

# The Impact of Private Equity-backed Buyouts on Employee Relations

Research Paper - December 2008

Conducted by CMBOR, the Centre for Management Buyout Research  
In association with the European Private Equity and Venture Capital Association (EVCA)



EUROPEAN  
PRIVATE EQUITY &  
VENTURE CAPITAL  
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**THE CENTRE FOR  
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## About EVCA

The European Private Equity and Venture Capital Association (EVCA) was established in 1983 and is based in Brussels. EVCA represents the European private equity sector and promotes the asset class both within Europe and throughout the world. With over 1,300 members in 53 countries, EVCA's role includes representing the interests of the industry to regulators and standard setters; developing professional standards; providing industry research; professional development and forums, facilitating interaction between its members and key industry participants including institutional investors, entrepreneurs, policymakers and academics. EVCA's activities cover the whole spectrum of private equity: venture capital (from seed and start-up to development capital), buyouts and buyins.

## About CMBOR

The Centre for Management Buyout Research (CMBOR) was founded at the University of Nottingham in 1986 as the first centre dedicated to monitoring management buyouts and private equity in a comprehensive and objective way. CMBOR has compiled the most comprehensive dataset of management buyouts and private equity in Europe comprising over 27,000 deals covering the period since the late 1970s. CMBOR provides regular monitoring of trends in management buyouts and private equity in Europe, as well as objective analyses of their effects for practitioner, policy and academic audiences. CMBOR also provides research on venture capital and entrepreneurs including early-stage venture capital for academic entrepreneurship, serial entrepreneurs, international venture capital and return entrepreneurship. In addition to the core team based in Nottingham, CMBOR has an active network of over 40 academic and practitioner collaborators in Europe and worldwide.

## Disclaimer

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Any change of company ownership can be unsettling for the people who work within it. For many it becomes a liberating experience and they can achieve more than was possible with the previous owners whilst for others the change can be uncomfortable.

How any new owner manages the logistically challenging process of transition and ensures that not only is the momentum of the business maintained, but that those who work there are highly motivated is key to success.

Adherence to the many rules which exist to govern the way company owners should behave in these situations is necessary but it is far from sufficient. The European Directives and their national implementation are a helpful baseline. However any new owner who wants to achieve significant value creation and grow a business substantially needs to focus on behaviours as much as the rules. A new owner's track record will help, but from an employees view, it is their own personal experience that matters the most.

The good news is that private equity thrives on change and is only interested in buying or investing in a business if it can grow in value. So the opening mindset is positive. This is backed up by numerous studies showing higher growth rates in private equity-backed businesses. It is my view that sustained strong financial performance is hard to achieve with an unhappy workforce so a key priority in any situation is ensuring the right leadership and culture within the business.

At the start of the decade, there was some concern that private equity involvement was detrimental to overall employment levels. While this concern has to a large degree been addressed through rigorous research, it is now appropriate to take a more sophisticated and deeper look at the ways in which private equity firms impact relations between employees and a company's management.

In this study, CMBOR has analysed such areas as private equity's effect on employee earnings, pension schemes, training programmes, levels of employee consultation, recognition of Works Councils, and trade union membership.

The study also analyses the effects of private equity:

- in different types of company situations (e.g. comparing companies requiring rescue or operational turnaround to those where funding is needed for further growth); and
- across different European social models (e.g. comparing liberal economies with more protected states).

This study is intended to provide policymakers, trade union representatives and other social partners across Europe with the necessary facts to ascertain how private equity affects employee relations.

Ultimately, we hope this increased level of awareness will feed through to company employees across Europe, ensuring that they are better placed to take an informed view of any future changes to the ownership model of their own companies.

On behalf of EVCA, I would like to thank CMBOR for conducting this research, as well as all the chief executives and human resource managers at private equity-backed companies who took the time to participate in this important study.

Yours faithfully,



Jonathan Russell

The value of the European buyout market has grown dramatically in recent years, rising from €13 billion in 1988 to €171 billion in 2007, according to CMBOR data<sup>(1)</sup>. At the same time, private equity has grown from a cottage industry to a major participant in the world of business and finance.

It is therefore increasingly important that there should be clear information on how private equity investment affects the day-to-day working environment and conditions within businesses – a vital aspect of this being the ways in which private equity investments affect employee relations.

When analysing this dynamic, it is important to note that private equity firms do not normally take a day-to-day managerial role within the companies they own. Instead, the private equity investor acts as a committed and knowledgeable shareholder, making sure that managers are incentivised to run the business in the best interests of the company. At the same time, both private equity shareholders and company management have a responsibility to ensure that the interests of other stakeholders, including employees, are properly considered.

The study did not try to assess the quality of employee relations in buyout-backed companies under their preceding shareholders. Rather, the focus of the study was on whether or not employee relations improved following the buyout.

The findings, which are based on a representative survey of 190 private equity-backed companies across Europe, demonstrated that private equity investment tended to have either a positive impact or a neutral effect across the following broad parameters:

1. Decision-making in employee relations;
2. The evolution of employees' earnings and pension schemes within buyout-backed companies;
3. The extent to which buyout-backed companies utilise high-commitment management practices; and
4. The continued recognition of trade unions, and consultation and information procedures for employees in buyout-backed companies.

In addition, the study also analysed whether there were any differences in the effect of private equity investment on buyout-backed companies across different European social models (see section 5).

<sup>(1)</sup> At the same time, the proportion of European buyouts that has had private equity investment increased from 40% of the number and 54% of the value in 1988 to 66% of the number and 96% of the value in 2007.

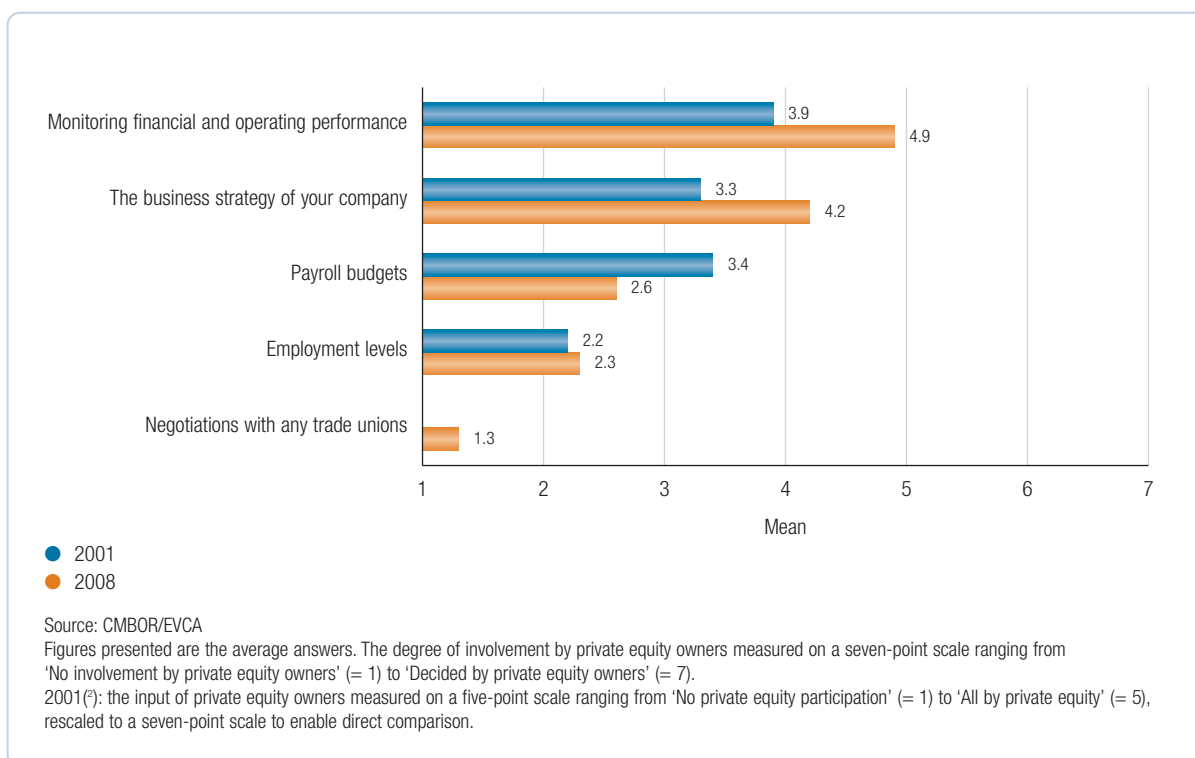
# 1. The Role of Private Equity Investors in Employee Relations Decision-making

## 1.1. How do private equity investors influence employee relations in their investee companies?

Respondents were asked to rate the degree of involvement by private equity investors in several activities in their company, using a seven-point scale ranging from 'No involvement by private equity owners' to 'Decided by private equity owners'.

The main role of the private equity investors after a buyout is to monitor the company's financial and operating performance, closely followed by involvement in its business strategy (Figure 1). Private equity involvement in employee relations was rated much lower with most buyout-backed companies (81% of respondents) reporting no involvement by private equity investors in negotiations with trade unions, for example.

**Figure 1: Involvement of private equity investors**



As shareholders, and through the Board of the company, private equity investors are mainly involved in the monitoring of financial and operating performance, and in the business strategy of the company. The operational management of employee relations is mandated to the managers of the investee company, who work closely with the private equity investor to ensure that agreed performance targets are met. The key employee relations decision-maker is therefore the management in buyout-backed companies.

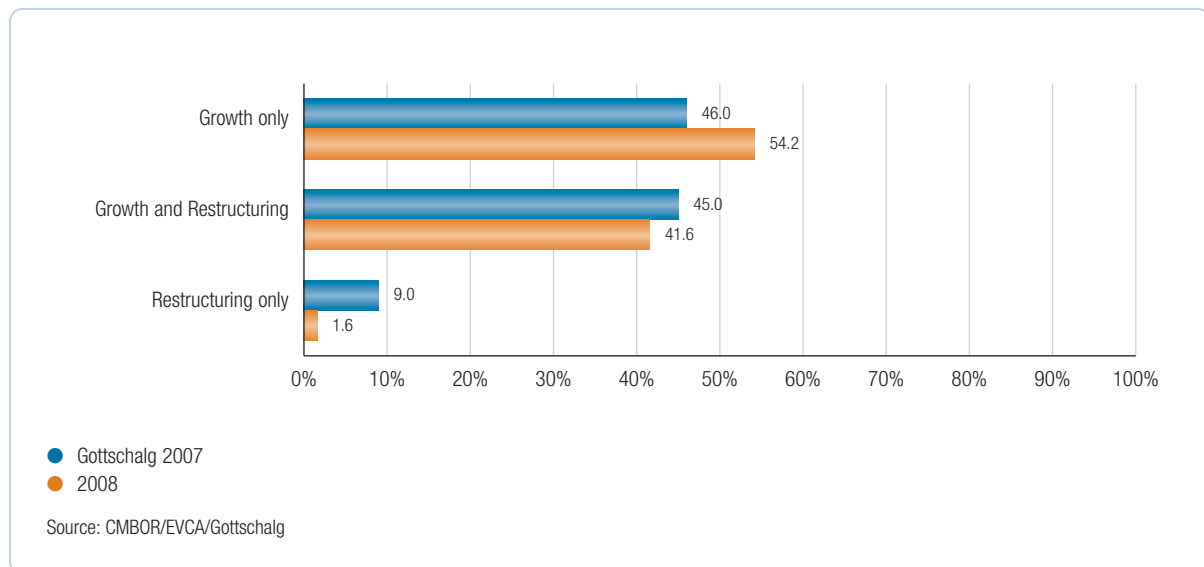
<sup>(9)</sup> CMBOR/EVCA (2001) Survey of the Economic and Social Impact of Management Buyouts & Buyins in Europe.

## 1.2. What are private equity's business strategies, and what is their impact on employee relations?

According to 54% of buyout-backed company respondents, the business strategies implemented by private equity investors over the period between the buyout and the time of the survey<sup>(3)</sup> were growth-focused, while 42% of the surveyed companies reported a combination of growth and restructuring strategies. Only 1.6% reported restructuring-only strategies.

A study carried out for the European Parliament<sup>(4)</sup> shows broadly comparable results, with 46% of all transactions inducing initiatives oriented towards growth only and 45% of the transactions combining growth-oriented with restructuring-oriented changes during the post-acquisition period. Only 9% led to restructuring only oriented changes (Figure 2).

Figure 2: Growth and restructuring



## 1.3. How are job losses managed in buyout-backed companies?

Private equity ownership resulted in a marginal 3% fall in the median number of employees in the target company immediately following its acquisition. However, in the subsequent period, there was a median 19.6% increase in employee numbers<sup>(5)</sup>.

Indeed, the majority (69%) of respondents experienced a net creation of jobs over the period between the buyout and the time of the survey, reflecting the introduction of growth strategies reported in Section 1.2. Just 19% reported a net loss of jobs.

<sup>(3)</sup> The average timeframe between the buyout and the survey was 37 months.

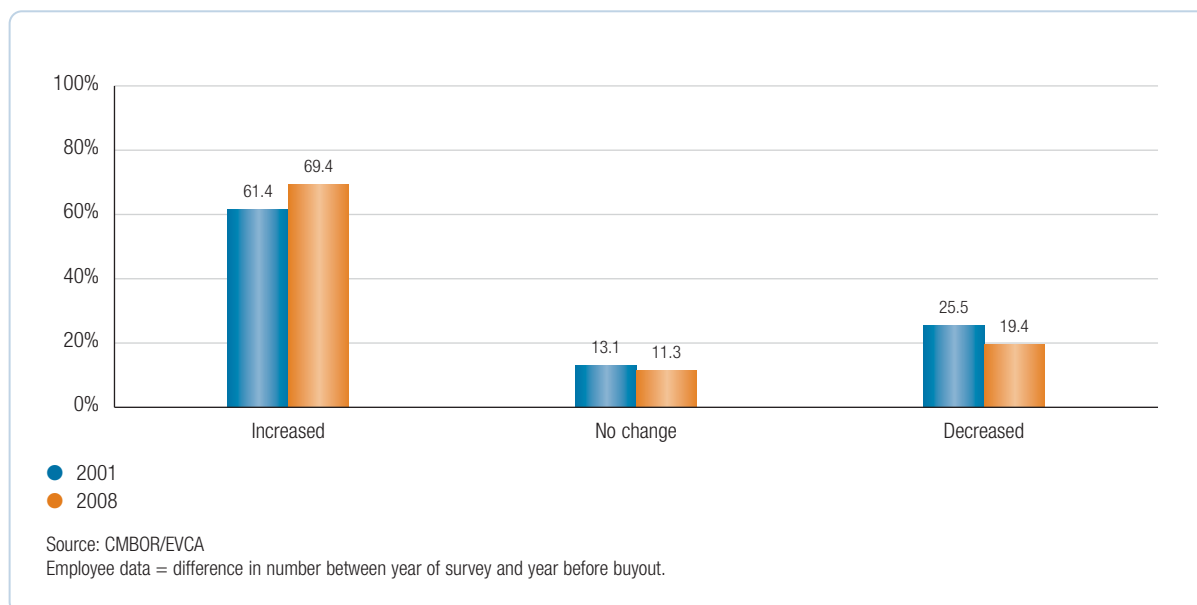
<sup>(4)</sup> Gottschalg, O. (2007) 'Private Equity and Leveraged Buyouts', *Study for the European Parliament (IP/A/ECON/IC/2007-25)*, Policy Department, Economic and Scientific Policy, 2007. Similar results were also found by the CMBOR/EVCA (2001) Survey of the Economic and Social Impact of Management Buyouts & Buyins in Europe.

<sup>(5)</sup> The same trend can be observed when looking at the quartiles.

# 1. The Role of Private Equity Investors in Employee Relations Decision-making

A similar breakdown and pattern of employment change has been identified in other studies<sup>(6)</sup>, including the CMBOR/EVCA study (2001)<sup>(7)</sup> (Figure 3)<sup>(8)</sup>. Recent studies of the employment effects of buyouts focused on the United Kingdom<sup>(9)</sup>, France<sup>(10)</sup> and Spain<sup>(11)</sup> also show a similar pattern.

**Figure 3: Change in the total number of employees**



Slightly more than a quarter of respondents (27.4%) made redundancies during private equity's ownership period. While there were no differences in the share of companies making employees redundant across social models<sup>(12)</sup>, 39% of companies with growth/restructuring strategies lost employees compared to only 20% of companies with growth-only strategies.

<sup>(6)</sup> Such findings are in line with the results presented in Amess, K. and Wright, M. (2007) *The Wage and Employment Effects of Leveraged Buyouts in the UK*, *International Journal of the Economics of Business*, 14(2), 179-195 regarding management buyouts; and Davis, S., Lerner, J., Haltiwanger, J., Miranda, J. and Jarmin, R. 2008. *Private equity and employment*. In Lerner, J. and Gurung, A. (eds.). *The Global Impact of Private Equity Report 2008*, Globalization of Alternative Investments, Working Papers Volume 1, World Economic Forum, 43-64.

<sup>(7)</sup> CMBOR/EVCA (2001), op. cit.

<sup>(8)</sup> The year of the buyout, as an indicator of prevailing economic conditions, was not associated with whether companies increased or decreased employment.

<sup>(9)</sup> Wright, M. et al. (2007) 'The implications of Alternative Investment Vehicles for Corporate Governance: A Survey of Empirical Research', *Report prepared for the Steering Group on Corporate Governance*. Paris: OECD.

<sup>(10)</sup> Constantin Associés & AFIC (2007) 'Impact of LBOs/buyouts on the French labor market'. Paris: AFIC.

