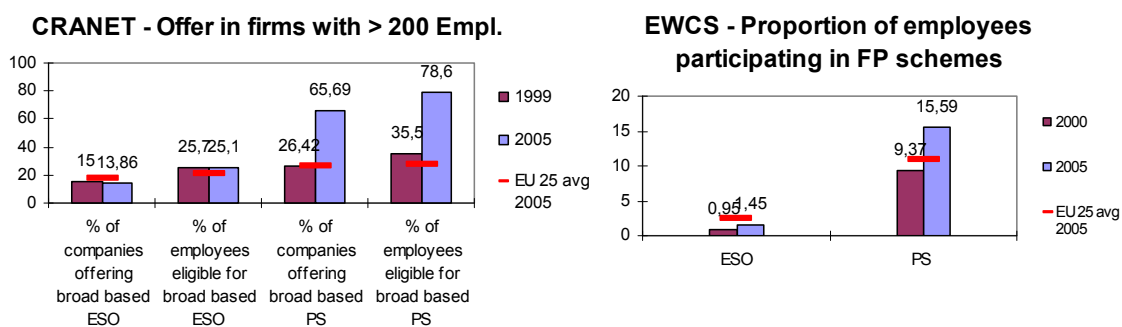


XXVI. Finland

Personnel funds are the only form of financial participation to enjoy fiscal incentives and the support of the social partners. In 1989, the Council of State appointed a committee to find new forms of co-operation for enhancing economic democracy, competitiveness and productivity. A draft law in 1987¹⁸⁸ proposed voluntary personnel funds as a key element. The funds were to encourage efficiency at the company level, ‘innovations’ at all levels, and a balanced division of decision-making and responsibilities. The law, enacted in 1989 (814/1989), immediately attracted great attention. The majority of the funds in place today were established then. A total of 82 funds have been established between 1990 and April 2007, of which 28 have been closed down.

There are now 54 operating personnel funds with about 126,000 members covering over five percent of the workforce. It is not clear why the number of funds is not higher. The Ministry of Labour made a study (1999) of the funds which had closed down. In ten companies out of 13 the closure was due to changes in the company structure, for example, mergers and acquisitions. Another cause was a shift towards performance-related pay (two cases in the forest industry). Since the recession in the mid 1990s only a few funds have been established each year; recently their popularity has increased though. Interest in personnel funds has recently grown, in 2005 eight new funds were registered, more than in any other year since 1991.



¹⁸⁸ First official discussions about employee wage earner funds (as they were called at the time) took place in 1981 at Trade Union Organisations general meeting. The idea of wage earner funds in Finland was attributable to the model of collective wage earner funds developed in Sweden by Rudolf Meidner. The US ESOP was also a source of inspiration.

1. General Attitude

Until recently, personnel funds were the only subject discussed by the social partners. Personnel funds were promoted by both, employee associations (for example, Central Organisation of Finnish Trade Unions (SAK), the Finnish Confederation of Salaried Employees (STTK), and the Confederation of Unions for Professional and Managerial Staff (AKAVA)) and employer associations (for example, Confederation of Finnish Industries (EK), Commission for Local Authority Employers (KT) and the State Employer's Office) as well as the government.¹⁸⁹

However, the interest in financial participation is growing; social partners improve organisational and pay flexibility; the current government and social partners regard personnel funds as a good instrument for achieving flexibility. At present these parties are discussing methods to facilitate and promote the use of personnel funds. Current incentives for both employees and employers do not seem to enhance their use as much as intended though. Options and share ownership are not viewed as proper subjects for collective bargaining. Some employee associations would like profit-sharing or performance-based pay to be subject to collective wage bargaining negotiations. The employers associations think that the companies should have the flexibility to unilaterally decide whether such pay forms should be used.

2. Legal and Fiscal Framework

a) Share Ownership

Personnel funds may sometimes be considered to be employee ownership when fund assets are invested in the company. Here, however, they are defined as profit-sharing.

Employee shares - Companies may transfer shares to employees at a favourable price. The benefit is tax free if the discount is up to 10 per cent below the current price and the majority of employees have access to the plan (§ 66 para. 1 of the Income Tax Law). 30 per cent of dividends from public companies are tax free, and 70 per cent are taxed as capital income. The company withholds 19 per cent in tax from payments to the employees; employees can deduct this tax from the personal income tax base. Dividends of private companies are tax free if earnings per share are less than 9 per cent and the total amount of earnings does not exceed Euro 90,000; otherwise, they are taxed as dividends of public companies.

Stock options¹⁹⁰ - The first stock option plans in publicly traded companies in Finland were launched in 1987. A large increase has been observed between 1998-2000, when the stock market was at record highs. The majority of option schemes are used in publicly

¹⁸⁹ In 2007/08 the Centre party held the majority of seats in parliament and was the ruling majority, together with the Coalition party, whereas the Social Democratic party is in opposition

¹⁹⁰ Based on the data from the doctoral thesis of Mäkinen (2007) and Kalmi (2005).

traded companies and in companies that are preparing for initial public offering. The schemes are either broad-based or selective. Broad-based schemes include all employees or at least the majority, while selected schemes are mostly for the management. Broad-based schemes became popular in 1998-2000, but their popularity has waned. The Law on Joint-Stock Companies (624/2006) requires companies to report all relevant conditions and changes in their stock option schemes to shareholders. Generally in Finland stock options are either given for free or in exchange for a loan to the company which is usually to be repaid in one to three years. Options typically can be exercised two to four years after grant. The exercise period may extend from a few months to a few years. The share price is usually set to correspond to the price at the time of grant. Stock options are taxed as earned income. The employer pays social security contributions.

