DE GRUYTER OPEN

International Society for Manufacturing, Service and Management Engineering

received: 10 January 2017
accepted: 8 June 2017

pages: 37-50

New social cooperation model in service oriented economy: the case of employee financial participation in the Baltic states

Remigijus Civinskas, Jaroslav Dvorak

ABSTRACT
The article discusses the issues of employee financial participation in Baltic states which differs and depends on political, legal and economic preconditions. The aim of the research is to analyse employee financial participation as an instrument for collaboration in companies and a new social cooperation model in the Baltic states. The qualitative research was conducted by telephone and e-mail in 2016. The interviews were carried out with the experts (academics, civil servants, lawyers and human resource consultants working in a relevant field) as well some trade union and company representatives. In general, the new policy for supporting employee financial participation has been renewed in Latvia and Lithuania. It started recently with the revision of the legislative framework that was initially established during the privatisation period. The revision of the Law of Companies was driven by the business interest (to have a new effective human resource management tool or to transfer employee share plans from parent companies in Western countries to subsidiaries in the Baltic states) to introduce (or revise, in the case of Lithuania) new employee share ownership (ESO) plans. The research has also proven that there are common similarities in the use of employee financial participation plans despite the existing differences which are based on national features, such as tax and legal regimes, historical development patterns, or economic and structural factors.

KEY WORDS
Baltic states, company management, employee financial participation, employee ownership, profit sharing

DOI: 10.1515/emj-2017-0024

Corresponding author:

Remigijus Civinskas

Vytautas Magnus University,
Faculty of Political Sciences and Diplomacy, Lithuania
e-mail: r.civinskas@pmdf.vdu.lt

Jaroslav Dvorak

Klaipėda University,
Faculty of Social Sciences, Lithuania
e-mail: jaroslav.dvorak@ku.lt

Introduction

Societies and economies of the Baltic states have been influenced by a rapid change during the transition time from a planned economy and closely controlled society to the market economy and free society. These radical changes have had different effects on the development of socio-economic institutes. Low-level employee participation in decision making at a company level is explained by a special pattern of the privatisation process, corporate and organisational cultures, liberal market environment (Sippola, 2009; Sippola, 2013; Mygind, 2012; Woolfson et al., 2011). These problems and a special development pattern provide a unique opportunity to discuss employee financial participation in terms of the best approaches and models. In the Baltic countries, all the stakeholders (labour unions, employer organisations and policy makers) are searching for the best form of employee empowerment and involvement in the decision-making process. Research and good practice examples show that some schemes of employee ownership and financial participation are directly linked to the renewal of industrial relations in terms of management–union relations, industrial conflict management and managerial authority relations (Poole & Jenkins, 2013; Lowitzsch, 2009b). Ongoing control in decision-making and entrepreneurial co-determination are strong arguments for taking one of employee financial participation schemes. They could be reinforced by other economic arguments, such as enhancement of motivation and productivity (O'Boyle, 2016; Lowitzsch, 2009a).

In the Baltic states, the academic discussion about employee financial participation started some years ago. The current topics in financial employee participation research are related to the studies of organisational effects and institutional settings (Jaakson & Kallaste, 2014; Eamets et al., 2008; Rimas, 2009), the historical tradition based on negative effects of post-Soviet privatisation (Eamets et al., 2008), influence of employee motivation on productivity improvement (Berķe-Berga, 2014) or search for the "best fit" model of employee ownership (Berķe-Berga, 2013). Lawyers and consultants have published some informative articles about financial employee participation schemes with the focus on possible motivational effects that can be achieved. It must be emphasised that the Baltic states have a very low occurrence of employee financial participation as well as little support (Eamets, 2008; Mygind, 2012; Jaakson, 2014; Berke-Berga, 2013). Up to now, employee financial participation has been regulated to a very low extent in the Baltic states (Lowitzsch, 2009a). Recently, new regulations have been introduced for the promotion of financial initiatives as well as new tax incentives (Estonian, 2011; Latvian, 2013; Lithuanian, 2016).

The research has three main tasks. First, the overview of concepts, instruments and schemes of financial participation is provided. Second, the research outlines public financial policies for the promotion of financial participation in the Baltic states and discusses the links between employee financial participation schemes and direct or indirect participation in a company's decision-making process. Third, the article reveals the employee participation practices and potential in the Baltic states.

The findings reported in this paper are based on the data collected through qualitative research. Some stakeholders (legal organisations, NGOs and some academics) are keen on promoting employee ownership ideas in the Baltic states. Despite this interest, the literature on this issue remains scarce. The existing literature is limited to brief articles on the internet news portals, some academic studies or a comparative report.

Tab. 1. Functions and coding of interviewees

No.	Code	Interviewee
Lithuania		
1.	LT1	civil servant, ministerial advisor
2.	LT2	civil servant, ministerial advisor
3.	LT3	advocate, researcher working on a relevant topic
4.	LT4	advocate
5.	LT5	human resources adviser
6.	LT6	researcher, economist
7.	LT7	trade union representative
8.	LT8	representative of a company with functioning ESO and FP plans
9.	LT9	advocate
10.	LT10	lithuanian Bank employee
11.	LT11	expert from an employer organisation
Latvia		
1.	LV1	civil servant, ministerial advisor
2.	LV2	researcher, economist
3.	LV3	trade union representative
Estonia		
1.	EE1	researcher, economist
2.	EE2	researcher, economist
3.	EE3	trade union representative

1. Literature review

1.1. Concept of employee financial participation and core issues

Employee financial participation has a century-long history, but it has been intensively and extensively used in the last 30 years (McCarthy, 2016). In some cases, employee financial ownership benefits the company's growth. Financial participation is referred to differently, and the use of concepts depends on the context or form of employee ownership. In the following definition, an aspect of shared meaning is the idea of employee involvement. The main forms of employee financial participation are defined as any arrangement that allows employees to become involved in the financial results of their companies (McCarthy, 2016).

Such arrangements can be broadly categorised into three main groups of forms/schemes linked to each other:

- profit sharing (PS) (in cash or shares, paid immediately or deferred),
- individual ESO (employee shares or stock options),
- employee stock ownership plans (ESOP, collective ESO, with shares acquired through an intermediary entity, financed by a share of profits allocated to employees in addition to their remuneration) (Lowitzsch & Hashi, 2014).

