

# Power, Communicative Action and Worker Participation

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## Abstract

How can the theory of communicative action developed in American (Old) Institutional Economics and German Discourse Ethics contribute to an understanding and conceptualisation of worker participation? To respond to this question, in the first part of this paper, I want to show that in theoretical approaches, practical consultation and empirical studies, the literature on worker participation seems to suggest a fundamental tension between contentious and consensual uses of workers' voice in companies. I concentrate on worker representation (involvement by management, union voice and works councils) within capitalist firms in this paper, leaving aside other areas and forms of industrial democracy such as gender and diversity issues of participation within unions (Colgan and Ledwith 2002) or cooperatives where workers are owners (Kalmi and Klinedinst 2006).

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## Introduction

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## Worker Participation and Workplace Democracy

Labour economists differentiate the effects of worker participation in terms of costs and benefits – namely its effects on wage bargaining and productivity gains. This is very clearly

stated in "... the Freeman-Lazear (1995) works council/employee involvement model, which posits a tension between employee involvement and distributive bargaining over the wage share" (Addison et al., 2000: 7). According to Freeman and Lazear, productivity effects arise from a) the trust developed through the provision of honest and reliable information by management which pays off as co-operation by workers in tough times, b) creativity inspired through consultation which leads to an input of new ideas and solutions and c) an indirect enhanced sense of job security and loyalty which encourages workers to make firm-specific training investments. On the cost side worker participation a) can have the effects of reducing management's control over decisions in general and in particular a loss of influence in wage bargaining and b) can be time consuming, leading to delays in decision-making (Addison et al. 2000: 9). Testing the model for Germany and Britain in terms of positive and negative effects on profits, Addison et al. find that benefits of worker participation prevail in Germany at least for larger firms whereas in Britain union-participation seems to strengthen workers' distributive bargaining power so that increasing labour costs overhang productivity gains (2000: 40).

On the background of changing labour market conditions fostering flexibility and mobility of the work force on the one side and increasing job uncertainty for employees on the other, Mizrahi questions why and how a wide range of scholars working in the area of employment and human resources could come to agree on a model of a highly participatory mutual gains enterprise characterized by "... teamwork, employee involvement in problem-solving, and a climate of co-operation and trust" (2002: 690). However, based on a rationale rooted in social choice theory and New Institutional Economics he concludes that such a consensus can even be supported on the basis of the logic of such standard economic approaches. Mizrahi mainly draws on Rogers' and Streeck's (1995) book on European works councils to support his claim empirically. On the benefit side of worker participation, he emphasizes greater stability, co-operation, loyalty and reduced transaction and influence costs, however, Mizrahi also draws attention to the cost side of potentially greater rent-seeking behaviour by employees and the manipulation and dominance of employers in such governance structures.

Whilst works councils seem to provide at least some mutual benefits for employees and employers in the European context, Appelbaum and Hunter argue that such positive outcome is very limited in their country: "In the United States, the explicit representation of workforce interests in strategic decision-making processes of corporations is rare" (2005: 265). Moreover, even when such participation occurs, the legal, cultural and ideological institutional framework in the US forces or drives unions and management into conflicts and towards strategic interactions which inhibit mutual gains.

A British textbook for employment relations points to the seminal work by Chamberlain and Kuhn (1965) and Flanders (1968) highlighting conflicting, conjunctive as well as co-operative forms of collective bargaining (Rose 2001: 295). The book offers a whole chapter on 'Employee Voice, Participation and Partnership' in which it bemoans the loss of voice "... associated with trade union decline in Britain during the 1980s and 1990s ..." and the absence of participation and partnership in the UK (Rose 2001: 383). The author clearly emphasizes how crucial employee voice is for employment relations in full awareness of the importance of power in negotiation and bargaining (Rose 2001: 480). As Rose points out, employee involvement does not necessarily mean employee partnership: "Here we consider certain aspects of 'employee voice' with particular reference to information and consultation,

and partnership approaches. The term 'employee voice', ..., has entered the employment relations lexicon as a general term to include all varieties of participation, involvement and information-sharing within unionised and non-unionised contexts. The term itself is meaningless unless it is associated with a particular voice mechanism ..." (Rose 2001: 411). Such a mechanism is the German system of 'co-determination' (Mitbestimmung, Rose 2001: 399) another one is the European Works Councils (Rose 2001: 405-410). Similar elaborated mechanisms are barely existent in Australia (Markey and Monat 1998 and Markey 2003) and in New Zealand (Rasmussen 1998).

A similar kind of scepticism or differentiating view on 'employee voice' is expressed by Cheney et al. in their textbook on 'Organizational Communication'. The authors clearly distinguish between what they call 'workplace democracy' and 'employee participation' (2004: 215). The former refers to open and wide ranging engagement and representation of employees leading to modification of all kinds of activities – in other words, real influence, whereas the latter signifies a more limited form of voice focussing on performing specific job tasks. Cheney et al. do also concentrate on 'negotiation power' (2004: 254) and place particular emphasis on 'power in messages, interactions, and patterns of talk' (2004: 257), i. e. they see speech acts as instruments of power.

The scepticism about the depth of influence of employee voice on actual decisions and conditions in companies expressed in the Industrial and Employment Relations literature seems to be confirmed at least by the tone of the views expressed in one example of recent Management literature on 'Corporate Communication' by Cornelissen. Most of the book deals with the strategic role of external communication for the company. However, when he turns to internal communication, the top down and strategic approach to communication is quite apparent from his introductory sentences: "Employees are a crucial stakeholder group in the survival of organizations. Organizations need to communicate with their employees to strengthen employee morale and their identification with the organization and to ensure that employees know how to accomplish their own, specialized tasks. The chapter discusses strategies for communicating to employees within organization" (2008: 194). However, other authors in the Management literature on organisational communication seem to move from mere employee participation to workplace democracy (Sandberg and Targama 2007 and Cloke and Goldsmith 2002).

The conclusion one can draw from this discussion of worker participation is that the outcome of it depends on the institutional setting which may lead to either strategic or more productive forms of interaction between employees and employers. The next part tries to shed some light on how parties actually communicate in either one of these institutional circumstances.

### **Economics and Communicative Action**

Mainstream economic theory usually neglects the fact that economic actors communicate with each other using ordinary language. At least the microeconomic textbook version of the rational utility maximizing man is basically a speechless person. This is also true for game theory, where talk is cheap for players in strategic interaction. Experimental game theory, however, showed considerable influence of communication on the co-operation rates resulting from several kinds of game situations (Bohnet and Frey 1994, Dawes et al. 1990, Frey and Bohnet 1995, Frey and Bohnet 1997 and Ostrom 2000). One of the few neo-classical economists who take discourse seriously, is Donald, now Deirdre McCloskey. In her book "Knowledge and Persuasion in Economics" she collects a bulk of evidence for the

economic significance of persuasion under the heading “The Economy as a Conversation”. McCloskey, (1994: 370) uses the example of Donald Trump to point to the power of persuasion and “the art of felicitous speech acts” to close deals. For McCloskey, this power of persuasion is the outstanding characteristic of Schumpeter's entrepreneur, for it is he, who persuades banks to invest in innovations (McCloskey 1994: 372). She calculates that about a quarter of national income is produced by “persuasive talk” (including e. g. advertising, McCloskey and Klamer, 1995: 194).

However, language is a multidimensional device for different kinds of human interaction. It can be used: a) to persuade others to work according to one's own material interests (strategic), b) to convince others of one's own value judgements which is not necessarily an expression of self-interest (opinionated), c) to obtain information to serve one's self-interest or form one's own value judgement (informational) or d) to create mutual understanding, to find common ground concerning world views (*Weltanschauungen*) among participants in discourse and thereby altering former beliefs and perceptions, and possibly inventing new ideas during the course of a conversant process of recombination (dialogical).

The aim of this article is to develop a framework to analyse the relation and transformation of these modes of communication among economic actors. In particular, the paper will show how mode d) as developed by Habermas and others transforms into communicative power and how this transition during discourse could make and in fact already does make a fruitful contribution to the development of economic theory.

### **Strategic use of language a)**

In an article McCloskey and Klamer quote Adam Smith as saying: ‘every one is practicing oratory on others thro the whole of his life’ (1995: 193). For Smith, this propensity to exchange verbal utterances was the model on which the human propensity to truck and barter was built.

McCloskey's term persuasion, however, reduces the capacities of language to the successful attempt by an economic actor to get other economic actors to do what he or she wants them to do (Park and Kayatekin 2000: 572). This concept of persuasion is built upon the instrumental neo-classical view of human agency. Moreover, it fits Max Weber's definition of power: ‘the probability that an actor in a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests’ (Weber [1921]1978: 53). McCloskey's conception of language based interaction is built upon the strategic mode a).

### **Opinionated use of language b) – Hirschman's rhetoric power**

In his book “The Rhetoric of Reaction” (1991), Albert O. Hirschman who first introduced the concept of “voice” to economics (Hirschman 1970) describes certain rhetorical figures used in public debates by proponents of conservative as well as progressive political ideas (Hirschman 1993). These figures are used to refute and destroy opponents' arguments without taking them seriously or engaging into a process of argumentation, which might lead to a common understanding. Hirschman shows that these rhetoric figures are not employed to persuade or convince others to find a good solution for all, but instead to close the argument by undermining the validity and credibility of the other position. He reviews and interprets historical debates to demonstrate how the opinionated and often strategic use of language works in practice. While uncovering the rhetorical figures his intention is ‘... to move public discourse beyond extreme, intransigent postures of either kind, with the hope that in the process our debates will become more “democracy friendly”’ (Hirschman 1991: 168).

He detects a triad of principal reactionary theses, which he calls the perversity thesis or thesis of perverse effect, the futility thesis, and the jeopardy thesis. He defines these rhetorical figures as follows: "According to the *perversity* thesis, any purposive action to improve some feature of the political, social, or economic order only serves to exacerbate the condition one wishes to remedy" (Hirschman 1991: 7). One of the examples for the perversity thesis is the following quote by Milton Friedman: "Minimum wage laws are about as clear a case as one can find of a measure the effects of which are precisely the opposite of those intended by the men of good will who support it" (Friedman, 1962: 180). For Hirschman this statement is clearly a rhetorical one because the perverse effects of a minimum wage put forward by Friedman are not warranted by the facts. A recent discussion of the minimum wage debate can be found in Neumark and Wascher (2008). Hirschman explains that: "There is actually nothing certain about these perverse effects, particularly in the case of so basic an economic parameter as the wage. Once a minimum wage is introduced, the underlying demand and supply curves for labor could shift; moreover, the officially imposed rise in remuneration could have a positive effect on labour productivity and consequently on employment" (Hirschman 1991: 28). The progressive counterpart to the perversity thesis is the imminent-danger thesis. Here, the proponent of a certain policy argues that it is imperatively needed to stave off some threatening disaster (Hirschman 1993).

"The *futility* thesis holds that attempts at social transformation will be unavailing, that they will simply fail to "make a dent"" (Hirschman 1991: 7). To illustrate the futility thesis, Hirschman quotes for example the French journalist Alphonse Karr (1808-1890) who coined the classic epigraphic expression 'Plus ça change plus c'est la même chose' in the aftermath of the French revolution in 1849 (Hirschman 1991: 43 and 44). An example for the futility thesis concerning economic policy is Lucas's theory of rational expectations, which attacked the Keynesian system of government intervention. According to Hirschman, Lucas's aim was to show: '... how activist Keynesian policies would lead, especially if they were widely anticipated, to expectations and ensuing behaviour on the part of the economic operators such as to *nullify* the official policies, render them inoperative, otiose – futile' (Hirschman 1991: 74). The progressive thesis, which mirrors the futility thesis, is based on the assertion of a law-like forward movement, motion or progress – that is to have history on one's side (Hirschman 1993).

"Finally, the *jeopardy* thesis argues that the cost of the proposed change or reform is too high as it endangers some previous, precious accomplishments" (Hirschman 1993: 7). The third rhetorical figure claims that: "... a reform, if carried out, would mortally *endanger* an older, highly prized one that, moreover, may have only recently been put into place. The older hard-won conquests or accomplishments cannot be taken for granted and would be placed in jeopardy by the new program" (Hirschman 1991: 84). A good example for the jeopardy thesis can be found in Friedrich von Hayek's attack on the welfare state. Hirschman traces Hayek's assertion that the welfare state would jeopardize individual liberties and democratic governance back to his book "Road to Serfdom" (1944). However, Hayek repeats the jeopardy thesis more outspoken in his later works: "Hayek went over to an explicit attack on the Welfare State along such lines with his next major publication, *The Constitution of Liberty* (1960)" (Hirschman 1991: 113). The progressive twin of jeopardy is synergy that is the thesis of an ever-harmonious and mutually supportive relation between new and older reforms (Hirschman 1993).

In a nutshell, all those rhetoric figures are ways to use speech in public debates as a means of power without an earnest attempt to attain mutual understanding or at least to acquire an understanding of the opponent's argument. These rhetoric figures are good examples for the use of the opinionated mode of communication b) in attempts to win overt public conflicts or to keep them covert by agenda setting and influencing the public opinion (Lukes 1970).

### **c) Informational use of language – Denzau and North’s metal models**

Douglass North and Arthur Denzau conclude that communicated and hence, shared mental models have a transaction cost saving effect: “Some types of mental models are shared intersubjectively. If different individuals have similar models they are able to better communicate and share their learning. Ideologies and institutions can then be viewed as classes of shared mental models” (Denzau and North 1994: 4). They do describe institutions and the crucial role mental models play as follows:

“As developed in North (1990: 3), institutions are the rules of the game of a society and consist of formal and informal constraints constructed to order interpersonal relationships. The mental models are the internal representations that individual cognitive systems create to interpret the environment; the institutions are the external (to the mind) mechanisms individuals create to structure and order the environment” (Denzau and North 1994: 4).

In other words, for Denzau and North the explanation is causal linear from institution to the individual, in addition, they stress the constraining aspect of institutions compared to their enabling aspect.

From Denzau and North’s point of view every individual is faced with uncertainty (Denzau and North 1994: 9) and begins to deal with it while starting primarily from his or her own experiences and secondarily relying on institutions for orientation: “The world is too complex for a single individual to learn directly how it all works (Denzau and North 1994: 14). The behavioural disposition of individuals in Denzau and North’s approach is not only goal oriented (Denzau and North 1994: 13), but even individual benefit oriented (Denzau and North 1994: 8). Their view that learning and communication are a precondition of human action (Denzau and North 1994: 14 and 15) is mixed with the assumption of learning and communication as a matter of calculation (Denzau and North 1994: 20). This individualistic, gain oriented perspective explains why communication is seen as a one way exchange model by the authors (Denzau and North 1994: 19) and not modelled as an interactive process. Denzau and North are aware of the theoretical weakness of their methodological individualism to account for the effects of communication as they do reveal in a footnote: ‘This approach works at the level of the individual chooser. But many of the changes we wish to understand are social, such as changes in informal institutions or ideologies’ (Denzau and North, 1994, p. 23). Their perspective on communicative economic actors is that of the informational mode c).

### **d) Dialogical use of language – Habermas's communicative action and Boulding’s integrative power**

The specific kind of rationality that brings about the productivity of speech and thus, allows the creation of inventions and solutions to improve economic organisations can be clarified by drawing on Habermas's theory of communicative action.

Communicative action in Habermas's sense is not only oriented to success, efficiency, or personal goals, but also to reaching an understanding among the participants of a discourse and is coordinated ‘through cooperative achievements of understanding among participants. In communicative action, participants are not oriented primarily to their own success, but to the realization of an agreement which is the condition under which all participants in the interaction may pursue their own plans’ (Habermas 1984: 541; Biesecker 1997: 220). Communicative action is based on language and operates in the process of discussion. This procedural exchange of arguments during which participants learn to understand each other's motivations, underlying norms, and opinions is called discourse by Habermas. In discourse, participants are disposed to learn from each other and to change their own attitudes toward the world in general or toward certain problems occurring within it.

Habermas assumes a certain procedural communicative rationality that helps to differentiate three basic types of arguments (speech acts) which can be criticized or defended, grounded in their specific rationality. Habermas argues that communicative rationality occurs inevitably

during discourse, which is evident if we thoroughly consider the inter-subjective meaning of illocutions. If we try to persuade during discourse, we suppose that the other person can be convinced by our arguments and will accordingly change his or her mind. When we do this, however, we implicitly concede that exactly the same might happen to us but in the opposite direction. That is to say, we would admit the superiority of other's arguments and change our minds. The two one-way modes of communication: informational c) (urge to change one's own mind) and opinionated b) (urge to change the mind of someone else) are combined here. The communicative rationality of speech acts is not only instrumental, like the utilitarian rationality of economic man or the strategic mode a), but threefold. As Adelheid Biesecker put it (quoting and translating Habermas): "They [speech acts, S.K.] are not simply grounded in knowledge of the object world (as in empirical thinking), but also in the norms of the society in which the discourse is taking place (Habermas's social world) and the values of the partners in the discourse (Habermas's subject world). Communicative rationality, therefore, has three dimensions: An action [or a statement, S.K.] is rational if it is objectively true, socially right and subjectively sincere' (Habermas 1995: 149, translated in Biesecker, 1997: 220).

The participants of a discourse use their shared experiences (made in their life-world) as background and reservoir to test the validity of arguments along the three just mentioned dimensions of rationality. In a certain discourse situation, the discussants recur to their shared experiences, which contain all opinions and world views taken for granted to begin a cooperative process of interpretation. During this process, some elements of their experiences will remain untouched or stable, while others will become a matter of doubt and may change. Because discourse, as a form of social coordination, is linked to the social and subjective worlds, it has the capacity to integrate a variety of values. This establishes the special productivity of the discursive process.

### **The use and emergence of power in discours**

Habermas's action theory relies most of the time on an exclusive dichotomy of strategic and communicative action. However, in his later works (Habermas, 1996, 1999a and 2001), in which he distinguishes between weak communicative action, defined as: trying to understand what is on the other's mind without changing one's own and to influence others (communicative modes c) and b)), and a strong one, aimed at reaching mutual understanding and consensus, Habermas does not go further to elaborate a language-based form of power (weak strategic action, that is the strategic mode a) or b)).

Habermas fills this conceptual gap in his book "Between Facts and Norms" (1999) where he explores the transformation of communicative action which is dialogical mode d) into communicative power. As I have shown elsewhere Galbraith's power theory bears some similarity with this more recent discourse theoretical work (Kesting 2005).

### **Conclusion**

From Habermas's discourse ethics and institutional economics I have derived four different modes of communication. Whilst all of those have the potential to be used as an instrument of power in conflicts, only the first is merely strategic. Though probably to a different degree, the other three modes all have the potential to also lead to some of the mutual benefits from worker participation discussed in the related literature. Whether this suggested categorisation of ideal types is fruitful for discourse analysis can only be shown in concrete case studies of worker participation in the future.

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## EMPLOYEE PARTICIPATION AND WELL-BEING: DENMARK AND NEW ZEALAND

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### Introduction

We evaluate the impact of employee participation on the quality of the work environment (QWE) in Denmark and New Zealand (NZ). Some critical contributors to the work environment, notably work/life balance and occupational health and safety (OHS), have been major recent policy concerns in both countries, often linked with productivity. Since the 1970s QWE has been the central concept used in Scandinavia to describe what was earlier termed OHS. The shift in language represents a broadening of focus from health and safety hazards to include the psycho-social work environment, a term denoting how job demands and organisational structures influence the psychological well-being of employees.

Substantial long-term evidence suggests that employee participation and influence in workplace decision-making impacts positively on the work environment (Arthur 1994; Delaney & Huselid 1996; Doucouliagos 1995; Meyer & Topolnytsky 2000). British and Australian studies (Walters 2004; Walters *et al.* 2005) have found that worker representation and consultation produced better outcomes in OHS than management acting alone. Similar studies have also suggested that trade union presence positively impacts on OHS (Fairbrother 1996; Saksvik & Quinlan 2003). Additionally, the existence of a broad framework of participative practice through unions, and works councils as exist in European countries, is likely to impact on the effectiveness of specialised OHS committees (Harris 2004; Knudsen 2005).

We examine both direct and representative participation. Direct participation through various mechanisms, such as semi autonomous teams, empowers employees to exert job autonomy or influence over their immediate work environment, including the hours they work. Representative employee participation (REP) may occur through trade unions and workplace committees of various kinds. Danish union membership density is high, at about 70% if we exclude retired members, although this has declined from almost 80% in 1998 (Visser 2009). Union membership density in NZ declined more significantly from the 1980s, but has stabilised at over 21% since 1999 (Feinburg-Danielli & Lafferty 2007). Legislation in most European countries supports works councils. However, in both Denmark and NZ the only form of legislatively mandated non-union workplace employee representation occurs through OHS committees. Nevertheless, other forms of non-union REP are well established in both countries.

Danish OHS representation was instigated by the *Work Environment Act 1975*, and in NZ by the *Health and Safety in Employment Amendment Act 2002* (Knudsen 1995: 91-2; Harris 2004). The threshold for establishment of Danish OHS committees is 20 employees, and 30 for committees or representatives in NZ, although Danish enterprises with 10 or more employees must have employee safety representatives and smaller NZ enterprises may have representatives if requested by employees or unions. The Danish committees' jurisdiction includes the planning of changes in production where this impacts on the work environment. The jurisdiction of NZ committees is more specifically limited to OHS and hazard prevention, although it is not known how widespread these committees are.

Danish cooperation committees exist in most enterprises of 35 or more employees by agreement between the employer federation and the main union federation (LO) since 1947. Composed of equal numbers of employer and employee representatives, cooperation

committees are forums for consultation over working conditions, training, work organisation and especially technological and organisational change (Knudsen 1995: 82-90). In a recent NZ survey 40% of employees reported coverage by similarly composed joint consultative committees (JCCs), although these are not subject to a general agreement, and vary greatly in role and effectiveness, with employee representatives chosen by employers in over a quarter of instances (Boxall *et al.* 2007: 160-1).

Our hypothesis is that effectiveness of employee participation correlates positively with QWE. We also expect the correlation between these two variables to be stronger where the depth or range of employee participation is greater. The comparison between Denmark and NZ might be instructive in this regard, since the embeddedness of representative participative practices is greater and longer established in the former. The remainder of the paper introduces the research design and methodology, reports the results of the research and draws appropriate conclusions.

### **Research Design and Methodology**

We adopted a multi-method case study approach targeting 2 case organisations in each country in each of 3 industries: education, health, and food manufacturing. Food processing is the largest manufacturing sector in both Denmark and NZ. Education and health are large service industries, commonly overlooked in studies of this kind. In the case of health the Danish workplaces were located in a hospital, whereas the NZ ones were separate aged care facilities. Despite these differences, however, nurses are the dominant occupational group in all cases and the operational environments share many similarities.

Data was collected from three organisational sources:

1. documents;
2. semi-structured interviews with chief executive or HR manager, senior employee representative and one other employee representative on OHS committee (including a union delegate where appropriate); and
3. questionnaire survey of sample of employees.

The Danish data was collected from April to November 2008 and the results published in Knudsen, Busck & Lind (2009). The NZ study replicated the Danish one, with data collected from November 2008 to November 2009.

### **Quality of work environment**

QWE was measured in the survey from seven questions indicating total work environment and psycho-social work environment, or workload and stress. A score out of 40 was measured for each workplace in each dimension, calculated by allocating points for each response multiplied by frequency and divided by total respondents. Questions with a five-point response scale scored 40, 30, 20, 10, and 0 from the most to least positive response, following the practice of the Danish National Research Institute for the Work Environment (Knudsen, Busck & Lind 2009). Higher scores indicated a more positive work environment. Scoring for workload and stress questions was reversed because the most positive response was negative ('never/almost never').

Total work environment was measured from the following question in Denmark: 'how would you characterise your physical work environment?', with responses over a 5-point scale. NZ total work environment was measured from the following question: 'are you satisfied with the safety and comfort of your working conditions? (yes/no). Scores were calculated on the basis of frequency of 'yes' multiplied by 35, and 'no' multiplied by 5 and divided by total number of respondents to gain a score out of 40 equivalent to the Danish ones.

Workload and stress were measured on the basis of six identical Danish/NZ questions with a 5-point scale and integrated into an index:

1. do you have more work than you can accomplish?

2. are you required to work overtime?
3. how often have you felt worn out from work?
4. does your work put you in emotionally distressing situations?
5. how often have you felt stressed?
6. do you think your work takes so much of your energy that it effects your private life?

An overall QWE index score was constructed for all dimensions.

### ***Direct Participation***

The degree to which employees felt empowered by direct participation was measured by the following four standard questions:

1. Do you have significant influence on how much work you do?
2. I get information on important decisions in due time
3. I have significant influence on how my work is done
4. Do you have possibilities to learn new things in your job?

A score was measured for each workplace for each dimension, on the same basis as for QWE, and a composite index for all direct participation was constructed.

### ***Representative participation (REP)***

Different environments for REP in Denmark and NZ required different survey questions. The separate results were interwoven with qualitative data to develop a characterisation of each workplace within a schema of ideal types of representative employee participation (REP), shown in Table 1. These ideal types were developed from the data, and are relative to each other rather than absolute characterisations.

**Table 1. Ideal types of representative employee participation**

<b>Workplace type</b>	<b>Description</b>
Formal regulatory	REP is minimum required by regulatory framework. Management/employee representative interaction is not inclusive of lay employees.
Two sub-types: a) Dk – formal regulatory environment includes legislation & central agreement between management & unions. b) NZ - regulatory framework confined to legislation & collective (usually enterprise) agreement where it exists.	Management/union partnership but not involving lay employees, & REP is minimum required by central agreement & legislation.  May vary from highly unionised to non union. REP is minimum required by legislation & where relevant, agreement with union. REP practices not involving lay employees.
HRM	Representative employee participation embedded in a humanistic HRM approach. Based on management initiative, relatively weak, & mainly confined to mandatory OHS structures. Management mainly interested in practices benefiting performance.
Hybrid formal regulatory/HRM	Characterised by mixture of practices in both previous types.
Democratic	Representative practices are extensive & exceed requirements of legislation & in Dk of formal central collective agreements. Employees have wide influence on planning, organisation & development of work through regular meetings & ad hoc committees where issues are discussed before final decisions. Strong cooperation & trust between management & employee representatives.