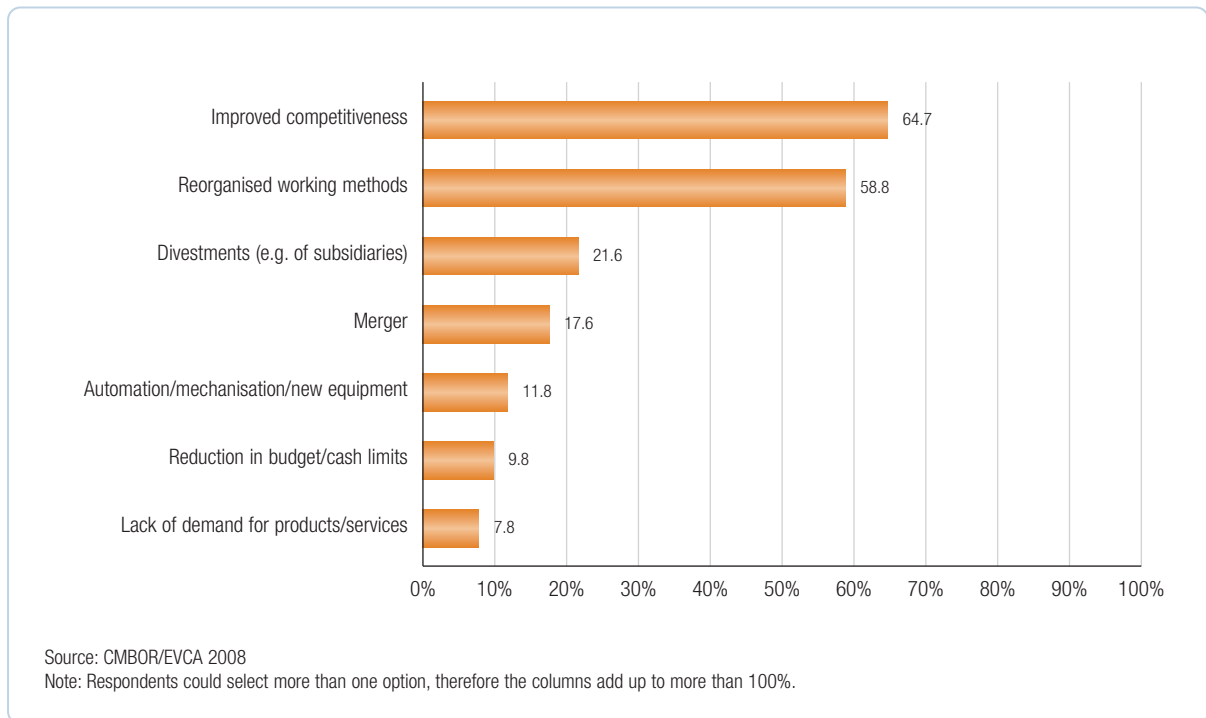
<sup>(11)</sup> ASCRI (2008) *Economic and Social Impact of Venture Capital and Private Equity in Spain*. Madrid: ASCRI.

<sup>(12)</sup> Countries are classified here according to the indicators used in the employee relations literature reflecting differences in union density and structure, collective bargaining coverage and structure, and employment protection. See Hamann, K. and Kelly, J. (2008) 'Varieties of capitalism and industrial relations', in Blyton, P., Bacon, N., Fiorito, J. and Heery, E. (eds.) *The Sage Handbook of Industrial Relations*. London: Sage, pp. 129-148. For the purpose of this study, analysis has been made on the basis of the following social models: Liberal Market economies (Ireland and the United Kingdom), Northern Europe (Denmark, Finland, Norway and Sweden), Central Europe (Austria, Belgium, Germany, the Netherlands and Switzerland) and Mediterranean Europe (France, Italy, Portugal and Spain).



When redundancies did occur, the motivation for 65% of respondents was to increase competitiveness, while 59% attributed the job losses to reorganisations of working methods (Figure 4)<sup>(13)</sup>.

Figure 4: Reasons for redundancy



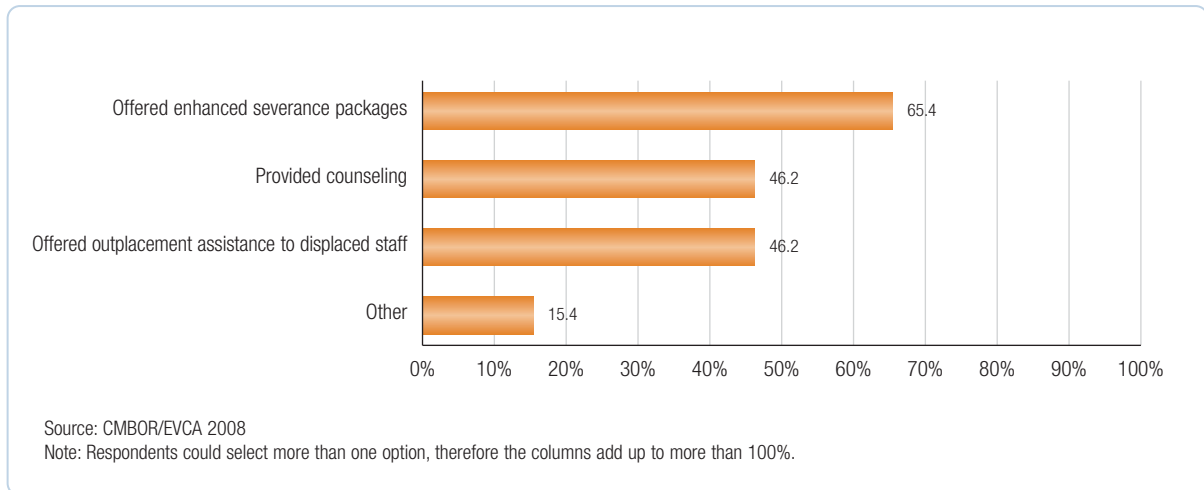
Most companies that made redundancies (either at the time of the buyout or subsequently) offered help to employees that did lose their jobs through either one or a combination of measures, as detailed below:

- enhanced severance packages were provided by 65% of the companies that made redundancies;
- counseling was offered by 46% of those companies; and
- outplacement assistance to displaced staff was offered by 46% of those companies (Figure 5).

<sup>(13)</sup> Comparative figures for workplaces in Great Britain in 2004 reported the main reasons as reorganised working methods (37%), lack of demand (28%), improved competitiveness (19%) and reduction in budget/cash limits (16%). This suggests improved competitiveness and reorganised working methods are more likely to lie behind redundancies in buyouts but redundancies are less likely to result from reductions in budgets and cash limits. UK data from Kersley, B. et al. (2006) *Inside the Workplace: Findings from the 2004 Workplace Employment Relations Survey*. London: Routledge, p. 202.

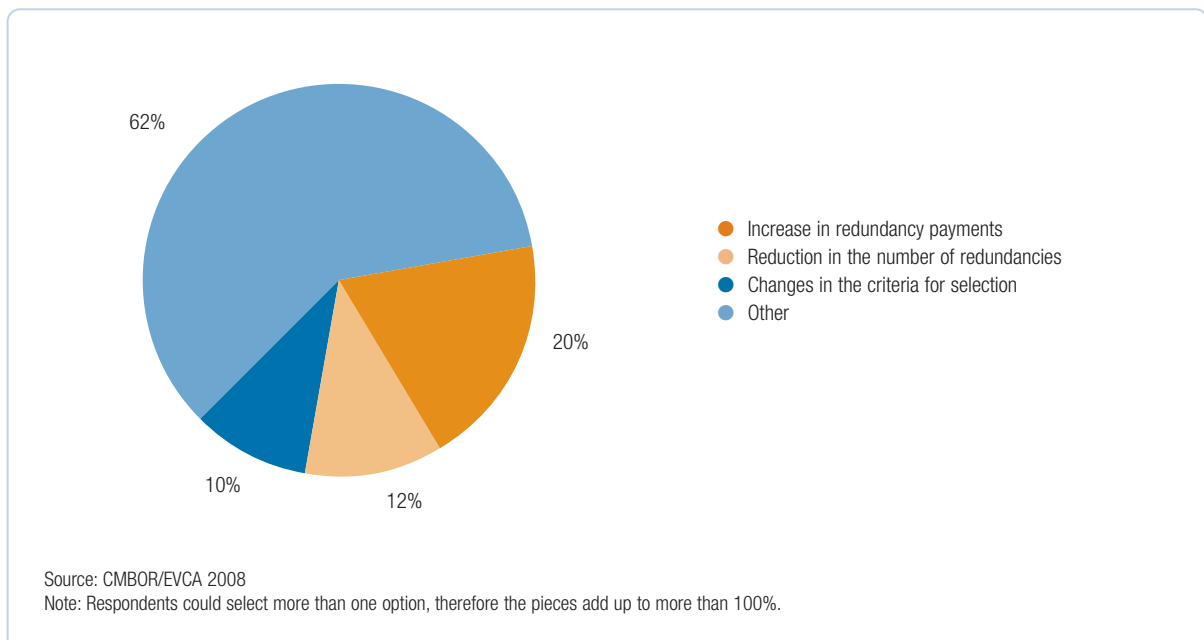
# 1. The Role of Private Equity Investors in Employee Relations Decision-making

**Figure 5: Help for employees made redundant**



Of the companies that had made employees redundant, 75% had consulted with employees or their representatives prior to making the decision in line with EU statutory requirements. As a result of these consultations, 20% of companies increased redundancy payments and 12% reduced the number of redundancies (Figure 6)<sup>(14)</sup>.

**Figure 6: Alterations to redundancy plans following consultation**



<sup>(14)</sup> Comparative data from Britain covering all employers also reported the same proportion of workplaces (75%) had consulted over redundancy proposals, although more buyouts reported altering redundancy plans as a consequence. More than three-quarters (78%) of all British employers in the 2004 Workplace Employment Relations Survey did not alter managers' original proposals, with 5% increasing redundancy pay, 6% changing selection criteria and 10% reducing the number of redundancies as a result of the consultation. See Kersley, B. et al. (2006), op. cit., p. 203.

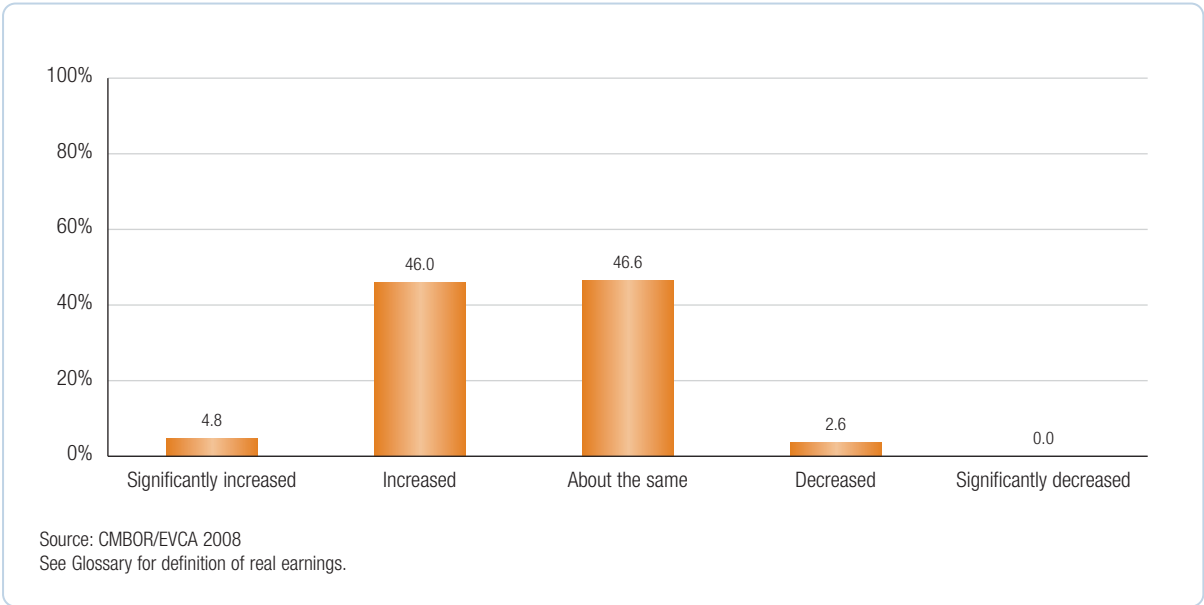
# 2. The Effect on Non-managerial Employees' Earnings and Pension Schemes within the Target Company

## 2.1. What is the impact of buyouts on non-managerial employees' earnings?

The following section examines the evolution of real earnings from before the buyout to the time of the survey, as well as the factors influencing decisions on the size of earnings awards for non-managerial employees after the buyout.

Over half (51%) of respondents reported an increase in real earnings<sup>(15)</sup> of non-managerial employees at the time of the survey compared to before the buyout. 47% reported no change and only 3% reported a reduction (Figure 7).

Figure 7: Real earnings compared to before buyout

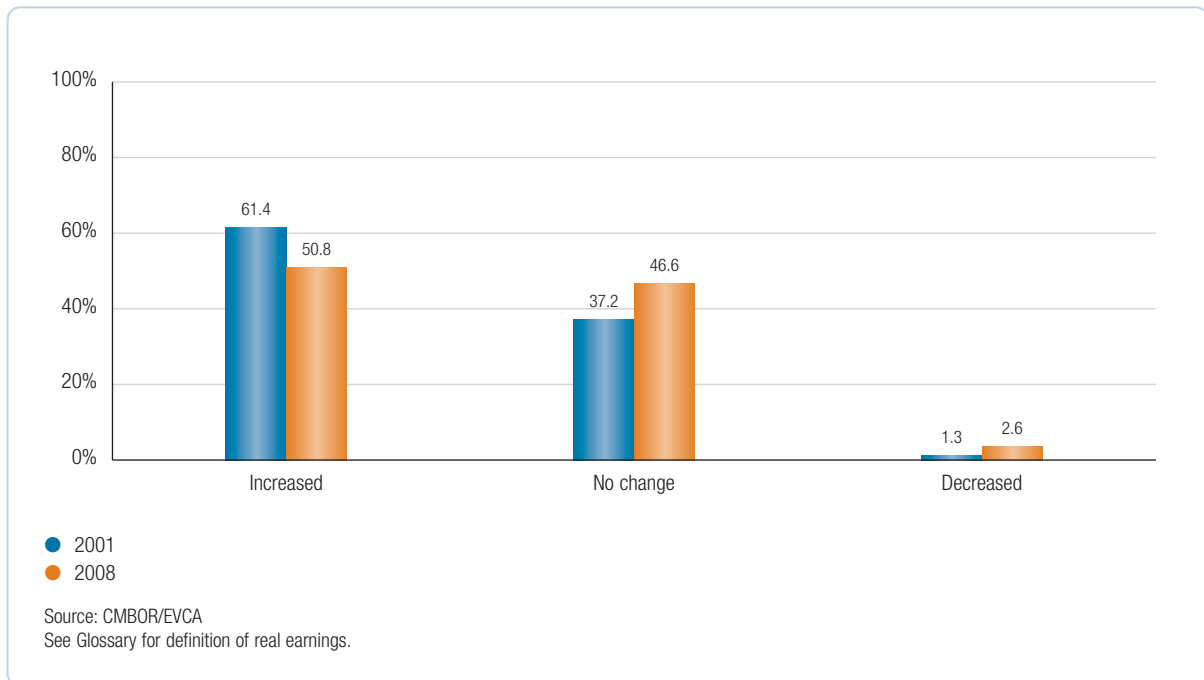


<sup>(15)</sup> After adjustment for inflation.

## 2. The Effect on Non-managerial Employees' Earnings and Pension Schemes within the Target Company

Similar findings were obtained in the CMBOR/EVCA 2001 survey<sup>(16)</sup> (Figure 8) and in a 2007 study<sup>(17)</sup>, by Amess and Wright, which shows that of the UK companies that have undergone either a management buyin (MBI) or management buyout (MBO), more than 63% increase earnings per employee.

**Figure 8: Real earnings of non-managerial employees since buyout**



The interviews undertaken for this study show that, in a number of companies, it would normally not be possible for private equity investors to change pay levels because collective bargaining or Tariff Agreements are reached at sectoral level between employers' organisations and unions. Basic earnings often increased because Tariff Agreements ensured earnings increases.

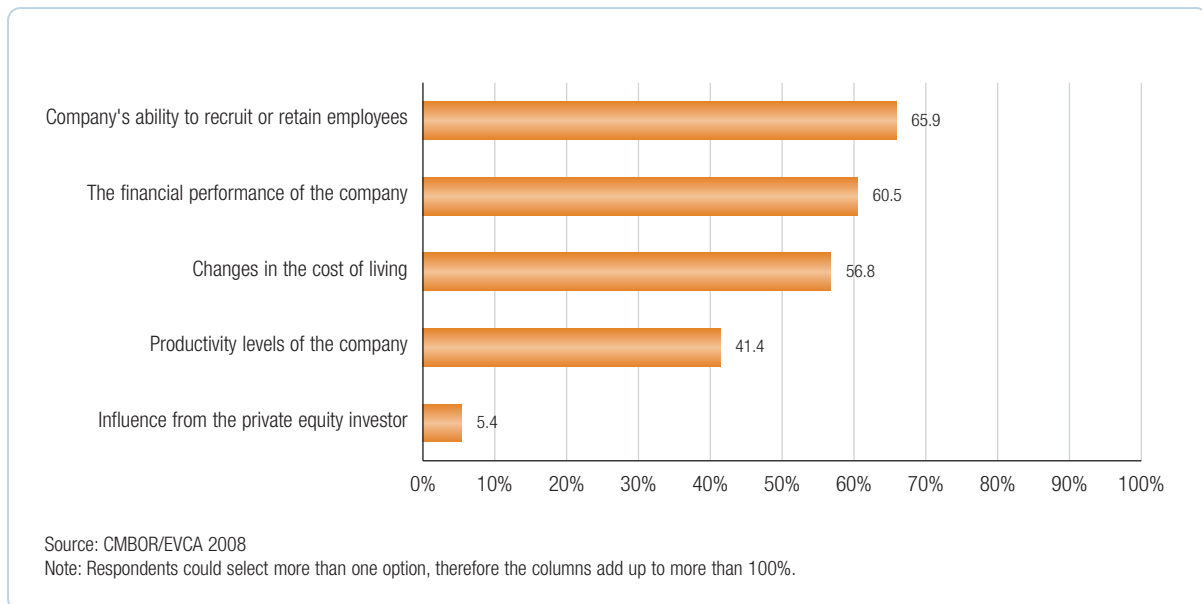
The three most important factors taken into account by managers in determining the size of earnings awards for non-managerial employees post-buyout were the ability to recruit and/or retain employees (66%), followed by the financial performance of the company (61%) and changes in the cost of living (57%). Private equity investors influenced earnings awards for non-managerial employees in relatively few instances (Figure 9)<sup>(18)</sup>.

<sup>(16)</sup> CMBOR/EVCA (2001), op. cit.

<sup>(17)</sup> Amess, K. and Wright, M. (2007), op. cit.

<sup>(18)</sup> These findings are not out of line with British workplaces in the 2004 Workplace Employment Relations Survey. In that survey the comparative figures are as follows: the financial performance of the company (59%), changes in the cost of living (56%), ability to recruit or retain employees (41%) and productivity levels of the company (41%). Source: Department of Trade and Industry (1999) *Workplace Employment Relations Survey 2004: Cross-section* [data file]. For more information, please see the full list of References.

Figure 9: Earnings award factors



## 2.2. What is the impact of buyouts on occupational pension schemes?

This section asks:

- Do buyouts have an impact on occupational pension schemes within the investee companies and, if so, to what extent?
- What types of pension schemes are offered by those companies pre-buyout and at the time of the survey?
- Are there any differences in the effect of buyouts on occupational pension schemes according to the size of the investee company and among different types of buyout<sup>(19)</sup>?

### 2.2.1. Frequency of occupational pension schemes

Companies offering occupational pension schemes increased from 76% pre-buyout to 81% post-buyout.