These forms attribute to the common European model of employee financial participation as it was discovered by comparative studies (Lowitzsch, 2008; Lowitzsch & Hashi, 2014). These schemes can be selected and implemented depending on one's interest, needs and context. Preference for some schemes depends on country-level factors. Some schemes are more related to possibility improved labour productivity and performance (Blasi et al., 2010a; O'Boyle et al., 2016; Bryson & Freeman, 2010). Among various schemes, share ownership has the clearest positive association with productivity, but its impact is the largest when firms combine it with other forms of participation (Bryson & Freeman, 2010; Poutsma & Braam, 2012). It is important to note that employee ownership has a substantial number of sources on the analysis of impact employee ownership has on company's performance.

Another group of authors focuses on human resource management, industrial relation and the issues posed by financial participation (Landau et al., 2007). Financial participation is used as a complementary or substitute instrument in the perspective of human resource management practice. It is claimed that employees who participate in the ownership and financial results of a firm become more dedicated to the company and focus on performance goals. However, economic studies have shown that companies often either switch between schemes or use several of them (Bryson & Freeman, 2010; Poutsma & Braam, 2012). ESO is understood by scholars and some practitioners as a means of enhancing labour-management 'partnerships' and, this way, extending industrial democracy (Poole & Jenkins, 2013; Pendleton, 2001). It is important to note that there are conflicting explanations of employee financial participation forms in terms of function.

Several definition and terms are used in this research to describe employee financial participation. The literature regarding this socio-economic phenomenon covers a range of disciplines (human resource management, economics, corporate finance and industrial relations). Therefore, employee ownership is often described using different definitions and concepts:

- *employee participation in decision-making*. Participation is often understood as a participatory process that involves employees and employers. This process is related to formal institutions such as work councils. It also described as a day-to-day relational process (an employee and his/her supervisors) that allows employees to influence company decisions by so-called "informal participation." Finally, participation is linked to results. It is possible to define it as a process that allows employees to exert some influence over their work, over the conditions under which they work and over the results of their work (Poutsma, 2001);
- the main principles of employee financial participation. *Voluntariness* and *openness* to all employees (Lowitzsch, 2014) are frequently used principles;
- *plans/forms* and *schemes*. Financial participation has a broad spectrum of systems and is a complex phenomenon. Therefore, various research uses different categories and typologies for description and analysis. The main categories of plans are pillars for an explanation. It is reasonable to use them for an explanation; however, this raises many difficulties, as the explanation could be too complicated. Schemes are a descriptive term. In practice, some schemes may have some supportive legislation. The schemes could be understood as broad-based plans on a company level. The concept financial participation refers to all schemes (Lowitzsch & Hashi, 2014);
- *models*. The term models is used to describe the existing or feasible employee financial participation schemes that it includes;
- *employee ownership*, *employee-owned businesses*. It could be explained as companies fully or mainly owned by their employees, including

management (either directly and/or indirectly). The extent of employee ownership varies from workers having complete ownership of the firm to owning the majority stake or non-negligible minority stake, usually through a trust or another legal entity that votes the shares as a group (Blasi et al., 2010b);
- *co-owned companies* (*co-ownership*). This term is wider. It describes companies where employees, including management, have a large or significant but minority stake in the company;
- *employee share ownership*. It takes any form of shareholding, large and small, by employees in the company;
- *worker cooperatives.* A form of employee ownership. Cooperatives tend to adopt a specific form of legal entity (the Industrial and Provident Society), conform to the seven principles of cooperation and insist on equal shares and voting rights;
- *trust-owned businesses*. This term encompasses businesses in which company's shares are entirely owned by either or both an employee trust and a charitable trust to provide permanence to an ownership structure;
- *ownership culture*. The use of some employee ownership plans (mostly ESOPs) and orientation to performance create an ownership culture. It is a type of organisational culture (Thomson, Stanley & McWilliams, 2013).

Finally, the terms such as *democratic capitalism*, *mutual companies*, and *shared entrepreneurship/collaboration* are used to refer to the companies that practice employee financial participation (Shipper et al., 2014).

1.2. Forms and models of employee financial participation

The key issue in some academic and supportive policy discussions is related to the coverage of share ownership, i.e. the following questions are addressed:
- What part of the employees are eligible to participate in financial participation forms?
- To which groups are the forms applied?
- What economic sectors are preferable?

As research has shown, the selectivity of plans is related to the company's interest, business models and other motives. The researchers make a distinction between narrow-based (selective, frequently used to executives or managers) and broad-based (all employee) forms/schemes (Poutsma et al., 2013; Lowitzsch, 2009b; McCarthy, 2016).

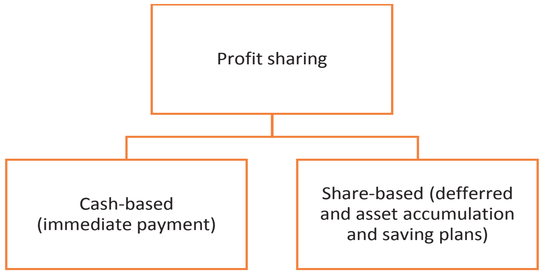

Fig. 1. Forms of profit sharing

1.2.1. Profit sharing

PS functions refer to the situation when an employer pays her/his employees for some performance measures (sales, profits, etc.). In practice, PS can take different forms. These payments can be made in cash bonuses. As the research has revealed, bonuses are often paid in company stock (or other schemes are used). Thus, what is received as a profit share becomes employee ownership (Blasi et al., 2010a; Ugarković, 2008). Researchers and policy makers distinguish cash-based payments and share-based PS forms (Fig. 1).

PS is based on the formula that links profits with employee bonuses after thresholds targets are met. In other cases, these are not formally prescribed, and employers have more discretion to pay bonuses (Reynolds, 2015; Blasi et al., 2010a).

