed by union organizations or by the elected members of a works council, or it may be accepted by employee referendum. Company performance-related bonuses constitute a way to distribute income tied to the company's profits or to cost-effective criteria (productivity gains, quality, etc.) to employees. Therefore, it is not a function of profit alone, but rather of the company's economic growth, and it allows more flexibility for the company's social partners. Like mandatory profit sharing, the company performance-related bonus may not be used as a substitute for wages and is calculated on a collective basis (which sets it apart from a system of individual

bonuses). It is limited by law (20% of total gross earnings, and 50% of the maximum annual wage ceiling used for purposes of French national health and pension payments). A minimum seniority limit is set at 6 months (3 months in the new law).

The amounts paid out as part of a company performance-related bonus scheme are entirely tax free for companies, and payroll-tax free for employees. Unlike mandatory profit sharing, these bonuses are immediately available, although subject to income tax if used. If the employee chooses not to use the amount directly, he/she may choose between two ways to save it:

1) A "time savings account" (a 1994 provision) may be set up by agreement with trade unions at corporate or industrial-segment level. Under certain conditions, employees may "save" time in consideration of flexi-time systems or of the mandatory reduction in work hours (the 35-hour workweek). They may also save the bonuses received through company performance-related bonus schemes. When these savings reach maturity, the time or money may be recovered in the form of extra leave. Employees must pay income tax on the earnings for these vacation periods.

2) PEE schemes are the main vehicle for saving company performance-related bonuses. The amounts invested in such schemes are frozen for a minimum of five years. They are entirely income tax free, although subject to certain social security taxes that apply to all income.

Company saving schemes (PEE) and investment funds (FCPE)

Company saving schemes (PEE) constitute the third "pillar" of financial participation. PEE schemes involve the building of employee savings, sometimes with the help of the company, and are not directly related to corporate profits or economic results. They are discretionary and may be set up unilaterally by the employer, or via an agreement with staff or their representatives. Employees may make voluntary contributions to the PEE scheme (including a portion of company performance-related bonuses). The company may encourage such contributions by making matching contributions (*abondement*). PEE schemes may receive money from profit sharing schemes, and are also subject to a five-year freezing period. In return, the State grants certain social and tax benefits to both employer and employees. As with mandatory profit sharing schemes, specific employee circumstances may lead to unfreezing before maturity.

FCPE funds are the most important type used in PEE scheme. These are investment funds reserved for the employees of the companies creating the fund. FCPE funds are managed by financial companies (*Gestionnaire et dépositaires*) that act on behalf of the companies and their employees. An FCPE fund is a collective stock of securities (in some cases, shares in the companies themselves) for account of the employees, who are co-owners of the fund. An FCPE fund might be reserved for the employees of a single company (which is usually the case) or shared by several companies (especially smaller companies).

FCPE fund managers must specify the fund's management policies (type of investment) and how its members are to be informed. A supervisory board is set up with employee and company representatives for monitoring fund management.

There are actually two types of FCPE investment fund. Some are diversified (FCPE Article 20). These combine a range of financial assets, including in principle no more than a third in shares from the employer company. Other FCPE funds (FCPE Article 21) contain mostly securities issued by the employer company. In that case, the FCPE fund is a direct support for employee share ownership.

Employee share ownership.

There are several forms of employee share ownership (ESO) in France: 1) securities that are distributed directly as part of mandatory financial participation; in 1997, however, only 0.6% of ESO funds were distributed in this form (Chérioux, 1999); 2) funds acquired when publicly owned companies are partially or totally privatized; 3) the issue by private companies of shares reserved for employees; and especially, 4) shares in the company acquired through the FCPE funds.

There is a fifth possibility, which the French call *stock-options* or *plan d'option sur action*. (Details in § 4.3.) The rules and regulations for this have existed for a long time, although schemes have started to develop only recently. Allocation of these shares is generally very selective, reserved either for upper management or for start-up companies. The whole system is in the process of being redefined.

Development of financial participation with a focus on broad-based share ownership

Schemes for profit sharing, employee savings, and employee share ownership are also differentiated by the level of information required as a function of the legal obligations for each case.

4.1. Participation of employees in corporate economic growth and profits

Both mandatory profit-sharing and company performance-related bonus schemes require that companies communicate certain facts and figures concerning the scope of the schemes (the population covered, agreements negotiated, bottom line figures, etc.). A "Superior Council of Participation" established in 1994 publishes a general statement of financial participation data. The latest statement published is for the 1998/1999 period.

4.1.1. The development of mandatory profit sharing: agreements and population covered

In late 1998, a total of 5,012,399 employees in 20,256 companies were concerned by 16,989 agreements covering the mandatory schemes required for medium-sized and large business enterprises. Less than 2 % of the workforce concerned work in companies with fewer than 50 employees.

Company size	Number of companies	Percent of all	Number of employees	Percent of all
1 - 49	4 520	22.3 %	99 233	1.9 %
50 - 99	6 253	30.9 %	452 909	9 %
100 - 199	4 490	22.2 %	627 110	12.5 %
200 - 499	2 876	14.2	870 805	17.4 %
500 - 1999	1 354	6.7 %	1 215 591	24.3 %
2000 - +	276	1.4 %	1 746 751	34.8 %
Total	19 769*	97.6 %*	5 012 399	100 %

* 487 agreements in subsidiary companies of groups without employees.

Participative schemes were set up as part of an industry-wide agreement in fewer than 3% of cases; in more than 97% of cases, a company-wide agreement was signed. This result shows the specific nature of financial participation in the French industrial relations system, which is much more decentralized than it was twenty years ago when industry-wide bargaining was one of its main characteristics. Negotiating mandatory profit-sharing and company performance-related bonus schemes developed as an exception to collective bargaining, which provides only for agreements signed by union organizations; here agreements may also be concluded with the elected members of a works council (CE) (whether they are union members or not), or directly with employees via a referendum. The types of agreement made in 1998 are shown below.