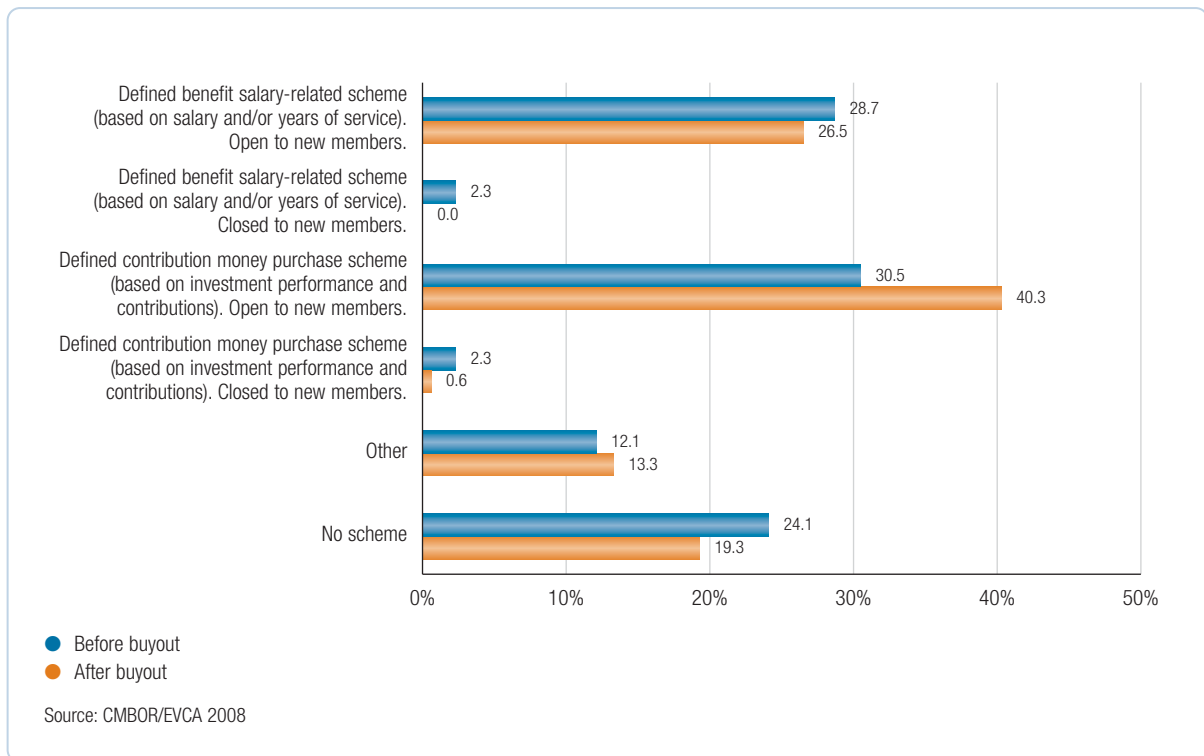
Pre-buyout, the most commonly used type of pension scheme for non-managerial employees was one based on investment performance and contributions and open to new members (31%), closely followed by one based on salary and/or years of service and open to new members (29%).

In line with trends across the corporate marketplace, pension schemes post-buyout tended to evolve more towards open defined contribution money purchase schemes (rising to 40% of respondents post-buyout), while the share of defined benefit salary-related schemes decreased to 26.5% of respondents post-buyout (Figure 10).

<sup>(19)</sup> Previous research indicates that managers implement different types of human resource management (HRM) policies according to the type of buyout. See: Bacon, N., Wright, M., and Demina, N. (2004) 'HRM in Buyouts', *British Journal of Industrial Relations*, 42, 2, 325-348.

## 2. The Effect on Non-managerial Employees' Earnings and Pension Schemes within the Target Company

Figure 10: Type of occupational pension scheme



Of the 42 companies with no pension scheme pre-buyout, eight introduced a new scheme after the buyout had occurred. The most popular was an open scheme based on investment performance and contributions (four companies), followed by an open scheme based on salary and/or years of service (three companies). Pre-buyout, there were 49 companies with an open scheme based on salary and/or years of service and eight of these changed after the buyout with six adopting an open scheme based on investment performance and contributions (Table 1).

Table 1: Changes in pension schemes

Before the buyout		After the buyout				
Type		Open: salary/years of service	Open: Performance/contributions	Closed: Performance/contributions	Other	No Scheme
Open: salary/years of service	49	41	6	0	2	0
Closed: salary/years of service	4	0	4	0	0	0
Open: performance/contributions	53	0	53	0	0	0
Closed: performance/contributions	4	0	2	1	0	1
Other	21	0	0	0	21	0
No Scheme	42	3	4	0	1	34
<b>Total</b>	<b>173</b>	<b>44</b>	<b>69</b>	<b>1</b>	<b>24</b>	<b>35</b>
		<b>Total after the buyout: 173</b>				

Source: CMBOR/EVCA 2008

The changes to pension schemes in companies owned by private equity investors do not appear out of line with other private sector companies. For example, in the United Kingdom the Turner Report noted an accelerating decline in defined benefit schemes in particular (from 35% to 20% of employees between 1983 and 2003), while defined contribution schemes had not declined in the same way<sup>(20)</sup>.

Very few respondents reported a deterioration in the post-buyout terms of occupational pension schemes. Only 6.2% reported that the pensions that employees can expect to receive are less than before the buyout, while 5.5% stated that there would be less generous early-retirement terms. Only 3.4% reported that there would be a reduced rate of employer contributions and that pensions would be received at a later retirement date. Finally, only 1.4% of the respondents reported a material reduction of the security of pensions in the event of insolvency.

#### Differences according to company size

The impact of the private equity investment on the type of occupational pension scheme offered did not differ according to the size of the buyout-backed company.

More specifically, both pre- and post-buyout, a pension scheme based on a defined benefit salary-related scheme (open to new members) is slightly more prevalent in small companies. Conversely, a defined contribution money purchase scheme is more popular with large companies, both pre- and post-buyout.

#### Differences according to buyout type

Pre-buyout, twice as many companies subsequently involved in a management buyin had a defined benefit salary-related scheme (open to new members) compared to management buyouts. Management buyouts were more likely to have a defined contribution money purchase scheme (open to new members). The proportions did not change after the buyout.

<sup>(20)</sup> The Pension Commission Interim Report (The Turner Report), October 2004.

## 3. Employee Commitment within Target Companies

### 3.1. What is the impact of buyouts on pay schemes and high-commitment practices?

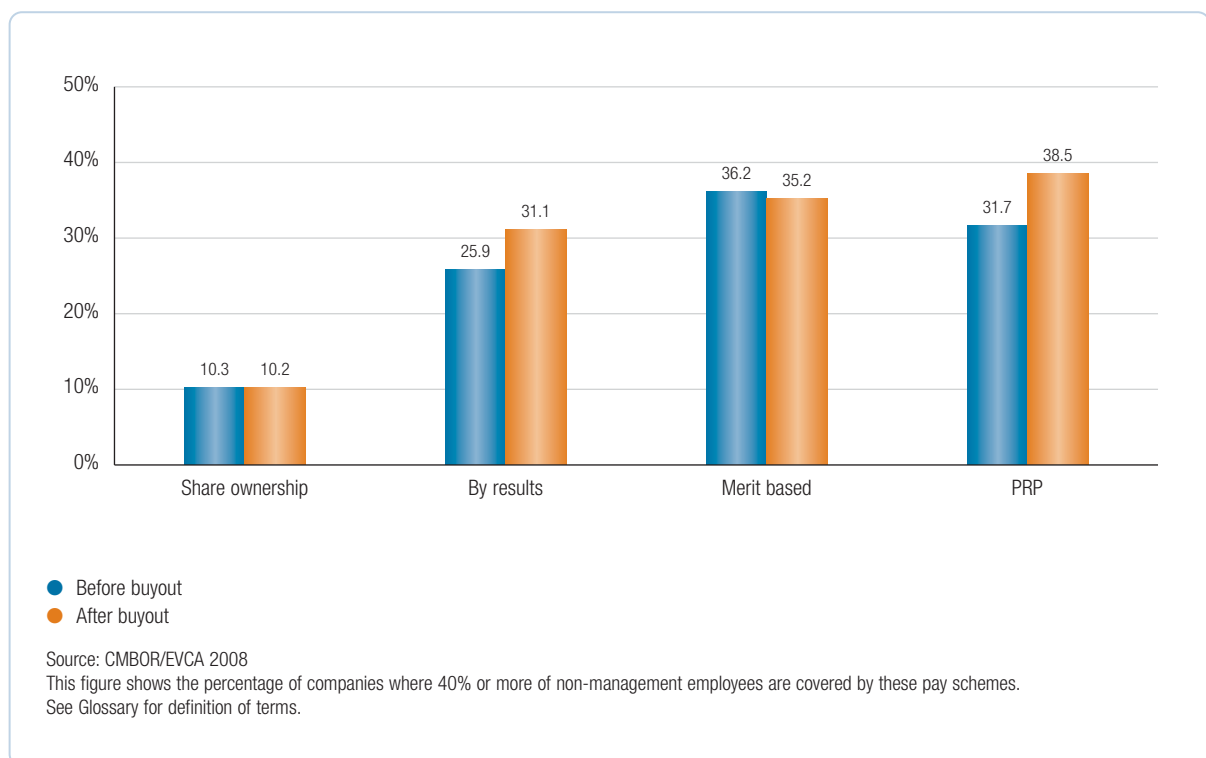
#### 3.1.1. Pay scheme

Respondents were asked to indicate whether a range of incentive pay schemes for non-managerial employees were used before and after the buyout, and how many of these employees were covered by these schemes.

The results showed that buyout-backed companies tend to introduce incentive pay schemes to encourage employee alignment with and commitment to employer goals.

The percentage adoption increased after the buyout for pay schemes by results and profit-related pays or bonuses (PRP). Merit-based pay schemes were less used after the buyout. The buyout has no impact on share ownership (Figure 11).

Figure 11: Pay schemes pre- and post-buyout



#### Differences according to company size

In general, both before and after the buyout, the most popular pay scheme for large companies was a merit-based scheme, whereas a pay scheme that involved profit-related payments or bonuses was more popular in small companies than in medium-sized or large companies. The most popular schemes in medium-sized companies were payments by results before the buyout and profit-related payments or bonuses after the buyout.



### Differences according to buyout type

Whereas the buyout had an impact on the type of pay scheme offered by companies that have undergone an MBO, that was not the case for MBIs.

In the case of MBOs, after the buyout, profit-related schemes overtook merit-based pay schemes as the most popular pay scheme. Furthermore, after the buyout, MBOs were more likely to introduce payment by results and profit-related pay.

For MBIs merit-based schemes were most popular before and after the buyout, and the popularity of all four pay schemes was unaffected by the buyout.

### 3.1.2. High-commitment practices<sup>(21)</sup>

The survey invited investee companies to indicate whether each of ten employment practices was in operation before private equity investment and whether the practices are currently in operation. Each practice is associated with high-commitment management practices.

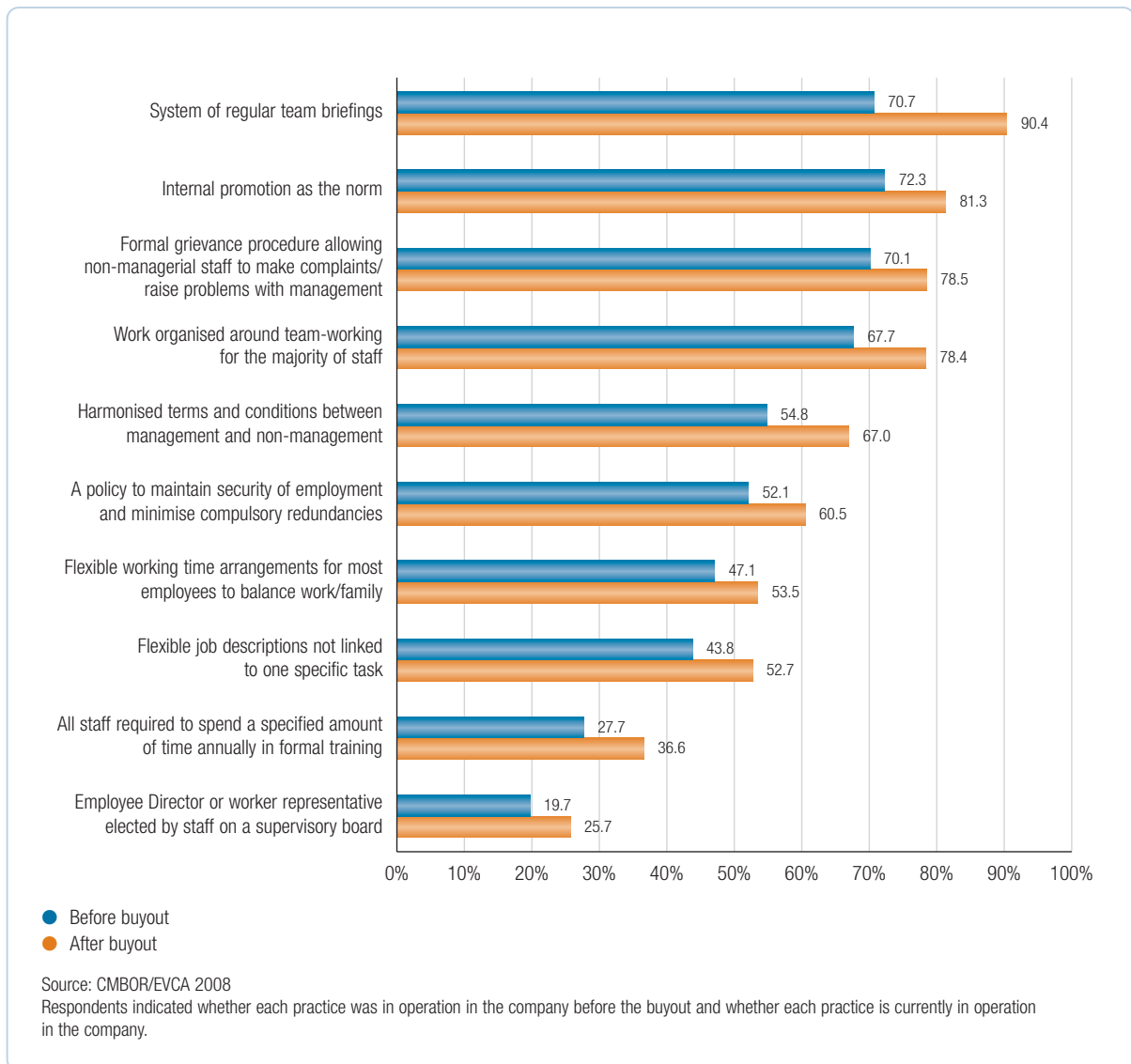
Private equity investments in general do not only affect labour management positively in terms of the number of high-commitment practices reported, but also in terms of an overall increased use of these practices (Figure 12):

- regular team briefings (used by 90% of respondents post-buyout compared to 71% pre-buyout);
- harmonised terms and conditions between management and non-management (67% of the respondents after compared to 55% before);
- work organised around team-working for the majority of staff (78% after compared to 68% before)
- internal promotion as the norm (81% after compared to 72% before); and
- establishment of a formal grievance procedure allowing non-managerial staff to raise problems with management (79% after compared to 70% before).

<sup>(21)</sup> The selection of high-commitment management practices in this study was taken from: Guest, D., Michie, J., Conway, N. & Sheehan, M. (2003) 'Human resource management and corporate performance in the UK'. *British Journal of Industrial Relations*, 41, 291-314; Combs, J., Yongmei, L., Hall, A., & Ketchen, D. (2006) 'How much do high-performance work practices matter? A meta-analysis of their effects on organizational performance'. *Personnel Psychology*, 59, 501-528; and Wall, T. D. & Wood, S. J. (2005) 'The Romance of Human Resource Management and Business Performance and the case for big science'. *Human Relations*, 58, 1-34.

### 3. Employee Commitment within Target Companies

Figure 12: High-commitment management practices before and after buyout (% of respondents)



#### Differences according to company size and industry sector

While for the small investee companies in the sample, the presence of each high-commitment practice increased after the buyout, only one such practice increased for medium-sized companies (regular team briefings) and two increased for large companies (work organised around team-working for the majority of staff and regular team briefings). The presence of the other high-commitment practices remained unchanged for medium-sized and large companies.

A comparison of the results of the survey for three of the most important sectors in this sample (consumer-related, manufacturing and services companies) compared to the whole group shows that there were no significant increases in high-commitment management practices amongst services companies after the buyout (because in many instances these practices were already in place).

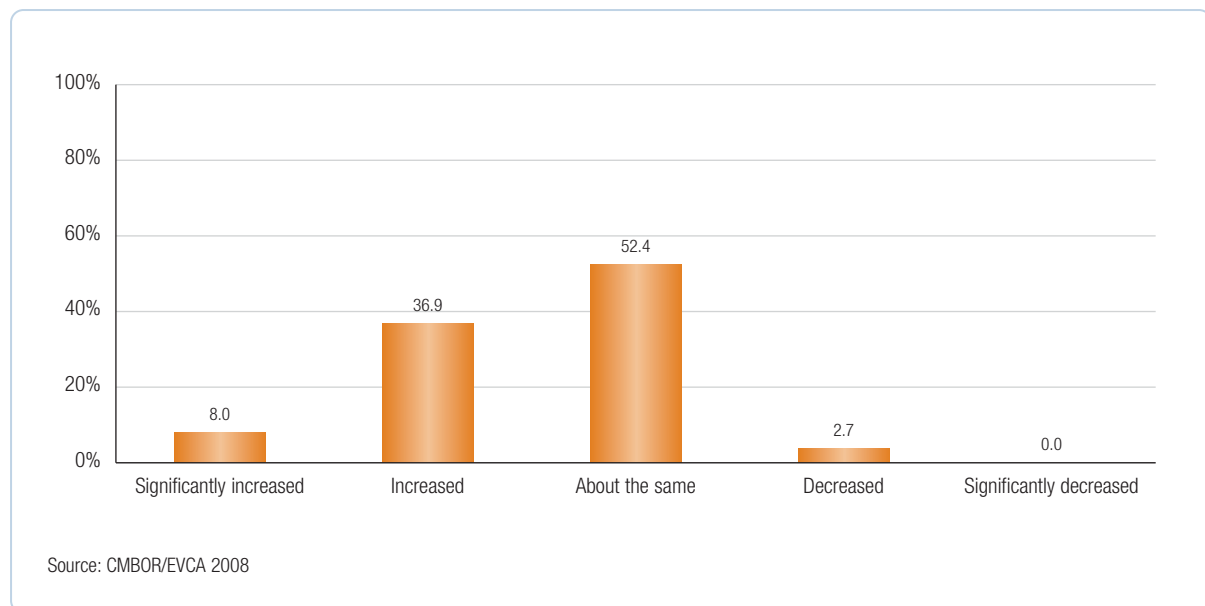
#### Differences according to buyout type

Both MBOs and MBIs experienced increases in high-commitment practices, but while all of the high-commitment management practices increased significantly after the buyout in the case of MBOs, only six out of ten practices increased in the case of MBIs: flexible job descriptions not linked to one specific task; work organised around team-working for the majority of staff; system of regular team briefings; harmonised terms and conditions between management and non-management; all staff required to spend a specified amount of time annually in formal training; and the establishment of a formal grievance procedure allowing non-managerial staff to make complaints/raise problems with management. The other four practices did not change in importance.