There are special forms of share-based PS. One of them is the so-called "deferred PS." This term covers the distribution of bonus payments on a deferred basis, i.e. it could be granted as several shares, and employees can sell them after some period. The bonuses are also invested in special funds or frozen in accounts for a projected time. This scheme is used the most often, as research suggests (Lowitzsch, 2009b). Asset accumulation and savings plans provide the employees with a possibility to set aside bonuses in an account. They can be invested in stocks, bonds or other financial instruments for a period before being made available to the employee. These are long-term instruments that have different names, such as savings plans, incentive or investment plans (Poutsma, 2001).

1.2.2. Employee share ownership

Employee ownership is another important form of financial participation in the perspective of employee involvement in the decision-making process. The extent of employee ownership varies from workers having complete ownership of the company to owning a majority stake or a non-negligible minority stake (Blasi et al., 2010a). It can be started by a company (funds can be raised) or by employee initiatives. Poutsma et al. (2010) pointed out that "ESO provides for participation in ownership. As a result of share ownership employees may benefit from the receipt of dividends, the capital gains that accrue to company equity, or a combination of the two." The ESO can be collective (some forms of trust are often used) and individual.

ESO is not directly related to the company's performance in comparison to PS, i.e. it is not financed from the company's profits. However, the link to the company's profitability exists. The participants gain indirectly from the growth of the company's market value in shares.

ESO has a non-automatic connection with employee shareholder involvement in the company's decision-making process. They can be given either non-voting stock or voting share. They can have limited control or no control over the company's management decisions when shares are held in trusts. In this case, trustees may be appointed by management rather than elected by employees (Lowitzsch, 2009b).

There is a broad range of ESO arrangements. They can be grouped into three main forms according to the share acquisition: direct purchase sold at market prices and non-discounted or sold on privileged conditions giving a discount, cooperatives), transfers financed by the company profits (distributed free) and options to buy shares in the future (Lowitzsch, 2009a; Reynolds, 2015; Blasi et al., 2010a). When the employer does contribute an (equal) amount in cash or shares, the plan is called a "share savings plan".

Employee share ownership plans are distinguished according to the criteria of employee's own shares. They are referred to as direct where employees as individuals own shares in the company, or indirect where a block of shares is held in employee trusts (Tab. 2). These trusts exercise control of the company on behalf of employees or through a combination of the two (Olagues & Summa, 2010; Postlethwaite et al., 2005).

Tab. 2. Plans of ESO

Forms	Plans
Direct purchase and share saving	• distributed free, • sold at market prices, • cooperatives (all company shares are owned by members and employee buyouts)
Transfers financed by company profits	• broad-based stock options (the so-called ESO) are given to a group of employees (not on individual performance conditions). The company grants employee options over shares which entitle them to acquire shares in the company at a later date, but at a price fixed when the option was granted. They cannot be traded. The rewards come from the gains arising in stock prices. The employers are often using ESO contracts as compensation (they are named as "compensation contracts"). These contracts amount to a "short" position in the employer's equity, • employee stock ownership plans (the so-called ESOP) contain a loan to an employee benefit trust. It obtains company stock and allocates it through periodic contributions to each employee's ESOP account. The loan may be repaired by payments from the profits, from dividends paid on the stock held by the ESOP

To provide a proper understanding, it is necessary to explain essential ESOP plans by presenting concepts and terminology. ESOP are most popular in the US and Western Europe. These plans enable collective ownership by using special funds raised from employees (McCarthy, 2016).

ESOP are often promoted by government policies by creating special legislation and taxation regimes. The significance of the new forms of ownership is that the new philosophy of equality (holding equal shares), a new process of management (the role relation between workers and managers) was formed (Pendleton, 2001; Blasi et al., 2016). ESOP are related to participation in decision-making, information sharing, high-trust and with a variety of positive perceptions of the company culture (Blasi et al., 2016). An economic argument in favour of ESOP is based on the expectation that employee ownership improves enterprise performance (Kim, 2016). Some empirical research suggests that ESOP impact on a company's performance seems to be small but significant (Kim & Ouimet, 2016; Blasi et al., 2010b; Blasi et al., 2013). Other meta-analytical studies explain that the results are mixed (O'Boyle, Patel & Gonzalez-Mule, 2016).

2. Employee financial participation in the Baltic States: an overview of similarities, differences and trends

Most research and policy studies conclude that privatisation was the main driving force behind the initial spread of employee financial participation in Central and Eastern Europe (Mygind, 2012; Kranz et al., 2016; Lowitzsch, 2009b). As a transition process, privatisation also developed specific conditions that influenced this advance, i.e. privatisation allowed receiving shares at a reduced price. As an effect of this transition, various schemes were introduced. The understanding of employee financial participation differs among countries. However, there is a very specific common characteristic: many companies were owned by a wide group of employees. Some special privatisation plans were used, including those similar to ESOP, voucher schemes, shares to insiders, mass privatisation, leasing methods and employee-management buyouts (Lowitzsch & Hashi, 2006). Based on case studies, companies with employee ownership plans performed rather well in some countries. In other countries, schemes of the employee ownership type were mostly unsuccessful (Mygind, 2012; Berķe-Berga, 2013a). On the other hand, the current knowledge about employee financial participation is limited by a lack of coherent empirical data.

Recent studies (based on surveys and data analyses, i.e. the survey conducted in 2008) have revealed that employee financial participation in Central and Eastern European countries is mostly (except some countries) declining (Mygind, 2012; Lowitzsch, 2009a; Lowitzsch, 2012). This decline is explained by different economic and supportive policies as well as cultural factors (Mygind, 2012; Lowitzsch, 2009b):

- difficult legal framework,
- complex accounting regulations,
- lack of promotion policy and supportive institutional setting (in some countries),
- lack of participative culture (in some countries),
- lack of capital investment and capital intensity,
- long productive crisis,
- negative conditions on a company level (i.e. in some countries, the financial system improved conditions for both managers and external owners in relation to employees, etc.).

The academic research demonstrates very different trends in the use of employee financial participation schemes and supportive policies in Central and Eastern Europe. The Baltic states often stand out among other countries. This distinction is based on the following several arguments:

- incidence of employee financial participation is low in the Baltic states,
- lack of supportive policies (tax and legal regulation) and backing from society and stakeholders,
- difficult legal framework (Eamets et al., 2008; Mygind, 2012; Berķe-Berga, 2013b; Darskuviene & Vazniokas, 2006; Rimas, 2009; Lowitzsch & Hashi, 2014; Lowitzsch, 2009a).