## Organisational Analysis

### *Hospitals - Denmark*

We studied two wards within the same public regional hospital, DkA employing 150 non-managerial employees, and DkB 73. The employer is one of five regional bodies in the public health system. Nurses constitute the largest occupational group, and are 97% women. Other employees included in the study were social and health assistants. Both groups are almost 100% unionised in separate unions, covered by two collective agreements. Recently, both the nurses and social and health assistants displayed strong solidarity in a national strike over wages.

Danish hospitals represent well-organised industrial relations systems with active networks of employee representatives and cooperation between the parties on education, OHS and other issues. Employees elect union delegates according to collective agreements, and are covered by the public sector cooperation agreement, providing for cooperation committees with sub-units in every hospital department or ward. Hospitals are covered by the legislation requiring OHS committees, but may decide to combine these with the cooperation committees.

Hospital employees experience a physically and emotionally demanding work environment. Stress and burnout occur more frequently amongst hospital employees than the national average according to surveys of the National Research Centre for Work Environment. These surveys show that hospital employees enjoy comparatively low influence in the job, but high levels of job variation, possibilities for personal development and meaningful work. Part-time work is widespread amongst nurses, but surveys show that because of extra and temporary work, their average weekly hours equal the national workforce average.

Both cases are organised on the basis of three shifts. Work is organised in teams, either small teams relating to a group of patients, or larger teams consisting of the whole shift group. Teams have coordinators without managerial responsibilities.

Management is generally responsive to employee needs, partly to maintain staff in a national context of a shortage of nurses. Both managers, with nursing backgrounds themselves, perceive their roles as mediators between demands for cost effectiveness from senior management and employee needs to perform professionally and satisfy individual needs. For example, the number of part-time employees is minimised, but at DkA 20% of employees are temporary due to nurses' own requirements for reduced hours. DkB has fewer temporaries but staff commonly work overtime for higher pay, and hours are managed very flexibly to employees' benefit. The case studies are regarded as relatively attractive workplaces for employees within the hospitals. This was confirmed by the positive assessments of the working environment in surveys of employees, particularly in DkB. Employee assessments of the physical work environment at DkA were significantly less positive, probably because of dissatisfaction with old facilities, whereas DkB employees worked in new facilities where they had contributed to the design. DkB is also a highly specialised unit.

OHS responsibilities are well organised within each hospital as a whole, where considerable expertise can be drawn upon. In DkA the OHS and cooperation committees function separately, but the latter deals with psycho-social issues. In DkB a joint committee is used. These committees are active and effective, with employee representatives also sitting on higher level organisational committees. In addition, middle managers regularly engage with individual employees, and each ward has meetings at least weekly for all employees present on the shift, with work issues discussed with middle management, and where necessary, followed up by the cooperation committees.

### ***Aged Care Facilities - NZ***

One facility was in a small city or town, and the other in a small rural town. Both organisations are run by charitable trusts and overseen by a board of trustees, with a general manager in charge of the facility. The general managers in each organisation are women who are registered nurses with 20-30 years' nursing experience. The organisations are similar in size employing 75-80 employees, with employees predominantly female and employed as caregivers. NZA employs a greater percentage of registered and enrolled nurses than NZB, which has a greater percentage of managerial roles. The managers themselves differ in that at NZA she had recently completed her first year at the organisation, and was in her first general manager position. She had also been a union delegate previously and clearly supported unions, which enjoy coverage of about 70% at this workplace. The NZB manager had been the general manager of the organisation for 11 years, and made no mention of union affiliation. The level of unionisation here is less than 50%.

Both organisations' OHS committees predate legislation requirements in NZ. They are subject to external accreditation for funding from the public health system. Furthermore, both organisations are involved in an external audit by the Accident Compensation Corporation and for this receive a discount on their employer levies. These external factors seem to play more importance in the formation of the OHS committees than legislation. They also reinforce a focus on accident reporting and hazard notification.

In NZA the OHS committee comprises staff representatives from each department, the general manager, a maintenance worker (who also had OHS tasks in his position description), and two employees on the committee as part of their jobs. Most staff committee members have been long term, and newer staff members may not be aware that representatives are required to be elected by staff. A standard agenda is used for monthly meetings. Representatives report on incidents that occur in their departments, and other issues that arise. Each representative is readily identified by a green name badge, and names and photos of OHS representatives are displayed on a staff noticeboard. The manager chairs the meetings, but is not heavily involved as she is occupied with establishing herself in her role of general manager. This enables the committee to be reasonably autonomous. Committee members receive regular training with an external provider. The main forms of communication between the committee and other staff are via staffroom noticeboards, where minutes are posted, some reporting back to departmental meetings, and a biennial health and safety week with activities designed to raise awareness of OHS. Employees generally are proactive in reporting incidents and potential hazards, and also in following the reports up if action is not taken in a timely manner. Survey respondents indicated a high degree of satisfaction with how the OHS committee dealt with issues, and its timeliness in resolving them.

The general manager operates an 'open door' policy and staff frequently come in and out of her office with questions and comments about operations. The main forms of communication from management are full staff and departmental meetings, memos, departmental communications books, noticeboards, and the general manager sees the union as one form of communicating with employees. The general manager assesses employee decision-making as problematic, but only because the employees lack the confidence to make decisions on their own. The manager indicated that she does not see herself as the sole organisational decision-maker, and this inclusiveness in decision-making was confirmed by a OHS representative who was also a union delegate. Employees surveyed responded positively regarding influence on work and information from management, as well as the effectiveness of representative structures.

NZB's OHS committee also comprises representatives from each department, including one night shift representative. Members are generally nominated and then elected by staff at an

all staff meeting. There is an element of shoulder tapping, generally when no-one has come forward to be a representative, but survey respondents indicated that this occurred often. The committee is chaired by the facilities manager who sets the agenda and provides overall direction for the committee. The key direction of the committee is really set by the management team comprising the general, HR and facilities managers. Employees enjoy being OHS representatives because of the opportunity to learn new things. They are provided with training by an external organisation, although this does not always occur on an annual basis. However, representatives are accountable to the management team, and policy changes that are implemented on the committee's recommendation must be reported on and reviewed in order for them to become permanent. The facilities manager also mentioned employees' complaints about lack of follow-up on items they had raised. Communication with employees is via minutes available in the staffroom and reporting back to departmental or team meetings. Employees surveyed indicated a high degree of satisfaction with the resolution of issues brought before the committee, and its timeliness in doing so, but some were not certain that an OHS committee even existed.

Employees may take several channels if they wish to change their working conditions, including a JCC. One direct means is via a form, which may be anonymous, identifying the issue, how it can be resolved and who will benefit from the changes. Quality circles have also been formed to resolve issues that arise with work processes and environment, and these have been initiated by employees. Nevertheless, interviewees' comments suggest that the emphasis of employee participation is on communication rather than joint decision-making, and with the intention of enhancing the efficiency of work processes. While employees can initiate quality circles, or suggest changes to the work environment, and these are often implemented, there is a sense of all decision-making being deferred to the management team, and employee participation is more about consultation and feedback. Survey respondents indicated a high degree of consultation over change, learning possibilities and information from management. However, most survey respondents thought that JCC representatives were chosen by management, and although they expressed a high rate of satisfaction with how issues were dealt with by the JCC, they frequently did not think this occurred in a timely manner.

### ***Food manufacturing - Denmark***

The Danish companies are relatively independent units of larger corporations, one manufacturing bread and the other confectionary. Both factories have highly automated production lines where work consists of supervising, maintaining, and feeding the lines, and packaging product. Around half the workforce are skilled trade workers although their wages are not significantly higher than unskilled employees.

In the first (bread) case, DkC, almost all employees are men, partly due to the physically demanding character of the work. Production occurs for 24 hours, seven days a week, based on shifts. DkD is situated closer to a larger city with low unemployment and half the workforce is women. Here the work is based on three shifts during five days, while only a little production is carried out during the weekend.

Work in both cases is organised in teams. DkC teams are based on shift and production line, whereas in DkD they are based on a newly implemented structure allocating new functions. DkD has also implemented lean production concepts.

Almost all employees are unionised and covered by collective agreements providing for elected shop stewards. They are also covered by the general private sector cooperation agreement, which provides for workplace cooperation committees. Both companies operate well-organised OHS committees with elected employee and management representatives, quarterly meetings and updated workplace assessment reports as required by legislation. DkC's participation policy is within the bounds of the formal regulatory requirements of

legislation and the collective agreement. However, DkD has attempted to a greater extent to utilise participation practices to motivate employees for increased productivity.

Management is concerned with employee well-being in both cases, especially because low unemployment at the time that fieldwork was undertaken made it important to maintain attractive workplaces. However, the experience of the work environment is markedly different in each company. Despite physically more demanding work, a higher accident rate and more shift work, DkC employees assess their physical and psycho-social work environments consistently more positively than DkD employees. Less than 15% of employees in either workplace assess their work environment as 'bad' or 'very bad', but DkD employees indicate high workload issues to a significant degree.

Neither group of employees assess their influence on the work environment highly, directly on the job or through representatives in union, cooperation or OHS committees. Lack of influence is notable for workload, although DkC employees experience more influence over work speed.

### ***Food manufacturing – NZ***

Volume constraints and a tight labour market create pressures for food and beverage production growth in NZ. These pressures create a requirement for constant improvements to production efficiency each year; and more effective skills and labour systems that deliver higher productivity and better pay and conditions of employment (Food and Beverage Taskforce, 2006). The food manufacturing companies studied exhibited significant differences. NZC is a New Zealand owned bread manufacturer. The workforce of 65 is of diverse ethnic origin, including Asian, Maori and New Zealand European and Pasifika staff. NZD is a foreign owned subsidiary, which manufactures a range of quality food products. Around 1,900 people of various ethnicities are employed, of which 350 are casual.

In both food manufacturing workplaces the surveys showed that employees are commonly asked to work overtime and feel worn out from work. However, NZC employees report these trends more frequently, as well as exhibit greater frequency of stress, being in emotionally distressing situations and high workloads, than respondents from NZD. Job satisfaction levels are not surprisingly lower at NZC.

Surveys indicated a significant, but mixed, degree of direct participation at both food manufacturing workplaces, but representative employee participation varies more. At NZC there are no union members, and staff mainly work individually or in pairs rather than in larger teams. At NZD approximately 70% of staff are union members, and a strong team structure operates in each department with compulsory team briefings for all staff. Apart from unions, employee representation at both food manufacturing organisations occurred through OHS committees as well as social committees, cross-departmental exchange committees and customer oriented quality committees. OHS committees included management and employee representatives, the latter from different departments as a means of improving cross-plant communication, although at NZC the committee was numerically dominated by management. Employee representatives were chosen primarily on the basis of job position rather than through election by employees. This tends to limit representativeness and accountability.

Due to its larger size, NZD has departmental committees as well as a site committee, which meet monthly. All OHS monthly results are fed back through team briefings as well as the noticeboards. Communication between NZC OHS committee and staff is more top down, principally through newsletters. The primary focus of both committees was hazard monitoring and OHS incidents, but they also confirmed management expectations in engaging strategically. Responsiveness and engagement of the OHS committees can in part be measured by the frequency of issues being taken to them and the length of time taken to resolve them. Only 31% (n4) of NZC survey respondents had raised an issue for the committee in the past, with half of these considering they had been dealt with satisfactorily



and with an immediate resolution. At NZD 53% of survey respondents had raised an issue for the committee in the past, with 67% gaining resolution within a month.

As with the OHS committees, there is evidence that NZD participative practices were more structured and effective through JCCs. NZD has multiple JCCs at departmental level. Only half of NZC respondents recognised the existence of a JCC, and only half of those who had taken an issue to the JCC at NZC considered it had been dealt with satisfactorily, compared with 80% at NZD. In both cases quality committees were more temporary because they were concerned with specific production issues.

### ***Schools – Denmark***

The two schools are located in villages on the periphery of a large municipality. DkE is a small school covering the first six classes (equivalent of primary in NZ), with only 15 teachers. DkF is larger, covering all public school classes (up to 10<sup>th</sup> year, equivalent to NZ primary plus junior high school) and employing almost 60 teachers.

Danish public schools are administered by the Ministry of Education, but managed by municipalities and school principals. Working conditions and pay are determined by national collective agreement, supplemented by local agreements on extra payments and allocation of working time. The vast majority of teachers are unionised. Teachers are covered by the public sector cooperation agreement, providing for union delegates and cooperation committees, and by legislation requiring OHS representatives. Cooperation and OHS committees operate at school and municipality levels.

Principals are legally required to manage in cooperation with employees through representative forms of participation. This underwrites negotiation rights over working time issues for union representatives, and the cooperation committee is entitled to 'receive information and discuss all issues of significance to working conditions and employment relations', and to 'codetermination in defining principles for the organisation of work and personnel relations' (KL & KTO 2008). Without agreement, however, management decides.

Traditionally teachers enjoyed a high degree of direct participation and influence in decisions relating to their work. However, work demands have increased as job autonomy and social status have declined since the 1990s, and principals and school boards (with teacher and parent representation) have taken more powers of regulation. Performance measures for schools and teachers, individual pupil education plans, and national standards have been introduced. Teachers experience comparatively high levels of workload, stress, exposure to physical violence or threats of violence, and a lack of possibility for professional development (Christiansen 2007).

At DkE the principal and union representative expressed satisfaction with the school's functioning and employee well-being, although they were aware of rising demands on schools and teachers. Survey responses were consistently positive regarding work environment, which seems above average for teachers. At DkF the principal and employee representatives also referred to increasing demands. In 2007 the school experienced staff and budget reductions. Only 41-46% of teachers surveyed rated their physical or psychological work environment positively, although 56% did so for total work environment. About a third experienced high workloads and stress. These trends are confirmed by the Workplace Assessment.

DkE's principal and union representative are committed to democratic governance where all important work issues are discussed and resolved consensually. The principal believes that this strengthens teachers' engagement and higher quality decision-making, and the union representative claims that teachers 'want to take part in decisions'. Class-teams of two teach most disciplines required for classes, and partly subsume individual autonomy. After allocation of tasks the teams are completely autonomous regarding methods and content. Individually teachers may influence their work situation through annual appraisal and

development meetings with the principal, where requests for further training or teaching materials have a high chance of being met. Collective direct participation is institutionalised in weekly meetings of staff and various committees where the budget, the school quality report, purchase and implementation of new technology, the school's Workplace Assessment, and individual cases regarding pupils and parents are discussed. The high level of direct participation is confirmed in the survey responses.

Representative participation at DkE is also highly developed. The cooperation and OHS committees mainly formalise decisions of the weekly staff meetings, and the union delegate is also the OHS representative. Both principal and union representative share a view that the school's participative practices have a positive impact on the work environment, with teachers exposed to fewer risks from increased demands.

At DkF the principal and union representative value employee participation, but younger teachers expect management to take decisions outside their immediate work area. There is an awareness of reduced job autonomy. However, individuals and teams enjoy considerable autonomy in deciding how teaching is done. Similar opportunities also exist in annual appraisal and development meetings as in DkE. Survey responses regarding direct participation were largely positive, although less so over influence on workload. In addition, although similar opportunities for collective direct participation exist as in DkE, staff plenary meetings are less frequent, and competence has shifted over time from these meetings to the principal and three department heads.

Representative participation is well structured at DkF. The union representative is vice chair of the cooperation committee that meets every second month, and a member of a sub-committee dealing with working conditions and budget, and meeting weekly. The OHS committee normally meets 4-5 times annually, and monitors the Workplace Assessment. In 2007 it met more frequently because of many reported psycho-social problems and developed an action plan to combat stress.

The principal and employee representatives at DkF are committed to employee participation and believe that it is a positive factor for the work environment. However, this has not prevented notable psycho-social problems. Comparison of survey responses between the two schools also indicates that DkE teachers experience more influence on how they do their work, are better informed and experience more influence through channels of representative participation than DkF teachers.

### **Schools – NZ**

Both cases are co-educational state secondary schools. NZE is in an Auckland suburb with over 1000 students and 60 teachers. NZF is located in a small town near Auckland, with 650 students. Both schools are highly unionised.

General employment conditions are nationally determined in schools, and have been subject to similar demands recently as those in Denmark. However, different work environments operated in the two case studies. NZE survey respondents were far more likely than those from NZF to assess the safety and comfort of their working conditions positively. NZF survey respondents were more likely than those from NZE to experience high workload, feel tired or experience emotionally distressing situations. These different QWE outcomes were associated with different management styles.

Each school has a number of joint management-employee forums, including staff and department meetings, although the range was greater at NZE, where management is committed to participative decision-making and staff had designed policy relating to timetabling and class size. NZE and NZF teachers are represented on the Board of Trustees. NZF is more management led, with the most important forum being the management team, and other meetings were management-initiated and consultative, rather than decision-making forums. NZF survey respondents were less likely to feel they had

influence on their work environment than their counterparts at NZE, where respondents indicated a high degree of engagement and satisfaction with the JCCs, although there was a strong belief that employee representatives were chosen by management or volunteered, rather than being elected by employees. NZF employees responded much more negatively across these dimensions.

NZE experienced significant employee dissatisfaction with management five years ago. The issues were resolved eventually through a hazard notice being lodged under the HSE Act, and this may have produced a bias towards the OHS committee as a means for dispute resolution. The OHS committee at NZE was seen by the principal as an employee body, and he was unaware how representatives were chosen. The committee's agenda is set by employees and it is chaired by the union branch chairperson. He considered that the committee was more influential as an employee group than the union in that school, and that employees take matters to it before the union. Union training for employee representatives had been accessed, and email assisted communication. Most survey respondents, however, considered that employee representatives volunteered, which is in breach of the HSE Act.

No-one at NZF had a clear idea of the role of its OHS committee, and it was not a functioning part of the school's participative processes. The principal spoke of it as an ongoing committee, but one member stated that it had not met for years, and a third of survey respondents indicated that the OHS committee did not communicate with staff. The chair is a member of the management team and a unionist, who considered that OHS issues were dealt with satisfactorily in the school but not by the committee. Members of the committee were unaware that they could access training, and a quarter of survey respondents were unaware of school OHS policy. NZE survey respondents indicated a high degree of awareness of, and engagement and satisfaction with their OHS committee, whereas NZF employees responded very negatively to these issues.

### **Quality of Work Environment**

Table 2 provides summary survey results for each workplace for QWE. The two highest scores in each dimension are highlighted. DkB, one of the Danish hospital wards, has the best work environment according to employees, and NZB, one of the NZ aged care facilities, ranks second. However, all four health sector workplaces score highly, with NZ workplaces ranking higher for total work environment, and Danish workplaces ranking most positively for workload and stress. One NZ school (NZF) ranks lowest for QWE, because of a very low score for workload and stress, where the other NZ school also ranks lowly. These trends indicate industry-wide factors. Internationally, teachers report very high levels of stress and low job satisfaction in surveys (Markey et al. 2001: 137-38), and it was also evident in the qualitative evidence for one Danish school. High QWE scores may also be associated with the general attention to health issues in the health sector. Within two industries there are also clear workplace trends: one workplace in each of schools and food manufacturing sectors for each country consistently scores more highly than the other for QWE.

**Table 2. Quality of work environment**

Workplace	Total work environment	Workload & stress	QWE index	No.
Hospitals/aged care facilities	DkA	25.8	27.1	93
	DkB	33.0	<b>32.3</b>	37
	NZA	<b>35.0</b>	29.6	6
	NZB	<b>33.3</b>	<b>29.8</b>	19
Food Manufacturing	DkC	26.2	26.8	66
	DkD	22.3	21.9	53
	NZC	22.5	19.9	13
	NZD	27.5	24.9	17
Schools	DkE	29.0	28.5	10
	DkF	24.4	24.2	41
	NZE	32.0	23.8	23
	NZF	24.2	17.8	26

### Direct Participation (DP)

Table 3 summarises survey results for each workplace for each dimension of direct participation, with the two highest scores in each dimension highlighted. These results are more mixed than for QWE. The highest ranking overall index scores were attributed to one Danish hospital ward (DkA) and one Danish school (DkE), but other Danish and NZ workplaces in these sectors scored well in most categories. In the overall index for direct participation all four food manufacturing workplaces ranked lowly, which again may indicate industry characteristics. The health and education employees were professionals or para-professionals whose work offers greater opportunities for direct participation than in manufacturing.

**Table 3 . Direct Participation**

Workplace	Influence work load	Influence work arrangement	Information from mgmt	Learning possibilities	DP index
Hospitals/aged care facilities	DkA	29.5	27.6	<b>34.9</b>	<b>28.5</b>
	DkB	27.7	27.7	33.1	27.6
	NZA	<b>31.7</b>	<b>30.0</b>	26.7	27.1
	NZB	27.9	<b>31.1</b>	<b>34.2</b>	28.2
Food Manufacturing	DkC	20.2	20.3	17.7	18.4
	DkD	23.0	16.4	24.2	20.2
	NZC	27.5	16.2	27.7	23.8
	NZD	26.9	22.4	20.6	22.2
Schools	DkE	31.0	<b>30.0</b>	29.0	<b>28.5</b>
	DkF	29.3	19.8	29.0	25.6
	NZE	27.4	24.8	31.3	27.1
	NZF	<b>31.9</b>	25.0	29.6	26.7

### Conclusions

Table 4 summarises the results by ranking workplaces for DP and QWE, and allocating workplaces to different ideal types of representative participation. The workplaces are ranked in order of their QWE scores.

The results show a high correlation between representative participation type and both DP and QWE rankings. Four of the top five ranked workplaces in terms of both QWE and DP are classified democratic for representative participation. This indicates a high degree of correlation between QWE and both forms of participation, as well as significant correlation between DP and REP themselves. In addition, in both Denmark and NZ the schools classified as democratic ideal types for REP were also ranked higher for both DP and QWE than the schools classified as formal regulatory. These results indicate significant confirmation for our original hypothesis, that effectiveness of employee participation correlates positively with QWE. Further, the results confirmed that the correlation between these two variables tends to be stronger where the depth or range of employee participation is greater. This was also confirmed at a national level, with Danish workplaces occupying four of the top six QWE rankings out of 12, and having the highest ranked workplace for QWE in each industry sector: even where Danish workplaces are classified as formal regulatory ideal types for REP, their range of employee participation is greater, and this correlates with QWE rankings.

However, whilst participation plays a critical role, it appears that some other factors do also. One seems to be industry sector. Health sector workplaces occupy the top three and fifth rankings for QWE. Furthermore, NZB is the only case of high QWE ranking with an ideal type of REP that is not classified as democratic (HRM), although even in this case DP is ranked highly. We have noted that the health industry is likely to be focussed on health issues associated with QWE. At the other extreme, three of the four schools are ranked lowly for QWE. The exception is DkE, which is also ranked first for DP and is classified as democratic for REP. However, NZA which is also classified as democratic for REP and ranked quite highly for DP, is still ranked lowly for QWE. We have acknowledged changes in schools in both countries that have contributed to high levels of workplace stress, and it seems that participation cannot always overcome such industry trends. Secondly, in the case of both health and schools, we have referred to the professionalism of the workforce as a contributor to relatively extensive REP and DP in most cases (4 health; 2 schools). Thirdly, the relative importance of REP and DP impacts on QWE outcomes may also be an issue. We have only one instance where there is a clear disparity between the two forms of participation: one NZ aged care facility (NZB) is classified as HRM for REP type, but ranks very highly for DP and QWE. This suggests that DP was more important in determining QWE, especially since the only other HRM classified workplace for REP, a NZ food manufacturing plant (NZC), was ranked lowly for both DP and QWE. However, the sample is too small to draw strong conclusions here, and it is difficult to disentangle different variables relating to participation and industry sector. As this case indicates, the results are likely to have been affected by workplace specific factors. These complexities warrant further examination.

**Table 4. Summary of results**

<b>workplace</b>	<b>Representative participation type</b>	<b>DP rank</b>	<b>QWE rank</b>
DkB hospital	democratic	4	1
NZB aged care facility	HRM	3	2
NZA aged care facility	democratic	5	3
DkE school	democratic	1	4
DkA hospital	democratic	1	5
DkC food manufacturing	formal regulatory (a)	12	6
NZD food manufacturing	hybrid HRM/formal regulatory	11	7
DkF school	formal regulatory (a)	8	8
NZE school	democratic	5	9
DkD food manufacturing B	formal regulatory (a)	10	10
NZC food manufacturing	HRM	9	11
NZF school	formal regulatory (b)	7	12

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# Participation and codetermination among Norwegian employees – state of the art 2009

## Union members and non union members compared

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### 1 Introduction

Norwegian work life is known to be democratic and consensus seeking and to have strong employee rights to participate and codetermine in the planning and running of the work place and the business. Participation, collective bargaining and consensus among the social partners are assumed to contribute to work place productivity as well as national economic growth. In this paper we describe the status quo of democratic work life arrangements of today, their distributions and varieties and how they work. We intend to contribute to the understanding of work place democracy by comparing organised (unionised) employees with the unorganised, and comparing those who are in work places with collective agreements with those who are not. We ask this research questions;

*Do unions matter in the establishment and practice of democratic arrangements at the work place?*

This question is to be analysed by comparing employees who are union members by those who are not. The analyses are based on a survey in a representative random sample of Norwegian employees and managers undertaken the spring 2009.

“Democratic arrangements” are defined according to laws and agreements as:

- H&S (health and safety) employee rights, H&S-officers
- Work environment committees (WEC)
- Employee representation in boards
- Rights to be informed
- TU reps (shop stewards and representation at different levels)
- Company councils, department councils, negotiation councils (TU reps)
- Rights to participate, codetermine and to information and discussions about changes
- Collective bargaining rights and collective agreements

About halve of the Norwegian work force is organised, and about 3 of 4 are covered by a collective agreement on wages and working conditions (Falkum et al 2009). Democratic work life arrangements are institutionalised over a long period of time, and as such they should be well known by the work force. This makes it reasonable to use Norway as a case for analyses of the research question.

## 2 Methods and data

We analyze data from a representative national survey on democratic work life arrangements in Norway conducted in February 2009 on assignment for the Ministry of labour and inclusion (Falkum et al 2009). The purpose was to give a report on the status quo of characteristics and levels of democracy in the Norwegian work life.