### 3.2. What is the impact of buyouts on training programmes?

Some 45% of companies reported that the amount spent on non-managerial employee training (after adjustment for inflation) had increased post-buyout. Just over half (52%) reported that the amount spent on non-managerial employee training had stayed the same, while only 3% reported a reduction (Figure 13).

Figure 13: Training compared to pre-buyout



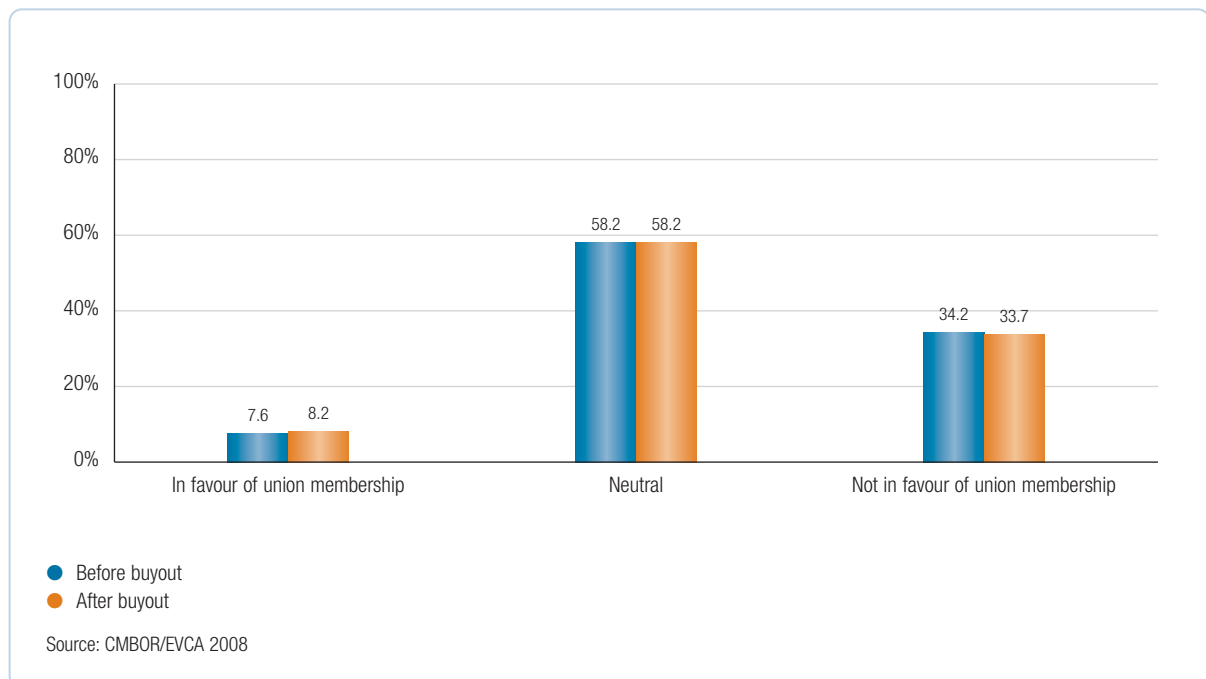
## 4. Recognition of Trade Unions, Employee Consultation and Information Procedures

### 4.1. The relationship between private equity investors, management and trade unions at the company level

#### 4.1.1. Management attitude towards trade union membership

The attitude of investee company managers towards trade union membership changed little as a result of the buyout. The majority of respondents stated that management's attitude was neutral (58%), a small minority was in favour (8%), and a minority was not in favour (34%) (Figure 14).

Figure 14: Management attitude towards trade union membership



#### Differences according to company size

The private equity investment did not have a significant impact on managers' attitude towards trade union membership in small or large companies.

Both before and after the buyout, in medium-sized and large companies managers were slightly more in favour of union membership compared to small companies (10.6% versus 6.4% respectively after the buyout).

#### Differences according to buyout type

A larger proportion of MBIs than MBOs were in favour of trade union membership before the buyout and these proportions did not change as a result of the buyout. More specifically, also after the buyout, managers were much more in favour of union membership in the case of MBIs compared to MBOs (10.8% versus 3.3% respectively).

#### 4.1.2. Trade union membership recognition

Across the whole of Europe, 41% of responding companies recognised trade unions for negotiating pay and conditions<sup>(22)</sup> of employment before the buyout and slightly fewer reported that this was the case after the buyout (39%).

##### Differences according to company size

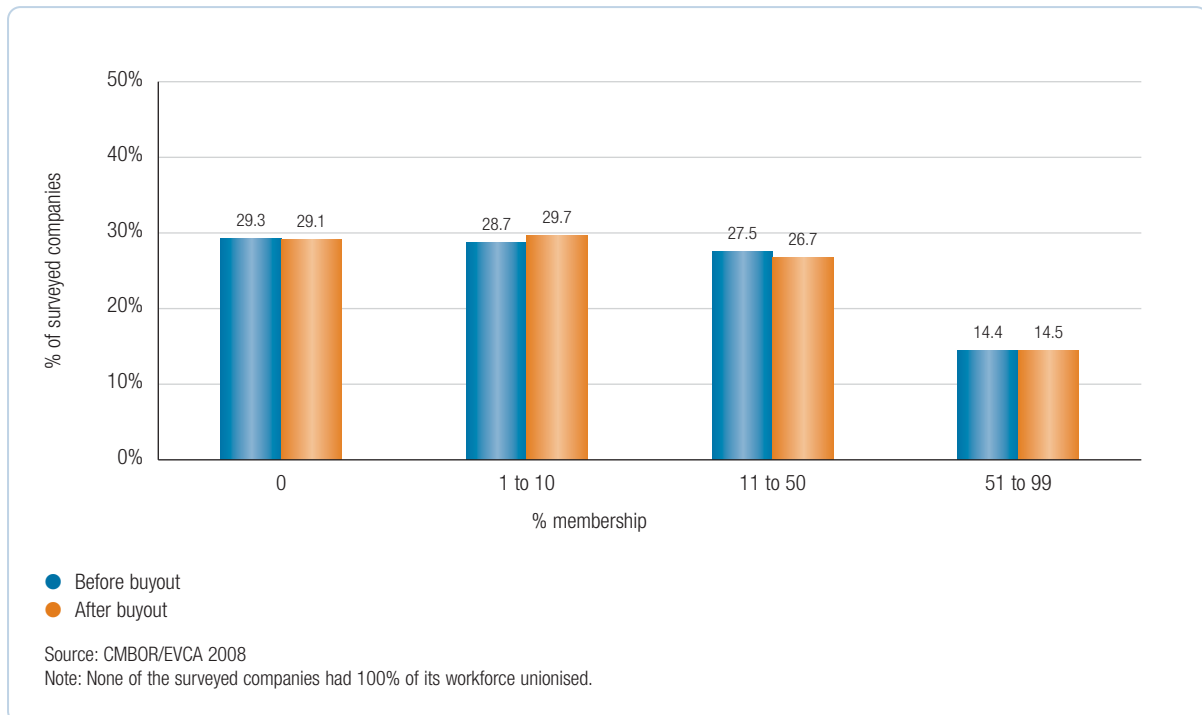
The private equity investment did not have a significant impact on trade union recognition in small or large buyout-backed companies. Both before and after the buyout, there were twice as many large companies (60%) that recognised trade unions for negotiating pay and conditions compared to small and medium-sized companies (30%).

#### 4.1.3. Trade union membership density

The proportion of employees who were trade union members changed very little post-buyout. Some 56% of all companies with trade union members had between 1% and 50% of their workforce unionised, and 15% had more than 50% of the workforce unionised (Figure 15).

11.4% of respondents reported a decline in union membership density compared to before the buyout and 10.8% reported increased union membership density<sup>(23)</sup>.

Figure 15: Trade union membership density (% of total number of employees)



<sup>(22)</sup> Conditions include hours of work, holidays, etc.

<sup>(23)</sup> By comparison, across the European Union as a whole, the average level of union membership weighted by the numbers employed in the different Member States is 25%. Source: [http://www.worker-participation.eu/national\\_industrial\\_relations/across\\_europe/trade\\_unions](http://www.worker-participation.eu/national_industrial_relations/across_europe/trade_unions).

## 4. Recognition of Trade Unions, Employee Consultation and Information Procedures

### Differences according to company size

Trade union membership density differs according to the size of the buyout-backed company, and the private equity investment did not have a significant impact on this.

More specifically, before the buyout, 86% of large companies had trade union members compared to 69% of medium-sized companies and 61% of small companies. Furthermore, in almost three quarters of the large companies and in about half of the small and medium-sized companies, up to half of employees were trade union members. These percentages did not change significantly post-buyout.

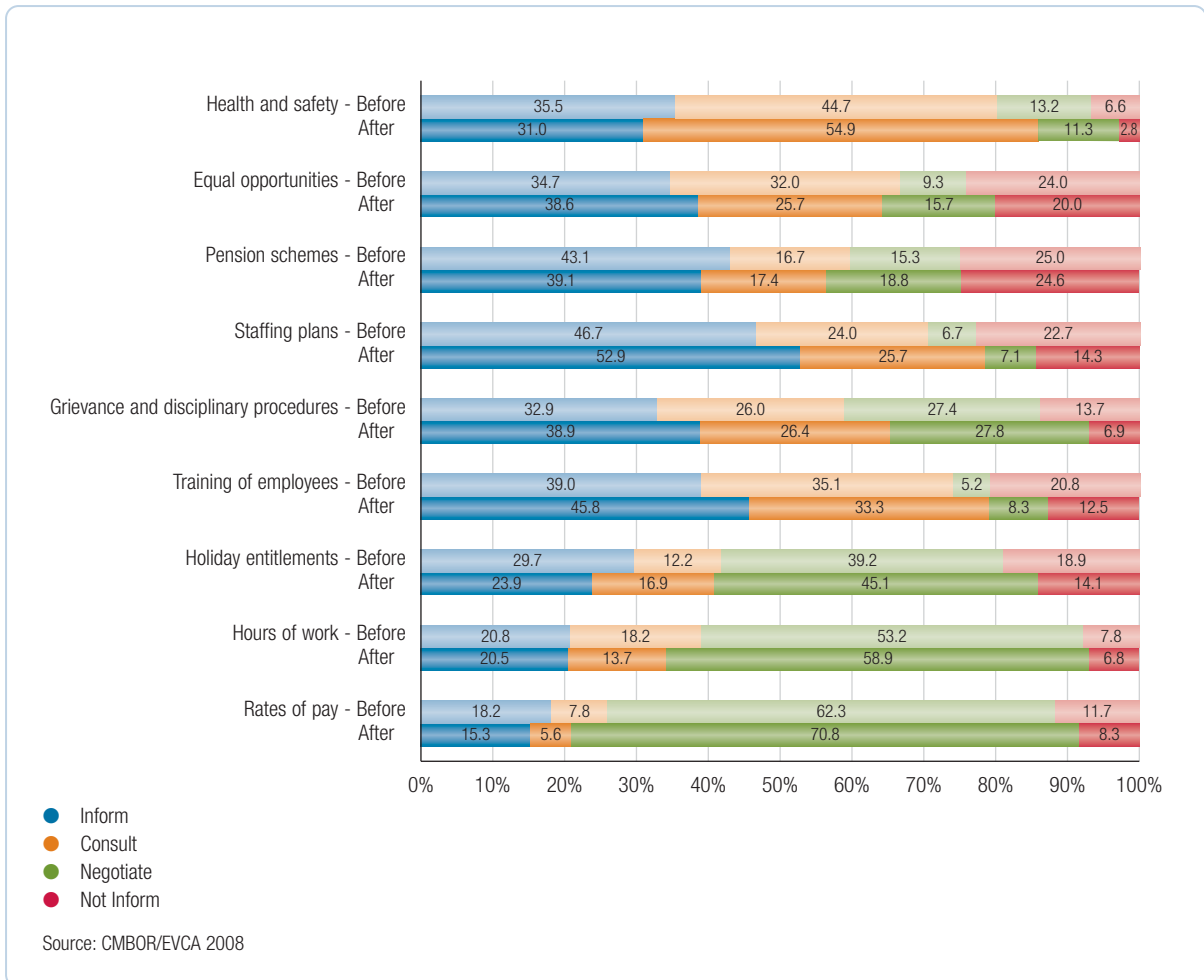
#### 4.1.4. Negotiations with trade unions

Reflecting the growth aims described above, the study found that, on average, private equity investment does not reduce the terms and conditions subject to joint regulation in buyout-backed companies recognising trade unions, and that those companies reported a general trend towards more negotiation, consultation and information sharing with trade unions. This trend was observed for rates of pay, hours of work and staffing plans among other issues.

The proportion of companies not informing unions declined on each of the nine terms and conditions measured after the buyout (Figure 16).

Since the buyout, only 4% of the sample had withdrawn from any ongoing collective agreements and 10% had renegotiated any ongoing collective agreements before they had expired.

Figure 16: Joint regulation of terms and conditions in companies recognising unions



## 4.2. What is the impact of buyouts on consultative committees?

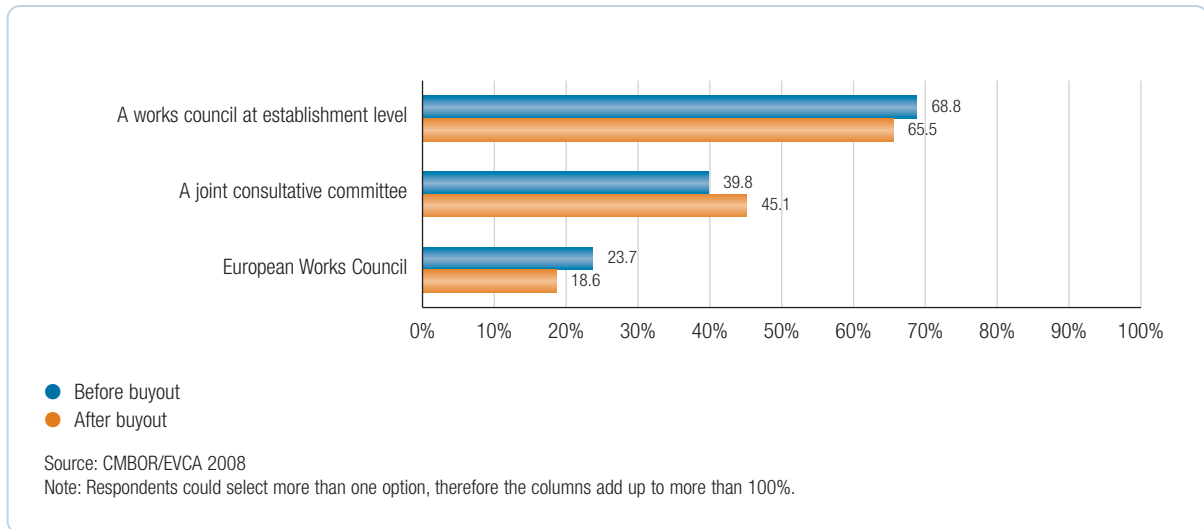
The proportion of buyout-backed companies that had a consultative committee in place increased from 50% before the buyout to 63% after the buyout<sup>(24)</sup>.

For companies with a consultative committee, a works council at establishment level was most common both before (69%) and after (66%) the buyout. The proportion of joint consultative committees increased after the buyout while the proportion of European Works Councils and works councils at establishment level fell after the buyout (Figure 17). It should be noted that some buyouts from large multinational companies no longer operated in different countries and did not therefore require a European Works Council.

<sup>(24)</sup> The regulations applying to works council establishment and to European Works Councils, make it difficult to identify the impact of positive policies developed by the investee company managers. For example, beyond a certain size, a company will have to set up a works council. Similarly, a European Works Council will depend on the pan-European nature of the company. As the setting up of works councils (European or national) depends on exceeding certain regulatory thresholds, the impact of buyouts is most appropriately assessed according to the influence of consultative committees and analysis of the issues discussed within these committees, rather than by any increase or decrease in the number of companies with committees.

## 4. Recognition of Trade Unions, Employee Consultation and Information Procedures

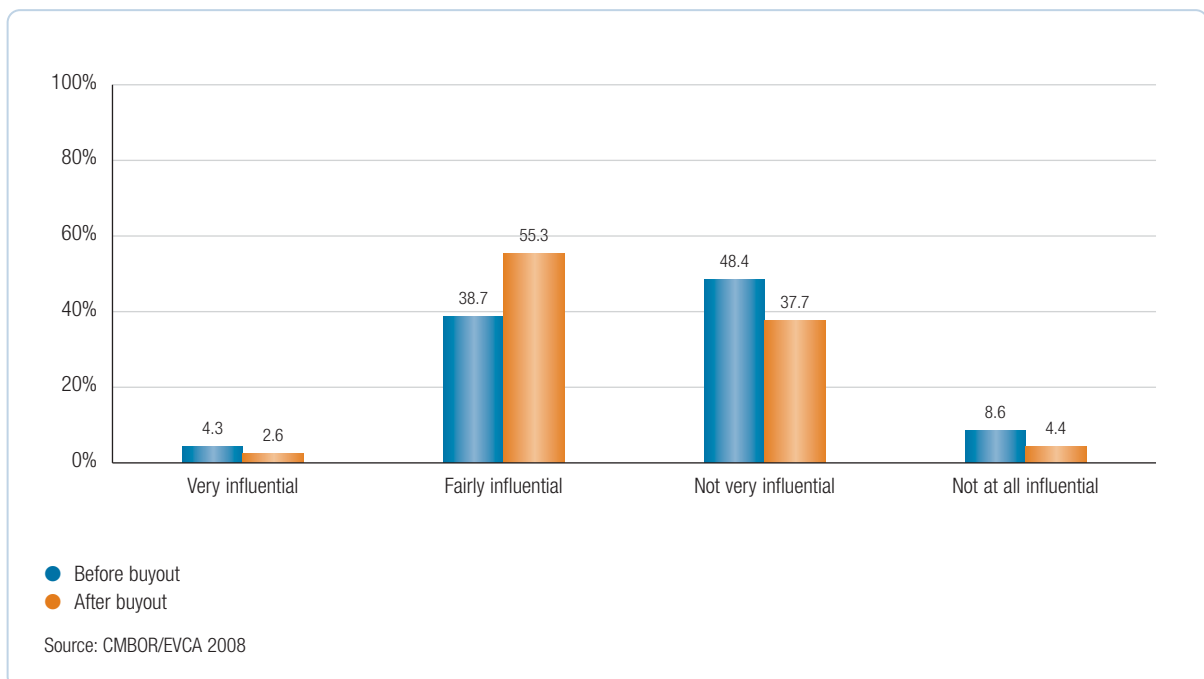
Figure 17: Consultative committees



In respect of the influence of consultative committees on management decisions before and after the buyout, the study shows that buyout-backed companies regard consultation committees as more influential on management decisions in a majority of cases (55%) under private equity ownership than previously.