A comparative study has analysed the scale, features and effects of employee financial participation in the Baltic states (Gaponenko, 2008). The main conclusions are as follow:

- large companies and some middle-sized companies are prepared to offer employee financial participation plans,
- the lack of knowledge and understanding of employee financial participation instruments and benefits,
- Lithuanian employers have a better understanding and willingness to offer employee ownership and PS plans in comparison to Latvian and Estonian. The third period could be viewed as especially conditional because only some research discusses the effects of the economic/financial crisis for initiatives of PS and employee ownership plans (Berķe-Berga, 2013; Jaakson & Kallaste, 2014).

3. Scope of employee financial participation

Accessibility to information on the scope of employee financial participation is a complex issue. There are no special registers for companies using PS or employee ownership plans. However, some surveys have been done in Estonia and Latvia by academic researchers (Berķe-Berga, 2013; Jaakson & Kallaste, 2014).

Some empirical data are presented in a recent study on employee financial participation named "The Promotion of Employee Ownership and Participation" (Lowitzsch & Hashi, 2014). For the analysis, the research group used the data of the European Company Survey (ESC) (the largest company survey data), CRANET Survey on Human Resource Managers (research conducted by a network of universities in 2010) and the European Working Conditions Survey (EWSC, 2010).

3.1. Employee ownership

The research has demonstrated that 5.2 percent of European companies used ESO plans in 2013 (ESC. CRANET — 19.9%; EWSC — 13.5%). In this context, the proportion of Baltic companies (ESC — 7.9%) offering similar plans is much greater (Tab. 3). Lithuanian and Estonian companies offer a relatively higher number of stock option plans. In this case, it is necessary to interpret the data critically.

Tab. 3. Proportion of companies offering employee ownership plans [%]

Estonia	Latvia	Lithuania
2013 ESC: 8.40 2010 Cranet: 10.50 2010 EWCS: 1.17	2013 ESC: 1.40 2010 EWCS: 1.00	2013 ESC: 13.90 2010 Cranet: 7.30 2010 EWCS: 0.56

*ESC covers companies with 10 and more employees

Academic and policy studies explain that similar data from the European surveys indicate stock option plans which were left from the privatisation period, i.e. narrow-based employee ownership plans (Berķe-Berga, 2013a; Jaakson & Kallaste, 2014; Darskuviene & Vazniokas, 2006). This implication supports the data from EWSC survey (Tab. 3). Employee ownership plans are known only relatively by a very low number of employees.

This assumption is supported by the qualitative research. According to the respondent, employee ownership is associated with a recent practice of offering stock options to employees. The respondents who participated in the qualitative research also argued that broad-based employee ownership plans have little popularity in the Baltic countries (interviews with EE3, LV1, LV2, LT1, LT3, LT5, LT6, LT7). This proves earlier findings that previously active share ownership schemes were closed later in the Baltic countries (Jaakson & Kallaste, 2014).

A survey by scholars demonstrates that PS with employees is more common than employee ownership. Based on survey data (2011) that had a sample of 1000 private organisations, Estonian researchers Krista Jaakson and Epp Kallaste found that employee ownership exists only in seven percent (this corresponds to EWSC, Tab. 3) of organisations. According to the findings, PS plans were offered by 21.3% of Estonian companies in 2011 (Jaakson & Kallaste, 2014; Kollektiivsed töösuhted, 2011). Latvian scholars have done several motivational studies, analysing employee attitudes towards some PS and stock options plans. The survey (2012) results provide a full motivational picture. The researchers concluded that:

- analysing the factors noted as important by respondents holding shares in the context of share ownership, financial benefits of the shares or dividends and value appreciation were underlined,
- the analysis of respondent answers regarding the purchase options of company shares have demonstrated that the total of 75% of respondents would buy shares at a 50% discount with a "freeze" term of three years. Conversely, 78% of respondents gave a positive answer to the question about the acquisition of shares (without a discount) in the case shareholders were willing to sell,
- based on the overall results of the survey data, researcher Berķe-Berga concluded that the distribution of ESO might contribute to higher levels of employee motivation and productivity (Berķe-Berga, 2013b).

The proportion of companies, offering PS, is significantly higher than employee ownership. More than a half of companies offer PS schemes (mostly bonuses paid annually for employees) according to the ESC survey in Lithuania and slightly less in Estonia (Tab. 4). Such proportions are in line with some earlier studies done in Estonia (Jaakson & Kallaste, 2014; Kollektiivsed töösuhted, 2011).

Tab. 4. Proportion of companies offering PS [%]

Estonia	Latvia	Lithuania
2013 ESC: 42.20 2010 Cranet: 5.30 2010 EWCS: 12.23	2013 ESC: 22.50 2010 EWCS: 9.40	2013 ESC: 55.40 2010 EWCS: 12.52

It must be emphasised that there is some divergence in the survey data. The surveys are often explained by the formulation of questions and survey samples (e.g. the Cranet sample excluded companies with fewer than 200 employees). Another argument is that the Baltic economies were growing after the harsh economic crisis when employers revised their remuneration policies. Certainly, directing profits together with employees could be much more motivating in this environment.

4. National legal frameworks on employee financial participation

Considering legal regulation, the Baltic states do not provide detailed rules on employee financial participation except for some supported schemes. National regulations on employee financial participation schemes have little density in the Baltic states. In other words, there are few laws related mostly to employee ownership plans and no special legislation on PS (Tab. 5) (Berķe-Berga, 2013a; Rimas, 2009; Lowitzsch, 2014; Jaakson, 2014; Orlova, 2013; Jakabsone, 2016).

The Baltic states use the same type of employee ownership plans. In practice, several employee ownership plans are offered to employees or can be purchased from Lithuanian stock exchange markets as action shares (in public limited liability company), stock options and non-vested shares.

The main legal problems related to the use of employee ownership plans according to the qualitative research information are listed further in the text.