Fafo has built knowledge and competencies in this research field for decades (Neergaard & Stokke, Dølvik, Stokke, Seip, Trygstad 2004, Falkum 2008, Hagen 2010). This knowledge is a base for, and is reflected in the design of the project, its studies as well as the analyses presented.

Two methods were used in the project. First we made qualitative interviews with shop stewards and managers in 30 work places in public and private sector. Some of them had no collective agreement and their employees were not organised. However, in the recruiting of work places to participate in the study we got strong indications that “the worst cases” denied to participate. Those were small private enterprises where we assumed management either to be against unions and employee representation or to perceive the study as some sort of control that might jeopardise them. The interviews were used to design the quantitative survey, to illustrate analyses of quantitative data and to help understand findings.

Secondly; we made a randomised representative survey among employees and managers. This is the main data in the following analyses. The survey was partly based on previous surveys in 53 different work places in altogether 12 large corporations and public services (Falkum 2008). Questions from these work place studies were adapted to a national survey. The interviews in the 30 work places were also used to design questions. The survey contained 39 main question batteries with altogether 323 variables. A survey sample of 8000 persons was drawn from the national employee – employer register by the Statistics Norway (SSB) who also conducted the technical administration of the survey and finally delivered the statistics to us (SPSS file). The questionnaire were distributed by the national mail system directly to each member of the sample and returned directly by mail to Statistics Norway in ready addressed and stamped envelopes. The net sample of answers was 3362 in the end. This is controlled and found representative for Norwegian employees (included managers) along variables like gender, age, education, sectors and industries and so on. It is compared with samples in several other major surveys like AKU (Arbeidskraftundersøkelsen), Levekårsundersøkelsen (living conditions), both periodical surveys conducted by Statistics Norway, and a major HAS-survey conducted by Fafo in 2007 (Bråten et al 2008). The net sample of our survey is statistically representative and well fit for analyses (Falkum et al 2009). The analyses are all made by the authors in collaboration.

The survey was obtained in the spring of 2009. The financial crisis was at its peak, and the pessimists forecasted 8 – 10 percent unemployment in the end of 2009 (Professor Salvanes, Aftenposten). This is taken into consideration in the analysis, albeit the impacts of the crisis on employee survey answers are hard to define and measure without data obtained at different periods of time.

## 3 General findings

Market liberalism was renewed by Milton Friedman in the beginning of the 1980s. This was soon adapted and implemented in political regulations in various ways in most countries in the western sphere. In England it gave heavy governmental attacks on the unions, recognized as “Tatcherism”. In Norway finances were deregulated and liberalized in ways that ended in recession in the late 1980s. EU extended the free float of labour, especially from 1994. None of the famous organisation management concepts from the 1980s and 1990s included unions,



stewards, codetermination or collective agreements as concepts, actors or conditions for successful implementation (Andersen 2003).

The internationalisation, and later on the globalisation of economies reduced the influences and powers of unions by some employers like Rupert Murdoch, and by right wing politicians, at least in some countries. The new “truths” and their regimes, regulations and prescriptions were perceived of as threats and powers that in worst case would dismantle the labour movement completely and wipe out interests that was struggled for since long (Standing 2010).

Whether unions, collective bargaining and employee participation have effects on business performance is discussed in numerous articles (Arthur 1994, Perotin & Robinson 2000, Addison & Belfield 2001, Freeman et al 2001). Kvinge & Grimsrud (2006) found the results on these research questions inconclusive in their literature review. Variables in the different models are hard to define, make operational and measure in comparable ways across businesses, regions and nations. The question of connections between work place democracy and productivity has no final answer. However, this debate also relates to different perspectives on work place democracy. HR (Human Relations/Human Resource Management) perspectives support the idea of employee participation (Graham) and direct individual influence on work situation and relations (Gustavsen et al, Levin et al 2002). IR (Industrial Relations) perspectives support institutionalised labour rights and representative and indirect democracy in work life and at work places (Dunlop, Stokke, Dølvik). Goddard & Delany (2000) concluded that the HR perspectives seemed to out concur the IR perspectives. Thus the debate seems to conceive of HR perspectives as opposing IR perspectives or the two kinds of arrangements to be incompatible.

In Norway the democratic arrangements at the work places have been carried and supported as codes of conduct by large industrial companies like Norsk Hydro, Norske Skog, Statoil and also by Norwegian parts of multinationals like Siemens since the 1940s and 1950s. The roles of these large corporations change as the globalisation of economies expands. The public sector has taken over as main carrier of democratic work life institutions and practices. Trygstad (2004) analyse and discuss democratic arrangements and processes in public sector. Hagen (2010) analyse and discuss relations between corporate governance and industrial relations in corporations. Together (Hagen & Trygstad 2007) they find the debate on HR and IR somewhat misleading and conclude that IR arrangements most likely will support HR arrangements, and not concur them. This is further discussed in the final part of the paper. The general findings of our survey, however, support their assumption.

### **A stable regime of labour regulations**

In 2009, almost thirty years after “new market liberalism”, we would expect to find it’s tracks as a liberalisation of labour regulations and workers rights. Our survey shows, however, that 91 percent of managers and 93 percent of employees mean that it is “most important” that labour laws and collective agreements are recognised and obeyed at the work places. These laws, agreements and formal regulations have undergone only minor changes since the 1970s (Falkum 2008). The democratic arrangements and regulations are, in other words, strongly supported by a large majority. The position of the unions and TU reps seem to be stable and only minor harmed by the globalisation so far, even though the share of unionised employees are reduced by five to ten percent since the mid 1980s. The employment rates have increased in the same period, and we have had the same transfer from industrial to service related occupations as in most other countries. That will explain some of the drop in unionisation. 92 percent of employees in public, and 55 percent in private sector were covered by collective agreements in 2007 (Bråten et al 2009), and 93 percent in public and 52 percent in private in

2009 (Falkum et al 2009). Neergård & Stokke (2010), using register data, shows that 63 percent of all employees were covered by collective agreements in 1998, and 59 percent in 2008. The studies altogether show stability in the labour regulation, despite decline and different methods and measures in the three reported studies.

### **Democracy by law or by agreements?**

A rather clear frontier is normally drawn in Norwegian work life between participation and codetermination that are legitimated by legal acts or collectively bargained agreements (Trygstad & Hagen 2007). Analyses of labour history show that the government normally promotes legal acts as best means to regulate labour relations, that employers associations prefer agreements for laws and that the labour union (LO) have been more pragmatic to the two different ways to legitimate rights and obligations (Falkum 2008). The social partners, politicians and labour researchers have all assumed that the way arrangements are legitimated is crucial to the way they diffuse, are organised and work. It seems to be less important at the work places. Both managers and employees are rather pragmatic to the formal bases for the arrangements. How they are practiced and contribute at the work place seems to be more important.

### **Distribution of democratic arrangements**

Despite the overwhelming support to the democratic arrangements, they are not fully implemented to the extent they should;

- 2 of 10 work in work places that should have HAS-stewards but have not
- 2 of 3 should have H&S committees, but have not
- 1 of 3 has company boards (BU)
- 2 of 3 practice the rights to board representation in private sector, everyone in public sector
- 1 of 6 has reps in corporate councils (konsernutvalg)
- 1 of 20 has European Works Council (EWC)
- 8 of 10 participate in management – employee gatherings
- 8 of 10 have individual employee - management consultations (medarbeidersamtale)

These are average measures. There are lots of variations from one work place to the other. However we find only minor and insignificant differences between industries, sectors, size (number of employees), age, gender or education (Falkum et al 2009). However, if one of the arrangements is established it is more likely that you have several. 1 of 6 works in work places with none of the described democratic arrangements, 4 of 10 practice all of them. And some of the work places have organised free willing arrangements that are not defined or described in either laws or agreements.

Despite the lacking practice of HAS arrangements prohibited by law, the multiple democratic arrangements are established to a rather great extent and they are in use, as we shall see.

### **Use of the arrangements**

In the survey we listed 27 different issues that are assumed to be handled in some kind of employee management relations. We asked the respondents to mark what kind of issues that was handled in the different cooperative arenas at the work place. We found that

- An “average” HAS committee handles 15 of the 27 issues and only insignificant differences across sectors and industries

- The larger the work place (number of employees), the more issues handled by HAS committee (only numbers for private sector)
- Direct participation and employee consultations (medarbeidersamtaler) are the arenas where most issues are handled first
- HAS stewards are more important at the largest work places than in the smaller
- Shop stewards (union reps) are the most wide spread and most used arrangement
- The handling of the different issues in democratic arenas influences the results to a “medium degree”, but more on HAS issues
- The communication between the social partners at work place level is mostly informal
- On average managers and shop stewards spend 5 to 9 hours a month on local industrial relations

The democratic arrangements are in use and matters in the handling of issues of concern for labour processes and employee - management relations. Democracy is at work on individual as well as collective levels at the work places. The disputes on the importance of HR over IR among the social partners, labour researchers and labour politicians are not reflected on work place levels. On the contrary; employees and managers seem to relate to HR and IR in a pragmatic way. The point is not where democratic arrangements came from or how they are legitimated, but how the work in order to realize the interests of employees as well as management. This supports Trygstad & Hagen's (2007) assumption that the controversies between IR and HR perspectives and agents are exaggerated. At work place level this debate is of minor relevance.

### **Some organisational impacts of work place democracy**

The survey shows that the legitimacy of management is highly correlated with the cooperative climate at the work place (0.68\*\*). Legitimacy is defined by the respondents' perceptions of managerial performance. Cooperative climate is defined as respondents' perceptions of human and industrial relations at the work place.

We found a significant correlations between three different forms of employee influence and organisational clarity (0.19\*\* - 0.38\*\*). The respondents influence on “their own work situation”, “the organisation of work” and “the governing and management of business” were significantly correlated with a “clear distribution of responsibility, tasks, decision-making, information and resources”. The more democratic distributions the more influence and vice versa.

In the same ways we found that democratic arrangements and employee influence are positively correlated with their perceptions of effectiveness, ability to change and business performance at the work place.

### **Summary**

The analysis of the survey concludes that the formal regulations are highly accepted and recognised as such, but also that they are interpreted and practised in various ways. The formal rules and content in laws and agreements are less important than the dominating norm of employee and management cooperation. Employees and managers seem to use cooperation as a mode of conduct no matter what issue at stake. At work place level IR perspectives seem to be fully compatible with HR perspectives, and direct employee participation and union representation are to sides of the same coin. Norwegian work life is highly dominated by a culture of cooperation between managers and unions. (Falkum et al 2009). In the following we describe the differences between union members and unorganised employees. Do unions matter?

#### 4 Differences between union members and non members and collective and private agreements

Organised workers and union members are respondents who have joined LO (Confederation of labour unions in Norway), UNIO (confederation of unions for employees with education from universities and colleges), Akademikerne (confederation for organised employees with academic education), YS (confederation of occupational organisations) and other organisations. These are compared with those who are not members of any of the employee/labour organisations.

##### Some general differences

Lots of industrial plants and businesses are changed and modernised by technology. Businesses are restructured. New enterprises are raised and old ones are closed down. 100 000 employees are transferred from industrial production and the origin of labour unions to other industries/branches since the mid 1980s. The part of organised workers in the work force has not dropped accordingly, but it is of interest to explore what characterise the unionised employees with the non-members. Table 1 show some obvious differences.

*Table 1 Union members and non-members, employees with collective agreement and employees without, by some independent variables (percents)*

Characteristic	Collective agreement (n=2206)	Private agreement (n=636)	Union Members (n=2277)	Non-member (n=795)
Females	60	65	57	43
Above 40 years old	58	64	71	59
Work place with less than 50 employees	9	38	9	33
University education (1.& 2. levels)	45	43	48	40
Working part time	23	9	21	15
Have shifted job during the last two years	24	32	25	32
Living in central region (Oslo Akershus)	22	32	22	32
Private sector	36	93	39	83
Trade and sales related work	8	13	3	11
Industry, construction, mainten., oil & gas	9	22	11	18
Managers with responsibility for others	15	31	15	25

These are the most striking differences in work life connections between the four groups of employees. The non members and those with private agreements are more often males and they are younger than the union members. Non members and respondent with private agreements are more often to be found at the small work places. A larger share of the union members has high education compared to the non members. Non members and employees

with private agreements more often have full time jobs than the union members and those with collective agreement and they shift job more often. The share of non members that work in the central region is larger than the share of union members and those with collective agreement that works there. The parts of non members and employees with private agreement that work in private sector, sales and trade, industry, construction, maintenance and oil & gas are larger than those parts of the union members. The most significant of these differences is the fact that employees in small work places more often are unorganised and have private agreements than in larger work places. A larger share of non members has managerial responsibilities than among union members. This is an even larger part for those with private agreements, as expected. The unorganized work force differs from union members along these characteristics.

### Employees' perceptions of the work place

Most employee surveys on work place, industry or national levels show a pleased work force that supports their employer, business and management. Figure 1 explores differences and similarities in the answers from union members compared to non members.

*Figure 1 Union members and non-members by perceptions of the work place characteristics (percent og respondents who "agree/fully agree" in the statements)*

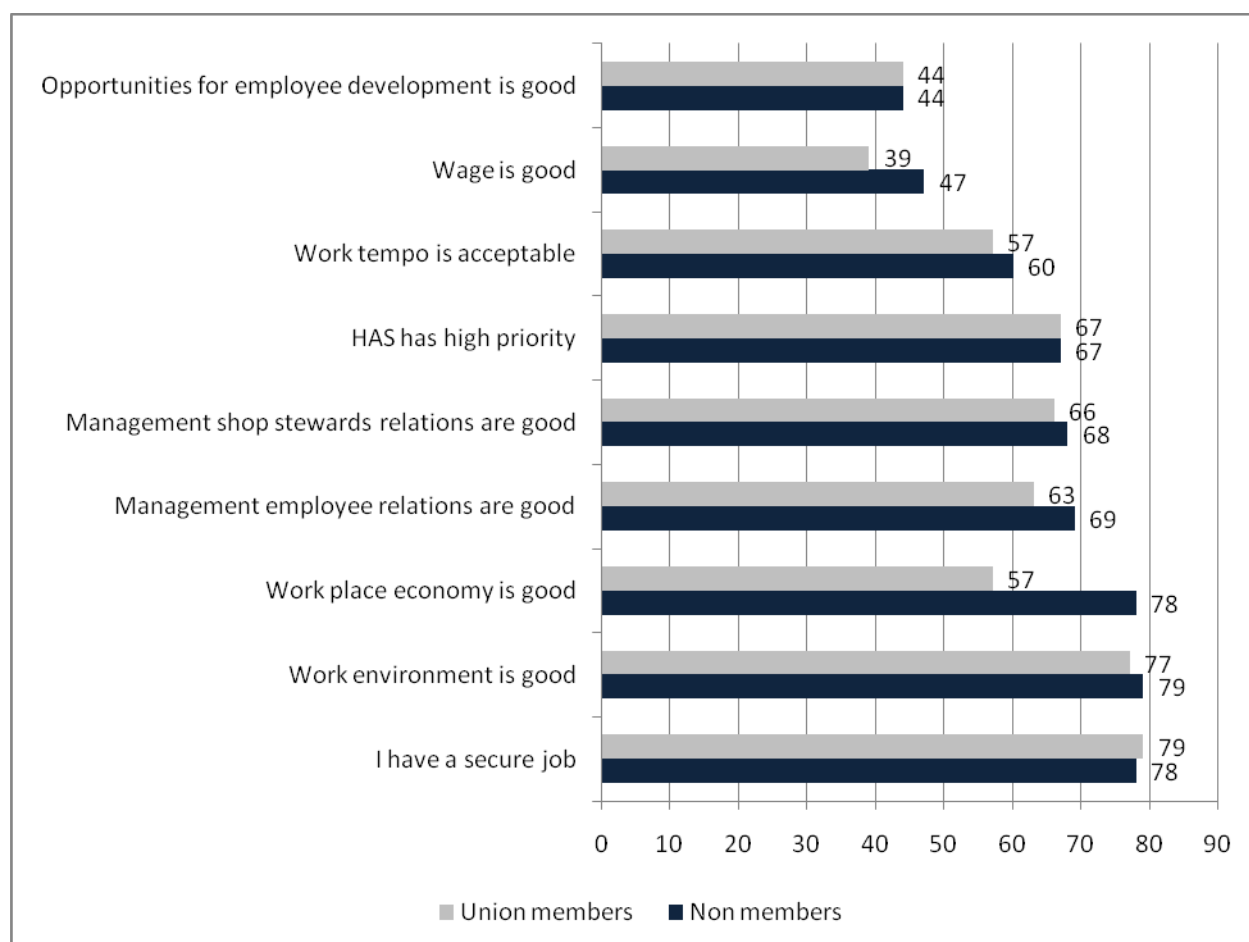
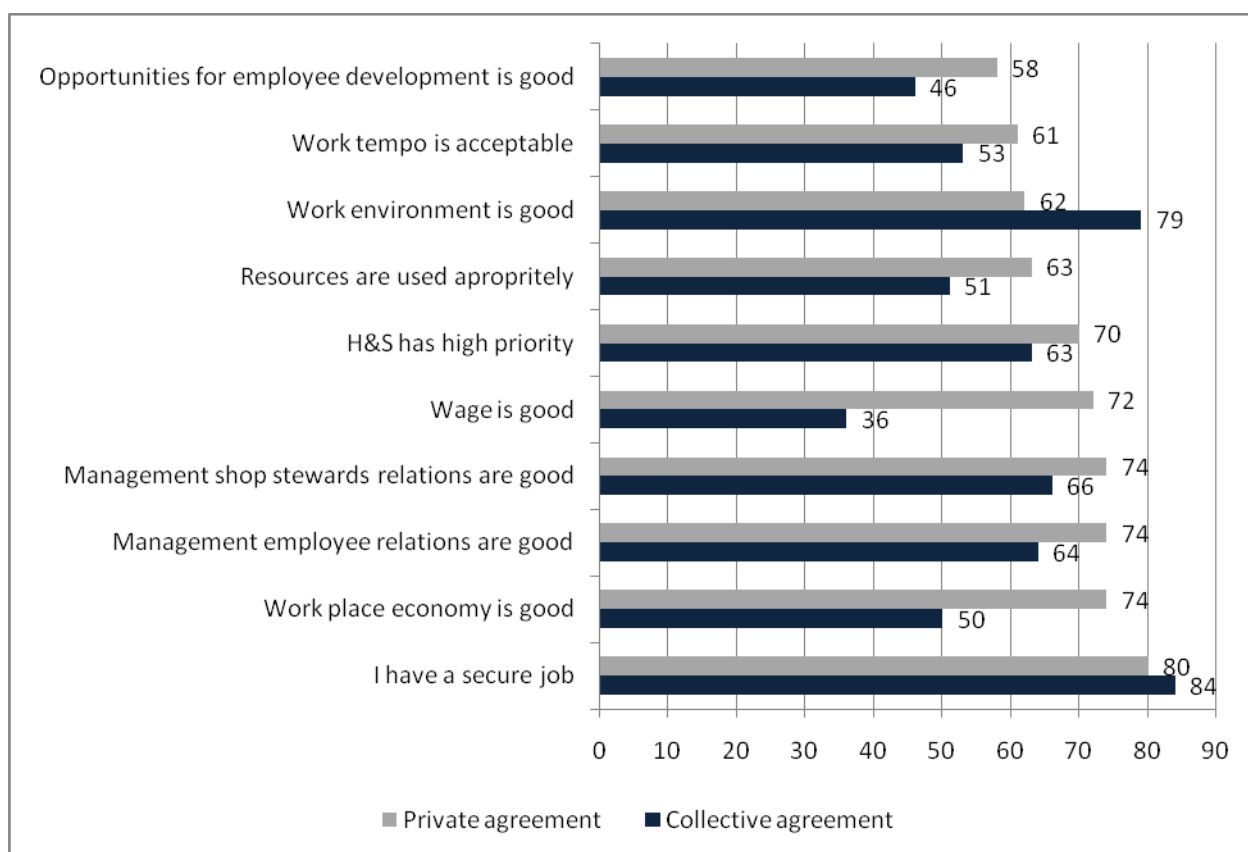


Figure 1 shows that the union members and non members have almost similar perceptions of the work place characteristics at hand. They differ significantly only on two of the variables; union members are much more negative to the work place economy, and they think the wages are too low to a greater extent than the non members. Unions are legitimated by fight for better wages, thus they are assumed to have more information about wage levels in comparable businesses as input for evaluations and opinions. Thus they are more concerned about the economic situation at the work place. In addition their representatives at company councils normally get continuous information about business performance. However, the similarities between the two groups are more striking than the differences. Figure 2 shows the same perceptions for those with collective agreements compared to those with private agreements.

*Figure 2 Employees with collective agreements and private agreements by perceptions of the work place characteristics (percent og respondents who "agree/fully agree" in the statements)*



Collective vs private agreement and wage formation seem to split employee perceptions of work place characteristics significantly. Those with collective agreements have better work environments, they are somewhat more secure on their job situation and they are less pleased with their wages and the business performance by far compared to those with private agreements. Collective agreements demand communication, shared information and collective debates about these issues while private agreements are handled in individual relations. Thus the conditions for developing perceptions, reflections and opinions in the two "spheres" are very different and will affect the respondents conceptions of their work places. This is assumedly reflected in the figure.

Comparing figure 1 and figure 2 it is reasonable to conclude that collective agreements create processes and structures that influence more on employee's perceptions, conceptions and attitudes than union membership alone. On the other hand; collective bargaining and agreements are the main means and tools of the unions. As we shall see; 87 percent of union members have collective agreements vs 34 percent of the non members. Comparison of figure 1 and 2 thus allows for a conclusion; collective agreements affect the understandings and opinions of non union members to resemble the understandings and opinions of the unions.

### Democratic arrangements compared

*Table 2 Access to democratic arrangements at the work place for union members and non members, and collective and private agreements place (Percents)*

<b>Democratic arrangements</b>	<b>Members (n=2277)</b>	<b>Collective agreement (n=2142)</b>	<b>Non-members (n=795)</b>	<b>Private agreement (n= 624)</b>
Collective bargained wages	87	-	34	-
H&S steward	87	87	74	77
H&S committee	67	66	44	51
Information and consultation	42	41	28	35
Employee comp. board reps	49	47	48	56
TU reps/shop stewards	88	87	64	70
Interest org./ union/ house com	87	86	45	51
Works council /BU	16	15	12	15
Negotiation council	33	32	13	18
Recruitment council	45	45	15	16
Corporate steward	24	22	15	21
Corporate council	12	11	7	11
EWC	4	4	3	3
Employee consultation	86	85	80	87
Employee/managem. conferences	84	84	82	79
Cooperative body without union reps	16	16	14	17

\*Respondents with education at university and college excluded

\*\* Union members: 48 percent answer that they don't know, non members 43 percent don't know

Some of the respondents are not union members, but have private agreements. Some are members but have no agreements. The column for "Private agreements" thus have both members and non members, while "Members" includes employees with private agreements.

The most striking observation is that non union members have less access to democratic arrangements than all the other groups, and that work places with private agreements seem to have established democratic arrangements in line with those with collective arrangements but on lower levels; significant for H&S committees, shop stewards, company and negotiation councils. And they score higher on board reps. They practice private agreements but have collective structures and democratic arrangements to get along.

The table compares union members with non members for access to democratic arrangements defined by laws or agreements. A majority of union members and 1/3 of the non members have wages that are collectively bargained. This is one of the main reasons for the existence of unions; to make employees have their just shares of value added in production. In this perspective it is surprising that as much as 34 percent of the non union members have collectively bargained wages. Some of them are certainly free riders; non members at work places with unions and collective agreements.

Controlled for education (48 percent of members and 40 percent of non members have education at university level) and for managerial tasks/responsibilities we find no significant change in access to democratic arrangements. We have also excluded union members in public sector to see if the scores would change. We found some significant differences between union members in private sector compared to members in public sector;

68 percent of members in private sector have employee reps at company boards, compared to 49 percent of all members. Board representation was first introduced in enterprises owned by the state, and then in shareholders companies by law in 1972. Public services and public administration are governed by political institutions and have different arrangements.

27 percent in private sector compared to 16 percent of all have works councils. The most surprising is the low percentage who has established works councils. Public sector has "administrative council" as an equivalent to works councils, and this may explain the difference.

24 percent of union members in private sector compared to 45 percent of all members have recruitment councils at the work place. This arrangement is significantly more present in public sector.

38 percent of union members in private sector and 24 percent of all members have corporate stewards, and 22 compared to 12 have corporate councils. 7 percent in private sector have European Works Councils (EWC) compared to 4 percent of all members, and 3 percent of non members. The rest of the comparison show no significant differences between members in private and public on the other variables in table 2. Except for "recruitment councils" all these significant differences are also significantly increasing the gaps between union members in private sector and non member's altogether. We would expect it the other way round since only 83 percent of non members are in private sector and that the exclusion of union members in public sector would close the gaps.

The table shows that the differences between union members and non members are smaller for legally legitimate arrangements than those that are based on collective agreements. The legal arrangements are universal for all work places with more than 10 employees (HAS Stewards), more than 50 employees (HAS committees and employee board reps). The differences between



members and non members on these variables are to some extent explained by the fact that non members more often work at small work places than union members (see table 1). On the collectively bargained arrangements (shop stewards and below till EWC) the differences increase relatively compared to the arrangements above.

On the four bottom arrangements (EWC to cooperative body...) there are no significant differences between union members and non members. These are participation arrangements that are anchored in managerial concepts as well as main agreements. Conflicts over these issues are scarce.

The union members have access to more democratic arrangements than non members, as expected. However, the table shows that non union members work in work places with democratic arrangements. A majority of them have access to HAS stewards, shop stewards and to employee management consultation and conferences, while almost halve of them have interest organisations/house committees/unions and board reps at their work places. This should be reflected in democratic participation.