Before the buyout, 57% of buyout-backed companies rated committees as not very or not at all influential, whereas post-buyout 58% rated committees as fairly or very influential (Figure 18). This probably reflects a closer alignment between the interests of employee representatives and investee company managers as a result of an improved business focus and smaller scale of operations.

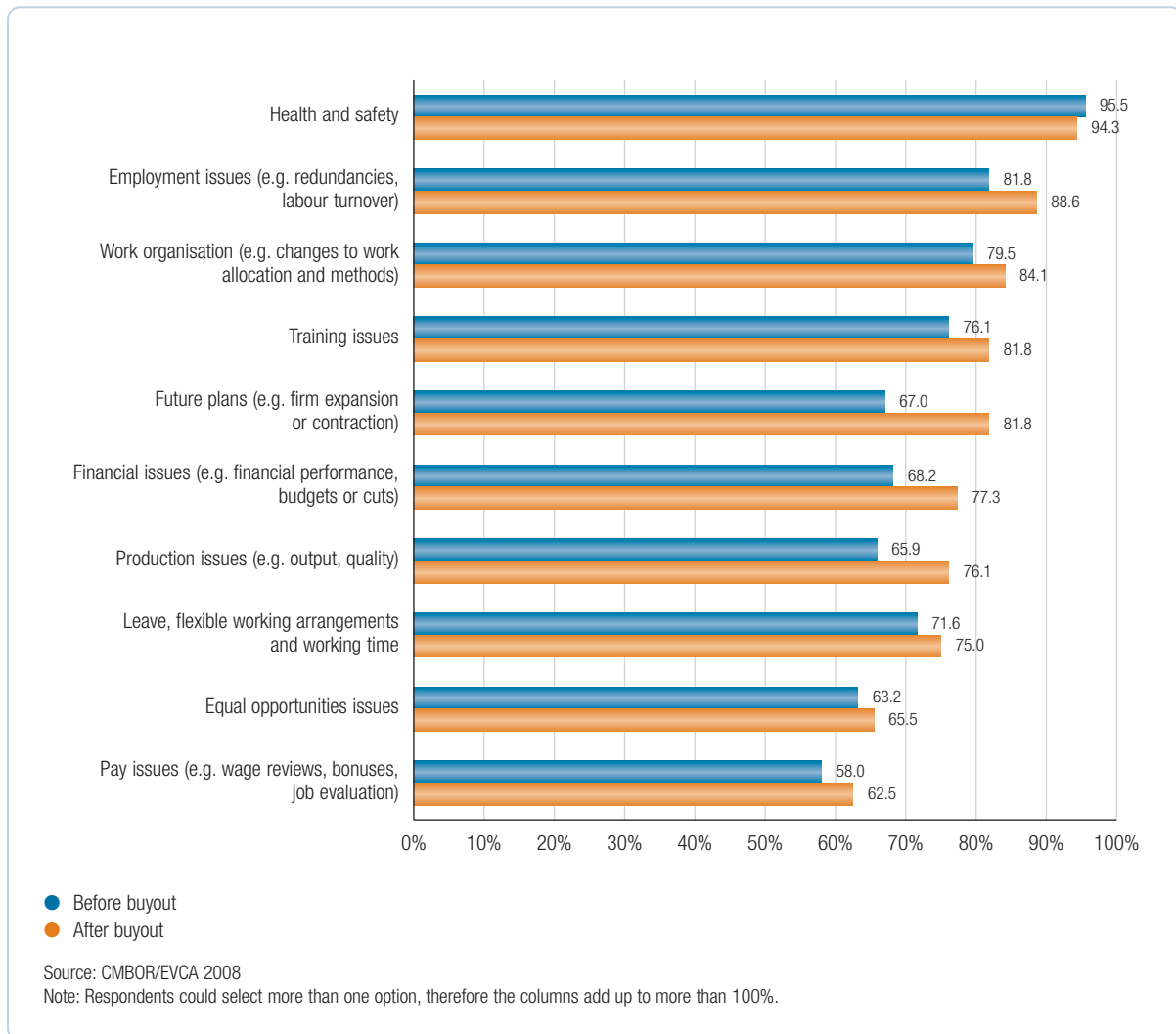
Figure 18: The influence of consultative committees





Private equity investment did not change the average number of issues discussed by consultative committees. However, comparing the issues more likely to be discussed in consultative committees before and after private equity involvement does show discussions re-orientate towards strategic/performance-linked issues<sup>(25)</sup>.

**Figure 19: Issues discussed by consultative committees**



<sup>(25)</sup> Including future plans; financial issues; and production issues.

## 5. Differences in Employee Relations Across Europe's regions

Employee relations remain highly influenced by national practices and regulations. This chapter looks at the differences between the effects of private equity investment on employee relations in different European social models.

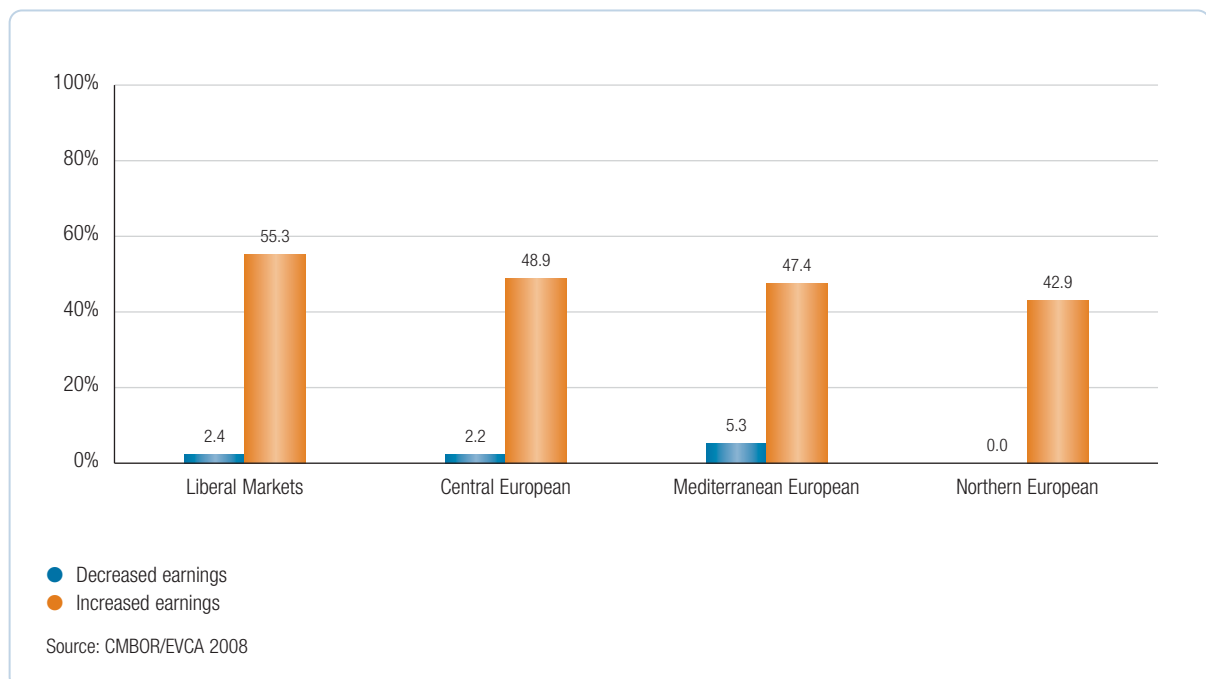
The beneficial impact on employee relations following private equity involvement is particularly notable in liberal market economies. However, it is important to note that in other European social models, private equity has at least a neutral, if not positive impact on employee relations.

### 5.1. Effect on non-managerial employees' earnings and pension schemes across Europe

The impact of a buyout on the real earnings for non-managerial employees varied slightly across social models. Companies associated with the liberal market economies reported the largest incidence of increased real earnings after the buyout (55% of the sample), followed by the Central European model (49%), the Mediterranean European model (47%) and finally the Northern European model (43%).

Very few companies experienced a decrease in real earnings and the range across social models was from an average of 0% of Northern European companies to 5.3% of Mediterranean European companies (Figure 20).

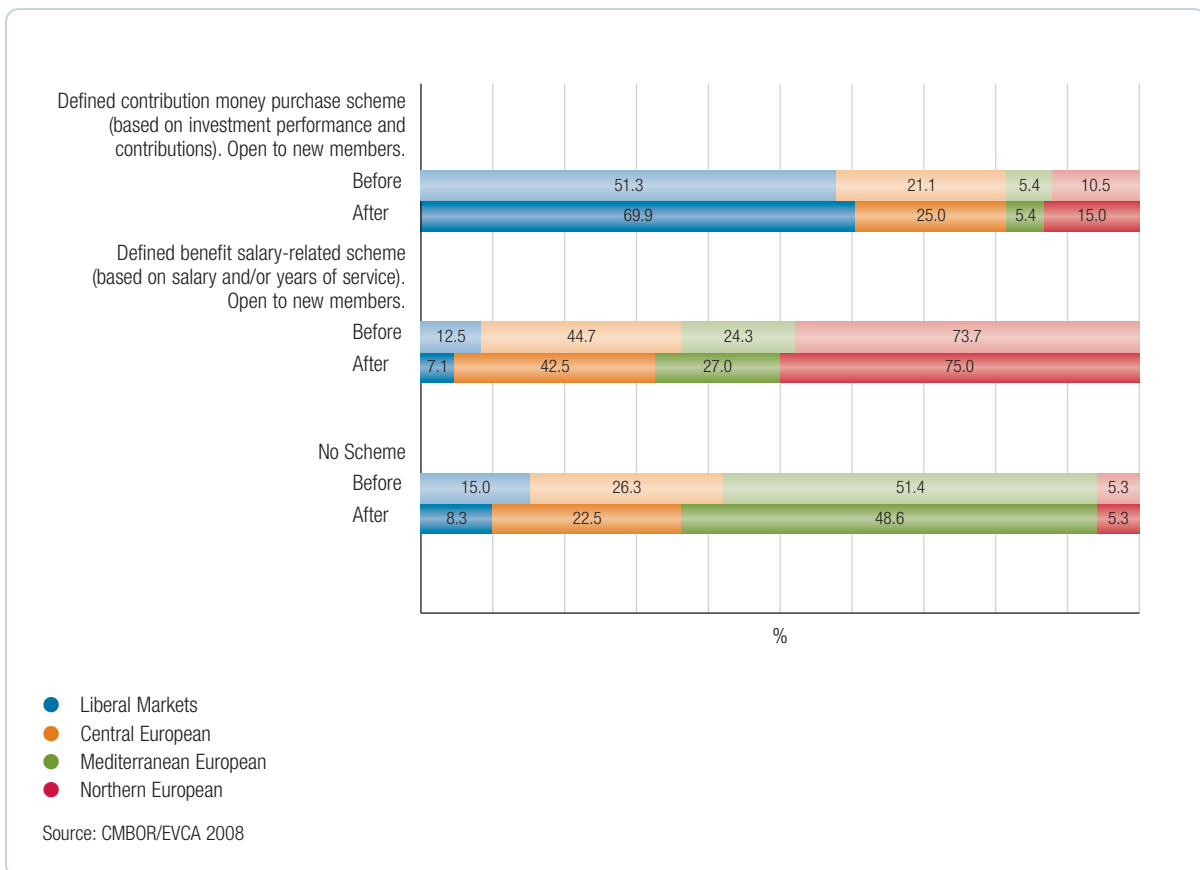
Figure 20: Real earnings across social models



The differences in the effects on occupational pension schemes across social models were also minor.

Before the buyout, Northern European companies favoured defined benefit salary-related schemes (74%), whereas companies in the Liberal Markets favoured defined contribution money purchase schemes (51%). Almost half of the Mediterranean companies had no scheme at all. Private equity involvement had little impact on these differences in employee relations between social models (Figure 21).

**Figure 21: Main pension schemes across social models**



## 5.2. Effect on pay schemes and high-commitment practices across Europe

The introduction of payment by results and profit-related pay after a buyout is more likely in Liberal Markets compared to other countries.

Changes in high-commitment management practices also varied by social model (Table 2). The United Kingdom and Ireland, as the least regulated social environment, experienced more and greater changes in high-commitment practices after the buyout. The significant increases in these practices suggest that underinvestment by public companies pre-buyout was addressed by increased investment under private ownership. Northern Europe as the most regulated social regime experienced no significant changes overall, while Central Europe and the Mediterranean environments fell between these two cases.

## 5. Differences in Employee Relations Across Europe's regions

**Table 2: Changes in high-commitment management practices by social model**

Practice	Liberal Markets	Northern Europe	Central Europe	Mediterranean Europe
<b>Number of responses</b>	<b>84-85</b>	<b>20-21</b>	<b>44-45</b>	<b>35-38</b>
<b>Employee director or worker representative elected by staff on a supervisory board</b>				
Before	7.1	57.1	26.7	18.4
After	12.0	52.4	31.1	34.1*
<b>Flexible job descriptions not linked to one specific task</b>				
Before	50.6	61.9	47.7	11.4
After	61.4*	66.7	51.2	25.7
<b>Work organised around team-working for the majority of staff</b>				
Before	74.1	52.4	77.3	50.0
After	84.7*	57.1	83.7	69.4*
<b>System of regular team briefings</b>				
Before	68.2	85.7	80.0	56.8
After	90.6*	95.2	95.5*	81.1*
<b>Internal promotion as the norm</b>				
Before	77.7	90.5	68.9	54.1
After	81.2	95.2	79.5	75.7*
<b>Harmonised terms and conditions between management and non-management</b>				
Before	52.9	76.2	56.8	44.4
After	64.7*	66.7	67.4*	72.2*
<b>All staff required to spend a specified amount of time annually in formal training</b>				
Before	23.8	28.6	40.0	21.1
After	32.1*	28.6	48.8	36.8*
<b>A policy to maintain security of employment and minimise compulsory redundancies</b>				
Before	51.8	52.4	53.3	51.4
After	62.4*	65.0	65.9*	47.2
<b>Formal grievance procedure allowing non-managerial staff to make complaints/raise problems with management</b>				
Before	88.2	66.7	68.2	32.4
After	98.8*	65.0	77.3	40.5
<b>Flexible working time arrangements for most employees to balance work/family</b>				
Before	37.6	76.2	62.2	34.2
After	44.7	80.0	65.9	44.7

Source: CMBOR/EVCA 2008  
 Wilcoxon test for statistically significant differences in responses before and after the buyout.  
 Before = % answering yes before buyout, After = % answering yes after buyout.  
 \* Significance = 0.05 or better.

### 5.3. Effect on employee consultation across Europe

Management/employee committees are more frequently found in Northern and Central European buyout-backed companies and less frequently in their Mediterranean and Liberal counterparts (pre- and post-buyout). However, the prevalence and influence of these committees increased the most as a result of the buyout in the Liberal Markets (Figures 22 and 23).

Figure 22: Prevalence of committees across social models

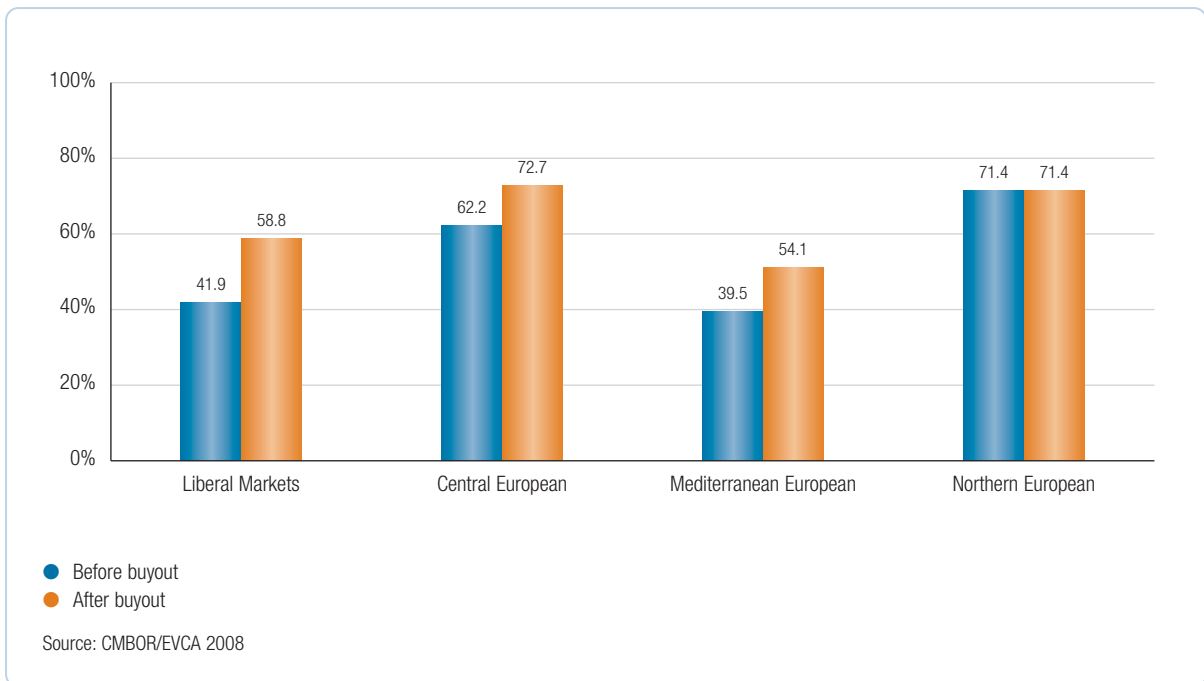
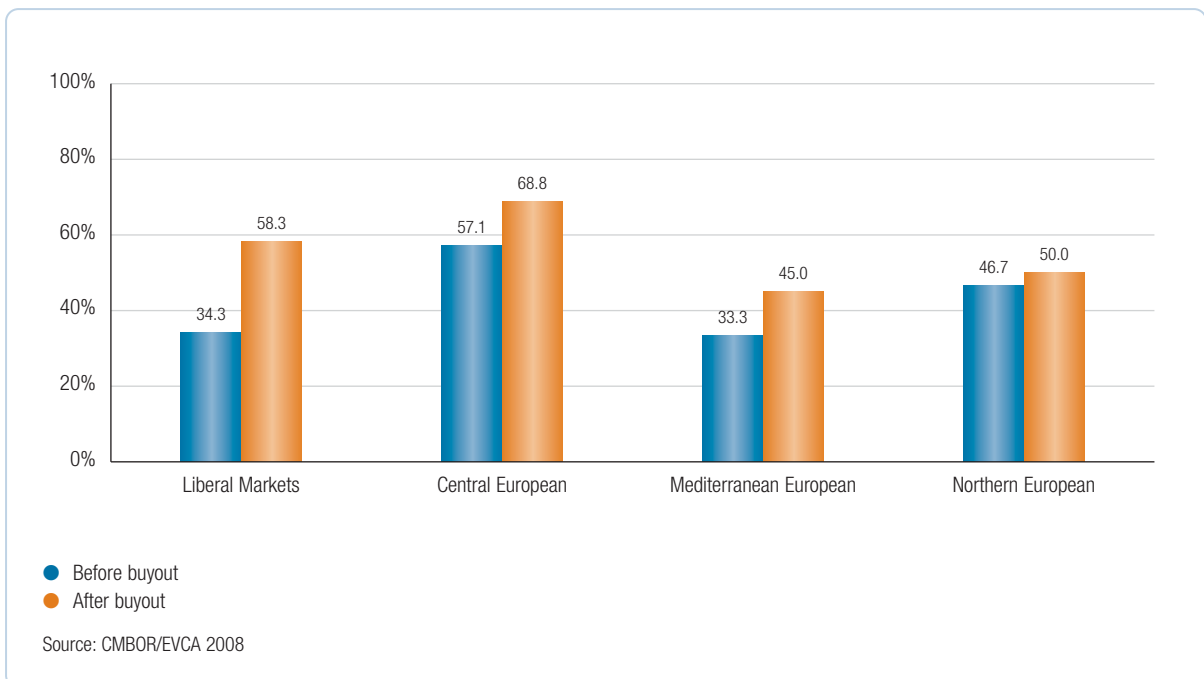


Figure 23: Influence of committees across social models



The increased importance of certain issues was observed only for companies in the Liberal Markets where discussions on employment issues and future plans were regarded as more important after the buyout.