Lithuania:

- the regulation is outdated; it remained since the same since the privatisation period. Thus, it does not respond to the business needs. For instance, some norms of the Law on Companies have been applicable for a long time (interview with LT3, LT4, LT9, LT10);
- unspecified eligibility criteria for shares;
- existing taxes (social security tax) imposed on the given shares (interview with LT3);
- owners of private a limited liability company are careful about offering shares to employees for the reason of unclear management, the handover of shares in the case the employee leaves the firm (unclear priority rights; fixing the market value of the share and other problems) (interview with LT9, LT4).

Latvia:

- the regulation is outdated and does not correspond to business needs (interview with LV1);
- unspecified eligibility criteria for shares (inappropriate regulations for an employer giving shares to an employee) (interview with LV3);
- according to the Latvian Commercial Law, Latvian companies cannot initiate the comparison of shares to non-resident companies. The com-

Tab. 5. Legal and fiscal framework on employee ownership in the Baltic states

Estonia	Latvia	Lithuania
The legal framework neither creates nor prevents incentives for the development of employee ownership schemes. Private Companies – Estonian Commercial Law contains no special rules on ESO concerning the acquisition, limitations on the number of shares or issuance of employee stock for any specific undertaking; general rules therefore apply. Some employees still hold shares purchased during privatisation and thus have the rights attached to these securities according to the Commercial Code and Securities Market Law. If securities issued by a company are offered solely to its employees or managers, the prospectus need not be made public and registered. Consequently, employees and management are not entitled to compensation pursuant to Article 25 of the Securities Market Law on losses resulting from the volatility of acquired securities	In Latvia, employee shares (referred to as employee stock in the Latvian law) are currently an object of taxation at the same tax level as salary plus additional taxes related to capital gains. Complete guidelines for implementation of ESO models are not developed. Laws which constitute any of ESO types apply only to personnel shares. Accordingly, the allocation of shares for the employees in accordance with local legislation is only possible in joint-stock companies. The Law on Personal Income Tax of 2000 clearly marked the moment of gaining income by holders of employee shares: it was the moment of redemption when a resigning holder of employee shares exchanged them for ordinary voting shares or sold shares to the issuer against certain consideration. The given norm stipulating that employee shares be taxable upon their transfer remained in effect until 2010	In Lithuania, no complete guidelines for implementation of ESO models are currently developed. The Law on Companies contains some special rules on ESO. During capital increase, companies can issue employee shares after all shares subscribed at the time of incorporation have been paid for (Art. 43, Law on Companies). The Law on Companies sets no maximum percentage on new employee shares. They are not to be distributed among all employees wishing to purchase them, except for management. A restriction period of no longer than three years must be determined, within which employee shares can be sold only to other employees. During this period, employee shares are not only of limited tradability but also non-voting, although employee shares are ordinary shares. The Law of Companies stipulates that an employee must pay for subscribed employee shares before the restriction period for the transfer of shares expires

mercial law does not restrict foreign enterprises to redeem shares in the market or to issue new shares and award them to their employees (interview with LV1).

Estonia:

- lack of special rules on PS or ESO plans (interview with EE1).

According to respondents, the main problems are related to eligibility of stock options offered to employees. Another issue is related to the lack of special legal schemes in the Estonian case (regulations for employee stock options or other plans), legal loopholes (outdated regulation, restriction for initiations of stock option plans) or unspecified eligibility criteria for shares.

The respondents reflected problems related to the regulation of employee financial participation. A Lithuanian lawyer (having provided roughly 100 consultations) pointed out several problems:

"The main problem is related to eligibility criteria. For instance, remuneration of shares has to be done in cash according to the Law on Companies. Thus, an employee who gets a reward in cash has to pay 25 percent in cash. This is the gap in the realisation of this scheme (interview with LT3)."

The following respondent discussed the eligibility criteria as a Latvian civil servant, emphasising legal restrictions for some companies. The respondent pointed out:

"The main restriction to the introduction of employee financial participation in Latvia is due to inappropriate regulations of The Commercial Law of the Republic of Latvia which prohibits Latvia's enterprises to obtain their own shares. With the insufficiently regulated commercial law, Latvia's companies are discriminated when compared to non-residents, allowing them to gain privileges in the market and promote competitiveness since Latvia's legislation allows foreign enterprises (registered outside of Latvia) to introduce EPF. The commercial law does not restrict foreign enterprises to redeem shares in the market or to issue new shares and award them to their employees. For example, employees of Swedbank branches in Latvia can purchase shares of the parent Swedbank Company located in its home country Sweden (interview with LV1)."

The qualitative research data indicates that taxation in Latvia and Lithuania inhibits the spread of employee stock options plans (interviews with LT4, LT5, LV1).

The academic research and studies indicate the absence of special legal regulation for PS in the Baltic states. On the other hand, there are no direct restrictions on employers using PS schemes (Tab. 6).

Base on the qualitative interview data, Lithuanian companies mix a stock option plan with employee PS in the form of paying bonuses. One respondent, chief advocate of a law firm, reflected as follows:

"We have a client, a company. The client decides to share the profit after running performance objectives are reached if employees reach strategic aims they are offered to buy the company's share. Others take another option, they have performance objectives interlinked with the motivational system. The employees can choose the money, i.e. "here and now" or they can get the companies share and invest […]. It depends on the type of motivational systems."

In the Baltic states, employers are using material bonuses (intangible benefit guarantees, the ability to use a company car for private purposes, health insurance, compensation of telephone expenses, additional

Tab. 6. Legal and fiscal framework on PS in the Baltic states

Estonia	Latvia	Lithuania
No special legislation on PS regarding employees exists; therefore, there are neither direct incentives nor direct restrictions. The resident company pays income tax at the rate of 21% (20% starting from 2015) on distributed profits	There are no legal limitations or regulations pertaining to PS. Salaries may be made dependent upon company profit and benefits may be provided in the form of premiums or other forms directly linked to the profits of a particular company. However, all benefits are subject to a personal income tax. This reduces the incentive to provide additional benefits. Dividends are not subject to tax	There is no specific regulation on sharing profits. Since companies pay income tax on dividends, this is viewed as an expensive method of profit distribution; therefore, priority is given to share buyback schemes. Employee monetary incentive schemes used in companies include payments of premiums and bonuses

holidays, etc. and a bonus (interview with EE1, EE2, LV1, LV3, LT).