Way of agreement	Percent of agreements
External collective agreement	2,8 %
Internal agreement with unions	11 %
Agreement with CE	64,6 %
Referendum	17,9 %
Other way	3,7 %

4.1.2. Company performance-related bonus agreements

Company performance-related bonuses are discretionary, but they must be applied within a legal framework. In late 1998, 14,180 three-year agreements concerning 3,052,713 employees were in effect (including agreements signed in 1996, 1997, and 1998).

Company size	Number of companies	Overall percent	Number of employees	Overall percent
1 - 49	10 458	65.4 %	172 285	5.7 %
50 - 99	1 761	11 %	126 840	4.2 %
100 - 199	1 476	9.2 %	210 123	6.9 %
200 - 499	1 125	7 %	347 497	11.4 %
500 - 1999	697	4.4 %	660 204	21.5 %
2000 - +	201	1.3 %	1 535 774	50.3 %
Total	15 718*	98.3 %*	3 052 713	100 %

* 269 agreements in subsidiary companies of groups without employees.

Such schemes are more widespread in small companies than profit-sharing schemes, but percentage-wise, they affect even more employees from very large companies. Furthermore, since 1992 the population concerned by mandatory profit-sharing schemes has stayed relatively stable at slightly under 5,000,000 employees (increasing in 1998 due to the arrival of France Telecom under the law), whereas company performance-related bonus schemes have been increasing (400,000 additional employees).

Here again, there are several different procedures for concluding agreements. Since small companies are more heavily involved in bonus schemes than profit-sharing schemes, ratification by employee referendum is a popular method (60.8 %). In medium-sized companies, the works council is signatory, whereas in large companies, union organizations usually sign agreements.

Mandatory profit-sharing and company performance-related bonus schemes can be used together. In 1998, 4676 companies and 1,939,734 employees were concerned by agreements for both.

4.1.3. Financial results of mandatory profit-sharing and company performance-related bonus schemes

Just because there is a bonus or a profit-sharing agreement doesn't mean that there are amounts distributed to employees every year. Distribution requires a certain level of profit or that bonus criteria be met - and this is more often the case during periods of growth. In 1997, for example, 5.5 million employees were covered by at least one out of the two schemes. Given the favourable economic situation, this meant that the companies involved were able to distribute profit-sharing or bonus income to 4.4 million employees in 1998. On the average, each employee received 930 € under the mandatory profit-sharing scheme and 850 € in company performance-related bonuses, or a total of about 5.34 billion euros for the entire economy. In companies that used both schemes, that average gain was approximately one month's salary.

That same year, mandatory profit-sharing schemes made it possible to distribute earnings to 68% of employees who were covered by an agreement. A total of 3.4 million employees received nearly 3.2 billion euros, compared to 2.64 in 1997. These amounts, which are frozen for three to five years, used to be kept within the companies in the form of blocked flat rate accounts. Since the early 1990s, FCPE schemes are the vehicle for most of these funds (2/3 in 1998).

A total of 2.13 billion euros was paid out to around 2,470,000 employees in company performance-related bonuses. Employees may use their bonuses immediately or save them via a "time savings account" (a system that is hardly used) or a PEE company saving scheme. These voluntary contributions are frozen for five years and are income tax free. About a third of the amounts paid out were invested in PEE schemes. The other two-thirds were used directly as additional income.

More recent data for 1999 confirms and expands on these trends. 5.4 million employees received payments as part of company performance-related bonus and mandatory profit-sharing schemes. This included 37% of employees in the trade sector (excluding agriculture) and represented 7 billion euros (Jallet, Franceschi, 2001).

4.2. Employee saving schemes

Employee saving is an important aspect of the financial participation system. Employee saving schemes do not constitute the largest investment for employees, however. Only 22% of employees in the private sector had savings invested in their company by late 1997, while more than a third had long-term savings invested in life insurance (Burrigand, 2001). 63% of employees in employee saving schemes use PEE schemes, making these the principal system used for such savings. But insofar as it has been redefined by the Fabius Act of 2001, employee saving is on the rise.

In 1997, 1.3 million employees invested 2.94 billion euros in savings in PEE schemes, with an average deposit of 2160 euros. A total of 8700 companies use these schemes, in particular when they have agreements for both mandatory profit sharing and company performance-related bonuses. This type of profit sharing is not the only source of contributions, however. For every 100 francs deposited in a PEE scheme, 21 francs are from the transfer of company performance-related bonus income, 22 francs from mandatory profit sharing, 38 francs from additional voluntary contributions made by employees, and 19 francs from matching contributions (*abondement*) made by employers. PEE schemes make it possible to augment the savings from profit-sharing schemes. Only one out of five employees in a company saving scheme, however, makes the additional voluntary contributions that allow them to benefit from matching contributions from the employer. This would indicate that only higher paid employees are able to put money aside in this way.

In 1997, only 640 million euros from mandatory profit-sharing schemes went into PEE schemes, generally in the form of FCPE company investment funds. The rest, about 2.5 billion euros, was invested either in blocked accounts or in FCPE funds outside the PEE company schemes.

Looking at the various methods used for employee saving (PEE schemes, blocked accounts, FCPE investment funds, direct share ownership) together shows that more than 40% of employees in the private sector who earn at least 1830 € per month have invested in such savings, compared to under 20% of those who earn less than 1220 € per month.