## 5. Differences in Employee Relations Across Europe's regions

### 5.4. Effect on the relationship with trade unions across Europe

- In both Northern European and Mediterranean European social model contexts, there was no change in trade union recognition after the buyout (Table 3).

**Table 3: Trade union recognition across social models**

	Liberal Markets	Northern Europe	Central Europe	Mediterranean Europe
Before buyout	20.7	71.4	43.2	65.8
After buyout	18.1	71.4	40.9	65.8

Source: CMBOR/EVCA 2008

Percentage of companies in each group responding 'yes' to the question of whether trade unions are recognised.

- Differences across social models were also apparent in terms of trade union membership.

Before the buyout, half (50%) of the companies in the liberal market countries had no trade union members compared to only 17.5% of the companies in Central Europe, 16.7% in Mediterranean Europe and less than a tenth of companies in Northern Europe (4.8%)<sup>(26)</sup>.

Furthermore, in the majority of Northern European buyout-backed companies (57%), more than half (between 51-99%) of the workforce were trade union members compared to only about a tenth or less in the other social model countries.

Trade union membership across social models changed little as a result of the buyout.

<sup>(26)</sup> Country level data across the European Union shows that in only eight out of the current 27 EU Member States more than half of the employed population are members of a trade union, with shares for the four most populated states being: Italy 30%, the United Kingdom 29%, Germany 27% and France at only 9%. In every EU country outside Scandinavia (except Belgium), trade union membership is either static or continues to decline. For further details see: <http://www.fedee.com/tradeunions.html>.

When a company undergoes a private equity-backed buyout, everything from high-level strategy to its day-to-day operational procedures is subject to change.

This study has found that those changes tend to have either a neutral or positive impact on employee relations. This is perhaps unsurprising given that developing a growth strategy (54% of the responding buyout-backed companies) or a combination of growth and restructuring strategies (42% of the responding buyout-backed companies) implies the presence of active employment practices to support those strategies.

Private equity investors have limited day-to-day involvement in employee relations, leaving operational matters to the company's management. But at the point of acquisition, private equity firms can have a major impact on how that company engages with its employees in the future. The generally positive response to that engagement found in this study reflects a growing awareness of responsibilities towards this key stakeholder group, as well as making sound business sense. One example of this win-win approach to employee relations is the implementation of high-commitment practices, retaining trade union representation and enhancing employee consultation and information procedures.

This study demonstrates that the interests of employees are given the same or more weight under private equity ownership than was the case under the previous owners. For the majority of respondents, private equity investment meant a greater likelihood of access to a corporate pension scheme, higher earnings, more consultation across a number of issues and representation by trade union bodies.

The net effect of private equity investment is to increase employee commitment through financial incentives and greater employee engagement, through regular team briefings, training programmes, and harmonised terms and conditions between management and non-management.

## Appendix 1: Analysis of the Representativeness of Surveyed Companies

This chapter profiles the companies that responded to the survey. It analyses the main characteristics of the surveyed companies compared to the features of the full population of European buyouts, to check for the sample's representativeness. In addition, contextual evidence is provided on organisational and business strategies, company performance, the role of private equity partners and the envisaged time for private equity exit. Such characteristics are important because they are likely to impact on employee relations practices.

### Representativeness of the sample

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The sample frame used for this survey was private equity-backed buyouts from all European countries completed between 2002 and 2006, with more than 50 employees, contained in the CMBOR database. The CMBOR database is the most comprehensive in Europe in this area and contains almost 27,000 buyouts from across Europe completed since the late 1970s. The database includes all buyouts, whether private equity-backed or not, and there is no limit to the size of deals recorded. Using this database allows checks of whether the companies surveyed are reasonably similar to and therefore representative of the population of European buyout-backed companies in order to assess the validity of the results.

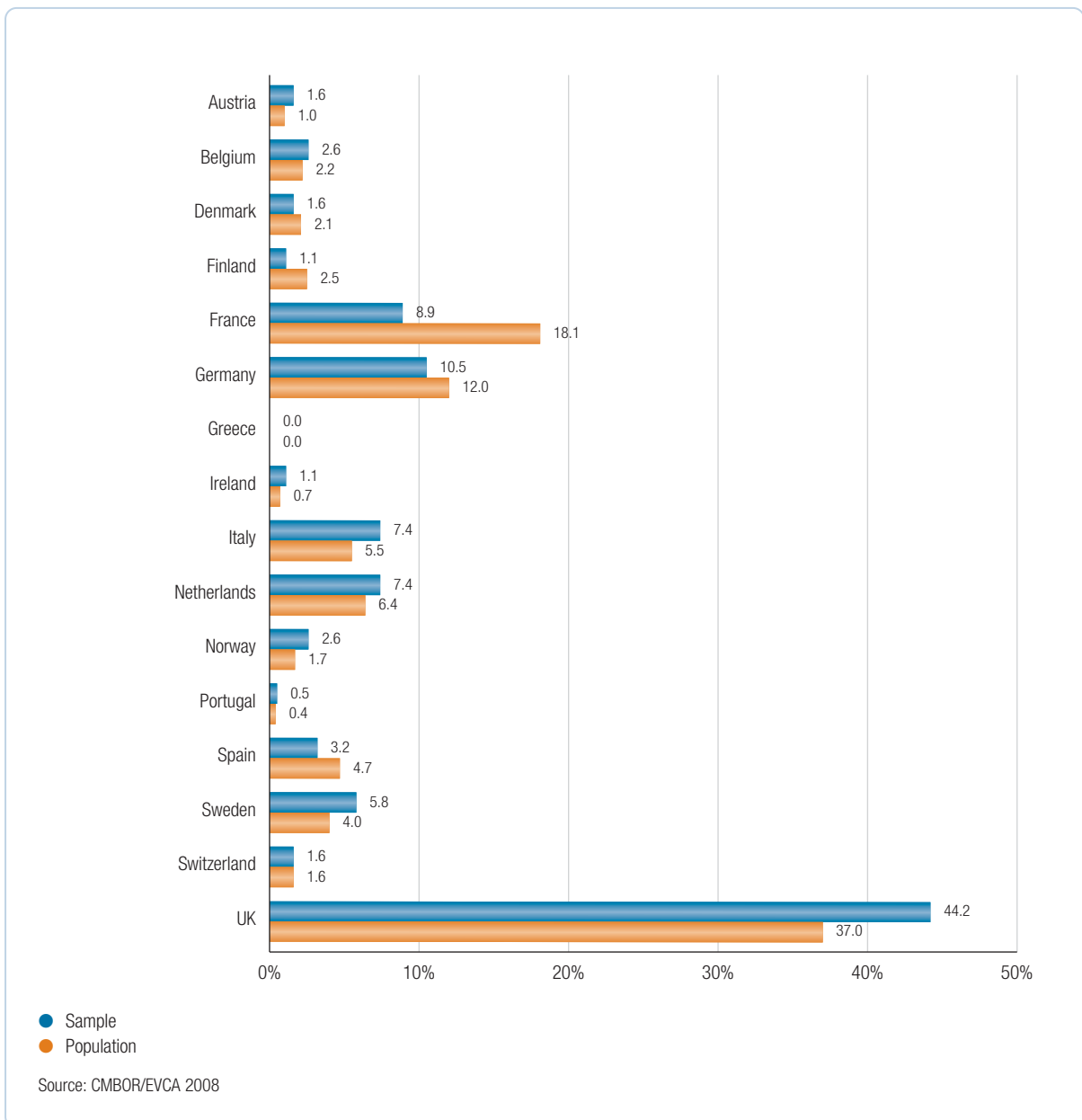
The representativeness of the sample was assessed using several criteria. The distribution of sample responses was compared to that in the population of private equity-backed buyouts contained in the CMBOR database in respect of: country of location of the buyout's head office, industry sector, deal size, employee numbers, whether the business had been profitable or loss-making at the time of the buyout (profitability), and deal type.



## Country of buyout

For most countries, the proportion of companies in the sample represents their distribution in the population (Figure 24). The notable differences are in respect of France which is somewhat under-represented and the United Kingdom which is, to a lesser extent, over-represented.

Figure 24: Responses by country

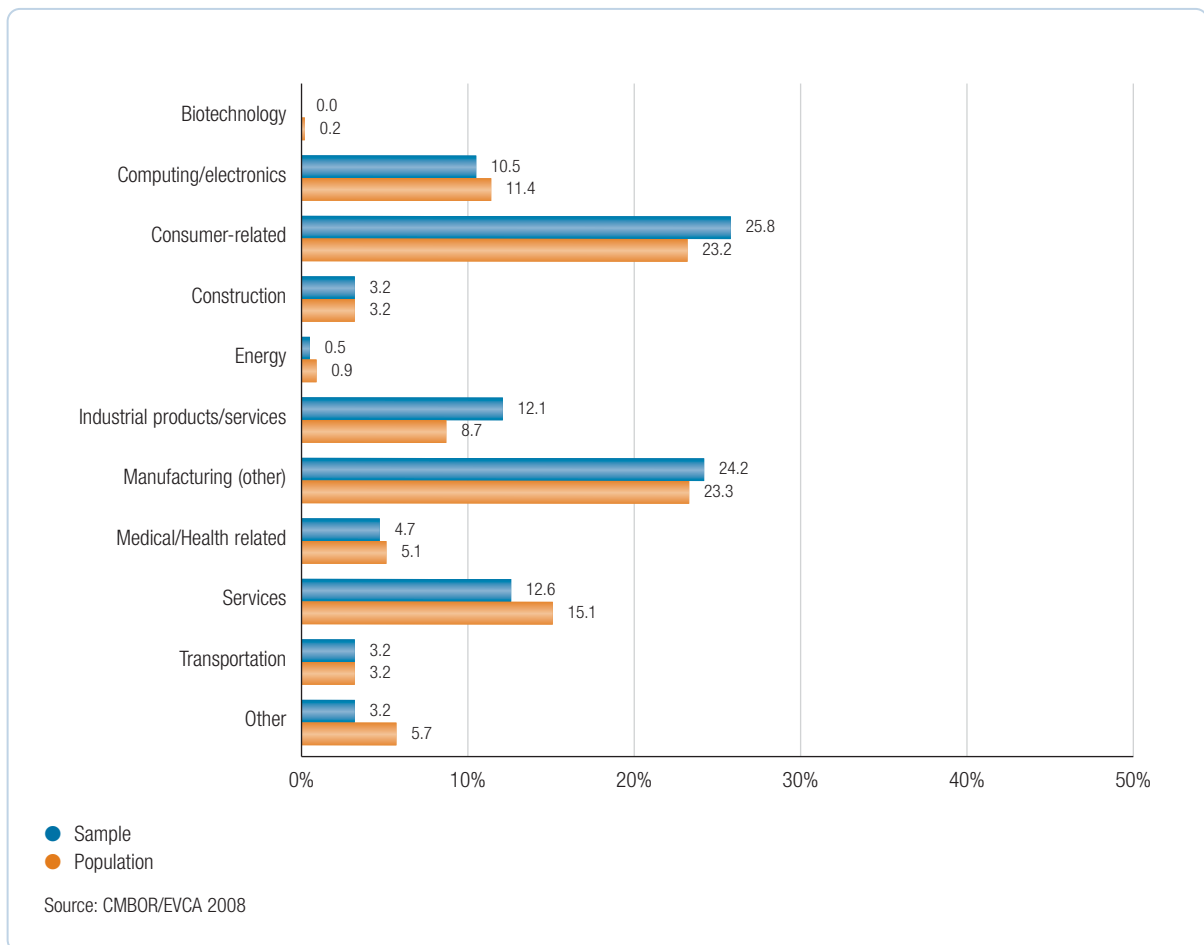


## Appendix 1: Analysis of the Representativeness of Surveyed Companies

### Industry sector

In general, the industrial distribution of the sample reflects that of the population (Figure 25). Industrial products/services and consumer-related companies are slightly over-represented in the sample while those from the services sector are a little under-represented.

Figure 25: Responses by industry sector

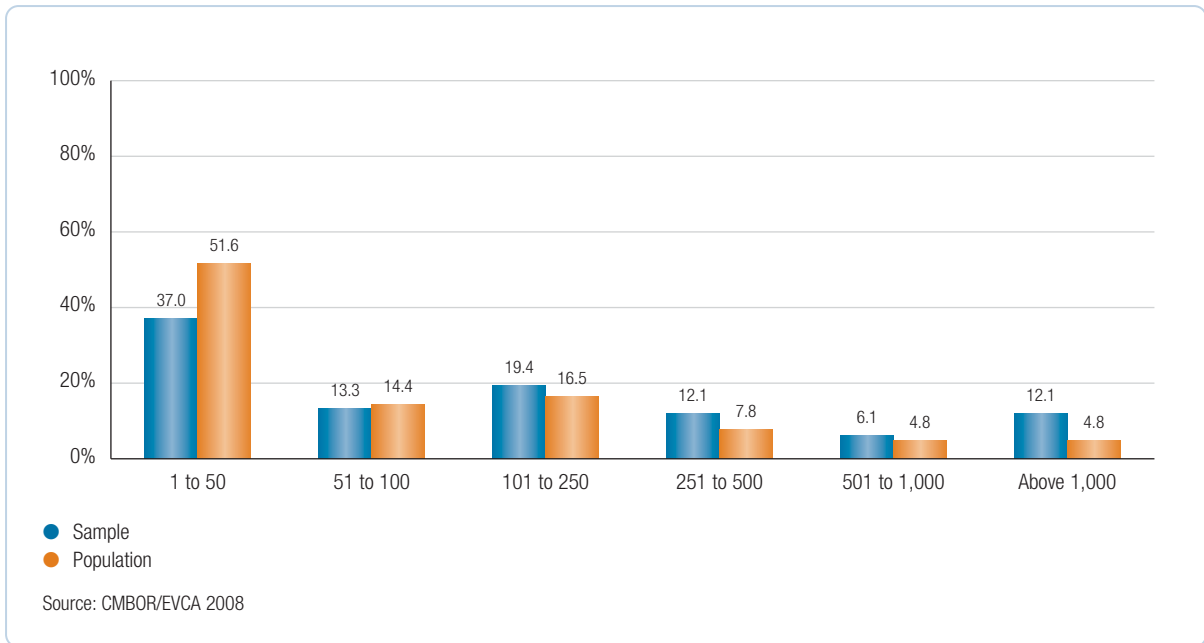


### Deal size<sup>(27)</sup>

Medium-sized deals were well represented but there was some under-representation of smaller deals and corresponding over-representation of larger deals (Figure 26).

<sup>(27)</sup> Deal size as measured by transaction value in millions of euros.

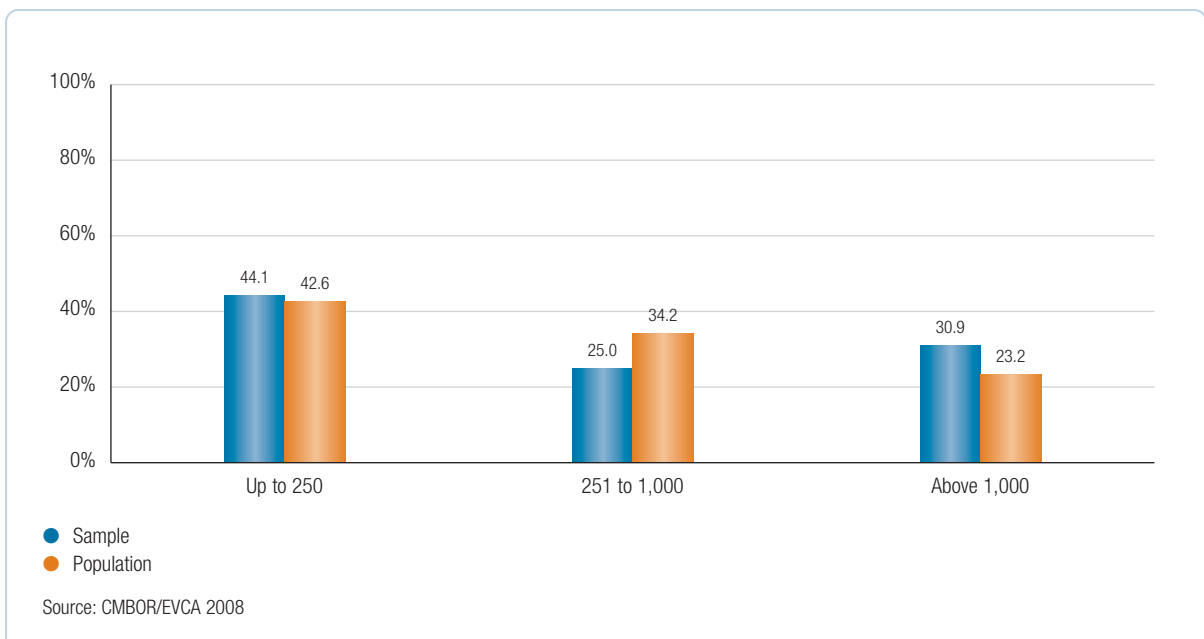
Figure 26: Deal size (€ million)



### Employee numbers

The distribution of companies in the sample in the small (up to 250 employees), medium-sized (251-1,000 employees) and large categories (more than 1,000 employees) was very similar to the distribution in the buyout population on the CMBOR database (Figure 27). However, the sample contained a slightly higher proportion of larger companies and slightly fewer medium-sized companies.