5. New supportive policy initiatives

In the Baltic states, the new supportive regulation for employee ownership was initiated in 2011 (Estonia) and 2015–2016 (Latvia and Lithuania). These initiatives indicate new favourable attitudes conditioned by economic interest of some employer groups.

The qualitative research specifies that new legislative initiatives have been caused by active involvement of lobbying organisations (i.e. Latvian Confederation of Employers, lobbyist acting for Scandinavian banks in Lithuania, representatives of so-called start-ups companies). The policy problems raised by a stakeholder got a late support from government institutions (Ministries of Finance in Lithuania and Latvia and Central Bank of the Republic of Lithuania) (interviews with LV1, LV2, LT1, LT2, LT3, LT5, LT6).

Problems related to the policy supporting employee financial participation:

- the lack of special rules on PS or ESO plans,
- in the Baltic states, tax legislation and ESO models (in this case, the only plans of personnel shares) have no tax benefits (i.e. tax advantages for ESO),
- the lack of support for awareness raising initiatives which could be possibly initiated by the employee or/and employer organisations) (interviews with LV1, LV2, LT1, LT2, LT3, LT5, LT6, EE1).

In the Baltics, ESO supportive policy was directed on issues related to taxation and social security contributions. Firstly, it is necessary to point out that the Baltic states do not have a lengthy tradition of tax initiatives for the promotion of ESO compared to Western countries. The analyses of fiscal initiatives indicate that in the Baltic states, there were several such initiatives (Tab. 7).

In Latvia and Lithuania, new supportive policy initiatives started on the development of employee ownership schemes in 2014 and 2016.

5.1. Latvia

In Latvia, the Ministry of Finance with social partners (the Confederation of Latvian Employers) and several trade unions established a group responsible for the introduction of employee financial participation in Latvia. The proposed solutions did not precondition the EPF implementation. The institutional group did not finish its work due to the economic and financial crisis in 2008. The policy agenda was changed due to the volatile economic environ-

Tab. 7. Policy measures supporting employee financial participation in the Baltic states

Estonia	Latvia	Lithuania
Taxing of stock options changed in 2011 and the Tax and Customs Board has specified the terms in 2013. In general, selling employer shares at a lower than market price to employees is considered a fringe benefit subject to social and income tax. ESO is not explicitly incentivised, and if the transaction takes place below the market price, it is considered as a part of compensation and is taxed as such	In 2010, the Latvian Personal Income Tax Law was supplemented with the rule on taxation of capital income, while the reference to employee shares was omitted. Therefore, the time when employee shares should be considered as income liable to tax became unclear. The current version of the Law provides a clear and unequivocal answer that shares received on the privileged basis constitute the labour income of an employee and are therefore taxable the same way as a salary. New labour taxation rules (as well as rules on tax exemption) enforced in Latvia in 2013 allow employees acquire shares of their enterprise free of charge or at a discount. Currently, the amendments in the Law on Income Tax are attributed to foreign enterprises	Taxing stock options was changed in 2015 (Rules of the State Social Insurance Fund Budget Formation and Implementation, the government resolution). According to regulations in effect since 2015, employee stock options are tax-exempt for employers if the granting period is at least three years (i.e. the right to shares is granted after the three years period)

ment. The circumstances changed after six years when the question of employee financial participation reappeared in policy discussions (interview with LT3).

The Cabinet of Ministers started a debate about employee participation while discussing the Business Environment Action Plan for 2014-2015 (Rīkojums..., 2014). This issue had not disappeared from the policy agenda. A new working group was created in the Ministry of Justice and involved advocates, members of an employer association and a government representative). The working group discussed the loopholes in the current legal framework on employee ownership and is decided that it is necessary to develop current stock options and work on new plans. The working group discussed the amendments to the Latvian Commercial Law prepared by the Ministry of Justice. The members of the working group stressed the importance of employee stock options as an effective instrument of human resource management. According to the qualitative research data, Latvian labour unions took a neutral stand in the discussion. The respondent took such a position on the argument that planned amendments were not related to employee participation in decision-making (in control) at a company level (interview with LV3).

5.2. Lithuania

In Lithuania, the government initiated a working group on the revision of the Law on Companies. According to the respondent from the Ministry of Economy, a new revision of employee shares was initiated as one of agenda questions (interview with LT2). Others pointed out that this legislative initiative was influenced by business lobbying groups (interview with LT4). The working group was initiated by the Ministry of Economy, the Ministry of Finance and the Central Bank of the Republic of Lithuania. According to the report on the analysis of the regulatory impact, the importance of employee stock options may be viewed as an effective human resource management instrument for increasing motivation and forming loyalty towards the company (Seimas of Republic of Lithuania, 2015). It is worth mentioning that the working group does not have a related new legislative initiative with ideas of employee involvement in control or the decision-making process at a company level. Employee motivation and loyalty were the main arguments in the discussions (interview with LT1, LT2, LT10).

New amendments or, more precisely, two schemes have been introduced (for limited liability companies):

- an individual employee stock ownership plan (employee action option plan. In comparison to the current regulation, employers will be able to hand over shares gratuitously);
- PS scheme or, more precisely, share-based PS (company profit can be transferred to employee shares) (Seimas of Republic of Lithuania, 2015).

In general, the new policy for supporting employee financial participation has been renewed in Latvia and Lithuania. It started recently with the revision of the legislative framework that remained unchanged since the privatisation period. The revision of the Law on Companies was driven by the business interest (to have a new effective human resource management tool or to transfer employee share plans from parent companies in Western countries to subsidiaries in the Baltic states) to introduce (or revise in the case of Lithuania) new ESO plans. In the two Baltic countries, special working groups (with delegated members from ministries and experts) started working on new initiatives. The working groups (most of the members) generally supported the idea of a special framework for ESO and financial participation. This is indicated in documents (minutes), interview data and the new draft law. Generally, the process started successfully, but fiscal frameworks must be balanced.