b) Profit-sharing

Personnel Funds – Personnel funds have been the most frequent form of employee financial participation since 1990. The Law on Personnel Funds (814/1989) was issued 15 September 1989 and amended several times thereafter. The personnel funds are deferred profit-sharing plans allowing investment in the equity of the employer company and thus involving an element of employee share ownership.¹⁹¹ Annual payments to the fund should be (at least up to 50 per cent) accumulated from company profits. The employer retains the right to choose the criteria for profit-related payments, but these must be fixed, typically, a year in advance.¹⁹² The funds are established on the basis of company-level agreements, prerequisite is that a company has at least 30 employees.¹⁹³ The law requires all employees to be included in the plan; only senior management may be excluded. A personnel fund is registered with the Ministry of Labour and is a legal entity in its own right. However, it may engage only in the activities determined by the Personnel Funds Law (814/1989). The funds invest their assets either in shares of the employer company or other companies, in investment funds, bonds or bank accounts. These investments multiply the financial returns of the employees beyond company profits.

The assets in the personnel fund are allotted to individual accounts. The shares are generally distributed to employees either in relation to base pay or to hours worked. Individual accounts are blocked for the first five years of participation. After that, a member can withdraw up to 15 per cent of the value of his accumulated fund share. At retirement, the employee is entitled to withdraw the value of the fund share either immediately or in instalments within four years. The law requires the fund to provide each employee with information about his account at least once a year by letter. Personnel funds enjoy several tax advantages. For employees, 20 per cent of the pay-outs from the fund are tax free (§ 65 of the Income Tax Law). The fund pays no taxes on its earnings (§ 20 Income Tax Law). The employer company is not liable to social security contributions, and can deduct profits contributed to the fund as professional expenses from the corporate tax base (§ 8

¹⁹¹ The discussion draws from Vartiainen and Sweins (2002) and Sweins (2004).

¹⁹² It is possible to use other measures of efficiency, for example, quality or physical productivity. At the present time companies do not, however, utilise this alternative to any extent.

¹⁹³ Personnel funds are established by a collective decision of employees and two-thirds of all personnel groups must support the establishment of the fund. In the case of corporate groups there can also be a joint funds for all member companies.

Corporate Tax Law). Since 1999 (amendment 344/99) allowed the funds also to be established in civil service departments and in state owned companies. In lieu of profit, the government offices use measures of performance. In 2000 (amendment 1145/99), the law was changed to allow employees to withdraw their share in cash if it is permitted by personnel fund regulations. Internationalisation and globalisation led to a change that also allowed Finnish international companies to extend profit-sharing plans, including personnel funds, to its subsidiaries abroad (amendment 499/2002).

Even though Finnish personnel funds were inspired by Swedish wage-earner funds and US employee stock ownership plans, important differences exist between these schemes. Neither Employee Share Ownership Plans (ESOPs) nor wage-earner funds (WEFs) are profit-sharing schemes. In ESOPs, the trust acquires shares with borrowed capital, and in WEFs with the government assistance.¹⁹⁴ Whereas personnel funds typically distribute their shareholdings quite widely and invest also in other securities, employee share ownership plans invest only in their own company. The main difference between personnel funds and wage-earner funds is that the former are completely voluntary and operate at the level of the company, whereas the latter operated at the national level for the benefit of the entire workforce. In the design of Finnish personnel funds, the employers explicitly wanted to avoid the Swedish obligatory model.

Performance-related pay – Neither legislation nor incentives for performance related pay exist. Performance related pay may be paid from company profit or from budgeted money or it may be a mixture of both. Plans may be related both to individual (gain-sharing) performance as well as collective performance (profit-sharing). Of those employees belonging through the employer to the Confederation of Finnish Industries (EK) 52 per cent are participating in some performance related pay scheme. This concerns about 500,000 employees. Performance related pay that is other than personnel fund is used in one third of the companies. EK estimate that in the whole private sector (also not members) there were 46 per cent of the employees joining the performance related pay schemes. There are differences between sectors and personnel groups. The pay schemes are usually covering the whole workforce, but they may cover only a part of the workforce. PRP was more common in the industry sector (69 per cent) than in the service sector (44 per cent) or building sector (40 per cent).

c) Participation in Decision-Making

Financial participation is generally not linked to the extension of participation in decision-making. While wage increases are subject to collective agreement, companies may adopt profit-sharing and other performance-based payments independently without negotiations.¹⁹⁵ However, financial participation in form of personnel funds which is the most common form in Finland requires the consent of two thirds of employees to establish or

¹⁹⁴ See Blasi and Kruse (1991) for a description on ESOPs and Whyman (2004) for a recent account on WEFs.

¹⁹⁵ The unionisation rate in Finland is around 70 to 80 per cent; about 90 per cent of all wage and salary earners are covered by collective bargaining agreements. A few collective agreements, however, have included negotiation on performance based pay.

to dissolve a fund pursuant to § 9 Personnel Funds Law (814/1989).¹⁹⁶ Co-determination, employees' representation on the supervisory board is prescribed in the law 725/1990 (Finnish companies) and in 758/2004 (Societas Europaea and European co-operatives). In companies with over 150 employees, the employees have a right to elect representatives in the company management, that is one-fourth of the members of – depending on the company type – the supervisory board, the board of directors or management groups. There is no data available for how many companies have employees in the supervisory board.

¹⁹⁶ One of the prerequisites for a personnel fund is a profit bonus system decided by the employer. An eventual decision on establishing a personnel fund shall be preceded by a procedure of information and consultation in accordance with § 19 Co-operation Law 334/2007.