### Participation

Participation is a firstly a question whether the different democratic arrangements are used and for what purpose. We have asked the respondents if they have brought up issues of work environment

*Table 3 The use of democratic arrangements in work environment matters by union members, non members, collective and private agreement. ("Did you raise work environments issues in some of the democratic channels?" Percent who answered yes))*

Channel	Members (n=2277)	Collective agreement (n=2142)	Non-members (n=795)	Private agreement (n= 624)
Managm./employee consulting	47	46	33	38
Directly with my leader	45	44	34	37
H&S officer	25	25	14	16
TU reps/Shop steward	26	25	9	15
Union/interest org/house com.	15	14	3	6
Work Environment Committee	9	9	5	6
Company council	1	1	1	1
In wage negotiations	6	5	3	4
Other party based channels	11	10	8	9
Board reps	4	3	3	5
Corporate steward	1	1	1	1

Union members and employees with collective agreements seem to use all the channels more than non members and those with private agreements. Some of the differences may be explained by the size of the work place. Small work places will have more direct communication that reach everyone more than in larger work places. Small work places will have lesser need for the formal democratic arrangements. We have already seen that non members and private agreements are to be found at the smaller work places. But the differences are significant also in the use of consulting and direct communication with leaders in favour of members and collective agreement. According to the size hypothesis the non members and private agreements should have scored higher than members and collective agreements.

Unions and collective agreements seem to encourage and strengthen employee participation in all channels compared to non members and private agreements. This is an important finding to be discussed in the final part.

We have asked the respondents about the major change at the work place during the last two years and how they participated and reacted to the situation.

*Table 4 How respondents participated in the implementation of the last decision of major change at the work place during the last two years, by union members, non members, collective and private agreements (Percent)*

<b>Participation in decisions about change</b>	<b>Members (n=2277)</b>	<b>Collective agreement (n=2142)</b>	<b>Non-members (n=795)</b>	<b>Private agreement (n= 624)</b>
I agreed in decision	57	58	76	78
I disagreed and brought it up with the shop steward	33	34	17	15
I disagreed and brought it up with the management	48	41	33	31
I disagreed and brought it up with my colleagues	56	57	42	38
I disagreed but kept it by myself	8	8	9	5
<b>Participation in implementation of change</b>				
I contributed to implementation	63	63	69	73
Pretended as nothing happened hoping for no change	21	22	13	9
Resisted to change	13	12	8	8

This table shows direct employee participation in decision making and implementation of an actual change process. Non members and those with private agreements are significantly more positive to decisions of change, and they contribute to implementation more than members and

those with collective agreements, but these differences are less significant than for decision making. When the employees voice their disagreements colleagues are the most used channel, with direct communication with management comes second. Resistance to change is scores low. Resignation and contribution seem to be preferred over loyalty or subordination, and the differences on the implementation variables in the table are smaller than for the decision making variables.

### **Influence**

There are differences in perception of work place characteristics, access to democratic arrangements, practice of these arrangements and the employee participation in general and in change processes. Thus we assume that union membership and collective agreements will result in differences in employee influence.

*Table 5 Employee influence on their own work, work organisation and business organisation (Mean scores on a scale from 1= no influence to 5 = great influence)*

<b>Influence on own work</b>	<b>Members (n=2277)</b>	<b>Collective agreement (n=2142)</b>	<b>Non-members (n=795)</b>	<b>Private agreement (n= 624)</b>
Choice of work tasks	4,19	4,17	4,29	4,43
Conduct of my work	4,45	4,43	4,51	4,63
Quality of my work	4,52	4,51	4,57	4,63
<b>Work organisation</b>				
Who I work with	3,10	3,07	3,40	3,58
My own work hours	3,31	3,23	3,82	4,08
Tempo at work	3,86	3,86	4,16	4,21
Use of resources at work	3,34	3,29	3,65	3,87
<b>Business organisation</b>				
Strategic decisions	2,44	2,40	2,53	2,77
Quality demands	3,05	3,01	3,15	3,41
Effectivity demands	2,95	2,93	3,15	3,37
Profit demands	2,33	2,29	2,64	2,89
Work methods	3,33	3,31	3,31	3,51
Distribution of information	2,60	2,56	2,65	2,88

The included variables intend to measure employee's perceptions of their own individual influence at work; results of democratic work place arrangements. The perceptions and interpretations of one's own influence are developed in different work place contexts. Union dominated work places will be different from work places with small or no unions at all in many respects as we have seen; if there are collective or private agreements, shop stewards, company councils and other formal and representative democratic arrangements. Employees at work places with formal representative democratic bodies will expect unions and shop stewards to take care of their interests in matters of work and business organisation, and thus have lower expectations to their own individual influence on these issues than work places dominated by individual relations and private agreements. This should be kept in mind when the results are interpreted.

The table shows that non members and those under private agreements have some more influence on their choices of work tasks, but all together the differences in influence on own work are not statistically significant (Falkum et al 2009). From managerial theories about empowerment, liberal hypothesis about individual freedom and from the fact that small work places have shorter and more direct communication lines it could be argued that the non members and private agreements should have more influence than union members and those with collective agreements. However, the differences are not statistically significant.

The union members and those with collective agreements have less individual influence on work organisation than non members and employees under private agreements. The difference in influence on work organisation is quite small, but statistically significant (Falkum et al 2009). Unionised work places with collective agreements are larger than non unionised work places with private agreements (see table 1). At large work places work organisation is a management task and the employee influence is supposed to be handled by union reps in appropriate democratic channels. Individual employees at unionised and non unionised work places will thus have different expectations to their own influence on work organisation. In this perspective we could argue that the observed differences could have been bigger.

The differences in union members and non member's influences on business organisation are not statistically significant (Falkum et al 2009). However, the differences between collective and private agreements are statistical significant. Employees with private agreements have more influence on business organisation. Influence on business organisation is definitely not a matter of individual influence at large unionised work places. On the contrary; that kind of influence is one of the union's power bases and a matter for union representative's codetermination, not for individual employee participation.

### **Summary**

Our data shows that the differences in work place democracy between union members and non members are smaller than assumed in the work life. Democratic arrangements are established and practised at non unionised work places, if not to the extent as at unionised work places. Furthermore, the battles over legitimacy and anchoring of the arrangements seem to have no impact on praxis at work place level. Collective agreements are the main tools for union influence at work places and have great impact on the employee's perceptions of work place relations and performance compared to the existence of unions. It is what they do that matters.

## 5 Discussion

The bottom line finding is that the unorganised work places resemble the organised and unionised work places. Most Norwegian employees have access to democratic arrangements in some or another shape. These arrangements are in use and Norwegian employees have influence on work and work organisation. Unions and the representative democratic channels seem to give employee's collective influence on business organisation to some extent. Again; we underline that our sample probably catch the well functioning work places and that a complete picture should include the worst case work places according to Norwegian standards. However, they could correct the pictures in some directions, but they are hard to recruit to surveys like this. Norwegian work life is not divided in the unorganised vs the organised. The democratic arrangements are strongly supported by managers as well as employees and the complete work life seems to be democratic.

The second crucial finding is that the anchoring of democratic arrangements does not matter in democratic praxis at the work places. Employees and managers at the work place level pay attention and recognise the cooperation that gives consensus in decision making and participation in implementation processes and ignore whether they follow legal rules or negotiated agreements. Intentions to share efforts and results seem to rule praxis. The individual employee participation and direct influence on own work situation is supported by the representative democratic arrangements and union influence on business and work organisation. The HR and IR perspectives seem to be compatible and mutually supportive at the work places.

Do unions matter? By looking at the data and results of our survey one could easily jump to the conclusion that the differences between union members and non members are small and indicates that the unions are no longer reasonable or appropriate in today's work life. However, we insist to turn the question the other way round; why do non members with private agreements resemble union members with collective agreements so much as they do?

The survey data is convincing; the collective agreements determine social relations as well as codes of conduct at the work places. Collective bargaining and collective agreements stems from union demands. They are developed as solutions to serious conflicts between labour and capital, employees and employers over decades. Together with labour laws they institutionalise agreed solutions as formal rights on both sides. When institutions work they constitute and legitimise social norms that determine relations, roles and ways to act. Over time these norms are followed by the social partners, their members and after some time by managers, TU reps and employees. The democratic arrangements become rules for "the universal way things are done" in Norwegian work life. We have shown these norms to influence the understandings as well as the actions and the behaviour of union members as well as non members. Unions seem to matter in the case of Norway.

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# **Financial participation in Germany. Management's and works councils' view**

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## **1 INTRODUCTION**

The German market economy is based on the understanding that the state intervenes to create a social equilibrium. It is an important basic principle of such a regulated market economy (social market economy) that employees are entitled to a fair share of the company's profit to which they give their manpower. This is also the focus of the law on tax incentives for employee share ownership (Bundesministerium für Arbeit und Soziales, 2008, Law on employee share ownership (Law on tax incentives for employee share ownership) in the version of 7 March 2009, BGBl. I: 451.). However, the employees' fair share in the company's profit that is demanded can be defined and realized in different ways: e.g. as share of the employees' remuneration in national income and respective wage agreements, or as financial participation scheme combined with state incentives. Regarding the use of "quasi-corporate remuneration schemes", i.e. profit sharing as well as employee share ownership, Germany is considered an underdeveloped country.

In Anglo-Saxon countries and especially in the US, models of financial participation have been regarded an immanent part of human resource management since the 1980s. The concepts of strategic human resource management that were developed in those days (Beer et al., 1985; Devanna et al., 1981; Fombrun et al., 1984) emphasize the relevance of strategic incentives (appraisal, remuneration and participation schemes) with regard to achieving long-term strategic aims. However, due to the different labour market setup, the US-American Human Resource Management is faced with other problems with regard to motivating and retaining staff than German companies, as a comparison of fluctuation rates well documents (Weller, 2007). Yet, in the US it was not the "participation philosophy" of HR management either that initiated the spread, but state incentives for these types of participation. Koch (1993) reports that the number of companies with employee participation in company assets increased dramatically in the US since tax breaks were introduced in 1975, from 1,601 to 9,800 in 1992. While roughly 11.3 million or 10% of US-American employees were already equity shareholders and received part of their remuneration in the form of shares in 1992, it is now, according to a more recent study of the US-American Global Social Survey from 2006, 20 million or 17% of all US-American employees who own shares of the company they work for via employee share ownership. Moreover, 10.6 million or 9.3% hold employee stock options (NCEO, 2007).

Thus, quasi-entrepreneurial remuneration systems are not only from an HR policy perspective of interest. State subsidies – like in the US – can be a crucial external variable, stimulating the utilization of quasi-entrepreneurial instruments. Against this background, it is of theoretical, as well as practical interest, which forms of financial participation are practised in Germany and which reasons and obstacles companies find therein. This study is based on a representative survey in businesses. We will outline the methodology in Section 2 and will then report on our findings regarding the spread, intensity and reasons for financial participation in Germany and contrast the views of management and works councils (Section 3). Following this descriptive outline, we will show the results of multivariate estimations of the determinants for the implementation of financial participation schemes, as well as the influence of these parameters on the intensity of utilizing these instruments (Section 4). The final discussion (Section 5) summarizes the empirical findings and gives a brief outlook on future research.



## **2 AIM AND DESIGN OF THE STUDY**

The aim of the study that is summarized here was a representative capture of the utilization and intensity of financial participation on a corporate level in order to give a comprehensive overview of the current situation in Germany. This covers information regarding concrete forms and arrangements of quasi-entrepreneurial remuneration schemes, the motivation behind them, experience and reasons to refrain from them, as well as questions regarding the linking with non-financial forms of employee participation.

To realize these aims, a survey was initially carried out among staff managers of businesses based in Germany (business survey following). That was followed by a second survey in those businesses that had a works council or other employee interest groups. In this second survey (works council survey) a member of the works council and the employee interest group respectively was interviewed. The works council survey was conducted to contrast the employees' and their representatives' views and experience with the aims and motives of the employers. This should yield more information about the role of the works council for the implementation of financial participation, also with regard to its exertion of influence on the substance.<sup>1</sup>

Population of the business survey are all companies<sup>2</sup> in Germany with a minimum of 150 staff members. The sampling procedure was carried out by simple random selection on the basis of an industrial premises directory. A total of 1,201 interviews were conducted with staff managers, managing directors or senior executives. The standardized interview was conducted via telephone in November 2007 (CATI – computer assisted telephone interview).<sup>3</sup>

Of all businesses where a complete business survey was available, those private-sector companies which utilize financial participation schemes and have a works council or some other form of employee interest group were contacted again. In that survey, which was conducted roughly six months later, we managed to interview a member of the works council or an employee interest group via CATI from a total of 121 businesses. As the market research institute supplied the collected data with an explicit (but anonymized) key it is possible to link the data of this survey with those of the business survey.

The following evaluations are limited to private-sector companies, i.e. public services enterprises and institutions were excluded from the analyses we report on here. The results are weighted and projected for all private-sector companies located in Germany with a minimum of 150 employees.

## **3 SPREAD, INTENSITY AND REASONS FOR FINANCIAL PARTICIPATION IN GERMANY**

So far, little quantitative research has examined the rate of spread of financial participation in Germany, or particularly at the correlation with regard to work relations, as well as the shift of responsibility and decisions to the employees. That is not least due to the fact that only few data sources, which are official and accessible for research, are available regarding the

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<sup>1</sup> The survey took place within the scope of the project "Entrepreneurial elements in the new remuneration policy" supported by the Hans-Boeckler-Foundation, project no. S-2006-874-3 B and was carried out by the market research institute Produkt+Markt.

<sup>2</sup> The term "business" refers to industrial premises, i.e. it can also be a branch office or a subsidiary of a corporate. This definition is in accordance with the differentiation of the IAB Establishment Panel or the WSI works council survey. Moreover, taking the Establishment History Panel of the Federal Employment Agency (BA) as our population, this definition yields comparative figures that were used to check the representativeness of the sample.

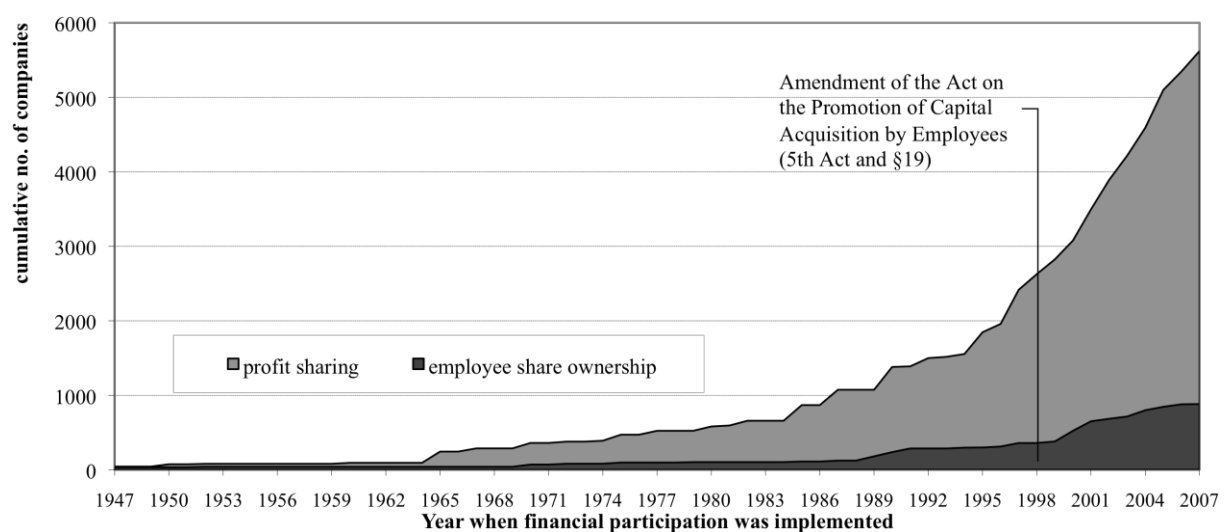
<sup>3</sup> The population comprises 24,933 businesses with a minimum of 150 employees (special analysis of the Establishment History Panel of the Federal Employment Agency (BA) from 30 June 2007). Due to the databases' up-to-datedness the sampling procedure of our business survey contained businesses from 100 employees onwards. By means of a filter question we checked if at least 150 people were currently (November 2007) employed. Target figure of the net sample were 1,200 conducted interviews. Based on the adjusted gross sample (6,589 businesses) there was a response rate of 18.2%. 13.5% of the companies and target persons, respectively, could not be reached. 68.3% refused to participate or broke off the interview.

spread and intensity of financial participation in businesses in Germany. Part of those data sources which are generally open for secondary analyses are the IAB (German Institute for Employment Research) Establishment Panel and the WSI (Economic and Social Science Institute) Works Council Survey on a business level. Then there are the Socio-economic Panel Study, the Micro-census and the European Working Condition Survey (EWCS) on the individual level. However, the accessible information with regard to use, design and impact of quasi-entrepreneurial remuneration concepts is not very comprehensive, as the subject area is only covered marginally and not the main interest of the corresponding survey. The WSI Works Council Survey from 2007 is an exception (Bispinck & Brehmer, 2008; Bispinck, 2008). Based on these data, though, we can only make statements for businesses with a works council.

So far, studies on financial participation in Germany show, however, that there has been no significant increase in importance over the past years. There have only been shifts in the number of employees involved between East and West Germany and in different industries (Bellmann & Leber, 2007). According to results from the EPOC (Employee Direct Participation in Organisational Change) study from 1996 and the Cranet (Cranfield Network on Comparative Human Resource Management) study from 1996/2000, Germany is mid-range of the member states with regard to the utilization of quasi-entrepreneurial remuneration schemes, together with Sweden, Denmark, Austria and Belgium (Hofmann & Holzner, 2002; Pendleton et al., 2001; Poutsma, 2001). However, the studies quoted mostly look only at the spread and intensity of quasi-entrepreneurial remuneration schemes and are somewhat older. The study presented here therefore delivers not only more current, but as a more specific survey also more comprehensive data on this topic.

### 3.1 Spread and intensity of financial participation

There are no legal incentives for performance-related remuneration in Germany. This however is not the case when looking at employee share ownership, even if it is not yet that widespread: legislation provides for regulations to promote share ownership and capital acquisition. Nevertheless (slight) changes can be noted over a longer period of time based on the studies quoted in the previous section and our business survey. Looking at the time when financial participation was introduced in the businesses we surveyed, one can see a clear increase for both forms of quasi-entrepreneurial remuneration schemes – i.e. profit sharing and share ownership – in the previous years (Figure 1).



**Figur 1: Implementation of financial participation in private-sector companies in Germany (cumulative number)**

While employee share ownership was just a marginal phenomenon for a long time, a first increase could be noted in the mid 1980s, which is probably due to a wider spread of target agreement schemes and staff appraisals as a means of assessing remuneration (cf. for

example Heiden, 2007). Part of the increase in businesses with employee share schemes after 1998 can, among other things, be ascribed to an extensive revision of tax incentives in Germany. However, this did not have the desired effect, as is indicated by the continuously low spread and the new law on the expansion of tax incentives for employee share ownership (Bundesministerium für Arbeit und Soziales, 2008).

	<b>profit sharing</b>	<b>employee share ownership</b>
existent	31.2	4.9
planned	5.8	0.9
abandoned	1.3	0.6
nonexistent	61.7	93.5

**Table 1: Use of financial participation (in percentage)**

Based on our survey it can be stated that currently nearly one third of all private-sector companies with 150 employees or more have implemented some form of profit sharing (Table 1). 5.8% are planning to introduce a profit sharing scheme whereas share ownership can only be found in 4.9% of the companies, while a scant 1% is planning to introduce an employee share scheme.

Financial participation in the company's profits or assets is widespread especially among partnerships limited by shares (Table 2). More than half of the businesses (57%) use some form of profit sharing and almost one quarter (23.4%) use some form of share ownership. In addition, a good third of the employees of limited liability companies benefit from corporate success while employees share ownership plays rather a minor role with a share of 3.5%. Looking at the companies' size, expected differences can be seen. More than every fourth company with 150 to 249 employees and every third company with 250 to 499 employees has a profit-sharing scheme (Table 3). The situation is different for employee share ownership. Here it is only 3.8% and 6.1%, respectively, of the businesses of the above-mentioned sizes that let their employees have a share in their assets. It is not surprising that mostly large enterprises with 500 or more employees make use of financial participation instruments. They usually have a personnel department that practises professional human resource management and that includes financial participation schemes. Smaller businesses (with 150 to 249 employees) use these quasi-entrepreneurial remuneration practices less frequently, possibly due to the high costs and the considerable effort involved. A comparison between West and East Germany shows only a small difference with regard to the connection between company size and the use of financial employee participation, with a slightly larger number of companies willing to share in West Germany.

Looking at the results of the survey with respect to the location of the respective headquarters, it was found that financial participation schemes occur more frequently in companies with foreign headquarters (Table 3). One reason for that could be the fact that financial participation is more widespread in other European countries (e.g. France, Great Britain) and in the USA, where this kind of additional remuneration already has a longer tradition (Kabst et al., 2006). It can be assumed that foreign companies transfer their HR strategies and instruments to their German subsidiaries because of a positive experience they had with them in their own country.

	<b>profit sharing</b>	<b>employee share ownership</b>
sale proprietorship	(-)	(-)
partnership	(-)	(-)
GmbH / GmbH & Co. KG <sup>a</sup>	31.2	3.5
AG / KGaA <sup>b</sup>	57.0	23.4
other	15.3	3.4

(-) case number too small.

<sup>a</sup>Ltd./Limited partnership with a limited liability company as general partner

<sup>b</sup>plc/associations limited by shares

## **Table 2: Share of companies with financial participation according to legal form (in percentage) profit sharing employee share ownership**

Due to a large share of small businesses in Germany further differences in the spread of financial participation can be found in the various industry branches (Bellmann & Leber, 2007). Profit sharing is widespread in the mining industry, energy and water supply, as well as in banking and insurances, where it is implemented by half of all businesses (Table 3). Equally willing to share are companies from the capital goods industry, from commerce and repair, and raw material processing. The distribution across industries is similar when looking at employee share ownership. 5.5% of businesses in the manufacturing industry and 4.6% of service enterprises offer their employees some form of share ownership.

Another indicator to estimate the importance of financial participation in businesses is the average number of employees who share the company's success (intensity)<sup>4</sup>. In businesses with profit sharing an average of two thirds of the employees can participate in the success (Table 4), whereby this figure with an average of 77.7% is slightly higher in East Germany than in West Germany (65.7%). That means that although less businesses offer their employees profit-sharing schemes in East Germany, the participation rate is significantly higher than in West German businesses. This has something to do with the different development of small and large businesses in East and West Germany (Bellmann & Möller, 2006). Comparing the intensity of financial participation according to business size classes, size has again a positive effect for businesses with profit sharing: The bigger the size of a company, the more employees can have their financial share in the company's success. Not only do larger businesses implement some form of profit sharing more frequently, but they also do this on a larger scale by offering it to the vast majority of their staff (e.g. on average 71.5% in businesses with 500 or more employees). With regard to headquarters there is little difference for businesses with profit sharing. Looking at employee share ownership the rate is on a very high level with an average of 85.9% of employees per firm.

### **3.2 Motives for introducing financial participation schemes**

Motives and reasons for introducing financial participation schemes in businesses have already been found in other studies (cf. Kronberger et al., 2006; Schwarb et al., 2001, amongst others). We therefore asked our interview partners from those businesses with financial participation in the survey to rate the given motives with regard to their importance for the introduction of financial participation schemes. Then they were requested to assess the same aspects with regard to the company's satisfaction (from the point of view of the interviewees) with them after the participation schemes had been implemented. Therefore the difference between importance and satisfaction can be considered an indicator for achieving the objectives.

Motives for introducing financial participation schemes are multifaceted and refer, according to the executives, usually to aspects of work efficiency, initiative and staff retention as well as the company's image and climate. On average our interview partners mentioned an increase in motivation, better performance, a distinct entrepreneurial attitude, as well as improving staff retention as the most important motives for launching a profit sharing scheme (Table 5). Introducing a more flexible remuneration scheme and improving the corporate climate still played an important role, while improving chances in staff recruitment, enhancing corporate image and decreasing staff turnover were considered only partly important. The latter aspect and also a reduction of absenteeism are frequently mentioned as an effect of introducing

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<sup>4</sup> Business representatives were asked: 'Which groups of employees does your business allow to partake in the business' profit (respectively assets) or allow profit sharing (respectively share ownership)?' It is therefore the maximum possible, and not the actual number of employees the business shares it success with.

financial participation in the literature (cf. Schwarb et al., 2001; Strotmann, 2002, amongst others). Business representatives did not assess these as important motives, though. Looking at the average satisfaction with the motives mentioned in companies with profit sharing schemes we receive an almost identical image (Table 5). An increase in motivation, better performance, a distinct entrepreneurial attitude and improved staff retention come in first place, while the reduction of absenteeism ranks last. All in all, the "aims" mentioned have been met satisfactorily from the surveyed businesses' point of view.

	<b>profit sharing</b>					<b>employee share ownership</b>				
	total	location of industrial premises		company headquarters		total	location of industrial premises		company headquarters	
		West	East	Germany	abroad		West	East	Germany	abroad
<b>business size</b>										
150-249 employees	27.5	32.3	7.4	25.1	50.0	3.8	3.7	3.9	3.0	10.6
250-499 employees	32.9	33.1	32.2	32.3	41.8	6.1	6.9	1.6	6.0	8.6
500 and more employees	39.0	39.5	36.0	37.6	53.3	6.3	6.4	5.9	5.4	15.2
<b>industries</b>										
agriculture and forestry, fishery	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
energy, mining and water supply	51.8	(-)	(-)	52.3	(-)	2.9	(-)	(-)	2.3	(-)
processing industries	37.8	38.0	35.5	37.1	40.4	5.5	5.7	3.4	5.5	5.6
consumer goods	20.1	22.8	(-)	18.3	(-)	2.3	2.6	(-)	1.6	(-)
raw material processing	37.0	36.0	(-)	35.0	(-)	5.9	6.0	(-)	5.7	(-)
capital goods	45.1	44.7	(-)	46.8	37.5	6.4	6.7	(-)	7.0	4.4
building	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
service industries	28.1	31.9	13.3	26.1	(-)	4.6	5.3	2.1	3.7	(-)
trade and repair	37.9	40.2	(-)	36.3	(-)	6.0	4.5	(-)	3.8	(-)
transport and communications	29.0	33.4	(-)	27.1	(-)	3.9	4.0	(-)	4.2	(-)
credit and insurance industries	49.9	50.7	(-)	49.9	(-)	6.0	6.1	(-)	6.0	(-)
services mainly for businesses	25.4	33.1	(-)	22.9	(-)	6.9	10.3	(-)	6.0	(-)
other services	19.5	19.1	(-)	16.9	(-)	1.5	2.0	(-)	0.8	(-)
other	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
<b>total</b>	<b>31.2</b>	<b>33.8</b>	<b>18.3</b>	<b>29.5</b>	<b>47.6</b>	<b>4.9</b>	<b>5.2</b>	<b>3.5</b>	<b>4.4</b>	<b>10.7</b>

(-) case number too small.