Conclusions

According to the qualitative research data, the ESO concept has limited awareness in the Baltic states. The respondents pointed out several general reasons (except for a legal framework and promotive tax initiatives), limiting the use of ESO:

- the lack of information about benefits,
- conservative business cultures and non-innovative human resource managing practices,
- indifference of trade unions and, partly, employee organisations,
- the domination of Scandinavian investment, organisational cultures and human resource practices. This reason was reflected differently. A part of respondents saw Scandinavian corporations as a driving force. For others, Scandinavian human resource management models and practices seemed to be limited. The lack of informa-

tion was indicated by the respondents as the main factor limiting awareness about employee financial participation.

According to the results, the Baltic states do not provide detailed rules on employee financial participation except for some supported schemes. However, comparisons across the national regulations on employee financial participation schemes showed little density. In other words, there were few laws related mostly to employee ownership plans and no special legislation on PS. The Baltic states use the same type of employee ownership plans. In practice, several employee ownership plans are offered to employees or can be purchased from Lithuanian stock exchange markets, including action shares (in a public limited liability company), stock options and non-vested shares. As reflected by respondents, the main problems are related to eligibility of stock options by employees. Another problem is related to the lack (Estonian case) of special legal schemes (the regulation for employee stock options or another plan), legal loopholes (outdated regulation, restriction for initiations of stock option plans) or unspecified eligibility criteria for shares.

In the Baltic states, the new supportive regulation for employee ownership was initiated in 2011 (Estonia) and 2015-2016 (Latvia and Lithuania). These initiatives indicate new favourable attitudes conditioned by economic interest of some employer groups. The qualitative research specifies that new legislative initiatives have been caused by active involvement of lobbying organisations (i.e. the Latvian Confederation of Employers, a lobbyist acting for Scandinavian banks in Lithuania, representatives of so-called start-up companies). The policy problems raised by stakeholders received late support from government institutions. Problems related to the policy supporting employee financial participation:

- the lack of special rules on PS or ESO plans,
- in the Baltic states, tax legislation and ESO models (in this case, the only plans of personnel shares) have no tax benefits (i.e. tax advantages for ESO),
- the lack of support for awareness raising initiatives, which could be possibly initiated by the employee or/and employer organisations.

Literature

Berķe-Berga, A. (2013a). *Development of Employee Share Ownership in Latvia* [Doctoral dissertation]. Riga, Latvia: Riga Technical University.

Berke-Berga, A. (2013b). Employee ownership model for Latvia. Scientific *Journal of Riga Technical University: Economics and Business*, *23*, 6-12.

Berķe-Berga, A. (2014). Development of Employee Share Ownership in Latvia. *International Journal of Business and Management Studies*, *3*(1), 167-178.

Blasi, J., Freeman, R., & Kruse, D. (2016). Do Broad-based Employee Ownership, Profit Sharing and Stock Options Help the Best Firms Do Even Better? *British Journal of Industrial Relations*, *54*(1), 55-82.

Blasi, J. R., Kruse, D. L., & Freeman, R. B. (2010a). Epilogue (and Prologue). In D. L. Kruse, R. B. Freeman, J. R. Blasi (Eds.), *Shared Capitalism at Work*: *Employee Ownership*, *Profit and Gain Sharing*, *and Broad-based Stock Options* (pp. 377-386). Chicago, USA: University of Chicago Press.

Blasi, J. R., Kruse, D. L., & Freeman, R. B. (2010b). Introduction. In D. L. Kruse, R. B. Freeman, J. R. Blasi (Eds.), *Shared Capitalism at Work: Employee Ownership*, *Profit and Gain Sharing*, *and Broad-based Stock Options* (pp. 1-41). Chicago, USA: University of Chicago Press.

Blasi, J., Kruse, D., & Weltmann, D. (2013). Firm Survival and Performance in Privately Held ESOP Companies. In D. Kruse (Ed.), *Sharing Ownership*, *Profits*, *and Decision-Making in the 21st Century* (pp. 109-124). Bingley, England: Emerald Group Publishing Limited.

Bryson, A., & Freeman, R. B. (2010). How Does Shared Capitalism Affect Economic Performance in the United Kingdom? In D. L. Kruse, R. B. Freeman, J. R. Blasi (Eds.), *Shared Capitalism at Work: Employee Ownership*, *Profit and Gain Sharing*, *and Broad-based Stock Options* (pp. 201-224). Chicago, USA: University of Chicago Press.

Darskuviene, V., & Vazniokas, P. (2006). Stock Ownership as a Form of Employee and Management Financial Participation: Factors of Development in Lithuania. *Organizacijų Vadyba: Sisteminiai Tyrimai*, *38*, 33-51.

Eamets, R., Mygind, N., & Spitsa, N. (2008). The Development of Employee Financial Participation in Estonia. *Baltic Journal of Management*, *3*(2), 218-231.

Gapoņenko, I. et al. (2008). *Eiropas pieredze darbinieku finansiālai līdzdalībai uzņēmuma darbības rezultātos un tās izmantošana Baltijas valstīs* [*European experience of employee financial participation in company performance and its use in the Baltic States*]. Riga, Latvia: Eiropas Pētījuma Institūts.

Jaakson, K., & Kallaste, E. (2014). Who Uses Employee Financial Participation in an Adverse Environment? The Case of Estonia. *Economic and Industrial Democracy*, *37*(3), 449-467.

Kollektiivsed töösuhted [Collective Employment Relationships]. (2011). *Kvantitatiivuuringu raport* [*Quantitative Study Report*]. Tallinn, Estonia: Keskus CentAR.

Kranz, O., Steger, T., & Hartz, R. (2016). The Employee as the Unknown Actor? A Discourse Analysis of the Employee Share Ownership Debate with Special Emphasis on Central and Eastern Europe. *Organizacija*, *49*(2), 77-92.

Landau, I., Mitchell, R., O'Connell, A., & Ramsay, I. (2007). *Employee Share Ownership*: *A Review of the Literature*. Melbourne, Australia: Melbourne Law School, & The University of Melbourne.

Lowitzsch, J. (Ed.). (2009a). *Financial Participation of Employees in the EU-27*. London, England: Palgrave Macmillan.