Figure 27: Employee numbers at time of buyout



# Appendix 1: Analysis of the Representativeness of Surveyed Companies

## Profitability

The buyout population covers a range of pre-buyout performance levels, from loss-making to highly profitable (Figure 28). The sample responses also include buyouts from across this performance range. The higher performers in the sample with PBIT/turnover ratios exceeding 10% are broadly in line with the population distribution, except for the very high end. Middling performers with a PBIT/turnover ratio between 0-10% are somewhat over-represented in the sample while the poor performers pre-buyout are a little under-represented.

Figure 28: Profitability in year before buyout/in (PBIT/turnover\*100)

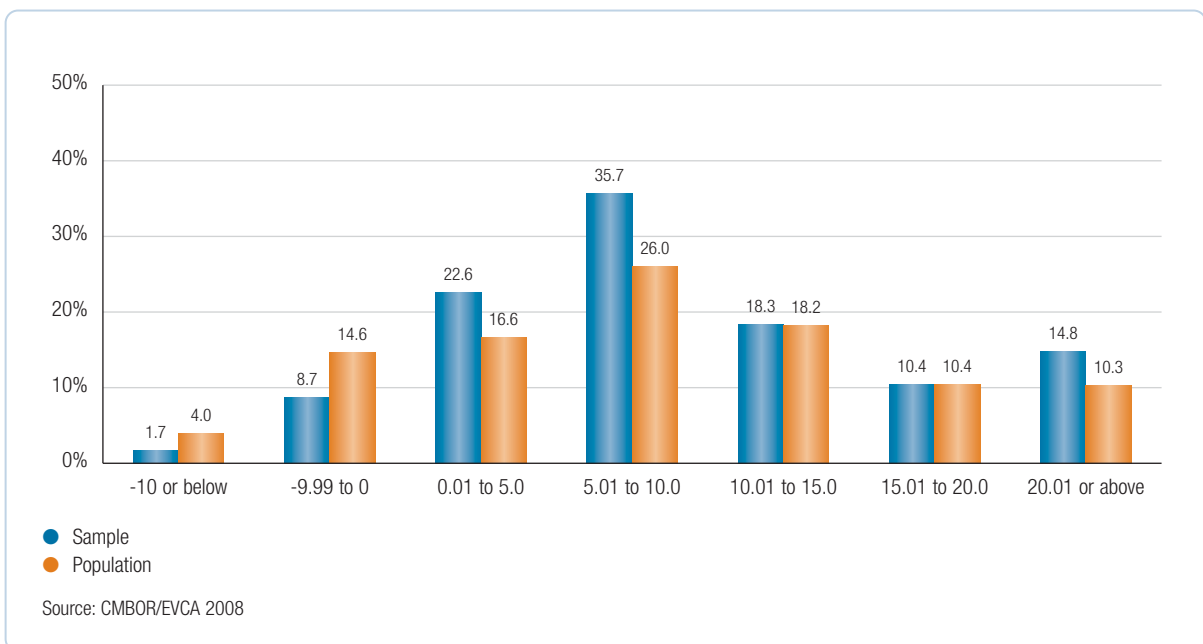
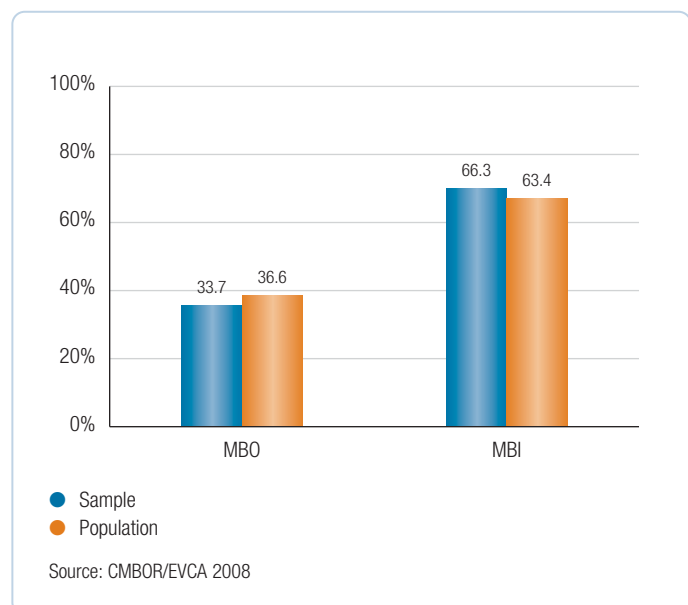


Figure 29: Deal type

## Deal type

The distribution of MBOs and MBIs in the sample and population (Figure 29) shows that the sample is a good representation of the population.



## Background information

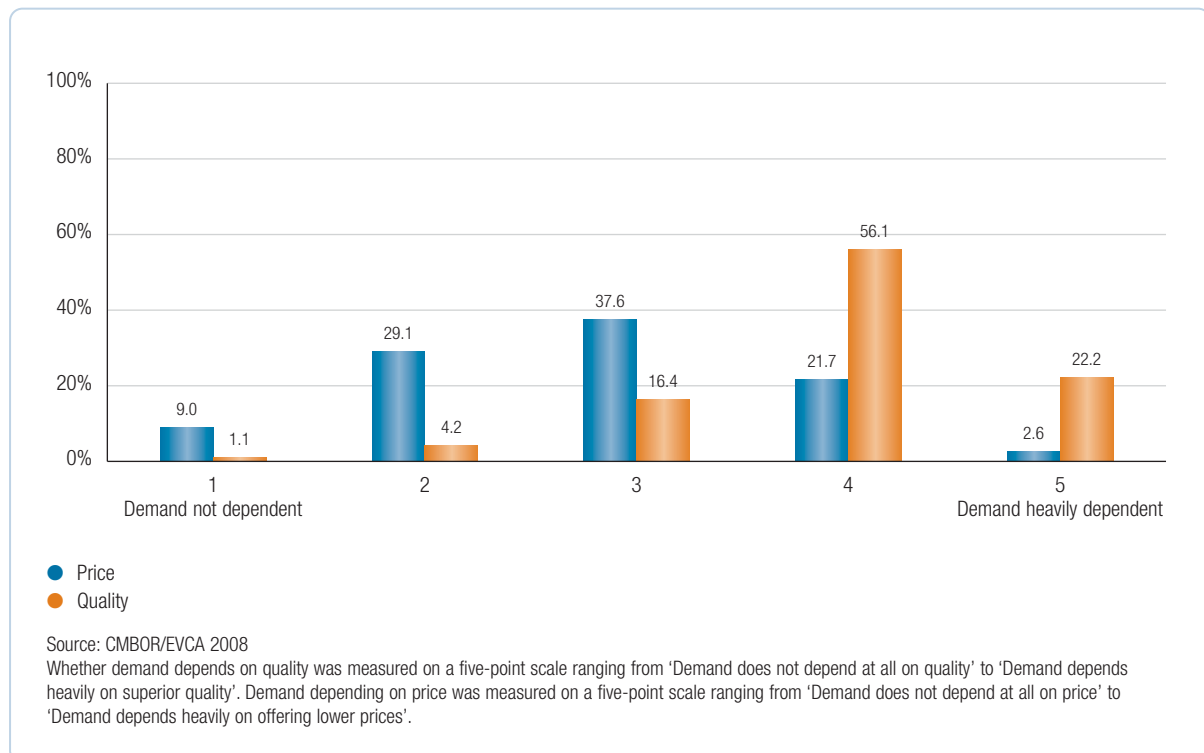
This section provides data on the strategies, revenues, profits and employment as well as findings on the anticipated timescale to exit for the investee companies in the sample. These findings provide the contextual information for the reported employee relations findings.

### Price and quality based business strategies

Previous studies have reported that business strategies in buyouts that focus on the quality of products and services rather than their cost were positively associated with investments in employee relations practices to increase employee commitment<sup>(26)</sup>.

Respondents were therefore asked to rate the extent to which demand for their main products and services depended on offering higher quality or lower costs than competitors. Respondents reported that the demand for products and services depends more on quality than on price. 78% of respondents indicated that demand depended on superior quality, with just over a fifth stating that this demand was heavily dependent. In contrast, three quarters of the sample said that the effect of price on demand was either neutral or not dependent (Figure 30).

Figure 30: Price and quality



<sup>(26)</sup> For details see: Bacon, N., Wright, M., and Demina, N. (2004) 'HRM in Buyouts', *British Journal of Industrial Relations*, 42, 2, 325-348; Bacon, N., Wright, M., Demina, N., Bruining, H. and Boselie, P. (2008) 'HRM, Buyouts and Private Equity in the UK and the Netherlands'. *Human Relations*, 61, 10, pp. 1399-1433.

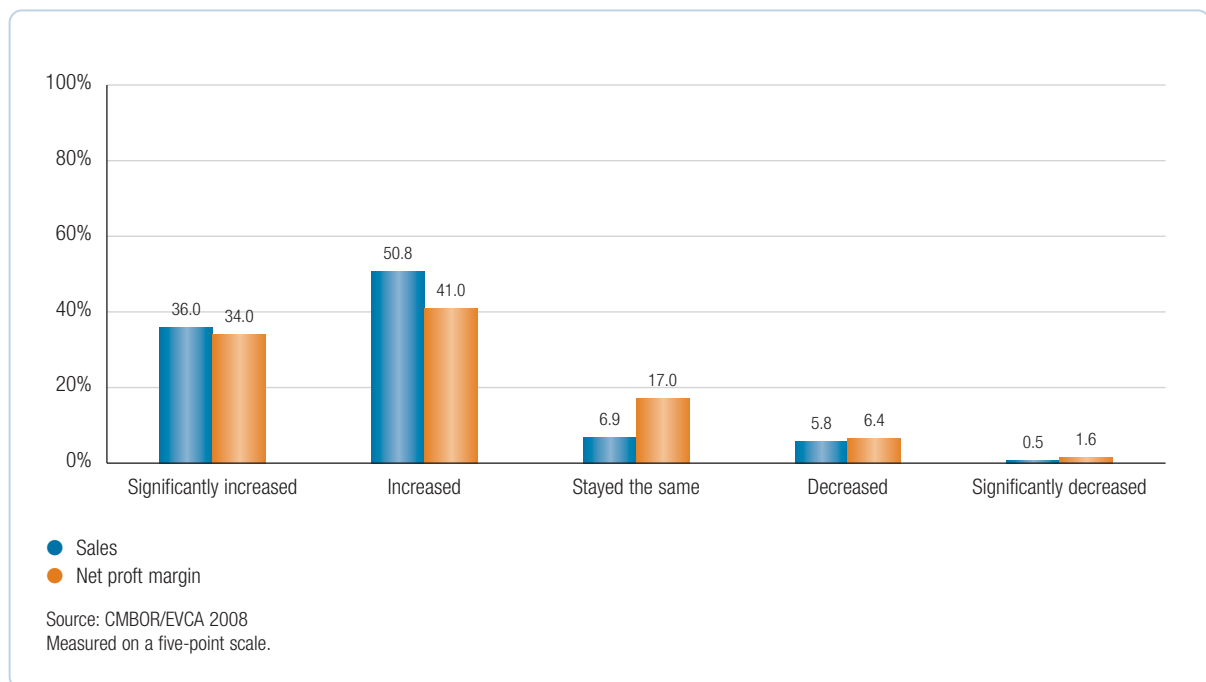
## Appendix 1: Analysis of the Representativeness of Surveyed Companies

### Sales and net profit margin

The performance of buyouts might also have an important effect on employee relations practices and outcomes. Early surveys of UK buyouts, for example, showed that the employment effects varied according to national economic conditions, with more than 40% of buyouts reducing employment during the economic recession of the early 1980s. Only a quarter of buyouts completed during the buoyant mid-1980s reduced employment<sup>(29)</sup>.

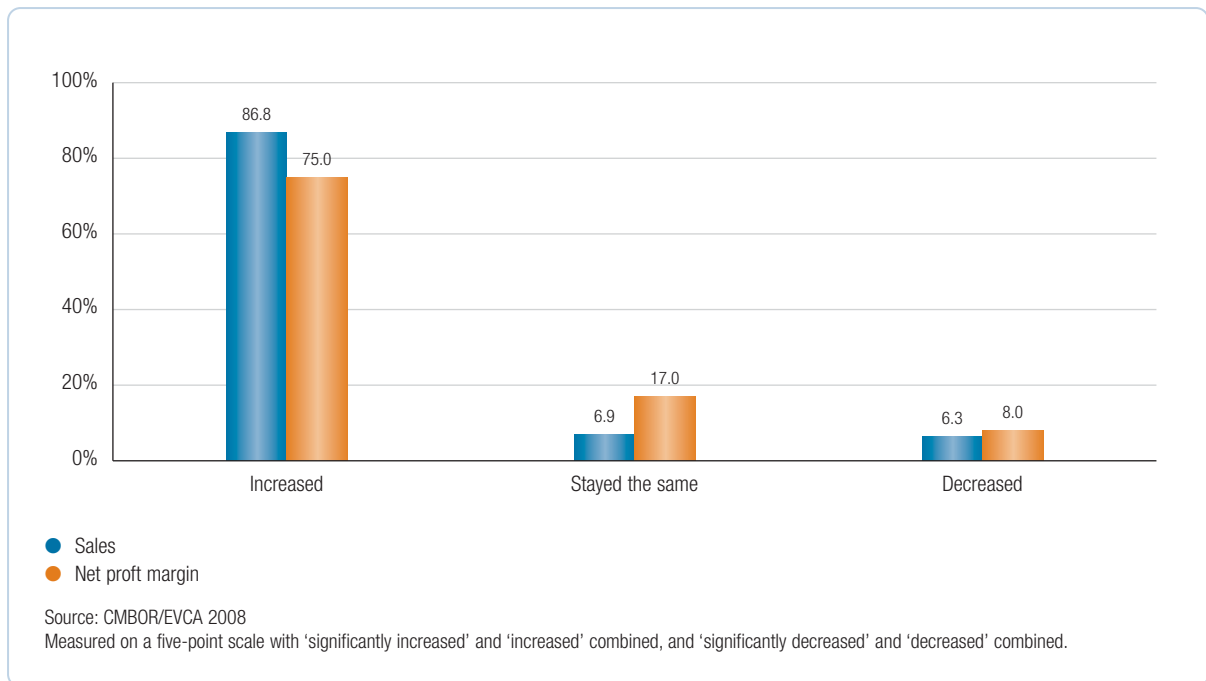
In this study, most respondents reported positive changes in sales and net profit margin since the buyout, with about 80% indicating an increase in both. Over a third of the sample stated that there had been a significant increase in sales (36%) and net profit margin (34%). Only 6% of respondents indicated that there had been a decrease in sales and only 8% reported a decline in net profit margin (Figures 31 and 32). During this period profitability was relatively buoyant and private equity-backed buyouts seem to have been performing in line with the macroeconomic context. These factors are likely to have positive effects on employment practices post-buyout.

Figure 31: Sales and net profit margin



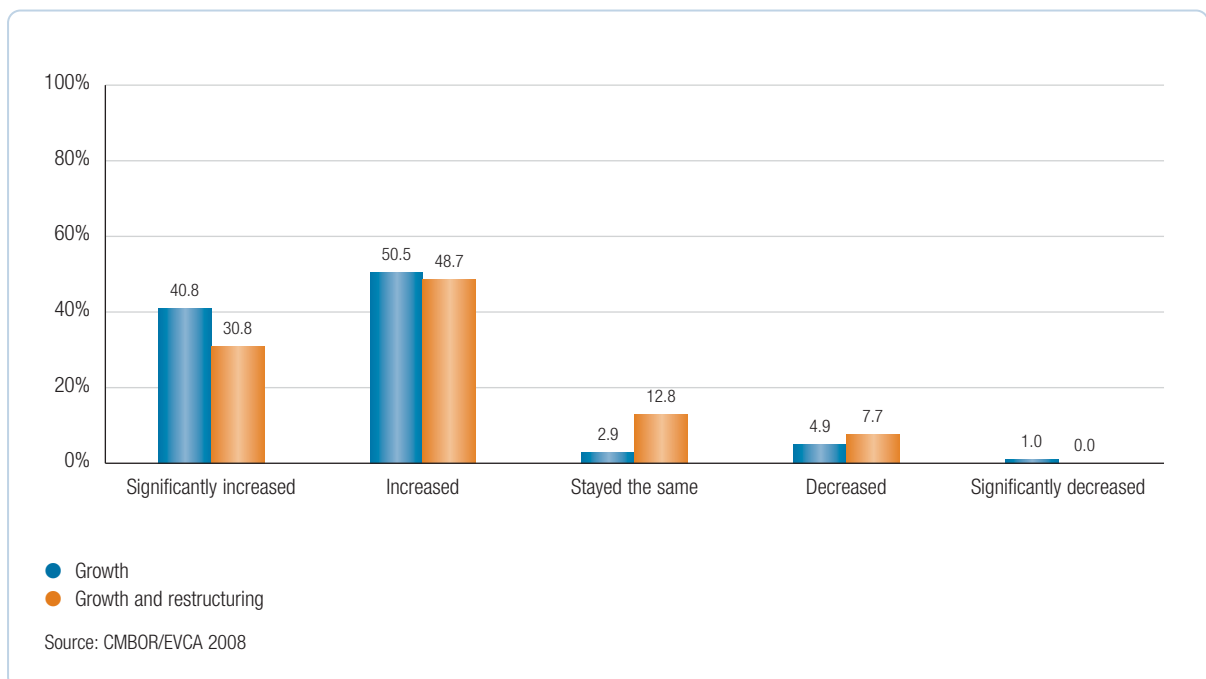
<sup>(29)</sup> For a summary see: Wright, M., Bacon, N. and Amess, K. (2009) 'The Impact of Private Equity and Buyouts on Employment, Remuneration and other HRM practices'. *Journal of Industrial Relations*, forthcoming.

Figure 32: Changes in sales and net profit margin



Sales increased for 91% of the companies whose post-buyout strategy was purely growth and for 80% of the companies whose strategy was a mixture of growth and restructuring (Figure 33).