**Table 3: Share of companies with financial participation according to business size, industry and region (in percentage)**

	participation rate	
	profit sharing	employee share ownership
<b>business size</b>		
150-249 employees	64.5	(-)
250-499 employees	67.0	(-)
500 and more employees	71.5	(-)
<b>industries</b>		
agriculture and forestry, fishery	(-)	(-)
energy, mining and water supply	(-)	(-)
<i>processing industries</i>	69.9	(-)
consumer goods	(-)	(-)
raw material processing	72.4	(-)
capital goods	67.5	(-)
building	(-)	(-)
<i>service industries</i>	64.6	(-)
trade and repair	59.4	(-)
transport and communications	(-)	(-)
credit and insurance industries	(-)	(-)
services mainly for businesses	(-)	(-)
other services	(-)	(-)
other	(-)	(-)
<b>region</b>		
location of industrial premises		
West Germany	65.7	84.7
East Germany	77.7	(-)
company headquarters		
Germany	66.6	92.1
abroad	67.8	(-)
<b>total</b>	<b>66.8</b>	<b>85.9</b>

(-) case number too small.

**Table 4: Intensity of financial participation according to business size, industry and region (average percentage of employees participating per company)**

Deviations between the ratings of importance and satisfaction (difference) indicate whether the aim was exceeded (positive difference) or missed (negative difference). Even if the business representatives stated that they were satisfied with the increase in motivation and improved performance, entrepreneurial attitude and better staff retention, the differences show that the expectations with regard to these aspects could not be fully met. In contrast, expectations regarding the motives of a reduction of absenteeism and lower staff turnover were exceeded.

For businesses with employee share ownership schemes we surveyed three additional motives regarding share ownership, of which only the aspect 'employees become co-entrepreneurs' was rated as important (Table 5). Moreover, the rating of the aspects is analogous to the assessment of those businesses with profit sharing schemes. Improved motivation and better performance, improved staff retention and employees' distinct entrepreneurial attitude were also here rated the most important motives by the interviewees. Having more flexible remuneration schemes and reducing absenteeism are equally assessed as less important by business representatives. The other motives – amongst others those related to company assets like increase of liquidity and equity capital, respectively – were only rated partly important.

	profit sharing			employee share ownership		
	importance	satisfaction	difference	importance	satisfaction	difference
increasing motivation and performance	1.54	1.94	-0.40***	1.95	2.25	-0.30
distinct entrepreneurial attitude	1.77	2.08	-0.31***	2.14	2.43	-0.29
higher staff retention	2.02	2.19	-0.17***	2.97	2.18	-0.21**
higher flexibility of staff remuneration	2.29	2.20	0.09	3.72	3.39	0.33
improving business climate	2.53	2.52	0.01	2.72	2.77	-0.05
improving chances in recruitment	2.74	2.63	0.11	3.16	2.85	0.31
improving business image	2.82	2.64	0.18	2.60	2.46	0.14
reducing staff turnover	2.88	2.55	0.33***	2.98	3.04	-0.06
reducing absenteeism	3.27	2.89	0.38***	3.84	3.78	0.06
employees become co-entrepreneurs (#)				2.14	2.37	-0.23
increasing company's liquidity (#)				3.28	3.07	0.21
increasing company's equity capital (#)				3.33	3.09	0.24

significance level: <0.01(\*\*\*), <0.05(\*\*), <0.1(\*).

(#) These motives were only captured in businesses with employee share ownership.

scale importance: (1) very important, (2) important (3) partly important, (4) less important, (5) not important.

scale satisfaction: (1) very satisfied, (2) satisfied (3) partly satisfied, (4) less satisfied, (5) not satisfied.

**Table 5: Importance of motives for financial participation and satisfaction (means)**



The average answers from companies with employee share schemes show a similar order as in the expected values with regard to satisfaction (Table 5). Business representatives were most satisfied with the improved retention of staff, the increase in motivation, better employee performance and that co-workers become co-entrepreneurs. Aspects like "more flexible remuneration schemes" and "reduction of absenteeism" were less satisfactory for the businesses we surveyed, but these objectives were also played a minor role for the introduction of a profitsharing scheme (were less important).

Looking at the degree to which objectives were achieved (difference), businesses with employee share schemes also have a close match with expectations, whereby the satisfaction with the objectives mentioned was generally a little less than in businesses with profit-sharing schemes (Table 5). Even if those companies that had a higher retention of staff were on average most satisfied, this objective – compared with the importance when introducing the employee share scheme – was just barely achieved, but not fully.

### **3.3 Management's motives and target achievement from the works council's perspective – contrasting two views**

The WSI Works Council Survey from 2007 (Bispinck & Brehmer, 2008; Bispinck, 2008) delivers first results about an assessment of financial participation from the employees' view. Advantages of our study are that the whole spectrum of financial participation – profit sharing as well as share ownership – was surveyed and that the design of the study allows to directly contrast and compare the views of management and works councils. Contact persons in the works council survey were therefore asked to assess the same motives as the company representatives. Members of the works council first rated the motives from their own point of view, according to their importance for the company and for management, respectively, for introducing financial participation schemes. It was of particular interest to what extent the statements of company representatives deviated from those of the works councils. These deviations might indicate some potential for conflict between management and works council. Generally the works councils believe that the motives mentioned were less important to management than what company representatives estimated in the first survey (Table 6). Differences are, however, only significant for some motives. The increase in employees' motivation and performance was most important from management's point of view. Works councils agree with that, even though they estimated the importance slightly lower on the scale. Promoting a distinct entrepreneurial attitude among employees was important to very important for management, while it was only important to partly important to the works councils. There is a similar picture as far as more flexible remuneration schemes and staff retention is concerned. It needs to be mentioned, though, that on average the ranking of motives in the works councils' assessment matches roughly with the ranking of the company representatives. This also indicates that company representatives communicated their motives to staff in order to prevent possible potential for conflict. Differences in the rating of individual motives suggest either an overestimation of the motivation by the companies or a diverging assessment of the degree of importance by the works councils.

In the general assessment, however, objectives were only partly achieved from the point of view of works councils and employee representatives. Comparison with the company representatives' satisfaction shows particular differences with regard to a more flexible remuneration. While company representatives are rather satisfied with this, it has only been partly achieved from the works councils' point of view. The same applies to the promotion of an entrepreneurial attitude among employees, reduction of absenteeism, an increase in motivation and performance as well as improved staff retention. Although these objectives were only partly met from the works councils' point of view, the ranking (even if only partly) corresponds with the satisfaction ranking of the company representatives. Works councils and employee representatives consider increased motivation and better staff performance as most likely achieved, while reduction of absenteeism was considered least achieved. (Table 6). Like the other results this outcome shows that the motives behind the introduction of profit sharing in a company were well communicated among staff. The varying assessment of the

degree of fulfilment might be an indicator that company representatives are anxious to assess their motivation positively.

### **3.4 Obstacles for financial participation**

The low spread of financial participation schemes among businesses in Germany poses beside questions referring to motives, objectives and experience with quasi-entrepreneurial remuneration schemes also the question, which obstacles were perceived from the businesses' perspective. In our business survey we therefore asked the interviewees of all participating companies to rate possible reasons that speak against the introduction of financial participation schemes from their point of view. The statements are fairly clear, irrespective of whether a company has had experience with financial participation schemes or not. Most companies think of the introduction of a scheme as too costly, too laborious and too complicated (Table 7 and 8). Moreover, some of the interviewees did not see a recognizable benefit and they were afraid of a loss of the company's independence, partly due to the increased insight of the employees into the company's financial data when deciding for a financial participation scheme. On the other hand, potential resistance of staff and trade unions or employee interest groups, as well as a lack of interest from staff, were not seen as obstacles for the introduction of financial participation schemes (Table 7 and 8). Comparing the statements of those businesses with financial participation schemes and those without experience in this field there is only little difference. The trade union's or works council's potential resistance is, all in all, hardly seen as an obstacle for the introduction of a participation schemes, though more from businesses with profit sharing schemes than from businesses without experience in this field.

### **3.5 Problems from the works council's and employee interest groups' perspective**

A core factor for a successful implementation of financial participation is the relationship between staff and management (executive board and superiors). A cooperative collaboration and a spirit of trust ensure not only a higher identification of staff with their company and its aims, an increased motivation and a higher commitment, but also make it more likely that a financial participation scheme is used. Bispinck & Brehmer (2008); Bispinck (2008) state in their evaluation of the WSI Works Council Survey that "companies where there is a certain amount of friction between management and works council have significantly less employee share ownership schemes". The results of our study can also be seen against this background.

	importance of management's motives according to views (means*)			satisfaction/achievement of motives according to views (means*)		
	UL	BRAN	Diff.	UL	BRAN	Diff.
increasing motivation and better employee performance	1.46	1.83	-0.37***	1.82	2.41	-0.59***
improving business climate	2.40	2.45	-0.05	2.32	2.89	-0.57
improving business image	2.78	2.38	0.40	2.50	2.42	0.08
improving chances in recruitment	2.61	2.62	-0.01	2.49	2.65	-0.16
more distinct entrepreneurial attitude of staff	1.75	2.36	-0.61***	1.94	2.70	-0.76***
reducing absenteeism	3.12	3.31	-0.19	2.70	3.22	-0.52***
reducing staff turnover	2.82	2.72	0.10	2.41	2.74	-0.33*
higher staff retention	1.93	2.20	-0.27*	2.04	2.47	-0.43***
higher flexibility of remuneration	2.18	2.79	-0.61***	1.90	3.00	-1.10***

significance level: <0.01(\*\*\*), <0.05(\*\*), <0.1(\*).

\* scale from 1 'very important' to 5 'not important'

\*\* scale from 1 'very important' (Mgmt)'/fully met' (WCEIG) to 5 'not satisfied'/'not met'.

UL = management; BRAN = works council/employee interest group

Only statements from works councils/employee representatives and management from businesses with either profit sharing or employee share ownership.

**Table 6: Importance and achievement of motives – two views (means)**

	<b>profit sharing</b>				
	existent	planned	abandoned	nonexistent	total
costs too high	3.17	3.30	3.03	3.14	3.16
too complicated	3.23	3.23	4.57	3.37	3.33
effort too high	3.19	3.17	4.31	3.45	3.36
no direct benefit visible	3.63	3.59	3.30	3.42	3.50
employees get too much insight into finances	3.53	3.72	4.64	3.46	3.51
legal uncertainty	3.55	3.38	4.60	3.68	3.63
loss of company's authority	3.85	4.03	4.01	3.77	3.82
employees not interested	3.96	3.67	4.79	3.86	3.89
resistance of works council/employee representatives	3.56	3.21	4.75	4.16	3.93
staff resistance	3.92	3.91	4.95	4.28	4.15

scale: (1) applies fully, (2) applies mostly, (3) applies partly, (4) applies less, (5) does not apply.

**Table 7: Obstacles for profit sharing according to form of participation (median)**

	<b>employee share ownership</b>				
	existent	planned	abandoned	nonexistent	total
costs too high	3.00	3.19	2.96	3.23	3.22
too complicated	2.78	2.19	4.40	3.25	3.22
effort too high	3.62	3.78	4.96	3.24	3.27
no direct benefit visible	2.77	2.82	2.54	3.33	3.30
employees get too much insight into finances	3.28	2.98	4.42	3.36	3.36
legal uncertainty	3.17	3.41	3.57	3.51	3.49
loss of company's authority	3.74	4.31	4.50	3.52	3.54
employees not interested	3.64	3.53	4.15	3.82	3.81
resistance of works council/employee representatives	4.24	3.30	4.96	4.08	4.08
staff resistance	4.21	3.74	4.96	4.21	4.21

scale: (1) applies fully, (2) applies mostly, (3) applies partly, (4) applies less, (5) does not apply.

**Table 8: Obstacles for employee share ownership according to form of participation (means)**

	profit sharing	employee share ownership <sup>a</sup>
lack of transparency/comprehensibility	9.10	5.30
determination of key indicators	5.00	8.20
competition/potential for conflict	10.00	3.50
expected effects do not happen (long-term)	1.40	3.70
employee risk	6.50	4.20
inequality between staff and supervisors	10.20	9.00
abuse of financial participation from entrepreneurial point of view	5.10	(-)
staff has little influence on success	11.20	15.60
decrease in quality	2.20	(-)
performance pressure/responsibility	4.10	(-)
share amount not sufficient	2.20	8.20
other	7.40	18.40
no answer	44.50	32.20

\* A maximum of three problems was asked about.

<sup>a</sup> For businesses with both profit sharing and employee share ownership solely problems with profit sharing were used

**Table 9: Problems from works council's point of view in connection with financial participation (in percentage\*)**

It is noteworthy that 44.5% of the interviewed works councils from companies with profit share schemes and 32.2% of the interviewees from companies with share ownership schemes gave no answer to the question about changes and potential problems that the introduction of financial participation might entail. This might suggest that one third to almost half of the works councils did not want to answer this question or really had no problems – no specific interpretation is possible here. The remaining valid statements show that most works councils see the problems of profit sharing in the fact that employees have little influence on the company's success, that an inequality is created between staff and superiors, that potential for conflict increases due to strong competition and that there is a lack of transparency and traceability (Table 9). The latter is of vital importance in connection with productivity: exchange of information, agreement processes and trust building between works council and board of management (Heywood et al., 1998). In businesses with share ownership works councils perceive similar problems, though here the potential for conflict is more in the background, but interviewees see problems in determining key indicators.

	cohesion and support among colleagues		conflicts between staff and management/supervisors	
	increased	decreased	increased	decreased
increased	20.40		13.40	
no change noticeable	71.60		75.20	
decreased	8.00		11.40	
very strong	3.40	14.50	3.60	0.00
strong	54.10	22.40	25.40	19.10
average	31.60	63.10	49.60	57.60
low	10.90	0.00	21.40	23.30
very low	0.00	0.00	0.00	0.00

**Table 10: Changes in cohesion, support and conflicts between staff and management/supervisors (in percentage)**

From the works councils' perspective the relationship among staff changed only in approximately 30% of the businesses, whereby 20% of the interviewees reported that cohesion and support among colleagues increased – greatly to moderately (Table 10). In 8% of the businesses with financial participation and existing works council the works councils reported that cohesion had decreased – also greatly to moderately. The number of conflicts between staff and superiors changed only in one fourth of the businesses surveyed according to the works councils' assessment. The number of conflicts increased and decreased more or less equally and on average rather moderately (Table 10). Cohesion among colleagues changed hardly with the introduction of financial participation – if it did it changed positively. New conflicts between staff and management hardly arose either. Green & Heywood (2008) analysed the connection between profit sharing and job satisfaction and were able to show that employees tend to be less satisfied with their superior if the company has a profit sharing scheme.

### 3.6 Linkage of financial and organisational participation

There has been a lively discussion within the field of research on financial participation about the connection between quasi-entrepreneurial remuneration schemes and non-financial participation of employees in the company (cf. Backes-Gellner et al., 2002; Poutsma et al., 2006, amongst others). The positive interrelation between financial and direct participation of employees was confirmed by, amongst others, Poutsma (2001), based on the EPOC data, and Pendleton et al. (2001), based on the Cranet data. Bearing this in mind, all companies surveyed were asked which forms of organisational employee participation they used. The results show, for most forms of participation, that on average more companies with financial participation involve their staff in organisational decisions than companies without a financial participation scheme (Table 11). Looking at the use of staff appraisals and target agreements, respectively, and at the downward shift of responsibility and decision, this clearly becomes evident. It indicates that these forms of participation in decision-making are implemented to accompany financial participation.

	financial participation	
	without	with
<b>organisational participation</b>		
none	31.90	29.0
at least one form	68.1	71.0
<i>amongst that:</i>		
staff appraisal/target agreements***	57.3	66.8
downward shift of responsibility and decision*	50.8	56.4
introduction of team work/independent work groups	46.8	52.1
user participation (e.g. introduction of new techniques)	45.1	48.1
quality circle	45.0	45.9
(regular) staff surveys	38.0	42.5

significance level: <0.01(\*\*\*), <0.05(\*\*), <0.1(\*).

**Table 11: Share of businesses with organisational employee participation according to form of participation (in percentage)**

	fully agree	agree	partly agree	partly disagree	disagree	means
It is an appropriate way to let employees participate in the company's good economic situation.	44.80	33.60	19.30	1.10	1.10	1.80
Employees are more interested in the company's economic situation.	18.40	41.00	24.80	12.70	3.10	2.41
Employees would like to participate more in important decisions of the company.	16.60	42.40	27.50	10.30	3.20	2.41
Security of employment increases.	11.90	24.90	33.70	17.00	12.40	2.93
Financial participation leads to fairer remuneration.	5.60	26.40	26.90	25.90	15.20	3.19
Financial participation has a negative effect on income security (e.g. employees have accept loss of income in case of a negative economic situation of the company).	13.70	20.40	19.60	19.90	26.30	3.25
Financial participation limits room for salary negotiations.	8.30	13.10	26.20	27.80	24.50	3.47
Only slight fixed salary increases can be achieved.	6.60	13.50	30.50	21.20	28.20	3.51
Employees are burdened by taking over entrepreneurial risks.	3.40	17.50	26.40	18.60	34.10	3.63
Employees went on trainings to understand key business indicators.	6.00	13.90	12.60	28.50	39.00	3.81

**Table 12: Agreement to statements regarding financial participation (in percentage and means)**

### **3.7 Assessment of financial participation from the works councils' and employee interest groups' perspective**

For their assessment of financial participation interviewees were asked whether they agreed or disagreed to individual statements (Table 12). Works councils and employee representatives consider financial participation as an appropriate way to let employees partake in the company's good economic situation. They also confirmed that because of financial participation employees are more interested in the company's economic situation and more interested in taking part in important decisions. According to the interviewees' assessment, taking over entrepreneurial risk does not or only partly burden employees. Regarding an increase in employment security the interviewees' assessment is rather mixed: one third of the interviewees agreed to this statement, one third disagrees and one third decided on "applies partly". Roughly one third of the interviewees confirm that financial participation leads to fairer remuneration or has a negative effect on employment security. The vast majority, however, does not agree. A majority of the works councils and employee representatives also consider it less applicable that the room for salary negotiations is limited through financial participation and that only little salary increases can be pushed through. In 22% of the businesses we surveyed fixed remuneration components were changed into variable ones. According to the assessment of the interviewed works councils 10% of the remuneration was transformed on average, which corresponds to just more than a monthly wage or salary. According to the interviewees there was no change in three quarters of the businesses, though. Finally, works councils were asked for a general assessment of financial participation. Both participation schemes were rated 2.5 on average by the interviewees – 58% rated financial participation as good to very good, 28% as satisfactory, and nearly 10% as sufficient and only just under 4% as poor.

## **4 MULTIVARIATE ESTIMATION**

In the previous section we presented the results of the business survey independent of each other and independent of other characteristics and compared them. Now, following Poutsma et al. (2006), we will first look at the influence that different business characteristics might have on the probability of introducing a financial participation scheme in a company – separately for profit sharing and share ownership.

We will call on legal form, size, industry, location of industrial premises and headquarters of the company as our independent variables. We will also check whether employees are offered profit sharing and share ownership at the same time or as a supplement. Ultimately, we want to check the interrelation between financial and organisational participation. Following Poutsma et al. (2006), we again distinguish between indirect organisational participation (existence of a works council or other forms of staff representation) and direct participation as the sum score of the forms of participation presented in the previous section. Table 13 shows the results (marginal effects<sup>5</sup>) of a logit model estimate for profit sharing and share ownership, respectively.

The statistically significant factors influencing the probability that a business will introduce financial participation are hardly surprising and confirm the findings of previous studies. Business with profit-sharing schemes are more likely to be found in the credit or insurance industry; they also have employee share ownership and are rather incorporated companies (public companies (German: AG), associations limited by shares (German: KGaA) or limited companies (German: GmbH)). Furthermore, business size and direct organisational participation have a positive, though little, influence on the probability whether a business

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<sup>5</sup> In this case a marginal effect indicates by how many percentage points the probability changes that a business will introduce profit sharing or share ownership if the respective independent variable (e.g. company size) increases by one unit. With dummy variables (almost all here, because of nominal scales) the marginal effect is the change in probability (in percentage points) in relation to the respective reference group. Marginal effects can be compared with each other within the estimate – similar to standardised beta values in a basic OLS regression, provided that scales correspond.



has a profit-sharing scheme or not. Results for employee share ownership are less clear. Statistically significant results can only be found for existing profit sharing schemes and foreign headquarters of the company, as well as for the parameters business size and incorporated company (public company (AG), associations limited by shares (KGaA)). Contrary to expectations, there are no significant effects for industry or organisational participation. Considering legal form, business size and location there are therefore no differences between the industries regarding the implementation of employee share ownership and no statistically verifiable relationship between organisational and financial participation (share ownership schemes).

	probability	
	profit sharing	employee share ownership
<b>financial participation</b>		
employee share ownership (ref. No)	0.324***	
profit sharing (ref. No)		0.048***
<b>organisational participation</b>		
<b>indirect:</b> works council (ref. None)	0.030	-0.006
<b>direct:</b> sumscore (+)	0.007**	-0.001
<b>industries</b> (ref. building, trade, transport, communications)		
<i>processing industries</i>		
raw material processing	0.006	-0.017
capital goods	0.033	-0.011
consumer goods	-0.147**	-0.007
energy and mining	-0.009	0.013
<i>services</i>		
credit and insurance industries	0.375***	-0.008
other services	-0.105*	-0.011
<b>region</b>		
location of industrial premises (ref. West Germany)	-0,020	-0.002
foreign headquarters (ref. Germany)	0.077	0.037***
business size (logarithmised)	0.046**	0.008*
<b>legal form</b> (ref. other)		
GmbH/GmbH & Co. KG <sup>a</sup>	0.186***	-0.008
corporation (AG, KgaA) <sup>b</sup>	0.289***	0.041*
<b>constant</b>	-0.628***	-0.163***
case number	992	992
log likelihood	-592.260	-180.130
LR	84.12***	54.27***
pseudo R2	0.079	0.164

significance level: <0.01(\*\*\*), <0.05(\*\*), <0.1(\*).

(+) sum of standardised individual variables for the existence of: team work, quality circle, staff survey, target agreements, downward shift of decision making, other (e.g. suggestion system).

<sup>a</sup> Ltd./limited partnership with a limited liability company as general partner

<sup>b</sup> plc/associations limited by shares

**Table 13: Determinants of financial participation – spread (logit - marginal effects)**

Next, factors influencing the intensity of the use of financial participation were estimated with the help of an OLS-regression, also following Poutsma et al. (2006). Now the dependent variable is the percentage of employees who participate in profit sharing or share ownership schemes. As the participation rate equals zero in businesses that do not have financial

participation, we considered only those businesses in this estimate that have implemented schemes. The explanatory variables are analogous to our first analysis.

There are no significant differences for the intensity of share ownership regarding the business characteristics we considered (Table 14). It should be noted here that, on the one hand, the underlying number of cases is very small. On the other hand, the descriptive results of the previous section already show a high level and low variance of participation rates.

This means that businesses with share ownership offer this form of financial participation to the vast majority of their employees – none of the parameters that we took into account here were essential for the extent. In contrast, several statistically significant determinants could be found for the intensity of profit sharing. For example, the rate of employees participating in profit sharing schemes was 26 percentage points higher in businesses from the energy and mining industries in comparison with the reference group (building, trade, transport, communication). For businesses from raw material processing, this value is 18 percentage points. Moreover, businesses that not only have a profit sharing, but also an employee share ownership scheme and which are based in East Germany, have a higher participation rate.

	participation rate profit sharing	employee share ownership
<b>financial participation</b>		
employee share ownership (ref. No)	17.38**	
profit sharing (ref. No)		-10.33
<b>organisational participation</b>		
<b>indirect:</b> works council (ref. None)	4.14	-1.57
<b>direct:</b> sumscore (+)	0.76	-1.77
<b>industries</b> (ref. building, trade, transport, communications)		
<i>processing industries</i>		
raw material processing	18.42**	-8.65
capital goods	6.65	18.32
consumer goods	12.16	38.20
energy and mining	26.08**	42.82
<i>services</i>		
credit and insurance industries	11.18	38.60
other services	10.35	10.91
<b>region</b>		
location of industrial premises (ref. West Germany)	12.93*	29.90
foreign headquarters (ref. Germany)	-4.80	-8.04
business size (logarithmised)	-1.30	-3.32
<b>legal form</b> (ref. other)		
GmbH/GmbH & Co. KG <sup>a</sup>	-9.64	0.00
corporation (AG, KgaA) <sup>b</sup>	-4.44	24.01
<b>constant</b>	66.47***	89.28*
case number	330	50
adj. R2	0.097	0.277

significance level: <0.01(\*\*\*), <0.05(\*\*), <0.1(\*).

(+) sum of standardised individual variables for the existence of: team work, quality circle, staff survey, target agreements, downward shift of decision making, other (e.g. suggestion system).

<sup>a</sup> Ltd./limited partnership with a limited liability company as general partner

<sup>b</sup> plc/associations limited by shares

**Table 14: Determinants of financial participation – intensity (OLS - Beta-Coefficient)**

## 5 CONCLUSION

With these analyses we have presented first results of what is so far the only representative study in Germany that solely and comprehensively looks at the use and spread of quasi-entrepreneurial remuneration schemes in companies – from the point of view of management and works councils. Even if participation schemes are a popular topic in current public and scientific debates, we could show that quasi-entrepreneurial remuneration schemes still play a rather insignificant role in German businesses. The business survey confirms, amongst others, the results of the IAB Establishment Panel (Bellmann & Leber, 2007). The spread of financial participation in Germany is low, yet the average share of employees per company who are involved in a participation scheme is very high. At the same time there is an interrelation between profit sharing and employee share ownership. Companies that have experience with profit sharing schemes will also rather use employee share ownership and vice versa.