Lowitzsch, J. (Ed.). (2009b). *The PEPPER IV Report*: *Benchmarking of Employee Participation in Profits and Enterprise Results in the Member and Candidate Countries of the European Union*. Berlin, Germany: Free University of Berlin, Institute for Eastern European Studies, & Inter-University Centre Split-Berlin.

Lowitzsch, J. (2012). *Employee Financial Participation in Public Services in the European Union*. Retrieved from http://www.ceep.eu/images/stories/pdf/events/efp/reportEFP.pdf

Lowitzsch, J., & Hashi, I. (2006). *The PEPPER III Report: Promotion of Employee Participation in Profits and Enterprise Results in the New Member and Candidate Countries of the European Union*. Berlin, Germany: Free University of Berlin, Institute for Eastern European Studies, & Inter-University Centre Split-Berlin.

Lowitzsch, J., & Hashi, I. (2014). *The Promotion of Employee Ownership and Participation*. Brussels, Belgium: European Union.

McCarthy, D. (2016). Employees Financial Participation. In J. Holsher, H. Tomann (Eds.), *Palgrave Dictionary of Emerging Markets and Transition Economics*, (pp. 508-521). London, England: Palgrave Macmillan.

Mygind, N. (2012). Trends in Employee Ownership in Eastern Europe. *The International Journal of Human Resource Management*, *23*(8), 1611-1642.

O'Boyle, E. H., Patel, P. C., & Gonzalez-Mulé, E. (2016). Employee Ownership and Firm Performance: A *Meta-analysis. Human Resource Management Journal*, *26*(4), 425-488.

Olagues, J., & Summa, J. F. (2010). *Getting Started in Employee Stock Options*. New Jersey, USA: John Wiley & Sons.

Orlova, J. (2013). Nepieciešamība iekļaut akciju opciju regulējumu komerclikumā [The need to incorporate stock options into commercial law]. *Jurista vārds*, *27*(28), 778-779.

Pendleton, A. (2001). *Employee Ownership, Participation and Governance*: *A Study of ESOPs in the UK*. London, England, & New York, USA: Routledge.

Pendleton, A. (2011). Employee Ownership in Britain: Diverse Forms, Diverse Antecedents. In E. J. Carberry (Ed.), *Employee Ownership and Shared Capitalism: New Directions in Research*, pp. 311-339. Baltimore, USA: Labor and Employment Relations Association.

Poole, M., & Jenkins, G. (2013). *The Impact of Economic Democracy*: *Profit-sharing and Employee-shareholding Schemes*. New York, USA: Routledge.

Postlethwaite, R., Michie, J., Burns, P., & Nuttall, G. (2005). *Shared Company*: *How Employee Ownership Works*. Melton, England: Job Ownership Limited.

Poutsma, E. (2001). *Recent Trends in Employee Financial Participation in the European Union*. Dublin, Ireland: European Foundation for the Improvement of Living and Working Conditions.

Poutsma, E., & Braam, G. (2012). Financial Participation Plans and Firm Financial Performance: Evidence from a Dutch Longitudinal Panel. In A. Bryson (Ed.), *Advances in the Economic Analysis of Participatory and Labor-managed Firms*, (pp.139-183). Bingley, England: Emerald Group Publishing Limited.

Poutsma, E., Ligthart, P., Pendleton, A., & Brewster, C. (2013). The Development of Employee Financial Participation in Europe. In E. Parry, E. Stavrou, M. Lazarova (Eds.), *Global Trends in Human Resource Management* pp. 179-213. London, England: Palgrave Macmillan.

Reynolds, J. N. (2015). *Sharing Profits*. London, England: Palgrave Macmillan.

Richter, A., & Schrader, S. (2016). Financial Participation and Recruitment and Retention: Causes and Consequences. *The International Journal of Human Resource Management* (In Press).

Rīkojums Nr. 694 Par Uzņēmējdarbības vides uzlabošanas pasākumu plānu 2014-2015 gadam [*Directive Nr. 694 of the Cabinet of Ministers of Latvia on the Action Plan for Improvement of the Business Environment for 2014-2015*] *2014* (LV).

Rimas, J. (2009). Akcijų opcionai kaip privataus kapitalo investuotojo ir bendrovės vadovų interesų derinimo priemonė [Stock options as a means to align the interests of the private equity investor and target managers]. *Teisė*, *73*, 124-136.

Seimas of Republic of Lithuania [Parliament of Lithuania]. (2015). *Explanatory Letter on Law of Joint Stock Company of Republic of Lithuania*. Retrieved from https://e-seimas.lrs.lt/rs/lasupplement/TAP/360917d0aed911e59010bea026bdb259/cc237458aed911e59010bea026bdb259/format/ISO_PDF/

Sippola, M. (2009). The Two Faces of Nordic Management? Nordic Firms and Their Employee Relations in the Baltic States. *The International Journal of Human Resource Management*, *20*(9), 1929-1944.

Sippola, M. (2013). The Awkward Choices Facing the Baltic Worker: Exit or Loyalty. *Journal of Baltic Studies*, *44*(4), 451-473.

Shipper, F., Manz, C. C., Manz, K. P., & Nobles, B. (2014). Shared entrepreneurship: Toward an ethical, dynamic, empowering, freedom-based process of collaborative innovation. In F. Shipper (Ed.), *Shared Entrepreneurship* pp. 7-26. New York, USA: Palgrave Macmillan.

Thompson, P. B., Shanley, M., & McWilliams, A. (2013). Ownership culture and strategic Adaptabilit. *Journal of Business Strategies*, *30*(2), 145-179.

Ugarković, M. (2008). Profit Sharing: Supplement or Substitute? In M. Ugarković (Ed.), *Profit Sharing and Company Performance* (pp. 71-78). Wiesbaden, Germany: Gabler Verlag, & Springer Fachmedien.

Woolfson, C., Kallaste, E., & Berzins, J. (2011). Industrial Relations and Social Dialogue in the Baltic States-Crisis, Conflict and Compromise. In S. Contrepois, V. Delteil, P. Dieuaide, S. Jeffrys (Eds.), *Globalizing Employment Relations* (pp. 179-197). London, England: Palgrave Macmillan.