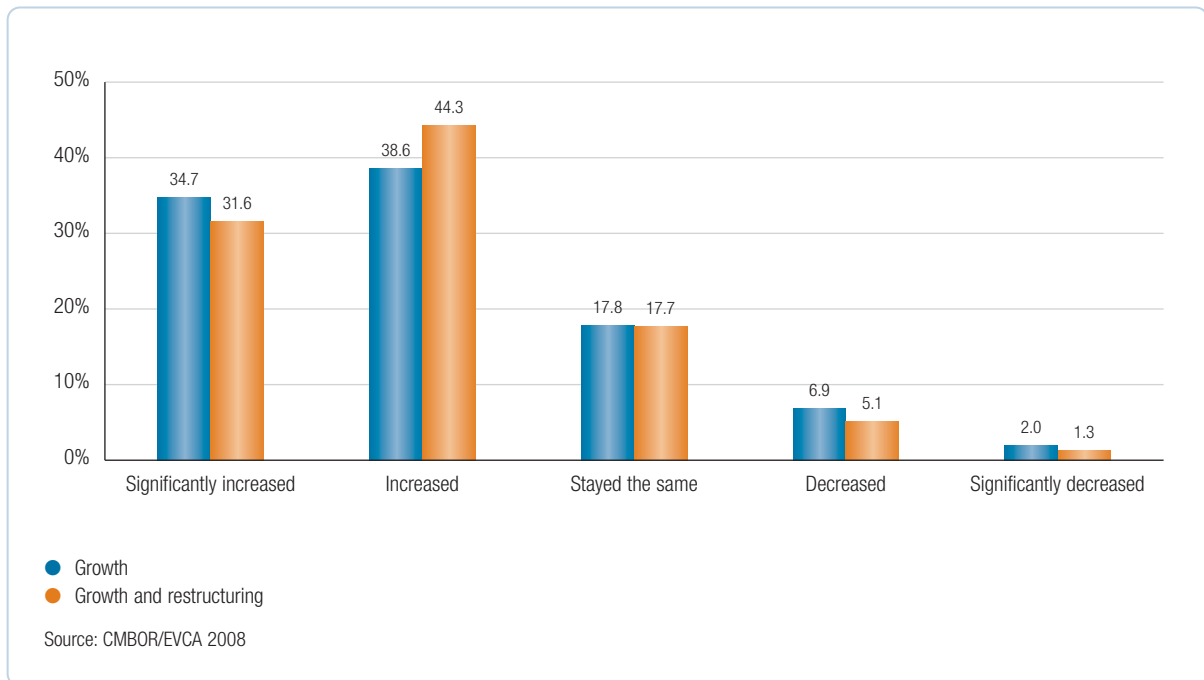
Figure 33: Strategy and sales



## Appendix 1: Analysis of the Representativeness of Surveyed Companies

Profits varied little between companies whose strategy was growth and those with strategies focusing on both growth and restructuring (Figure 34)<sup>(30)</sup>.

**Figure 34: Strategy and profit**



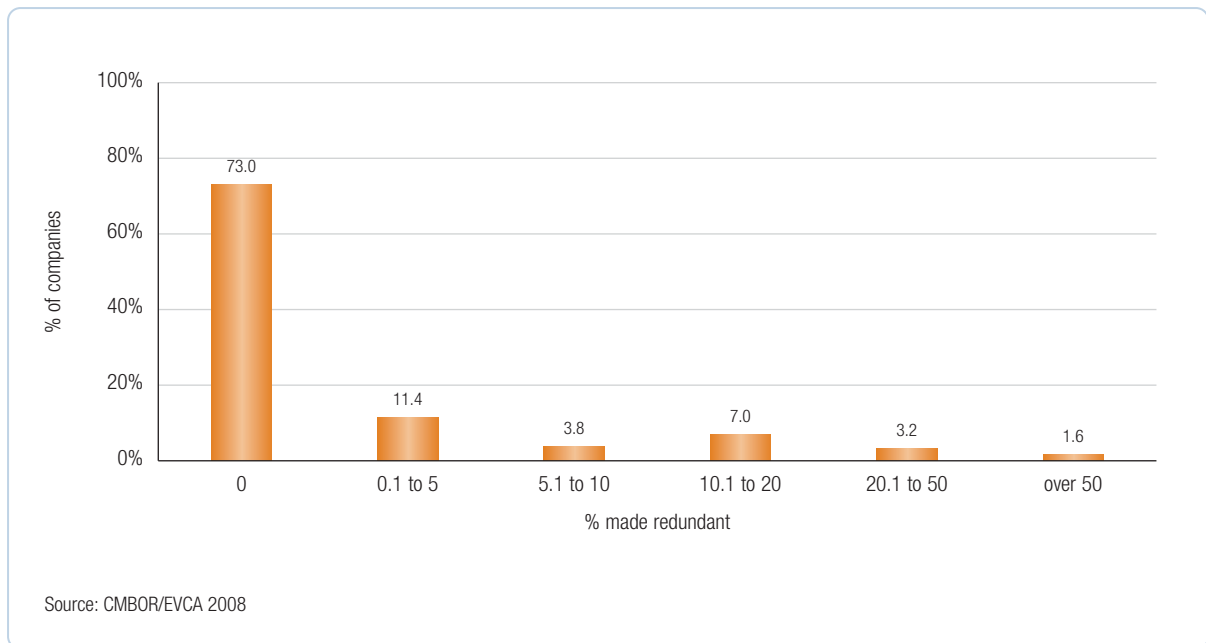
### Employment

The majority of the sample did not make employees redundant after the buyout (73%) and of those that did, the average percentage of workforce made redundant was 15% (median = 8%) (Figure 35).

<sup>(30)</sup> There were too few companies engaged in restructuring only so analysis of opinions on sales and profits would not be meaningful.



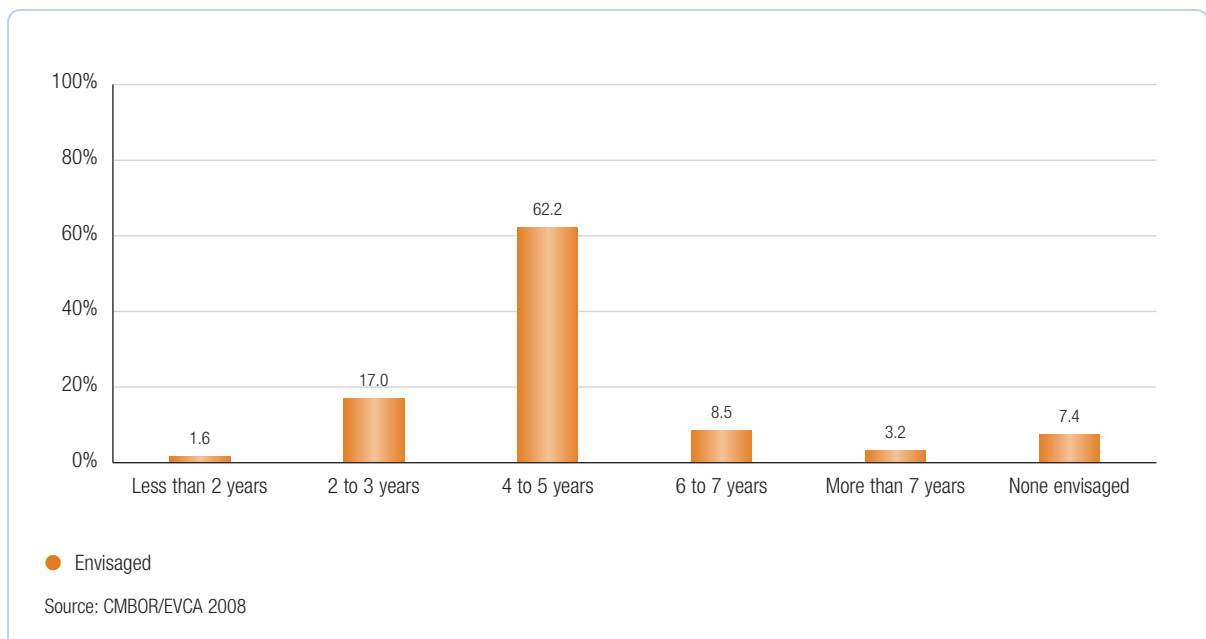
Figure 35: Number of redundancies



### Envisaged time to exit/realisation

The final area examined in this section is the exit timetable envisaged by private equity investors as this may affect the degree and speed of changes made to employee relations. The majority of the sample (62%) stated that financiers envisaged exit/realisation four to five years after the buyout. Almost a fifth (17%) said two to three years, just under a tenth stated six to seven years (9%) and only a very few (2%) indicated less than two years. No exit was envisaged by 7% of the sample (Figure 36).

Figure 36: Time to exit/realisation



## Appendix 2: Method

The sample for the survey was derived from the Centre for Management Buyout Research (CMBOR) database, which contains details of over 27,000 management buyouts across Europe. The group of interest was private equity-backed buyouts/buyins completed between 2002 and 2006 with more than 50 employees and a transaction value above 10 million euros. The survey was undertaken between January and June 2008.

### (1) Questionnaire

The questionnaire was translated into French, German, Italian and Spanish and sent to the companies meeting the above criteria identified using the CMBOR database with help from EVCA's members.

The CEO, or HR Director, was contacted either by email (when possible) or by post. In both cases reminders were sent after two weeks. 190 companies (backed by 109 different private equity firms) replied out of 2,597 contacted; a response rate of 7.3%.

A pilot was not carried out as the questionnaire had been tested previously by staff at the University of Nottingham in connection with a different project.

### (2) Interviews

To obtain further insights on the HR issues that were difficult to identify in a mailed questionnaire, interviews were conducted with a selection of large European investee companies (more than 1,000 employees) identified from the CMBOR database as discussed above and covering a wide range of countries and circumstances. The focus was on these larger companies since this is where much of the current debate has been centred and because they are more likely to have structured HR organisations and processes. A number had operations in several countries. The companies selected had different levels of performance leading up to the buyout and varied in the extent of their restructuring and growth experiences afterwards. Sixteen interviews were conducted in total and these companies also formed part of the questionnaire survey sample. The interviews were conducted primarily with the HR Directors or in some cases the CEO. The interviews lasted between one and two hours.

## Sources of Information

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Consistent with many other employee relations studies, responses were obtained from the key management informants involved in employee relations aspects of the buyout. Although using multiple respondents from the same organisation may reduce response error, using scarce research resources on finding multiple informed raters reduces sample size and resources were therefore concentrated on key informants and a larger sample size.

The vast majority of respondents to the survey were at least at director level, indicating a close familiarity with the issues covered by the survey (Table 4).

**Table 4: Respondents**

Respondent	No.	%
MD <sup>(31)</sup> , CEO, President, Chairman	110	57.9
HR Director/Manager	33	17.4
Other senior management	40	21.0
Not specified	7	3.7
<b>Total</b>	<b>190</b>	<b>100.0</b>

Source: CMBOR/EVCA 2008

A recurrent criticism of surveys based on questionnaires is the so-called survivorship bias. Due to the difficulties in obtaining responses from companies that have failed, the research covers only those companies that have survived at the time of the survey. It is arguable that companies that have failed, with or without private equity investors as shareholders, would have more tense employee relations. Further research could be undertaken to assess whether private equity-backed companies present a different profile from other companies in the management of bankruptcy.

The focus of this study was on changes in employee relations following a private equity-backed buyout across Europe. Direct comparisons with other available studies on changes in employee relations in non-buyouts have been minimised since these are likely to be problematical for a number of reasons. First, some available surveys do not cover the whole of Europe but rather a single country with potentially different sample compositions. Second, the studies that are available on a cross-European basis are generally problematical with respect to the reliability of their measures and samples. Third, a fundamental problem when analysing the consequences of the ownership change involved in private equity buyouts is in establishing the counterfactual. Investee companies that experience ownership change are not randomly selected from the population<sup>(32)</sup>. For instance, companies might be subject to a buyout because they over-employ and/or make extra-marginal wage payments that are identified as sources of organisational inefficiency. However, where appropriate and feasible, qualitative contextual comparisons with other studies have been made.

<sup>(31)</sup> Managing Director.

<sup>(32)</sup> Amess, K., Girma, S. and Wright, M. (2008) 'What are the Wage and Employment Consequences of Leveraged Buyouts, Private Equity and Acquisitions in the UK?' CMBOR Occasional Paper.

## Appendix 3: Sample Details

**Table 5: Questionnaire responses by country**

Country	Population No.	Population %	Sample No.	Sample %
Austria	25	1.0	3	1.6
Belgium	58	2.2	5	2.6
Denmark	55	2.1	3	1.6
Finland	64	2.5	2	1.1
France	471	18.1	17	8.9
Germany	312	12.0	20	10.5
Greece	1	0.0	0	0.0
Ireland	17	0.7	2	1.1
Italy	144	5.5	14	7.4
The Netherlands	167	6.4	14	7.4
Norway	43	1.7	5	2.6
Portugal	11	0.4	1	0.5
Spain	123	4.7	6	3.2
Sweden	104	4.0	11	5.8
Switzerland	42	1.6	3	1.6
The United Kingdom	960	37.0	84	44.2
<b>Total</b>	<b>2,597</b>	<b>100.0</b>	<b>190</b>	<b>100.0</b>

Source: CMBOR/EVCA 2008

- CMBOR Centre for Management Buyout Research. [www.cmbor.com](http://www.cmbor.com)
- European Works Council A statutory committee in which managers consult with employee representatives in companies with employees across EU Member States.
- EVCA European Private Equity and Venture Capital Association. [www.evca.eu](http://www.evca.eu)
- Formal grievance procedure A grievance procedure allows employees to make complaints to, or raise problems with, their employer.
- Harmonised terms and conditions Moving different grades of employees onto the same terms and conditions of employment.
- High-commitment practices Human resource practices that when used together are positively associated with higher levels of firm performance by enhancing the abilities, motivation and opportunities for employees to contribute at work.
- Joint consultative committee A committee in which managers consult rather than negotiate with employee representatives.
- Large companies Companies with over 1,000 employees.
- Medium-sized companies Companies with between 251 and 1,000 employees.
- Merit-based pay Pay is based on a subjective assessment of individual performance by a supervisor or manager.
- Payment by results Pay is determined by the amount of work done or its value, rather than just the number of hours worked, typically bonuses or commission.
- PBIT Profit Before Interest and Tax.
- Profit-related pay or bonuses (PRP) Pay is based upon meeting profit-related targets. Profit-related pay may be calculated for the organisation as a whole, a division of the organisation or the workplace.
- Real earnings Earnings adjusted for changes in inflation.
- Severance package A severance package includes pay and benefits an employee receives when they leave employment at a company. Typically, severance packages are determined based on company policy, employee tenure and service, and circumstances of termination. In addition to the employee's remaining regular pay, it may include an additional payment based on months of service, payment for unused vacation time or stock options.  
Severance packages are most typically offered for employees who are laid off or retire, although severance pay is not provided in all termination situations.
- Share ownership Employee share ownership schemes include tax advantaged schemes where companies give employees free shares or employees purchase shares, employees save from salary to purchase the employer's shares, and share option schemes.
- Small companies Companies with between 1 and 250 employees.

## Appendix 4: Glossary of Terms

- Social models:
  - Liberal Market economies Ireland and the United Kingdom
  - Northern Europe Denmark, Finland, Norway, Sweden
  - Central Europe Austria, Belgium, Germany, the Netherlands, Switzerland
  - Mediterranean Europe France, Italy, Portugal, Spain
- Tariff Agreements Tariff Agreements are reached in Germany following collective bargaining at sectoral level between employers' organisations and unions.
- Works council at establishment level A committee of managers and employee representatives with a statutory role in many EU countries.

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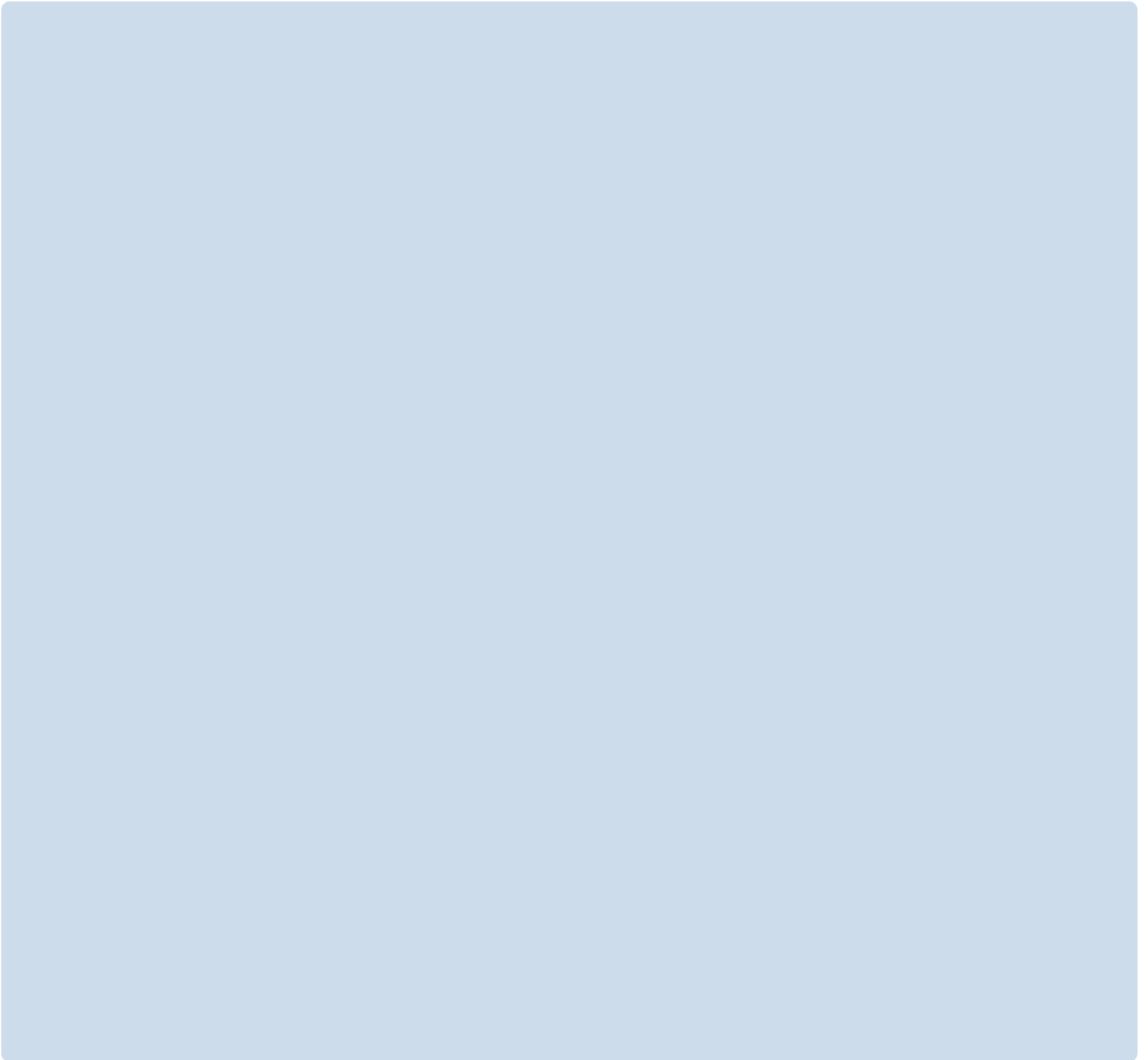
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