The main motives for businesses to introduce financial participation refer primarily, directly or indirectly, to positive effects in productivity. For example, the objective might be that employee motivation increases and performance improves. In addition to that, it is expected from the business representatives' point of view that employees act more like co-entrepreneurs in their company as a result of profit sharing or share ownership and that ultimately staff retention is increased. The latter is probably the critical point when it comes to retaining highly qualified staff in the company and avoiding migration of human capital. Therefore, it is primarily the highly qualified members of staff who participate in the company's success (Bispinck, 2007).

From their point of view works councils assessed the company's motives similarly, though less important. On average the ranking of motives, according to the works councils' assessment, roughly corresponds with the ranking of company representatives. There are differences in the assessment of target achievement. A more flexible remuneration has only partly been accomplished from the works councils' perspective, while management boards are rather satisfied with that.

Obstacles are clearly rated by the companies, whether they have implemented profit sharing or employee share ownership or not, whether they are planning to do so or have even abandoned it again. Most companies feel that introducing a financial participation scheme is too expensive, too complicated and too laborious. Based on the WSI Works Council Survey, Bispinck & Brehmer (2008); Bispinck (2008) studied the views of works councils on profit sharing, amongst others. They emphasized this form of remuneration as an important point. Ultimately, the implementation of financial participation instruments can only work out if there is a good partnership and climate between company, works council and employees. That should also be clear to companies. From the view of business representatives, neither trade unions nor employee representatives or staff are considered as obstacles. Works councils consider it a problem that employees have little influence on the company's success, that inequalities are created between staff and superiors and that the potential for conflict increases. However, works councils confirm that with financial participation there is rather an increase than a decrease in support and cohesion among staff and that the number of conflicts between superiors and staff changed only moderately and on a small scale. Works councils generally consider financial participation as an appropriate way of letting employees partake in the company's success and would rather not agree that room for salary negotiations is limited or employment security at jeopardized. A study based on the IAB Establishment Panel 1998 confirms this. Ugarkovic (2007) concludes that financial participation does not lead to a lowering of base salaries but that companies pay it as an additional salary component.

In the end the regulatory framework determines the level of utilisation (spread and intensity). In Germany one counts on the principle of voluntariness between labour and management, following the industrial relations systems. It is obvious that both parties pursue different interests. The bill for the law on tax incentives for employee share ownership, which came into force in 2009. The German Association of Trade Unions (DGB) welcomed the presented draft and law as "a step in the right direction" but sees a need for improvement. They

criticized, among other things, the low scope (Hexel, 2008). It is likely that it will not have a particular effect on the spread. Furthermore the DGB considers it an essential necessity to provide security for employee share ownership schemes making them low-risk. Employees will not be interested in shifting part of the corporate risk over to their side. Other countries, e.g. the USA and France, have shown that it is possible to increase the spread of financial participation with consistent tax incentive schemes and legal intervention. The reform pursued by the government focuses mainly on the adjustment and increase of tax deductibles and only on one form of financial participation. Support and promotion of profit sharing schemes is still excluded.

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# Who is in control? The effect of employee participation on the quality of the work environment

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## Introduction

This paper reports on recent Danish research into how employee participation affects the quality of the work environment. The research took its point of departure in the dual expectation that employee participation in general has positive effects on the quality of the work environment (QWE) but that the positive effects in certain organisational contexts may be usurped and even turned into negative effects on the psychosocial work environment. Before presenting the details of the research, the two key concepts of the study, work environment and employee participation are briefly presented.

The term *work (or working) environment* supplanted *occupational safety and health* in the Scandinavian countries in the 1970s signifying a change from focusing on harmful effects to the individual to possible causes to ill-health in the physical and psychosocial environment of individuals in the workplace. This shift was linked to an interest in a more preventive approach to health and safety issues and to an appreciation of simultaneous exposures as well as long-term exposures of employees at work. The concept includes the psychological and social factors in the workplace, forming the individual's psychosocial work environment, that affect the individual negatively in a psychological way thus hampering well-being and job satisfaction. In the regulation of the work environment at workplaces, however, it has obviously been difficult to draw the line between the realms of employee protection and managerial prerogative. Consequently, the psychosocial work environment has been a theme of discussion and sometimes conflict between management and employees both in the institutionalised co-partite H&S-structure (e.g. safety committees) and in the institutionalised co-partite structure of general relations (e.g. works councils).

Whereas *work environment* may still be a concept used mainly in a Scandinavian context, *employee participation* is a term used internationally in studies of business organisations and industrial or employee relations. Nevertheless, it is a concept which acquires several different meanings that we will address in the theoretical part. Here, we shall briefly explain how we have defined the concept and how it is linked to a specific institutional set-up in Denmark. For the purpose of this study, employee participation was defined as all ways in which employees take part in decisions regarding their job and their workplace. It is the prerogative of management to distribute work, assign tasks, hire and fire etc., endowing it with the power to decide in all issues pertaining to the workplace. Management, however, may see an advantage in delegating decision-making powers to lay employees, who will often themselves call for influence. Also, management may be compelled by law or collective bargaining to delegate influence on decisions to employees. Thus, three foundations for employee participation are at hand. One is based on management's delegation of decision-making powers to employees. Another one is based on the individual or collective effort of employees to decide by themselves, often referred to as gaining 'voice', and a third is based on rights granted to employees by legislation or collective agreements.

The strength of employee participation is determined by its intensity as well as its scope. Intensity can vary from the mere reception of information from management, over

consultation and joint talks and negotiations, to self-determination. Scope can vary from the operational level (how the job is done), to the tactical level (matters pertaining to work organisation, technology, pay systems etc.) and the strategic level (matters related to company missions and goals, investments and de-vestments etc.). Participation, traditionally, is divided into two main forms; direct and indirect. Direct participation, furthermore, can be divided into three forms; individual, team-based and collective. In the latter form all employees of the unit in question take part in a forum (e.g. staff meetings or ad hoc project groups) that influences management's decisions. Indirect or representative participation, i.e. participation through elected representatives, may also be termed collective, but differs from direct collective participation in the same way as representative democracy differs from direct democracy. Direct participation is at hand when employees are involved in arrangements such as appraisal interviews, quality circles and suggestion schemes or have a say during more informal interactions with management. First and foremost, however, it is evidenced through the degree of job autonomy granted to or achieved by individuals or teams of employees. Job autonomy is positively associated with skill discretion and varies according to traditions within the individual trades and professions and according to the organisation of work implemented by management.

In the Danish industrial relations system there are several channels for representative participation. *Local union representatives* (shop stewards) function in most workplaces covered by a collective agreement (about 80 % of the Danish labour force is covered). Workplaces with more than 35 employees are entitled to and usually have a *works council* (a joint body of management and employee representatives). Furthermore, by law workplaces with 10 employees or more must have an elected employee H&S *representative* and with more than 20 a H&S *committee*. A fourth channel, open to employees at workplaces with over 35 employees in the private sector, is *representation on the company board of directors*.

### **Theoretical background**

The point of departure for the present research is the surprisingly synchronous growth during the past few decades of two phenomena. One is comprised of modern forms of management focusing on human resources, empowerment and involvement of employees through teamwork, task delegation, etc.; the other is made up of an increase in psychosocial work environment problems as witnessed in surveys of employee contentedness, increasing absenteeism because of stress and increasing numbers of work-related mental disorders among employees that eventually exclude them from the labour market. The tendency to decentralize decision-making in companies' organisation of work in general is referred to as job autonomy or participation of employees in decisions on how their job is done. The question, therefore, arises as to how it can be that increased participation and increased mental strain and overload are concurrent. More specifically, the ruling paradigm for understanding the relationship between job demands and the mental health of employees, based on R. Karasek's and T. Theorell's *demand-control model*, is questioned. According to this model (Karasek and Theorell, 1990), increased participative decision-making allowing for skill discretion increases the employees' 'job control' which compensates for increased psychological job demands, as evidenced empirically by Karasek and Theorell and many other researchers applying the model.

Employee participation in general is perceived as a beneficial development by all parties in employment relations; good for employees' well-being and motivation and good for productivity. However, at the same time it is a complex phenomenon with different meanings and rationales. Hyman and Mason (1995) identified three fundamental, historically constructed traditions within the theory and practice of participation: *Employee Involvement (EI)* building on a 'unitarist' conception of common interests, *Employee Participation (EP)* building on the conception of a social compromise between two parties with inconsistent interests, and *Industrial Democracy (ID)* building on the conception of workers' right to decide for themselves at the workplace. Whereas the latter model has hardly materialised in social

reality, it is a living tradition both in trade-unionism and academic research reflecting rank and file manifestations and calls for 'democratization' or 'humanization' of working life. H. Ramsay's 'cycles theory' from the 70s, ascribing developments in worker participation principally to the workers' movement (Ramsay 1977), has been critically revised by others, e.g. M. Poole et al, downsizing Ramsay's cycles to 'favourable conjunctures' (2001). Other writers, especially from the Anglo-Saxon world, have stressed the demise of participative structures as neoliberal policies gained momentum in the 80s and 90s (Harley, Hyman and Thompson 2005). In northern Europe, not the least in Scandinavia, however, the *democratic rationale* of employee participation is still vivid (Hvid and Hasle 2003). Both in Sweden and Denmark the trade union federations in the 90s launched programs on 'the development of work' inviting employers to jointly build up participative structures in companies with the aim of increasing productivity as well as enhancing the quality of work life (ibid.).

While the tradition of EP includes a democratic impetus, it is first and foremost expressed through reformist actions by the state to "provide protection for both employees and employers...by ensuring a balance between rights and obligations shared between the parties and enshrined in the law" (Hyman and Mason 1995: 16). The European social democratic parties have been carriers of this tradition building on a '*social-integrationist rationale*' (Knudsen 1995). In the Scandinavian countries, participative structures like works councils to ensure an ordered articulation and negotiation of different interests have been instituted by collective agreement. The main form of participation furthered by this tendency has been representative participation.

Whereas the EP tradition and its institutions are still visible and active in Northern European countries and in the 'social dimension' of EU, globalisation and the spread of neoliberal thinking have been supportive of the first tradition, EI, to which the EP tendency has given way, according to several writers (Hyman and Mason 1995, Marchington 2005). Basically aiming at increasing employee output, this model takes its point of departure in the belief that optimization of work performance takes more than improving physical conditions or higher wages. The 'Human relations' school of the 60s and 70s successfully influenced employers to establish task discretion and job enrichment. In the 80s, when concerns for quality and reliability of production became more pertinent in international competition and therefore the need that employees internalize company values, 'Human Resource Management' successfully advocated employee commitment, empowerment and involvement as strategic principles for company development. Hence, employee participation, in the general meaning of the term, may follow from the EI tradition at work in companies, but now based on a *rationale of 'utility'* (Knudsen 1995) and determined by management's willingness to grant employees' influence on decisions pertaining to the task, but no further. The typical form of participation in the EI tradition, accordingly, is direct participation by individuals or teams.

Whereas the change from collective, often union-based, forms of participation to individual or group-based direct forms often had a radical character in Anglo-Saxon countries, this was much less the case in Scandinavia. New forms of direct participation, such as team-work and individual appraisal and development schemes, were added on to already existing forms of direct participation, as shown by the EPOC study (EPOC 2005), and the structures for representative participation on the whole remained intact. There has been no marked conflict over the changing forms of participation; rather there has been a changing discourse and a gradual inclusion of new elements in the institutionalised cooperation between unions and employer organisations. As epitomized by the basic 'Cooperation Agreement' between the Danish Employers' Confederation and the Danish Union Confederation there is consensus that both direct and representative forms of participation are desirable, and that both are conducive to higher productivity as well as a better work environment and well-being.

Bearing these developments in the forms and rationales of participation in mind we now turn to the paradoxical simultaneous increase in participative work arrangements and psychosocial problems in the work environment. In general surveys (European Foundation 2006a) it is found that work intensity has increased throughout the EU. It seems reasonable



to conclude that so have psychological job demands. The fact that jobs in the manufacturing sector have given way to jobs in other sectors like service and care only strengthens this observation. At the same time, however, it is evident that job autonomy has also increased, as witnessed by the EPOC study and by the EWC Surveys by the European Foundation (2006a). Statistics as well as research, on the other hand, show that the psychosocial work environment has deteriorated during the same period, both at the EU-level and in Denmark (European Foundation 2006b; Siegrist 2006; Pejtersen and Kristensen 2009). Given these developments it is obvious to conclude that either the context at organisational or societal levels has changed so much since the demand-control model was developed that increased job autonomy no longer compensates for increased psychological demands, or that job autonomy by itself has developed into a strenuous factor.

As others have already pointed out (Wainwright and Calnan, 2002) the demand-control model was developed in a culture of industrial work and framed by a certain normative position of a win-win scenario uniting interests of productivity gains and interests of increased health and well-being. It is possible that this discourse has in fact been undermined by the way in which management philosophies and employers have understood and utilised job autonomy/employee participation in line with the dominant utility rationale in the quest for internal organisational flexibility. Furthermore, developments in economic structures implying new types of work arrangements (contract work, casual work, networking, etc.) and adding structural flexibility to internal flexibility may have changed the scope of employees' decision-making powers. Lastly, changes in societal or cultural factors of identity and consciousness, e.g. the processes of individualisation and self-realisation (Baumann 1998) may have changed fundamentally the mechanisms of the model's workings.

The surrounding societal factors lie beyond the scope of this study, whereas the possibility that job autonomy alone has been decoupled from its propensity to maintain a healthy psychosocial work environment forms the basis of the study's second assumption. It is possible to conceive of the process in which management ideologies and practices have appropriated employees' participation in decisions pertaining to their job as a transformation of the content or character of participation: from a mutual recognition of a social compromise between two parties with different interests to a mutual recognition of company needs to which the individuals must subordinate their own interest. Participation may thus no longer be constructed as a means to promote individual or collective wage earners' interests, but as a necessary contribution to the success of the company and of the individual on the premises of the company. Turning to research focusing on the relationship between participation and the work environment we find some support for this conception of a transformed character of participation, which could explain the shortcomings of the demand-control model in contemporary work organisations.

#### *Participation and the work environment*

Studies into the significance of representative participation to the work environment are quite conclusive when it comes to the physical work environment: there is a clear and positive connection between organised labour, the existence of health and safety committees, etc. and the health and safety standard (Walters and Frick 2000). Results are much more inconclusive when it comes to the psychosocial work environment. Most research points to the incapacity of representative H&S bodies to deal with these matters as, in most cases, they are connected to managerial issues on which H&S bodies have no say (Kristensen & Smith-Hansen 2003). On the other hand, studies of works councils' ability to influence the psychosocial work environment are non-existent or inconclusive.

Results from research into the significance of direct participation to the work environment are ambivalent. North American studies of "high performance" workplaces characterized by 'lean' or 'flexible' production with employee involvement, often through teamwork, find a negative correlation with the physical work environment (Azkenazy, 2001; Foley and Polaney, 2006). In a study based on the European Foundation's 2000 EWC survey Dhondt (2002) found that

job autonomy had not increased sufficiently to compensate for increased job demands. Reviewing international research on teamwork, Jessen and Hvenegaard (2000) found a two-sided effect in the work environment. On one hand, teamwork increases job-satisfaction, but on the other, it increases the psychological demands and often blocks social support at work. Kalleberg et al (2009) in response to the question: "Is participation good or bad for workers?" gave an ambiguous answer based on their research: While participatory elements like job autonomy and consultation are found to reduce stress among Norwegian workers, another element, teamwork, is found to have the opposite effect.

It seems reasonable to maintain that participation in its modern direct forms has lost some of its capacity to provide that type of 'job control' that Karasek and Theorell found effective in offsetting psychological strain. Employee participation, or involvement as it is most often named, may be framed in a way and/or embedded in contexts that only partially or seemingly put employees in control when performing their jobs, although more responsibility and decision-making powers have been delegated to them. The reviewed literature, much more thoroughly presented in Busck et al (2009), gives reason to believe that participation may fail to deliver employee well-being, notably if: 1) work demands are so excessive that even the highest degree of job autonomy does not take away the pressure, 2) participation is individualised to an extent that relations of solidarity are disturbed and collective efforts against over-exploitation abandoned, 3) participation is embedded in productivity-targeted work systems, which pre-empts skill discretion, or 4) participation is socially constructed as a one-sided commitment to company values.

In our study we expected that the work environment effects of employee participation in all its forms would, overall, show a positive relationship, but also that, possibly, specific examples of organisational contexts and modes of participation could be found, in which participation would not contribute positively to the work environment or even may influence it in a negative way. To guide our investigations we formulated two research questions: 1) how is employee participation in its different degrees and forms associated with work environment quality? 2) which mechanisms are active in bringing about a positive or negative effect from participation on work environment quality?

### **Design and methodology**

The study was conducted as a multiple case study of 11 workplaces from six industries: two food manufacturing factories, two hotels, two schools, two hospital wards, two banks and one IT company. From the outset it was the intention to include two relatively similar workplaces regarding size, work processes and products from each of the six industries, but with a clear difference regarding the quality of the work environment (QWE). Ultimately, due to difficulties in getting access to companies and misleading statistics of absenteeism, which we believed would indicate QWE; this ambition was only partly fulfilled. All workplaces met the criteria of having a number of employees that made the existence of works councils plausible.

Studying the significance of participation to the work environment (WE) includes an array of aspects. On one hand, employees may have a say through formal or informal channels on matters obviously pertaining to WE (e.g. those covered by the mandatory workplace assessment form). This clearly applies to the physical WE, but only partly to psychosocial matters as these in the main are regarded as conditioned by the job or to relations between management and employees. On the other hand, the mental health and well-being of employees to a large extent depends on their influence over and integrity in dealing with exactly these matters. Furthermore, it depends on social relations with managers and colleagues. To get the full picture the study's ambition was to uncover not only the forms, channels and processes of participation, but also the level of influence (the intensity of participation) resulting from participative processes as well as its scope, i.e. the extension of influence to operational, tactical or strategic issues. We perceive influence as the possible outcome of participation: participation implies influence to the extent that decisions reflect the

opinions, ideas, and proposals of employees or their representatives, as opposed to purely management views.

Analytically employee participation and its resulting influence were defined as independent variables, while QWE was defined as the dependant variable. The study comprised both qualitative and quantitative methods. At all workplaces semi-structured interviews were conducted separately with the top manager, middle managers, shop stewards and H&S-representatives to obtain knowledge about the participative regime at the workplace. At the same time, information was collected on how participation was embedded in wider organisational structures and embraced by policies and values. Furthermore, information about the WE situation, existing problems and policies was gathered.

A questionnaire was used to get responses from lay employees asking them to assess different aspects of QWE and well-being (dependent variables) and their influence on different aspects of job performance and demands (independent variables). In addition, they were asked to assess other factors (independent variables) that are known to be of significance to WE, such as support from colleagues and recognition from management. Response rates varied from 51 to 79 percent, with the exception of one case at 33 percent. A third data source comprised of documents from each workplace, relating personnel and work environment policies, absenteeism statistics, minutes from works council and H&S committee meetings and H&S workplace assessments.

The analysis followed consecutive steps. 1) each workplace was analysed, 2) the two workplaces in the same industry were compared, 3) comparative analysis across the whole sample of 11 workplaces based on the questionnaire responses was conducted supplemented with statistical correlation analysis. To assist in the interpretation of differences and patterns in this comparison a model or typology of 'participation profiles' was used that reflected the way participation was embedded in specific organisational structures and values at the different workplaces. While in this article we must abstain from presenting detailed results from the two first analyses we will, in the following, present our main findings as to how the quality of the work environment is associated with 1) the strength of participation, and 2) different modes and organisational contexts of participation.

### Findings: the interplay between participation and QWE:

By transforming the employees' qualitative assessment of their work environment (WE) on a scale from 'very bad' (1) to 'very good' (5) into a numerical scale from 0-40, the questionnaire responses were quantified. Likewise, the employees' experience of stress, fatigue and problems in work-life balance were quantified (and added together). In the table below, the aggregated levels at the 11 workplaces are displayed. For well-being the order is reversed so that a high level indicates the relative absence of mental problems.

Table 1: **QWE-scores**. The scores on different aspects of work environment and well-being for the 11 workplaces (the two highest scores on each dimension are shown in bold). The order of workplaces reflects their score on the first variable, the total work environment.

Workplace	Total work environment	Psychosocial work environment	Physical work environment	Well-being
Hospital Y	<b>33,0</b>	<b>33,0</b>	<b>35,1</b>	<b>30,0</b>
School X	<b>29,0</b>	28,0	28,0	27,7
IT X	28,8	27,6	<b>30,5</b>	26,7
Hotel X	28,3	<b>29,6</b>	25,2	26,8
Hotel Y	28,3	27,8	26,5	25,5
Bank X	27,9	27,3	29,4	24,8
Bank Y	27,6	27,1	27,6	26,2
Factory X	26,2	25,8	24,5	<b>28,8</b>

Hospital X	25,8	29,4	18,9	27,3
School Y	24,4	23,4	22,0	24,4
Factory Y	22,3	22,3	23,0	20,5

If we add the scores on all four dimensions for every workplace in the table, we get almost the same rank order as results from the dimension 'Total work environment'. For this reason the score in the first column analytically was defined as QWE and carried on to the continued analysis. The scores correspond well to our findings in the qualitative study – with one exception, hospital X. On both psychosocial WE and well-being hospital X scores among the highest ranking, but falls down on total WE due to a very low score on physical WE. This was reasoned by a widespread dissatisfaction with the ward's old and run-down premises, resulting in a somewhat biased total score.

The strength of direct participation was measured by questions regarding influence on core issues pertaining to the job and workplace. Learning possibilities in the job and the existence of collective efforts to influence work demands were included as well as a question about the desire for more influence, interpreted as an indicator of a 'participation deficit'. The results in quantified form are displayed in table 2, below, where the workplaces are ordered after their score on QWE.

Table 2: Workplace scores on **direct participation** variables (two highest scores in each column in bold). (\*values in this column are reversed so that a high score means low desire for more influence)

Work place	Influence on work load	Influence on work speed	Influence on work arrangement	Information	Learning possibilities	Collective efforts	Desire for more influence*	<b>SUM:</b> Rank order
Hosp. Y	21.9	23.8	<b>29.5</b>	27.6	<b>34.9</b>	<b>27.6</b>	<b>26.2</b>	<b>1</b>
School X	<b>24.0</b>	<b>27.0</b>	<b>31.0</b>	<b>30.0</b>	29.0	19.0	<b>29.0</b>	<b>2</b>
IT X	23.8	26.1	27.2	18.4	27.0	20.0	18.1	7
Hotel X	<b>26.5</b>	<b>29.6</b>	27.8	23.5	28.3	19.5	20.9	4
Hotel Y	17.4	18.7	23.5	24.3	25.2	22.9	23.5	9
Bank X	20.3	22.1	25.8	21.2	29.4	19.7	20.6	8
Bank Y	21.0	23.8	25.2	19.5	28.6	22.4	20.5	5
Factory X	15.2	25.0	20.2	20.3	17.7	21.1	19.2	10
Hosp. X	21.8	24.0	27.7	<b>27.7</b>	<b>33.1</b>	<b>26.9</b>	23.2	3
School Y	24.1	26.1	29.3	19.8	29.0	18.1	18.3	6
Factory Y	17.2	20.4	23.0	16.4	24.2	21.3	14.2	11

Table 2 demonstrates a pretty good match between level of QWE and direct participation. The strength of representative participation was also measured and presented the same match, although a little less visible. The match becomes almost perfect if we compare the scores on psychosocial WE from table 1 (with hospital X ranking 4<sup>th</sup>) with the scores in table 2. There is also a fine match between high levels of participation and low desires for more influence, cf. the second to last column in table 2. Correlation analyses confirmed a strong and statistically significant correspondence between participation/influence and QWE. Analysis of the interplay between QWE and other variables influential in forming the WE showed that some of these variables could mitigate, at least partly, the negative effects of low levels of participation, but in most cases there was a correspondence between high levels of participation and high levels on these other variables.

## The negative side of participation

The fact that the studied workplaces agreed to let us in meant that they not only recognised the value of participation but also, by all probability, had an acceptable WE standard. Accordingly, we did not find any violations of good H&S practices. Nevertheless, the employees' responses regarding psychosocial WE showed distinct differences among the workplaces and, when compared with the national aggregated data on 'job satisfaction', placed five of the workplaces below the national average. Furthermore, in most of these cases a deficit in participation could not explain the poor result. Focusing on contextual factors and the possible outcome of a transformed mode of participation we applied 'participation profiles' as an analytical model. Based on our insight into the configuration of management-employee relations and organisational structures and values at all studied workplaces, we identified four profiles linked to one or the other of two regulatory models (IR and HRM): the IR- or partnership-model, the HRM-model, the combined IR/HRM model and the democratic model, linked to both IR and HRM. Notably, all workplaces had signed collective agreements and employed (mostly) organised labour.

Table 3: Workplaces grouped according to participation profile

<b>Democratic model</b>	<b>Partnership model</b>	<b>HRM model</b>	<b>HRM/partnership model</b>
School X Hospital Y Hospital X	Factory X Factory Y School Y	IT X Hotel X Hotel Y	Bank X Bank Y

All findings showed that participation was relatively well developed at all workplaces, but the way in which it was embedded in the organisational context differed along a number of parameters: the extent to which management as well as work organisation at the studied workplace was more or less controlled by a concern management, the way in which representative channels were developed, the way in which participation was part of an all-inclusive attempt to secure employees' voice and interests, and the way in which it was accompanied by systems of performance measurement and pecuniary rewards.

At School X and the two hospital wards, participation was embedded in a spirit and structure of genuinely democratic governance. All forms of participation were in play, but most strikingly, direct collective forms were pursued. Participation, furthermore, extended to more tactical issues than in any of the other workplaces. At the two factories and school Y participation primarily functioned as a union-management partnership and was practised very much in accordance with the formal regulatory framework. Employee representatives played important roles, but lay employees were only marginally invited to take part in decisions, except for those pertaining to their job performance. At the IT-company and the two hotels, participation was primarily a matter between the single or team of employees and their manager. Representative participation was weak, in the main limited to the mandatory H&S-structure, and the scope of participation was determined by management considerations as to what was beneficial to productivity, employee well-being being one element. Finally, in the two banks we found a combination of features from the HRM and the partnership models. The union representatives were consulted, but only on a narrow range of issues. The shaping of direct participation, for instance a recent change to team-work, was unambiguously in the hands of management and connected to productivity considerations; as one manager put it, "As long as you are a success you decide for yourself".