Overall employee savings for 1997 are estimated at 5.4 billion euros, breaking down as follows (Balligand, de Foucauld, 2000):

- savings related to profit-sharing schemes, 3.14 billion was frozen in mandatory profit-sharing schemes, and 0.625 billion consisted of company performance-related bonuses saved;

- direct employee savings, 1.112 billion consisted of additional voluntary contributions to PEE schemes, and 0.548 billion, of matching contributions from employers.

The total amount of employee savings accumulated by the end of 1997 is evaluated at 38.11 billion euros, taking into account the five-year freezing period. This includes 28.2 billion invested in FCPE schemes. The number of people with shares in FCPE schemes was 6.2 million, for an average holding of 4500 €. Just under 10 billion euros were invested in shares in the employees' own companies - about one-fourth of total employee savings. It is not easy to evaluate the impact of employee share ownership, however.

4.3. Employee share ownership (ESO)

So, not only are employee saving schemes not the only way that employees save, but only one fourth of the amounts invested in these are used for share ownership. In 1997, the Ministry of Labour evaluated ESO in France at 700,000 employees (about 5% of employees in the private sector). More recent evaluations report up to 1.2 million employees (almost 9%). The Ministry evaluation seems to be confirmed by the results of the 1999 "PIPA" Survey on mandatory profit sharing, company performance-related bonuses, company saving, and ESO schemes that collected information from 35,000 companies (25,000 relevant replies). According to the results, 17% of companies with 500 or more employees were using some form of ESO (Jallet, Franceschi). However, a poll taken in 2000 by Altedia indicated that 42% of companies in that category use ESO (Lemaître, 2000). And a magazine, *Expansion*, studied only French companies that were listed on the French Stock Index in early 2000, finding that more than a million employees own shares in the companies where they work. The "barometer" for employee savings management established by Interépargne (Research Study 3) evaluated the number of employee-owners at nearly 1.2 million in April 2001, holding nearly 30.5 billion euros' worth of shares. Based on the companies listed on the French Stock Exchange (CAC 40) and derivative markets SBF 120 and SBF 250, an ESO index was established that groups those listed companies whose ESO schemes meet two criteria: 1) ESO accounts for more than 3% of company capital, and 2) at least 25% of employees own shares in the company. In January 2001, 34 companies met the criteria.

These assessments illustrate two cross trends. On one hand, even if legislation has been encouraging ESO for a long time now, ESO has developed only relatively recently. On the other, during 1986-88, the wave of privatizations played a driving role that was later taken over by the growth of the stock market and the search for incentivizing social policies. As a result, ESO is highly concentrated in the large listed companies (unlisted company Auchan being an exception, see Research Study 1). Based on declarations from the companies made in late 1999, *Expansion's* list cites France Telecom with 144,000 employees; Vivendi, with 100,000; TotalFina/Elf-Aquitaine, 98 000; and Renault, 80,000. On the French Stock Exchange alone, the market capitalization for the ESO described above is nearly 24 billion euros. Due to stock market fluctuations, these assessments may vary considerably, though.

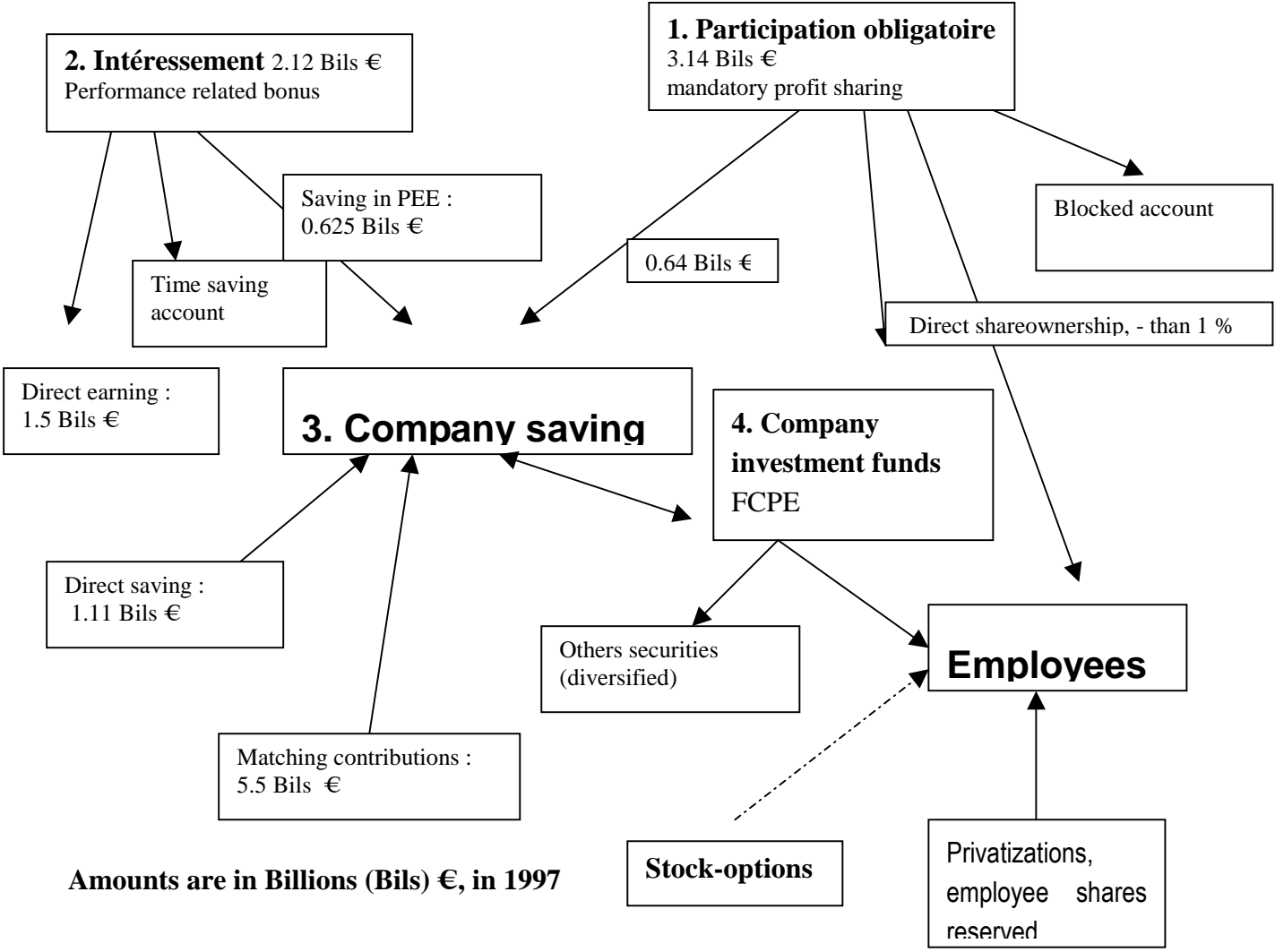
ESO can also be approached via the development of what the French call *stock-options*, another type of scheme whereby companies reserve the possibility for employees (and more especially middle and upper management) to acquire shares in the company. This aims not just to build loyalty, but also to encourage the beneficiaries to maximize the market value of the company they work for. French legislation provides for the setting up of such schemes. A *stock-option* scheme is defined as the right granted to an employee to acquire shares at a fixed price throughout a determined period of time - usually five years. The share-owning employee benefits from a capital gain equal to the difference between the price fixed at the beginning and the yearly price, if the stock market price has increased during the period. The Economy Ministry currently is considering a reform that would lower the freeze limit on stock options from five to three years. It would also establish more transparency concerning the awarding and the gains involved (for example, a list of the stock-options belonging to the top ten managers should be made public). For a long time, such stock-options were reserved for upper management, but they are spreading to a broader employee base in both large and start-up companies. According to the Ministry of Labour, by late 1998, half of listed companies were using stock-option schemes. There were 30,000 beneficiaries in 123 companies, including 21% upper management, 65% middle and lower management, and 14% other employees. A recent assessment of 34 companies listed on the French Stock Exchange estimated that 38,000 employees, or one out of a hundred, benefited from the schemes (de Tricornot, 2001). And Vivendi decided to offer options to all of its 250,000 employees in January 2000 - an exceptional move, because otherwise, only five out of the 34 companies have spread the options to more than 3% of their employees (stock-options.fr, 2001).