We found three of the five workplaces with the lowest QWEs in the partnership model. Factory X, with machine-bound work and a physically strenuous WE (but a strikingly high score on well-being) was also low on participation; hence a paradox did not exist. Factory Y, ranking lowest of all on QWE, also had a relatively low score on participation in the

responses from employees. However, management had invested quite many resources in the introduction of a 'lean' system of work organisation, at least in theory providing decision-making powers as well as responsibility to employees. Our material suggested a split in the group of employees among those seeing an advantage in the new system and those seeing a disadvantage. We saw an example of a transformed mode of participation, where the interests of employees were overruled to the benefit of productivity targets with a negative effect on the psychosocial WE. School Y, also very low on QWE and with records of teachers that had succumbed to stress, scored quite high on participation, which our qualitative material sustained. We saw it as partly a result of a transformed participation as job control had been increasingly transferred from the single employee or his workplace to central administrative bodies and partly as a result of weak use of existing options for participative decision-making (which obviously is possible as school X showed). The two banks in the combined model were both relatively low on QWE, but held middle-positions on participation. The mode of participation, however, was clearly linked to productivity targets. It might appeal to personal desires of self-realisation but was obviously ineffective when it came to influencing strenuous work demands. Participation was shaped on the conditions of (top) management and the IR structures seemed rudimentary.

## Conclusions

Our findings lend support to our main hypothesis that participation effects QWE positively. Direct as well as representative participation correlates positively with QWE. Although theoretically we cannot say anything about cause and effect in such correlations, logically it is more likely that participation causes QWE than vice versa. Other factors are also positively correlated with QWE, and, although workplace participation may be a necessary condition for high QWE, our data also demonstrate that it may not be a sufficient condition. However, the way participation is framed by management policies and embedded in the organisational context conditions the effects of participation on QWE. The stronger participation is with respect to intensity and scope and the more diverse with respect to forms, the better is QWE. In particular, it seems that direct collective participation, found at the workplaces with a democratic governance system of management-employee relations, is very helpful in resisting or compensating for strenuous psychological demands. On the contrary, the positive effect of participation may be hampered and even made to have a negative effect on the psychosocial WE and well-being, if participation is limited to operational issues pertaining to job performance, framed by a top-down involvement scheme and/or linked to productivity targets and performance control of employees.

Although our sample was small, we did find some support for our second hypotheses about the transformed character of participation, which may explain why the demand-control model no longer has general validity. Job autonomy may have increased during the past few decades, but job control, implying influence not only **in** the job, but also **over** the job, i.e. the working conditions including psychological demands, may actually have decreased as work systems and procedures have been stream-lined, standardized and computerized to serve productivity targets in increasingly larger and centrally planned organisations. Participation without access to influence in such matters is no longer capable of maintaining the necessary balance between the interests of the organisation and the interests and resources of its employees.

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# **Negotiated employee involvement in the Societas Europaea – a new mode to harmonisation and convergence or to heterogeneity and fragmentation?**

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## **INTRODUCTION**

Since the late 1960s/early 1970s various issues of employee involvement have been on the political agenda of the European Union (EU) (Gold and Schwimbersky 2008). The original political plan was to create a unitary system of economic and/or industrial democracy and to initiate upward “harmonization” of existing national systems. However, various draft Directives failed during several decades of political controversy between national and European corporate actors. In institutional terms, unanimity in the Council of Ministers constituted a necessary requirement, but fundamental and enduring differences of interest between member states prevented any solution. Finally, the Maastricht Treaty, or to be more precise its Protocol on Social Policy and Agreement changed the requirements for decision making from unanimity to qualified majority. As a consequence, one, but only one, part of this ongoing problem was solved when the Directive on the “Establishment of a European Works Council or a procedure in Community-scale undertakings ... for the purposes of informing and consulting employees” (EWC Directive) was passed in 1994. Ever since then it has been of major practical relevance as well as scholarly interest. Almost 900 EWCs exist (ETUI 2009) and research on their day-to-day activities and protracted problems has become the dominant topic in European employment relations research (Keller and Platzer 2003).

However, the other part of employee involvement still remained untouched if not dormant. Over the years, suggested changes were characterised by their increasing degree of flexibility. The first proposals of the 1970s intended to introduce one, and only one, highly standardised model. Later on, proposals changed towards a menu of options companies were supposed to choose from. Finally, the project even disappeared from the political agenda for quite some years (Sorge 2006).

The report of the so-called Davignon group (Group of experts 1997) was the beginning of the final stage and managed to provide the key for the solution of a long lasting political stalemate in a diverse European polity. In 2001, a political compromise was struck in the regulation of the European Company (Societas Europaea or SE). It consists of two interrelated parts, the “Regulation on the Statute for a European Company” (2157/2001/EC) and its “Directive supplementing the Statute for a European Company with regard to the involvement of employees” (2001/86/EC). Both parts create an integrated new legal structure for corporate governance at the supranational level and are intended to progress both economic and social integration. As the latter has been largely neglected to date, these regulations will make an effort to contribute to the “social dimension of the internal market” (in Delors’ terms) or to the development of a “European social model” (in more recent terms).

For the purpose of this paper, the Regulation is of less importance than the Directive. The former is directly binding and applicable in all member states, whereas the latter had to be transposed from European into national legislation by all (old and new) member states within three years. The SE Directive is of fundamental interest for all problems of European employment relations in general as well as for new forms of collective voice and



representation in particular. Its mode of regulation differs from existing, purely national forms as well as from former European ones but has some striking similarities with the already existing EWC Directive. Both are characterized by their procedural rather than substantive mode of regulation. Furthermore, in contrast to existing national forms of regulation, all issues of employee involvement are not preset by legislation but are freely negotiated between central management and the employees of the company. Finally, employee involvement in the context of SEs can consist of two closely interrelated levels, the SE works council (SE WC) for information and consultation purposes and board level representation.

The paper will discuss neither the protracted history nor legal technicalities because both have been extensively discussed in the existing literature (Gold and Schwimbersky 2008; Van Greven and Storm 2006). Instead of dealing with these more or less well-known issues we will focus on important but widely neglected problems and present a systematic empirical analysis of negotiated forms of worker representation and employee involvement in the normal SEs established between late 2004 and the beginning of 2010, the period covered in this paper. These early cases are of special interest for two interrelated reasons. First, they constitute the first empirical results of the legal provisions for this new supranational form of corporate governance. Second, their negotiation and practice define rules and principles for all future SEs and, thus, initiate path dependencies of lasting impact. They mark a major change from the previous focus on EWCs and are of significance for future public policy debates.

The questions we address in this paper are: What do these new forms of collective voice and representation at the supranational level look like? What is the relevance of SEs for the development of an emerging system of European employment relations in a broader perspective? What is their impact for the advancement of the European social model? Is negotiated employee involvement in the SE likely to lead to a new mode of harmonisation and convergence or rather to heterogeneity and fragmentation?

In methodological regards the paper is based on an analysis of the existing literature, including a large number of company documents, the only valid quantitative database on SEs (<http://ecdb.worker-participation.eu>), a series of semi-structured interviews with representatives of both sides and non-participant observation in some official meetings. Individual SEs constitute our point of departure but we provide a systematic analysis instead of dealing with individual examples (as for example Biehler 2009 does).

## **ONE CAVEAT: VARIETY OF EMPIRICAL TYPES**

By 15/03/2010, 535 SEs were registered in the registers of the EEA member states (European Company Database 2010).<sup>1</sup> The indicated legal provisions are quite different from the results of their implementation at enterprise level. In contrast to all former assumptions and the intent of the Directive, not only “normal” SEs with both, business activities and employees, but also various unexpected forms have to be distinguished:

- “Empty” SEs are economically active but have no employees,
- “shelf” SEs are inactive,
- for “UFO” SEs only few details, such as their names, are known from the registers. Some indicators provide strong hints that these cases are also empty or shelf SEs.

The existence of these various forms is the first major unexpected result of implementation. These exceptional forms of SEs without economic activity and/or employees even represent the majority in absolute figures: 399 out of 535 and therefore about 75% have to be categorized in one of these three forms (European Company Database 2010). The decisive question for the purpose of this paper is, if these SE are of relevance for issues of employment relations. On the one hand, one could argue that these companies are not of direct importance, as no employees are concerned. Especially for empty SEs, this argument

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<sup>1</sup> These 535 SE are the SE still existing. A couple have already been deleted from the register (for example, because the company was ceased, changed its name and/or its country of seat).

is not to be dismissed. On the other hand, we observe, that meanwhile more than 100 shelf SEs were activated – and in some cases, then employees are concerned. The decisive question is therefore, what happens, if such an “atypical SE” (Keller and Werner 2009, 417) is activated.

This differentiation leads us to the, at least for our purpose, more important form of SE: 136 (plus about 20 at present in the process of formation) “normal” SEs have both business activities and employees. Thus, they comply with the criteria prescribed in of the Directive. In quantitative regard they constitute a minority of about 25% of the cases. They are of focal interest because of their characteristics and they make up the unit of analysis for our detailed empirical analysis.

Four ways of establishing an SE are indicated in the Statute (Article 17-37): merger, holding company, subsidiary, conversion.

• <b>Merger</b>	Public limited-liability companies from two member states can form an SE by merger
• <b>Holding</b>	Public and private limited-liability companies from two member states can form a holding
• <b>Subsidiary</b>	Any legal entities governed by public or private law from two member states (or an SE itself) can form a subsidiary-SE
• <b>Conversion</b>	A public limited-liability company can convert into an SE if it has had a subsidiary in another member state for two years

Figure 1: Ways of forming an SE  
Source: Köstler 2006, 17.

In empirical perspective not all above indicated possible forms of establishment are of equal, and not even of similar relevance: By far, conversions are the most frequent form followed by mergers; the formation of a holding company or a subsidiary is of next to no practical importance for normal SEs. This empirical distribution is remarkable because the long-lasting controversy about the SE Statute was dominated by the assumption that mergers would constitute the dominating form of establishment. The main reason for the choice of conversions has to do with the motives of foundation; we come back to this surprising aspect in the next section.

All in all, the rather detailed and complicated distinction of legal forms is, at least for the time being, not of major empirical importance. Anyway, one more finding is quite astonishing: Another form of establishment, which is not foreseen in the Statute, plays a surprisingly important role: 30 out of the 136 normal SE result from an activation of a shelf SE. Later on, we also explain the implications for issues of employee involvement.

## PRELIMINARY ANALYSIS AND EXPLANATION

Concerning the date of establishment, there is some slow numerical growth, i. e. some increasing interest in the new legal form exists. The sluggish start had to do with the distribution and availability of information about the new opportunities as well as with initial uncertainties and delays of transposition of the Directive in some member states. In a comparison of 2009 with 2008 it seems that there is some kind of settling down at a certain level. Anyway, due to the limited number of observation periods, it is still too early for final assertions about the development.

Year	No. of SEs established	No. of normal SEs established
2004	7	2
2005	14	3
2006	31	12
2007	84	38
2008	176	46
2009	178	30
2010 (until March, 15 <sup>th</sup> )	45	5

Table 1: Establishment of SEs (total) by year  
Source: European Company Database 2010 and own research.

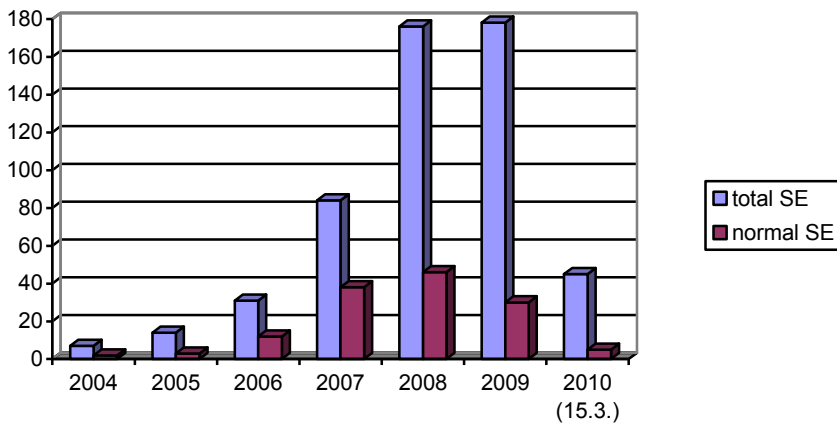


Figure 2: Establishment of SEs by year  
Source: European Company Database 2010 and own research.

Some characteristic features (which are connected for example with a number of employees threshold in certain member states or with specific sectors, we will come back to this later on) are the reasons for the growing interest from the beginning. It seems as if company-specific and not sector-specific problems are the decisive factors for the establishment. First of all, there is a more or less accidental distribution across sectors/industry; there are normal SEs active in industrial as well as in service sectors; highly internationalized sectors, such as the automotive industry, are not overrepresented. At least for the time being, this specific pattern is difficult to explain because the overall number of normal SEs is still rather small.

Furthermore, in terms of company size there is no clear trend but enormous differences ranging from SMEs to MNCs or from single-digit to six-digit numbers of employees. In this regard, the SE regulation differs greatly from the EWC Directive. SEs are of non-binding, purely optional nature and leave all existing national forms of governance untouched. They can be selected by enterprises of all possible sizes, whereas only MNCs (with at least 1,000 employees in the EU and at least 150 in two member states) have to establish a EWC. This formerly unexpected present pattern of broad attractiveness could last because the Directive defines no limits in terms of company size or numbers of employees. The only prerequisite for establishing an SE is a minimum registered capital of 120,000 EUR. As originally expected (Davies 2003), some large companies have established SEs. They realize economies of scale and savings in transaction costs including administrative and legal costs. In these cases the levels of employee involvement existing at national level have to be preserved in the SE according to the “before and after” principle of the Directive (Article 7). Occasional attempts to change the status quo were not successful because of trade union intervention.

Surprisingly or not, the empirical distribution across EU member states is rather uneven. More than one half of all normal SEs have their seat in Germany, some others in Austria and the Scandinavian countries, few in the new member states that joined the EU since 2004<sup>2</sup>, but none for example in the Mediterranean countries. It is also noticeable that large MNCs whose headquarters are outside of Europe are (still) missing.

Table 3 below illustrates that the new legal form is overtly attractive for German companies. The explanation for this regional concentration has to do with peculiarities of the German system of co-determination. According to the Co-determination Act (*Mitbestimmungsgesetz*) of 1976 all private and public limited companies with more than 2,000 employees are subject to stricter forms of co-determination and have to provide parity between employers’ and employees’ representatives on their supervisory board. According to the One-Third Participation Act (*Drittelbeteiligungsgesetz*) of 2004 companies with a workforce of 500 to 2,000 have to establish a supervisory board and employee representatives constitute one

<sup>2</sup> The distribution across countries is different if we look not only at normal SEs. For instance, in the case of shelf SEs, there are many companies registered in the Czech Republic (table 3).

third of its members. If a company comes close to the threshold of 2,000 employees the establishment of an SE is an attractive legally provided option to avoid changing the composition of the supervisory board. If a company has close to 500 employees this option is appropriate to prevent the establishment of a supervisory board.<sup>3</sup>

The new legal form of SE provides companies of certain critical sizes with an easy way out of national rules and creates a comfortable option that was not available under purely national forms of regulation. This strategy should not be labelled “escape from co-determination” in its rigorous sense because these companies have never been subject to stricter forms. “Avoidance of stricter forms of co-determination”, “freezing of existing standards” or “preservation of the status quo ante” are more accurate descriptions. It remains to be seen, of course, if this emerging trend will continue and stabilize.

Member State	No. normal SEs by 15.3.10	No. shelf shelf SEs by 15.3.10	No. empty SEs by 15.3.10	No. UFO SEs by 15.3.10	total
CZ	18	43	4	175	240
D	72	19	20	13	124
UK	2	0	16	6	24
NL	8	0	12	4	24
SK	2	6	1	11	20
F	8	0	1	9	18
L	2	1	6	7	16
AT	7	0	5	2	14
CY	4	0	1	5	10
S	2	2	1	3	8
B	1	0	0	7	8
N	4	0	2	0	6
EST	4	0	0	1	5
EIR	0	0	3	2	5
FL	0	0	0	4	4
LV	1	0	1	0	2
HU	1	0	1	0	2
PL	0	0	1	1	2
DK	0	0	0	1	1
E	0	0	1	0	1
P	0	0	0	1	1
BG	0	0	0	0	0
FIN	0	0	0	0	0
GR	0	0	0	0	0
IS	0	0	0	0	0
I	0	0	0	0	0
LT	0	0	0	0	0
M	0	0	0	0	0
RO	0	0	0	0	0
SLO	0	0	0	0	0
<b>total</b>	<b>136</b>	<b>71</b>	<b>76</b>	<b>252</b>	<b>535</b>

Table 2: Distribution of SEs across member states  
Source: European Company Database 2010 and own research.

## FORMS OF EMPLOYEE INVOLVEMENT I: THE SE WORKS COUNCIL

The conclusion of autonomous negotiations on employee involvement constitutes a necessary precondition for the official registration of a SE in the country it is headquartered in (Article 12 of the Regulation). In the founding phase a so-called special negotiation body (SNB), whose election and all other procedural issues are indicated in the Directive (Article

<sup>3</sup> Furthermore, the Directive provides the choice between monistic and dualistic forms of corporate governance. We will come back to this issue.

3), constitutes the representative organ of the employees and negotiates on their behalf. Its principles are similar to those of the EWC Directive. Both are based on a strict priority for negotiated solutions.

We assume that negotiated forms of employee involvement will, almost by definition, lead to an increasing degree of heterogeneity between individual SEs (and, of course, national companies operating under another legal form) instead of some minimum of homogeneity and a certain extent of standardisation across industry in the case of legal enactment. Its consequences will consist in the development of new, tailor made arrangements and, thus, an overall loss of transparency. No SE will be like any other in terms of “information and consultation”. In qualitative regard, these negotiated forms at European level are weaker than legal rights of strict co-determination at national level. They could possibly lead to some new form of “enterprise specific” Industrial Relations that would be separated from “their” regular national or sector-specific forms and would exist next to them.

The first examples demonstrate that the SNB constitutes no monolithic bloc because it represents rather heterogeneous if not even contradictory interests. Processes of internal bargaining between representatives from different countries take place (among others, about the final distribution of seats) (Keller and Werner 2008). These internal difficulties must be settled and common positions must be reached before negotiations with management are launched; otherwise employees’ bargaining position is weakened. Furthermore, both sides can make use of external resources (Art. 3 (5) SE-Directive) to improve their bargaining position in the negotiations. The management side frequently hires law firms. The SNB utilizes the expertise of representatives from national or supranational unions.

The Directive allows for three potential outcomes (zero option, application of standard rules, agreement – table 3). In reality, however, these negotiations mostly lead to some kind of compromising agreement because no side is interested in their failure. In this procedural regard, the legal prescription that negotiations have to be concluded before the registration of the SE can take place (Article 12 of the Regulation) is of major importance. In substantive regard, they result in tailor-made, rather “flexible”, non-standard forms and mechanisms of employee information and consultation. These outcomes (including size and composition, available resources such as release from work, opportunities of training and education, number of ordinary and extraordinary annual meetings, terms of office) have lasting consequences and define “constraints and opportunities” for all future everyday activities of the SE WC.

<ul style="list-style-type: none"><li>• <b>Option 1: “zero option”</b> → if the SNB decides not to start or to cancel negotiations (with 2/3 of the votes representing at least 2/3 of the employees and employees from at least two member states) → an EWC as a transnational organ of employee involvement is only possible if the preconditions of the EWC Directive are fulfilled</li><li>• <b>Option 2: Agreement about employee involvement</b> → according to Article 4 of the Directive → “normal” scenario</li><li>• <b>Option 3: standard rules apply</b> → if no agreement is reached between the parties → if no agreement is reached before the deadline and the governing bodies of the companies approve the continuation of the procedure</li></ul>
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Table 3: Possible outcomes of the negotiations about employee involvement  
Source: Köstler 2006, 24.

In most agreements, two regular annual meetings are agreed upon, in some cases the parties could arrange only one. Extraordinary meetings are usually possible in the case of events with exceptional consequences for employees. The size and distribution of SE WC seats depends on the number of employees and their distribution across member states; usually this was no controversial topic during negotiations. In some cases, also employees from outside the EEA (especially Switzerland) were included. Especially in larger SEs, smaller steering or select committees exist as sub-units of the SE WC and are responsible for the organization of day-to-day activities.

The so-called “standard rules for information and consultation” (Article 7 of the Directive) define default standards of employee involvement if no agreement can be reached within the comparatively short period of six months. These statutory fallback provisions are of relevance in the vast majority of negotiations because they constitute a certain baseline that can hardly be undercut (Keller and Werner 2008). They establish a certain “shadow of the law” for both sides: Management can hardly offer less favourable conditions without taking a high risk of failure, the SNB can hardly achieve more without management’s voluntary consent. Therefore, these “standard rules” are comparable to the “subsidiary requirements” of the EWC Directive (Article 32). – Furthermore, if a EWC existed before the establishment of the SE, this institutionalized body of interest representation is usually transformed into an SE WC, in other cases an SE WC is established. The level of information and expertise available for the SNB is higher in the former case – and can be of major impact during the negotiations.

From our data it is obvious that, as in the case of EWCs (Kerckhofs 2006; ETUI 2009), national trajectories including their customs and practice exert a strong influence on the specific character of SE WCs. They can be designed as employee-only bodies, as in Germany, or as joint bodies, as in France or Belgium. SEs have followed their national path dependencies: All SEs headquartered in Austria or Germany have established employee-only SE WCs whereas SEs headquartered in France have opted for joint bodies. It remains to be seen however, if these different forms of establishment and composition will lead to different outcomes.

Anyway, in regard of this evidence we do not include all 136 normal SEs, as one could possibly assume, but only a minority of 56. Rights of information and consultation exist only in these limited number. In other words, in the majority even of the normal SEs there are no such rights, not to mention the atypical forms.<sup>4</sup> In the remaining 80 normal cases, there have been negotiations in some cases, but a more or less voluntary abdication and therefore the “zero-option” resulted; in other cases there were no negotiations at all. The question has to remain open, why the companies were registered in these cases.<sup>5</sup>

Finally, the quality of opportunities differs. It has to be pointed out that SE WCs do not have genuine rights of co-determination and co-decision-making but only much weaker rights of information and consultation. In this regard they are roughly comparable with EWCs whose ability to influence decisions are, however, less favourable because fallback arrangements are different in both Directives. In qualitative regard the options of SE WC differ from those of some of their national counterparts (especially but not only German works councils).

## **FORMS OF EMPLOYEE INVOLVEMENT II: BOARD LEVEL REPRESENTATION**

Basically two forms of corporate governance at board level exist in individual countries. So-called one-tier (or monistic) systems have only an administrative board (or board of Directors) (such as in the Anglo-Saxon countries) whereas two-tier (or dualistic) systems consist of a management board and a supervisory board which monitors the former (such as in Germany). In empirical regard, the question of superiority is undecided (Nagel 2007) and trends towards convergence are difficult to detect.

The majority of EU member states (19 out of 27) provide for some kind of employee representation at board level (Kluge/Stollt 2007). In contrast to the vast majority of existing national regulations, SEs have the free and unrestricted choice between both forms irrespective of their future headquarters and independent of employees’ preferences. The

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<sup>4</sup> These 56 cases are headquartered in an even more limited no. of countries: 40 in Germany, 4 in France respectively Austria, 3 in Norway, 2 in Cyprus, and one each in Luxemburg, the Netherlands and Sweden.

<sup>5</sup> The problem of non-negotiations is especially relevant for the activation of shelf SE: Only in two out of 30 cases negotiations took place after activation.

SNB plays only a reactive role because this basic decision is initiated and made by management and owners before negotiations about employee involvement are launched. Negotiations are more complex than in the case of EWCs because both levels of employee involvement have to be covered.

In empirical terms the distribution of both forms is quite similar. 60 out of the 136 normal SEs have a one-tier, 76 have a two-tier structure. Furthermore, two distinct developments can be observed.

On the one hand, certain impacts of national trajectories are to be detected. This assumption about path dependence is especially valid for larger companies that save transaction costs because of a unified management and reporting system. SEs, especially larger ones, from countries with two-tier structures (such as Germany or Austria) usually keep this form of corporate governance and have to preserve the pre-existing levels of employee participation. In other words, standards of national regulation are not drastically lowered in the transition from the national to the new European form – but are, of course, not improved either.

On the other hand, quite some changes of governance structures did happen – at least so far – only in one direction, i.e. from two-tier towards one-tier forms. The common denominator for these remarkable transformations is the structure of ownership in combination with company size. These options of change are especially popular for SMEs whose majority of shares belongs to one family. These owners, whose vast majority are Germans, have strict preferences for a corporate governance structure of their own choice. They intend to avoid any restriction of their “managerial prerogatives” by introducing parity on the supervisory board and, thus, closer cooperation with influential employees’ representatives, without, however, formal representation on the administrative board. For them, the SE provides the opportunity to accomplish their goals and to limit employee rights to information and consultation by an SE WC.

The empirical facts illustrate these findings: Only one SE, that “changed” its corporate governance structure, provides for board level participation rights. In total, only four of the monistic SEs have implemented such rights, while 22 of the dualistic ones do. But again, only in a minority of 26 out of the 136 normal cases board level participation rights exist.<sup>6</sup>

It remains to be seen, however, if the first empirical examples represent isolated decisions by individual owners or if they are forerunners of a broader trend in the future. If a larger number of similar SMEs imitate this strategy, future challenges at national level, i.e. some kind of erosion, are to be expected.

Another most recent development of “regulatory arbitrage” especially in larger SEs refers to the size and composition of the board. Its size is fixed by the owners in the ‘terms of foundation’ and can hardly be changed during the subsequent negotiations between management and the SNB, even if the results of negotiations have priority in legal terms. There is, at least in a handful large German cases, a certain trend towards a smaller overall number of members and “slimmer” boards, but not towards smaller boards of directors. The indicated arguments are reasons of greater efficiency – or pure ideology. Some SEs with headquarters in Germany have reduced the overall number of seats on their supervisory boards. This measure applies to representatives of employers and employees equally. Therefore, it does not result in a weakening of employees’ rights on parity representation, as trade unions sometimes fear, and the pre-existing proportions of representation and balance of power between capital and labour respectively are preserved. Some employee representatives claimed in interviews however that they had difficulties obtaining some of the information that management was obliged to provide.