The situation is different for start-up companies, which use the stock-options as a component of wages (Pérétié, Guilleminot, 2001). But these are rapidly changing companies that are vulnerable to stock market risks - and they correspond less to the employee saving model.

4.4. Summary of the main elements

The following diagram is an attempt to give an overall picture of the schemes that enter into the financial participation system:

Financial participation in France (2001) : profit sharing, employee saving and employee share ownership.



5. Relationship with corporate governance

5.1. Form of corporate governance in French capitalism

Corporate governance is the system by which big corporations are governed and monitored. The national corporate governance structure specifies the distribution of rights and responsibilities among the different actors inside domestic corporations – CEO, board members, managers, shareholders and stakeholders. Thus, it is closely linked with the national configuration of capitalism. The French capitalism is markedly characterised by some specific features. It means particularly the predominance of the firms whose corporate governance is based on institutional networks in which the State plays an important part as well as capital-owner than as managers' training. This model of corporate governance is often described as "insider model", by contrast with the Anglo-Saxon model where the outsiders (shareholders individual and institutional) hold the key of decisions, monitoring and sanction.

i) Traditionally, the financial network of French firms is organised as a three control level network combining cross ownership inside control groups and cross ownership between groups. The first level corresponds to a controlling relationship between an industrial firm and its subsidiaries. A second level of "alliance relationships" is organised around main financial institutions that hold significant but non-controlling shares in main industrial groups, allowing the former to jointly co-ordinate or regulates these groups. Finally, at the upper level, financial institutions are linked by cross shareholding and manager networks. Globally, this extensive system of cross-ownership have allowed mainly to maintain the control and self-protection of the managing elite (Morin, 1994). Indeed, there is a strong overlapping between financial participation networks on the one hand and managers as well as directors networks on the other hand, leading to an oligarchic control of big enterprises by an homogeneous group of former state servants.

ii) In spite of the massive and recent privatizations of State owned companies, the State already exert a very strong influence on the economy through various institutional means: first, many national companies still exist (Air France, Charbonnage de France, Gaz de France, EDF, La Poste, Snecma, Giat, Crédit Lyonnais, France Television...) in the sectors having general or national interests; in addition, the State holds always, directly or indirectly, a significant number of participations in the capital of several large French firms (aérospatiale, A.G.F, Arianespace, Artemis, Bull, Canal plus, CNP, Coface, CDR, Crédit Foncier de France, Dassault, Dexia, Eurocopter, Framatome, France Telecom, Gan, Natexis, Renault, TDF, Thomson CSF, Usinor, to quote the principal ones). Lastly, the French State directly contributes to train the managers of private companies.

iii) The large French private companies are characterized by a very significant number of administrators (board members) or managers coming from high civil servant positions, and by a very weak opening to independent or foreigner administrators. That shows a certain incapacity of the French companies to produce by themselves their managers. A study

showed that in the 200 larger French companies, 47% of the managers result from the public sector, whereas only 21 % of the managers made their career directly in the company (Bauer and Mourot, 1990). In the same way, it was noted, during the privatization period, that a large majority of high managers, named by the State and having concluded the privatization process, could remain in place after it.

Also, many companies leaders, even at the head of a private company, come from the public sphere. Their passage by the public sphere (high administration or national companies) enables them to build cross links (public / private) and to create what one sometimes called " connivance capitalism ".

However, the French system of corporate governance is under a heavy pressure of transformation from the mid of 1990. The impact of financial liberalization and the arrival of Anglo-Saxon institutional investors on the European continent are profoundly transforming the internal workings of large French firms. On almost every indicators of corporate governance - decision making process and business strategy - French corporations (especially the blue chip companies of CAC 40) are going to great lengths to meet the preferences of Anglo-Saxon institutional investors. Although the global picture remains unchanged until now, the present situation is a critical moment in a dynamic process of change in the over-all institutional equilibrium.

5.2. Corporate governance mechanisms and employees participation

The concrete mechanism of corporate governance differs according to the private or public sector or according to the statute from the companies. The employee participation in the corporate governance (voice function) varies naturally according to these parameters: it is obvious that this participation is much stronger in the public sector, since it is institutionalized. The privatization of the national companies partially diffused this practice in the private sector. The majority of these privatized companies preserved the place of employee representatives at the " board ", as in the companies with public capital. These representatives are only added to those of the employee shareholders' when those exist as in the Renault case.

Some " family " companies such as Michelin, Lagardère groups, Castorama etc chose the shape of limited partnerships with share capitals (partnership limited by shares company - PLSCo.) who allows that families to keep the control of their companies. Put aside these exceptions, the most part of the large French companies retained a legal structure of Limited company type (Public Limited Company- PLCo). In private sector's PLCo., there are two types of corporate governance structure which the companies can choose since 1966:

On one hand, companies can adopt "one tier structure" with a board and a CEO. It has the merit to simplify the mechanism of control, since it rests on the fusion which is supposed to be realized through the CEO of shareholders' and managers' interests. But, it suffers from a lack of transparency and especially some insufficiencies of CEO's monitoring. On other hand, companies can choice "two tier structure" who organizes corporate governance around a dual structure: directory (management) and board of trustees (auditors). It is based on the formal

separation of the real exercise of management and control. In this case, the decision-making is taken together through a directory including several members (3 to 5 people).

In France, the first scheme of company governance (one tier) is most frequent, more than 90 % of PLCo., indeed, chose this legal structure, contrary to Germany where the law on coadministration obliges the large corporations to obtain dual system of Aufsichrat and Vorstand. In this last country, the representatives of employees occupy half of the seats of the Vorstand council, which makes it possible to make effective the employee participation in the control of the great strategic decisions. In France, although the law is not opposed so that the board or the board of trustees (auditors) includes representatives of employees, they seldom sit in these decision-making bodies. Table I show that only 8 % of directors of board are employees representatives in the hand listed companies (CAC 40). If they are present, it is because the majority of privatized companies preserved the system of employee representation at the board which was in place in the nationalized sector (law of democratization of the public sector,1983).

Table I Composition of the Board of Directors : CAC 40 Private French Firms (selected years)

Economic / legal status of board members	1988	1996	1998
Shareholders or business partners	63%	55%	45%
Members of management	30%	21%	18%
Representatives of small shareholders	0%	1%	1%
Labor	4%	7%	8%
Independent Directors	3%	16%	28%

Source: Korn / Ferry International (1998), Gouvernement d'Entreprise 1998: trois ans après le rapport Viennot, p. 49; Financial Times, FT Director Survey, October 1, 1999

As for the private companies, the public companies can choose between a board of directors (one tier system) or a board of trustees (two tier system). In fact, the version "two tier system" is seldom used in the national companies. In the public firms, the composition of the board is based on the principle of the three-party government. A third of the members of the board is representatives of the State, a third is employees representatives and the last third of representatives of the users. Nevertheless, the latter tend to be replaced by qualified personalities also named by the State. The law of " democratization of the public sector " of 1983 fixes at 1/3 the representation of employees directly elected by the employees. These elected officials often represent trade-union lists. Indeed, the presentation of a list to the election of employees representatives in the board, requires, either the sponsorship of a representative trade-union organization at the national level, or the support of at least 10 % of personnel delegates (*délégués du personnel*) or members of the works council (*comité*

d'entreprise).

The employee participation in the mechanisms of company governance is contrasted thus enough according to forms of voice in company life and property of the capital. Two distinctions should be made here: difference between consultation and deliberation; difference between representation of all the employees and representation of the employee shareholders. The presence of employee representatives in the boards of the companies is already envisaged by the law since 1966. It is a representation exerted by 2 to 4 representatives designated by the works council, and having only one advisory role. It is in fact the application to the level of the corporate governance (CA or CS) of information and consultation procedures of the elected employee representatives.

That one is carried out, at least in the large companies, through the works council and connected committees: central works council, group committee, European group committee, economic commission of the work council. Economic, technical and organisational informations are already given to employee through these institutions of representation. Thus, the works council get accounting informations, shareholders' list, various annual reports, information on commercial or economic prospects, the production program and a focus on the productive system. On the other hand, participation with deliberative way s not generalized either in the board of directors, nor in the trustees committee.

In 1975, a group on " the reform of the company " proposed to set up company co-monitoring with presence of employee representatives. The transformation of the leading structures of the companies towards a two tier system could facilitate this employee intervention in the monitoring of the company but without direct participation in management. The law on the "democratization of the public sector" (July 1983) allowed this presence in board of State controlled companies, with deliberative voice. Privatizations of the largest part of nationalized companies since 1986 led some of them to preserve this representation. But it is a representation of all employees, shareholders or not.

The representation of the employee shareholders is also legally found. But its place seems still limited. Since 1994, the companies in which 5 % or more of the capital belongs to employees have to define the conditions of a representation of these employees shareholders in the board of directors or in the board of trustees. With the new law (2001), this number is decreased to 3 %. However, this collective representation of the employees shareholders developed little until now, even when 5 % or more of the capital are owned by the employees. The law definite a general principle, but leaves a broad autonomy of application to the companies

Another form of representation relates to the boards of trustees of the company employee investment funds (FCPE). These FCPE represent the means of collective management of the employee saving and are thus managed by specialized organizations (financial administration agents). A board of trustees monitors the action of this organisation. FCPE can also play a part on the gouvernance of the company by exerting collective voting rights in the name of the employee shareholders. But these voting rights can also be exerted directly by the employees. According to the nature of the FCPE, it is one or the other of these two solutions

which is adopted until now. The composition of the FCPE board of trustees is important. It can result according to cases from an agreement between the directions from company and the employee representatives (elected officials at the works council or trade unions) or from an election directly by the employee shareholders. These rules are modified in the law of 2001 to improve the implication of employees in the follow-up of the FCPE and the management of the company.

6. Financial participation and the industrial relations system

Social dialogue in the financial participation system corresponds only partially to the dominant industrial relations model that developed in France. Collective bargaining was long time organized outside the company level and was characterized by a highly conflictual relationship between employer representatives and union organizations. The State played an active role in regulating the system. Collective bargaining as a system is a fairly recent phenomenon (Tchobanian, 1995). The right to union representation within the company was granted in 1968, and the right to mandatory negotiation within the enterprise, in 1982. Until that date, unions exerted a certain influence on company life only through elected institutions (system of personnel delegates, a sort of elected shop stewards; works councils). Company performance-related bonus schemes and mandatory profit sharing were instituted before 1968, which is why "negotiating" financial participation involves procedures that are an exception to the French model of collective bargaining (see §2.4 above).

While the unions do have a monopoly on collective bargaining on behalf of employees, other regulatory procedures have been instituted in this field. Therefore, the works council (WC), when there is one (companies with more than 50 employees), is an important actor in industrial relations. In medium-sized companies, the WC signs most agreements on company performance-related bonus and mandatory profit-sharing schemes even when union branches exist. The WC generally has more prerogatives when it comes to control over the economic life of the company. It is informed on a number of matters, and consulted for major decisions. It does not have a right of joint management, however; company management offices are not required to take the committee's advice.

Procedures and organizations have grown up around WCs, especially in large companies, which allow employees (and union organizations) to be informed about company life. As we've seen, the WC can even be represented in company management (on the board of directors or supervisory board), although only in an advisory capacity. So, the French industrial relations system can be said to have a procedure for keeping employees and their shop stewards informed via the WCs.

However, both company managers and union organizations have generally been hostile to forms of co-management. There are differences of opinion on both sides but for a long time, company management was not considered to be a part of labour relations - the informational and consultative role of the WC has no direct link to company management or to collective bargaining by the unions. The financial participation project was geared to change this situation via its two components, company performance-related bonuses and mandatory profit

sharing. Reducing the gap (and, for a long time in France, the antagonism) between labour and capital by means of employee financial participation could also have led to a change in industrial relations and the attitudes of employer / union actors. But as we have seen, financial participation favoured profit sharing and the development of employee saving schemes, thanks to the tax incentives granted by the government. ESO developed much more slowly and actually didn't give employees much of a voice in entrepreneurial decisions.

Since 1982, traditional collective bargaining has developed considerably in companies. It now tackles a number of subjects (wages, work time, work organization, etc.). As a result, the number of agreements signed in business enterprises has skyrocketed from about 1000 per year in the early 1980s to nearly 30,000 in 1999 - even if a large number of these are linked to the statutory reduction in work hours. The system of industrial relations is according more and more importance to the economic situation of companies, at least the largest ones.

However, financial participation is still largely a case apart: as mentioned above, collective bargaining accounts for only a small part of the agreements signed. The Fabius Act (2001) institutes an annual obligation to negotiate financial participation if no system already exists, although negotiation is limited to the four types presented above. And shop stewards (elected or unionist) have information tools available to them through the WCs (or the equivalent at group level) concerning company life - much the same as the ones sent to share-holding employees. As a result, the use of financial participation as a means to encourage employees to take part in company management is very limited, and all the more so because of the differences in position among the union organizations.

7. Relationship with other types of saving and the social security system

When financial participation was established (in 1959 and then again in 1967), the objectives were not tied mainly to social security issues. The point was to share the results of company performance independently of payroll policy. However, payroll was the social security system's unique source of financial support, including for pensions. Being payroll-tax free as a rule, financial participation did not contribute to social security financing. The situation changed somewhat with the recent creation of a generalized social levy called the CSG and its associated provisional contribution, the CRDS, both calculated on total income. But wages do remain the major source of social security financing, and financial participation always leads to a reduction in the portion of employee income that serves to contribute to such financing. (Although it does lead to increased employee saving.) In the current period, it is a significant element that must be taken into account in the search for answers to the general crisis in social security financing, specifically for pensions. Therefore, an analysis of financial participation must include a reference to the development of pension financing, especially the building of pension funds.

In France, only civil servants benefit from pension funds with favourable tax treatment - and they are not eligible for employee savings schemes. A law instituting pension funds was voted in 1997 but, because of shifting politics and union opposition, it has never been

implemented. The unions feared that such funds would result in less money going to the contributory pension schemes. Thus far, social and political debate on future pension financing has not led to a reform of the whole system, unlike in the other main European countries. Even survey reports lead to differing forecasts (Charpin, 1999, Teulade, 2000). In its existing form, however, the French pension system will face increasingly greater problems. Until the whole system is reformed, financial participation, and specifically employee savings, can provide a partial solution. By instituting voluntary partnership employee savings schemes, called PPESV's, the 2001 Fabius Act has taken a step towards longer-term employee saving (10 years or more). The PPESV, which functions on same principles as a PEE but for a longer period of time, is a potential form of pension fund that would link employee savings indirectly to the future of social security. This explains why some of the union organizations are on their guard. Note that such schemes can be established only via a collective labour agreement.

8. From the social partners' perspective

The different social partners have various points of view. French plural unionism is particularly evident on issues concerning employee participation in the life of the business enterprise, whether it's direct participation in the organization of work, financial participation, or management participation (Tchobanian, 1994). Even in the employer environment, there are different sensibilities. Both employer and union organizations, however, have generally kept their sometimes hostile doctrinal positions separate from their actual practices. Pragmatism often plays a role in the types of consensus reached in order to benefit from the tax and payroll advantages the government grants for financial participation. For this reason it may be said that the issue has developed mostly as an exception to the traditional industrial relations model. In the present paper, we will give only a broad outline of the debate. These different perspectives emerged again while the 2001 Act was being prepared.

On the employer side, the MEDEF's positions are summarized in a document dated March 2000 (MEDEF, 2000). The title of the document sums up the tenet for the employers' organization: *Allowing all employees to share in their firm's profits and risks*. The point is to imagine "a new form of capitalism" in order to increase social cohesion. The MEDEF notes that there are already a number of instruments for the purpose, that attitudes are what need to be changed. So in fact, what is desired is an improvement in the existing employee saving instruments: spreading employee saving schemes to benefit employees of small companies, extending PPESV saving schemes (the MEDEF explicitly ties such an extension to the adoption of pension funds), and granting tax incentives for voluntary saving. The MEDEF cites stock-options (besides financial participation) as another type of individual incentive to be used for attracting and keeping the most competent employees. It also notes that financial participation is a way to respond to rigid payroll systems. That is how it hopes to encourage company performance-related bonus schemes. And, although the MEDEF is in favour of employee share ownership (ESO), it considers that it is more important to optimize employee saving, which doesn't always involve investing in company shares. It wouldn't like to see

share-holding employees benefit from management rights that are different from those of other shareholders, either. These positions taken together are an indication that financial participation is desired mainly as a way to involve employees more deeply in the life of their business enterprise and to allow them to build up long-term savings, as a complement to payroll policies and social security financing.

The positions taken by the union organizations are influenced by doctrine, of course, but also by the more general issue of employee participation in the life of the company. The CFE-CGE (a white-collar union federation), the CFTC (a Christian doctrine union), and the CFDT (social democrat) are all more in favour of participation, for various reasons linked to their individual doctrines, but also to their union practices. The Marxist-inspired CGT Union is more opposed to forms of participation that mask social antagonisms, and the CGT-FO Union, which refuses union involvement in company management, is utterly hostile to financial participation. These positions also relate back to the three areas that are concerned by financial participation: 1) influence on payroll policies; 2) effects on social security financing (particularly the relationship between long-term saving and contributory pension schemes); and 3) the industrial relations model at the company level.

Even the most favourable organizations (CFTC, CFE-CGC, CFDT) have doubts about the development of company performance-related bonus schemes as a way to make payroll policies more flexible. The CFTC, for example, demanded that such bonus agreements be restricted to companies where a payroll agreement already is in effect (CFTC, 2000). The unions do note, however, that this type of additional income is very advantageous for employees. The CFE-CGC reminds us that 1524 € in gross additional earnings represents only 423 € net of taxes for a skilled worker, whereas the same amount from a company performance-related bonus, if it is not invested in a PEE, brings in actual earnings of 1070 €; and 1524 € invested in a mandatory profit sharing scheme or PEE will yield 1408 € in actual earnings, although frozen for five years (CFE-CGC, 2001). That's why, despite fears of misuse, the unions did sign a number of bonus agreements, either directly or via their elected WC delegates. The CFDT also proposed union management to keep financial participation from accentuating pre-existing inequalities (Troglic, 2000). The CGT takes a more critical stance, however (Chanu, 2000). It notes the success of financial participation and employee saving schemes, but denounces the consequences on payroll policies and on employee savings structure. Such fears are intensified by the difficulties of financing pension funds. All the union organizations are afraid that employee saving schemes will reduce the financing capability of contributory pension schemes. The CGT-FO demanded that the new law guarantee priority to wage increases and that it also provide for the financing of contributory pension schemes (CGT-FO, 2000). Even the CFTC, which is very attached to participation in general, had doubts about the new PPESV scheme, and refused to accept any annuity-type withdrawals that would turn it into a pension fund. The CGT also strongly states its opposition to seeing employee savings replace part of the current level of the contributory pension system.

The greatest difference shows up when it comes to the role of participation in the social model

for business enterprises and in the direction taken by the industrial relations system. The CGT sees financial participation as "an attempt to dissolve labour in capital" that reduces employees' real power within the company, given that such power is not linked to partial capital ownership. On the other hand, the CFDT sees a broadening of employee saving as another way to give employees a voice in the choice of investment for the purpose of serving the cause of employment, solidarity, and sustainable development. All union organizations are unanimous, however, in demanding that such participation not reduce the current power of unionism and the representation of all employees, whether they own shares in the company or not.

9. Research results

In France, financial participation is a complex system, but one that is subject to a legal framework. Most studies on the subject are based on the data gathered through a statistical analysis system that was set up by the French government and is managed by a "Superior Participation Council" created in 1994. The Council is made up of representatives from France's legislative assemblies (the National Assembly and the Senate), social partners, experts, and the appropriate Ministries. In particular, it receives quantities of statistical data (presented in §4 above) that are compiled by the Ministry of Labour's statistical and research services. The data concern the more institutional aspects of financial participation - for example, number and type of agreements signed, scope of the various schemes, amounts distributed or saved, etc. All the data are published in an annual report (Ministry of Labour and Solidarity, Superior Participation Council, 2001). The extensive involvement of the State explains why the two most recent and complete reports on financial participation are the result of two political bodies-inspired initiatives, one from the Senate to boost employee share ownership (Chérioux, 1999) and the other from the Prime Minister to prepare the employee savings reform (Balligand, de Foucauld, 2000).

The other studies or research projects on the subject generally are carried out in professions involved in employee-saving and ESO management services - for example, the COB (the French Stock Market Trading Commission), investment managers, consultants, or the business and financial press. These are often attitude studies, or involve research limited to the largest listed companies. Some of the data published over the last two years are mentioned below.

A market index for employee share ownership, called the (*Indice de l'Actionnariat Salarié*) IAS, currently includes 34 companies that are listed with one of the three reference markets: CAC 40, SBF 120, or SBF 250. As mentioned in §4 above, in these companies ESO accounts for more than 3% of company capital, and at least 25% of employees own shares in the company. They are the listed companies that are most concerned by ESO (Auchan is not included because, even though it shares the above two characteristics, it is not a listed company; Renault, on the other hand, is included). It is theoretically possible to compare the economic or stock market performances, or the social policies of these companies with those of other companies listed on the Paris Stock Exchange, to see if there are significant

differences. The IAS has increased more rapidly than the other market indexes in recent years (269% during the period from December 31 1990 to September 30 1999, compared to 202.5% for the CAC 40 and 197% for the SBF 250). But it has also been dropping faster over the past year. ESO would appear to intensify the trends. However, the results must be interpreted cautiously, because the breakdowns for the different indexes are not comparable, and a few heavily capitalized companies have significant effects on the IAS. Plans have been made to revise evaluation procedures for the index.

Information about ESO or stock-options is published periodically, often based on company reports to the COB. Some of this data (see §4.3) showed that ESO has developed fairly recently (encouraged by privatization procedures and because of the sharp upswing in the stock market in the late 1990s) and that ESO appears to be more widespread than the governmental data would indicate.

Various opinion surveys which seek out the attitudes of labour and management with respect to financial participation exist. These include a late-1999 survey of employees indicating that employees are more interested in employee saving schemes than by ESO (*L'Expansion*, 2000). The survey showed that one out of two employees was thinking of purchasing shares in the employer company in preferential conditions. However, they see this more as a better - though riskier - investment than traditional savings. Employees admit that share ownership reinforces ties with the company, but more than 60% of them would refuse to give up wage increases against obtaining shares in their company. And the majority does not believe that share ownership allows them to participate in major company decisions. Another survey taken in May 2000 (IPSOS, Ministry of Economy and Finance) indicated that employees are very interested in employee saving schemes: 76% consider them a good thing; 77% think that they haven't developed enough; and 87% would like to see them encouraged in coming years. Here also, the savings aspect is given priority; 53% even thought that the PPESV (being discussed at the time) could help to better prepare for retirement, and 72% that using it as a regular pension supplement (annuities) was desirable. Due to union opposition, the law wound up not including this choice.

A "barometer" for employee savings was established in early 2001, based on information from 102 companies that were listed on the French Stock Exchange (CAC 40) and derivative markets SBF 120 and SBF 250 (JP Morgan, Interépargne, Hewitt Associates, 2001). It suggests that the primary motivation of these companies is to project an innovative payroll policy image in order to attract and involve competent employees. Here, employee saving schemes are perceived more as a component of an overall pay strategy than as a means to achieve ESO.

A survey carried out in October 2000 of financial analysts and managers in five European countries confirms that ESO is on the rise, however (European ESO Monitoring Centre, Euronext, Sofres, 2000). Expectations do vary from one country to another. In the United Kingdom and the Netherlands, advantages in terms of economic performance are stressed, while in Belgium, Germany and France, social topics are more of an issue. In France, therefore, greater employee involvement seems to be given priority over economic efficiency

or building a loyal employee share-ownership base. In recent years, there have been a few cases where share-owning employees have been able to help company management fight off hostile OPAs (the Société Générale is a notable case). But the proportion of capital in employee hands rarely exceeds 5%. The French experts in this particular survey believe that the proportion must increase to 10% before share-owning employees can play an effective role in combating OPAs.

These studies all tend to show that financial participation is perceived especially as a means to motivate employees and even occasionally the unions, even when it does encourage ESO. The possibility for share-owning employees to take part in company decisions is given as a reason much less frequently.

10. Conclusions

It is difficult to come to definite conclusions when analysing the French case. The system has mainly promoted company profit sharing and the build-up of considerable, though very unevenly distributed, employee savings. Even though the government has offered incentives several times since the 1970s, ESO has developed relatively slowly, and the tax system has not done anything to discourage this trend. If ESO appears to be developing at a faster pace these days, it is only because of privatization procedures and stock market developments. But will the current downswing in the stock market and the impending decrease of privatizations slow down the ESO trend? And won't payroll restraints (due mostly to the reduction in work hours) encourage the use of company performance-related bonuses as a supplement to wages? In these conditions, employee saving schemes appear to be the most strategic component of the financial participation system. This is probably why it is central to the 2001 Fabius Act.

By creating co-operative business savings schemes (PEI) for the small companies that are excluded from mandatory profit sharing schemes, the law aims to extend the possibility for building employee savings with preferential taxation treatment to all employees except civil servants. And by establishing PPESV schemes, it promotes long-term savings that employees can use to build their personal assets. ESO is only one approach to this saving strategy. The law aims to give ESO a role by incentivizing a minimum 3% ESO holding in company capital and employee involvement in company management. If the system continues to develop, it could energize social dynamics. But it could also remain just another component of company social and payroll policy.