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<sup>6</sup> These 26 SEs are distributed as follows: 21 have their headquarters in Germany, 3 in France and 2 in Austria. Therefore, only a minority of EEA member states is – until now – empirically directly affected by SE board-level representation. This picture gets only slightly improved, if one compares the member states composition of the employee representative in these 26 boards (see text).

A more detailed analysis shows that the number of external members, who are supposed to represent broader and more general interests, is reduced usually on both sides. Therefore, their impact on processes of decision-making will be more limited than it used to be on purely national boards in the past. This emerging trend to exclude “outsiders” seems to be one implicit goal of management, especially in larger SEs. It indicates a transformation towards forms of trans- or supranational “enterprise-specific syndicalism” so far widely unknown at national level. If this tendency continues it will have far-reaching consequences for existing national forms and their customs and practices because it takes only a smaller and more limited spectrum of (“insider”) interests into regard and increases the already existing degree of fragmentation.

Anyway, it has to be stated that some kind of internationalization of boards can be observed. National systems of board level representation tend to be quite “introverted”, only “domestic” employees have voting rights while employees in foreign plants or subsidiaries do not (Däubler 2007, 274 for a criticism on this issue). This constellation of rights and interests has only slowly changed and gradually included some transnational perspectives. In other words Europeanisation, not to mention globalisation, has only been of recent relevance in the day-to-day practice of employee participation. In this regard, a striking finding is that meanwhile there are more than 20 foreign employee representatives on different supervisory boards (e. g. from the UK, Poland, Belgium or Italy). Therefore, some trade unionists state an “export” of co-determination to member states without such rights at national level. In our interviews, these representatives usually praise their new position and emphasize their new rights. Some even tell us, that they have new possibilities “to do something” in their own member state, especially if they talk as board level representative of the (mother) SE to the management of a national subsidiary. Anyway, representatives from countries with high standards mention that this coin also has another side: They say that the loose influence due to a “dilution” of a well-institutionalized system. All in all, the impact of this limited number should not be overestimated.

Furthermore, there is empirical evidence for certain trade-offs between negotiation objects at both levels, SE WC and board level representation. These exchanges are only possible because negotiations deal with both levels simultaneously despite the fact that both are legally independent from each other. The enterprise-specific division of labour between both bodies of interest representation is the result of autonomous negotiations, not of legislation. Among others, if the SNB agrees on a smaller size of the supervisory body it is sometimes able to achieve more rights and resources for the SE WC (such as the implementation of a controlling system for the co-operation). Cross-national trade-offs can happen because of differing interests of national representatives of the SNB (Keller and Werner 2008).

For the time being, the perspective of collective bargaining at SE level is not a realistic one. In the long run, however, this option could evolve in at least some SEs and create additional problems for persisting national systems, especially for those of dual nature because it would weaken their important sectoral pillar. Potential objects for this kind of “enterprise-specific” bargaining would be “soft” ones (such as working time or training/re-training) instead of “hard” ones (wages and salaries).

## **CONCLUSIONS AND OUTLOOK**

In times of deregulation and liberalization of product as well as labour markets, the principles of regulation at EU level have shifted from substantive to procedural forms. Since the early 1990s regulation covers procedural issues only whereas all substantive ones are left to decision-making by private actors at the enterprise level. The well-known EWC Directive constitutes the prototypical example. The SE Directive also fits into this overall more recent pattern and continues and even strengthens it. Both are also strictly in line with the principle of subsidiary.



In contrast to the long list of failed draft directives especially of the 1970s (Sorge 2006), the ultimate goal is not upward “harmonization” of existing national systems but the definition of a floor of rights at minimal level. This regulatory approach attempts to protect national systems (with comparatively high standards) against any kind of deterioration – without, however, always being able to succeed. This goal is less ambitious than its predecessors but most likely more realistic, especially in the EU of 27 member states with rather heterogeneous systems of employment relations, conflicting national interests and resistance to fundamental changes.

Our empirical analysis demonstrates that the SE constitutes another prototypical example of “negotiated Europeanization” (Lecher et al. 2002) by public and private actors. This peculiar combination of legislation at supranational and negotiation at national and enterprise levels was unknown in the vast majority of EU member states. This specific, relatively new mode of regulation leads to tailor-made, enterprise-specific, highly flexible procedures and, therefore, to rather heterogeneous types and forms of employee involvement instead of relatively uniform, standardized ones. In contrast to former regulatory strategies, its goals do not consist in any ambitious kind of European upward “harmonization” or unifying “convergence” of differing national forms, but in the best possible case in the pure conservation of nationally institutionalized formal rules and informal standards. The most likely consequence of the implementation of this “voluntaristic” political choice are emerging trends towards enterprise-specific forms and increasing divergence not only between but also within member states as well as between individual SEs; even certain tendencies of fragmentation instead of convergence seem possible.

We mentioned earlier that there has been a certain increase in the number of normal SEs. If this trend continues, the SE will be of some although probably limited impact for the Europeanization of employment relations and the development of a European social model in the future. It remains to be seen if it constitutes a general “danger” for (at least some) national systems of employee involvement in the long run, as some observers, especially trade unionists, assume. If the numerical trend accelerates this fear might be correct. There are empirical indicators, especially the indicated changes in the form of corporate governance, for the assumption of a stricter orientation towards the Anglo-Saxon.

Two final caveat has to be made. First, the overall number of normal SEs is still small because their establishment is not obligatory and the option is still relatively new. We know, however, from the EWC experience that the first examples constitute relevant test cases for all future ones. Second, we had to focus on the stage of establishment without being able to do research on the actual day-to-day work of the new institutions in individual SEs. This task constitutes the next challenging step for follow-up studies.

Last but not least one has to keep in mind that all judgments depend on the specific national point of view. From a non-German perspective the SE creates the first opportunity for employees’ representatives from some countries, among others the UK, to be informed and to participate in managerial decision-making (Fulton 2006). Some optimistic observers have even talked of an “export of co-determination” and, thus, have quite obviously exaggerated the potential impact of the SE for employee involvement. One could conclude, however, that various national systems are unevenly concerned. Countries with high standards (such as Germany and Austria) will profit less than some others (such as the UK, Ireland and some new member states).

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### **Board level representation – still an unused resource?**

Track 2: Workplace relations and HR – back to collectivism?

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#### **Abstract:**

During the 1970ies changes in the legislation in a number of European countries gave way for employee representatives at company boards. In Norway employees may demand representation if the number of employees exceeds 30. However, almost 40 years after the introduction, recent studies show that the representatives are only found in approximately 50 per cent of the companies. Thus, the main question in this paper is simple: **Why do the employees not exercise their right to elect representatives?** And in particular; how to explain that even in companies with collective agreements, approximately 1/3 do not demand representation? The question has important strategic implications for the trade unions in countries with – in a comparative context – strong and comprehensive participation and co-determination rights: should the way forward be to fight for the expansion of rights or to concentrate on making the best possible use of the existing collective agreements and legislation? Our findings indicate that the status of the board, the relationship between the board and the CEO and the relationship between the CEO and the trade union reps are the three most important factors behind representation.

## 1. Introduction

During the 1970ies legislation on board level employee representatives (BLERs) was introduced in a number of European countries. The arrangement has not attracted much attention from researchers. The knowledge on how the representatives behave, their level of influence and their importance as a part of the different national labour market models and Corporate Governance regimes, is scarce. Even among trade unions little attention was directed towards the representatives in the 1980ies and 1990ies. The arrangement was "just there" and the old debates from the 1960ies and 1970ies fell silent, even if no conclusions was reached on questions like; how to balance the role of being responsible for company matters and at the same time representing a free and strong opposition in the company? How to balance the role of an employee director or representative (BLER) and a trade unionist? And further - what about the social and cultural inferiority and the lack of knowledge that was said to undermine the position of the BLERs?

The different legal systems and the different labour market models in Europe obstructed the attempt to establish a common European legislation on BLERs and to establish a common European company model (Laagland and Zahl 2010). In a number of countries, also the trade union movement was highly critical to this approach to employee participation (Taylor 2005).

However, after the establishment of the European Companies (SE and SCE companies) and later the CMB-directive (Directive 2005/56/EC) BLERs have re-entered the debate on employee participation and co-determination. Co-determination and BLERs are major issues in the present debate on European Private Company (SPE companies) and the attention both among trade unionists and researchers have increased.

The ongoing debate on Corporate Governance (CG- see e.g. Clarke 2004) has also contributed to more attention towards the BLERs. What are the interests of the company and what role do the BLERs have in the different models of CG? A common assumption is that BLERs may be perceived as a token of a stakeholder oriented model. And further, BLERs often occur as one of the variables in comparative analysis of the different labour market models (see Jackson 2005, Vitols 2005 or Hagen 2010a). In these studies BLERs are treated by a dummy-approach at national level, either a country has BLER legislation or not.

However, one very important question is yet to be asked and answered: how many companies and employees are covered by the different arrangements? If BLERs are to make a difference, both at macro level and in the individual company, we need to know how many and where they are; what is the extensiveness or the use of the arrangement? A recent study shows that in only approximately 50 per cent of the Norwegian companies the employees exercise their right to demand representation (Hagen 2008). In Denmark, 12 per cent of companies with less than 100 employees have employees serving on the board. In companies with more than 500, the proportion increases to 81 (Lavesen and Kragh-Setting 2007). In Sweden, only covering the industry-sector, employee representatives are found in  $\frac{3}{4}$  of the companies (Levinson 2006).

The Scandinavian countries are all examples of labour market models where employee participation plays an important part. If looking into the different arrangement and the number of employees needed to implement the privileges in a comparative perspective, Scandinavian employees enjoy the highest level of participation and co-determination.

Even so, as the figures above illustrate, in a substantial part of the labour market the right to board level representation is not exercised.

Using the Norwegian data, in this paper we ask a very simple question: Why not? How can we understand the fact that the Norwegian arrangement, one of the most extensive in the world, is not utilised in more than half of the companies?

The question is important for a number of reasons. If we believe that participation and co-determination is one of the advantages of the Norwegian model, both in international business competition and also as a tool for the improvement of work satisfaction and democracy, we need to know more about the “non-use” of the arrangement. What are the features of the company and the collaboration between the social parties in companies where the arrangement is established? And secondly – the answer to the question has important policy implications for the trade unions: Should they fight for the extension of the arrangement, e.g. lower the number of employees needed to demand representation or should they try to make the most out of the present legislation, e.g. ask the local trade unions to give higher priority to the arrangement? Or both?

The paper is divided into five sections. A snapshot of the Norwegian legislation is given in the next section and also some additional figures of coverage. Then we move on to the third section where we present our research questions and the empirical studies. The main results are given in the fourth section and in the fifth we conclude and draw some further research implications.

## **2. Background – 50 per cent in 40 years**

The fundamental rights and obligations that regulate industrial relations are primarily found in agreements in Norway. The right to participation are found in the “basic agreements”, each a central agreement that are being adapted by the local partners. One of the main points in the Norwegian system is that the trade unions’ representatives constitute the partner with whom management must negotiate at the different levels in the company. The system is upheld and practised by employees who hold office in the national trade unions’ *local branches* and are not linked to elections of representatives where all the employees have the right to vote (cf. the German work council model). Trade union representatives are elected by the members in the company. The density and the legitimacy among members are thus an important power resource. 55 per cent of private sector and 100 per cent of public sector is covered by collective agreements, in total the figure is 70 (Stokke and Løken 2009).

However, contrary to the participation at company level in general, the right to demand representation at board level is found in the legal framework (the Company Acts). There is only one agency with the term “board” in the company laws. The Norwegian (as well as in Sweden and Denmark) legislation does not divide between a management and a supervisory board. The board has both managerial and supervisory tasks; however, the day-to-day running of the company is *delegated* to the CEO. Nørby (2001) uses the expression “one and a half-string system” when outlining the principle. This legislation implies that the role (and thus importance and influence) of the Scandinavian BLERs may differ from e.g. the German, where the representation is limited to the supervisory board.

The laws covering BLERs were adopted during the 1970ies, “the decade of freedom and democracy”, a period when *industrial democracy* was still on the agenda (Bergh

1983, Kluge 2005, Christensen and Westenholz 1999). In 1972 employees in Norwegian companies were given the right to demand representation at board level. If the company is considered a legal entity of its own, it will, with a few exceptions, be covered by the legal framework on employee representatives, irrespectively of sector or ownership. The requirement for demanding one representative is 30 employees. In companies with more than 50 employees, they may demand 1/3 of the board members. If the number of employees exceed 200, representation (1/3) is compulsory. Corporations (mother companies or group companies) are covered by the same rules (see below).

The legislation implies that the company has no obligation to ensure employee representation unless the number of employees exceeds 200. The representation has to be demanded by the majority of the employees. Only employees are eligible, the representatives must be employed by the company. If they choose to take on a new job in a different company, they have to step down.

Table 1 shows the proportion of companies in the different categories where employees are represented at the board (the survey is presented in the next section).

Table 1 Proportion of companies with employees serving at the board by company size and company status.

	All	Mother companies	Subsidiaries	Independent companies
30 - 49 employees	37	26	39	42
50 -199 employees	59	65	61	52
200+ employees	74	70	72	81
Total	53	52	57	51
N	1000	250	376	374

Source: Fafo 2007

Two results may be extracted from table 1. Company size seems to be an important variable, but company status does not make an important difference. In total the proportion is 53. However, particularly when looking at the smaller companies (30-49 employees), note that the proportion in the mother companies is low compared to the others.

More than half of the companies in private sector in Norway are part of a corporate structure (group of companies fully or mainly owned by the same mother - NOU 2010:1). Being part of such a structure imply that the employees are entitled to demand representation at both the company level board and the mother company board. As a member of the "mother-board" the BLER may either represent only the employees in the legal mother entity or all the employees in all of the companies in the group (mother plus all subsidiaries). The same number of employees is needed; if the mother company including subsidiaries have more than 30 employees, representation may be demanded. If representing all of the employees, the arrangement is labelled "group". It is not necessary to be employed by the (legal entity) mother company to be eligible to serve as a group BLER, but if not, you have to be employed by one of the subsidiaries.

Our data indicates that among the 250 mothers/groups in our sample:

- In 48 per cent the employees have no representation at all
- In 14 per cent the BLERs represent (and is elected by) the employees in the mother company only
- In 31 per cent the BLERs represent (and is elected by) all the employees in the group

- In 7 per cent of the cases, the CEO answers “don’t know” to our question. This probably imply that the BLERs is elected by the employees in the mother only, but the CEO is uncertain concerning whether the BLER regard him (or her)self as representing all of the employees or not,

Organising and electing group BLERs require a high level of coordination among the employees in different companies in the group. Thus, we would assume that the number of subsidiaries are important when looking at possible representation from all of the employees in the group, Resent studies (Hagen 2008) indicate that this is not the case, the number of subsidiaries is not important.

There is no official register on BLERs in Norway that may help us answer identifying the feature of companies where representation is established. In table 2, the results from our logistic regression are presented.

Table 2 Logistic regression BLERs. N=885. Source; Fafo 2007.

	B	St.error	Sign
Constant	-1,6	0,377	0,000
Collective agreement	0,879	0,168	0,000
Number of employees	0,674	0,121	0,000
Dominant owner*			
Norwegian private	-0,676	0,221	0,002
Norwegian institutional	0,178	0,275	0,516
Foreign institutional	0,109	0,306	0,721
Norwegian state/municipalities	1,303	0,368	0,001
Sector			
Industry	0,695	0,251	0,006
Construction	0,056	0,309	0,856
Trade	-0,069	0,284	0,809
Transport	-0,404	0,336	0,229
Finance and real estate	0,113	0,283	0,689
-2 Log likelihood=1034,406 Nagelkerke R Square=0,259			

\*Dominant owner= First we asked whether or not the company/mother company had any dominant owner(s). If the answer was yes, we asked which category the owner(s) belonged to. In table 2 we only show the results from companies that answered yes on the first question. However, we also made a regression analysis where a dummy variable (dominant versus no dominant owner(s)) was included. This analysis showed no significant result on this variable (see Hagen 2010).

The regression analysis results in significant impact on three different variables in addition to company size; i) collective agreement - if there is a *collective agreement* the likelihood of finding BLERs increase, ii) ownership - if the company has Norwegian private owner(s) the likelihood decreases. This is probably a result of family ownership (see below). If the company is dominated by public ownership (state or municipality) the likelihood increases. iii) sector is important in the sense that the probability of finding BLERs is larger in the industry sector than in the rest of the labour market. The Nagelkerke R Square=0,259, which imply that the analysis has some, if not very large, explanatory power.

In short, if you are employed by a large state (part or wholly) owned industry sector company covered by collective agreement, the probability of being represented at board level is far higher than if you are employed by a small non-organised family company in one of the others sectors. It is worth noticing that foreign ownership do not give a significant result, this might imply that foreign owners adapt to the Norwegian participation model.

Lack of representation might be perceived as what we would label “*the fundamental challenge*” to the trade union movement: employees’ lack of ability or desire to join unions and to collective organisation. Union density is declining all over Europe (with Norway as an exception, see Nergaard and Stokke 2010). The trade union movement is characterised as being on the retreat, not being able to concur the “modern individualized employee” in a globalised world. However, the general problem of collective action is not a subject for this paper. By focusing on companies with a collective agreement, the first step is already taken towards organising the interests of the workers.

Even if an agreement is, as the regression shows, important, employees in a number of companies where trade union(s) are present have not exercised their right to demand representation. The figures are shown in table 3.

Table 3 Proportion on companies with **no employee** representatives at the company board by agreement\*\*, company size and company status. Source: Fafo 2007

	With collective agreement				No collective agreement			
	All	Mother companies	Subsidiaries	Indep. companies	All	Mother companies	Subsidiaries	Indep. companies
30 - 49 employees	53	65	54	45	75	86	67	75
50 -199 employees	35	31	33	39	56	44	54	67
200+ employees	19	24	18	17	71	67	90	40
Total	37	40	34	38	66	64	63	70
N	670	169	257	244	330	81	119	130

\*\* At mother company level the CEOs were asked if there was any agreement in the subsidiaries, companies as legal entities are part of the agreements and not the groups.

In 37 per cent of companies with a collective agreement and with more than the required number of employees no BLER is found. In the largest (200+) companies, where representation is compulsory, between 17 (independent) and 24 per cent (mother company) no representation is established.

In the next section, different approaches to these findings are presented.

### 3. Research questions and the empirical studies

The question of why employees are not represented at board level may be approached from different angles: indifference, resistance, lack of resources and strategic considerations. Four different groups of actor are important: Employees, trade unions (both at central and local level), management and shareholders.



### Employee indifference

Two forms of indifference might be important: i) “pure” indifference towards collective arrangements in general and ii) indifference towards the BLER-arrangement in particular. This indifference may in turn be connected to a) an attitude stating that “leave the responsible actors alone and let me concentrate on my work, do not force me to take a stand, I don’t really care” and b) experiences or assumptions which imply that the effect or influence of ERs are of no importance. This form of indifference is closely connected to what we label strategic considerations (see below).

### Employee and trade union resistance

Employee resistance was a major issue during the debate prior to the adaption of the arrangement in 1972. Several arguments were made:

- BLERs will threaten the free role of employee opposition in the company because board membership implies taking responsibility (economic and legal) of the company.
- Regulation property rights is the duty and responsibility of the political democracy and should not be regulated at local level (that is in the boards)
- ERs will become hostages to board decisions because of the conflict between employee interests and company interests
- ERs will become a contestant or rival to the trade union reps and thus undermine their role in the company

### Employer or shareholder resistance

It is important to note that a company with more than 200 employees do not risk or suffer from any legal sanction if representation is not established; the Company laws do not provide any penalty towards the company or the board. However, as the company cannot refuse if a demand is made, management or shareholder resistance must occur prior to the demand<sup>1</sup>. The basis for employers’ resistance might be threefold

- ideological resistance based on unwillingness to limit property rights
- stating that BLERs are unnecessary; employee participation is best attended by focusing on the collaboration between the management and the trade union reps.
- All collective arrangements are unnecessary, participation is an issue between the manager and the individual employee
- resistance based on more pragmatic arguments: BLERs represent an unnecessary formalism of the board, the board will be too big, the expenses will rise etc

In relation to increased emphasis on CG and the role and rights of the shareholders, we might expect increased employers resistance in the last decade. Most CG-codes include recommendations concerning “independent” directors, whether or not the BLERs may fall into this category is a matter of debate. However, at least in the Norwegian debate, there is no or few evidence of CG as a foundation for BLER resistance among owners or managers.

### Lack of resources and strategic considerations among employees and trade unions

Lack of resources may be connected to several issues. In the “old debate” lack of knowledge, both on the arrangement as such and particularly the board tasks (strategic

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<sup>1</sup> If such attempts are made, the employees may apply to a governmental committee (“Bedriftsdemokrati-nemnda”) with the power to impose representation. This committee hardly ever grants the company exception from the regulations (Granden 2005)

knowledge, financial statements, competition and market issues) and social and cultural inferiority was said to undermine the position of the BLERs. Secondly; Norwegian trade unions struggles, as almost any other union everywhere, to make their members take part in union work and to take up positions as trade union reps at company level. In the Norwegian agreements and legislation, a number of positions are found, in addition to trade union reps and BLERs, we also have health and safety reps and members of the health and safety committees. Thus weak trade unions must prioritise and chose among the different positions.

This implies the need to look into the relationship between legal participation and co-determination rights and the right to participation found in the collective agreements. The main hypothesis may be phrased as:

- When resources and man power is scare, the trade unions will prioritize the arrangements found in the collective agreement.

The reason for choosing the agreements rather than the BLER-arrangement is outlined below. In short, demanding representation may be perceived as the “last claim”, if the collaboration between the social partners is in good shape, then the trade unionists will turn to focus on representation at board level.

#### *Searching for the most important level of influence*

While asking the question of company ownership might been an easy task in earlier times, trade unions reps today are faced with a far more complicated company structure and nature of ownership. As already mentioned, more than half of the employees in Norway are employed by a company which is a part of a group structure. And obviously, not all of the companies are 100 per cent owned subsidiaries; a number of trade union reps face very complicated structures, with part- and cross-ownership etc.

Two questions become essential when looking for the important decision-making level. i) what is the relationship between the management and the board – do the board actually make the decisive decisions or do they only make the formal confirmation of management decisions, and ii) what is the relationship between the board of the company and the board of the mother (group)? Our data indicate (Hagen 2008) a wide range of different decision-making structures, in some subsidiaries a number of important decisions have been delegated to the company, in others, the group has total control and the board of the subsidiary does not make any important decisions at all. In such cases, a majority of the directors will be senior-managers from the mother-company.

To what extend do employees and trade union reps carry out an “analysis on division of power” before any decision on demanding representation is made? A related part of such an analysis would be to look into the board itself: to what extend do the composition of the board lead to any BLER-influence or will the BLERs always end up as a minority? This is especially important in family businesses and in foreign own companies.

#### The data

This paper is mainly based on two different studies. I 2007 Fafo conducted a quantitative study financed by the Ministry of Labour (labelled Fafo 2007). 1000 CEOs from a representative sample of Norwegian public and public limited companies with more than 30 employees were interviewed by phone and asked a number of questions on corpo-

rate governance and employee representation. CEOs were chosen because we assumed that they would know whether or not the board did include BLERs. Several studies (see Engelstad et al 2003 or Falkum et al 2009) have showed that a large number of employees are not familiar with the different participation and co-determination arrangement in the company. An important goal was to include a representative sample of mother-companies, subsidiaries and “independent” companies in order to examine employee representation in different setting and with different ownership (see Hagen 2008). The response rate was resp. 37 (mother companies) and 42 (subsidiaries and independent companies). The sample is representative for the number of the different categories of companies used and also by size and sector.

The second study is qualitative and was paid for by the largest trade union federation in Norway (LO – Landsorganisasjonen). A number of trade unionist, both at national and local level, were interviewed and asked for their opinions on Fafos findings. At local level the question was simple: why do you not exercise the right to demand representation<sup>2</sup>. Only trade union reps in companies with no representation were included. At central level we asked for their opinions on the arrangement, on the “old debates” and their efforts to promote and assist BLERs. We also asked for their opinions on the advantages and disadvantages of combining the role as BLER and trade union rep at company level and (if relevant) their view on group BLERs.

#### 4. Results

“Concerning co-determination at board level – we have to admit – the national level has not paid enough attention to the arrangement – we have not done a very good job when it comes to committing the local level” (national level)

Several authors (see Bergh 1983 or Hagen 2010) has emphasised that BLER was an issue among politicians, researcher and a few trade unionists at the topmost level of some of the trade unions prior to the legislative amendment. BLER was not a major issue among local trade union reps or the heart of trade union members. This is an important reminder when looking into the attitudes towards BLER today. Never the less, all of the trade unionist at national level remarked that they were aware of the old ideological debates and dilemmas, but claimed that this debate has been settled:

”The ideological element – no, that debate is long gone. It’s more indifference, people do not care, it becomes to close/intimate and thus difficult, people don’t want to.” (national level)

Also among the local trade reps, it was difficult to trace any ideological resistance against becoming responsible for the company or any fear for ending up as a hostage to the majority of the board. However, it was emphasised that the economic responsibility might be an issue in small companies or in firms that practice undeclared and/or social dumping of the workforce (“gray area”):

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<sup>2</sup> All the quotes below have been translated from Norwegian by the author. The interview at local level was conducted by my Fafo-colleague Jørgen Svalund.

“In some small companies, the legal and thus economic responsibility is a real problem, there are many companies out there where I would refuse to serve on the board.” (national level)

Neither at local or national level feelings of inferiority was used as an explanation. However, concerning knowledge of legislation and board task in general, an interesting disparity between respondents at local and national level emerged; at national level knowledge and information was highly emphasized, but at local level – among those who actually could demand representation in their company, lack of knowledge was rejected as the explanation.

“No, I would be surprised if the answer is found in simplifying the legislation and voting rules.” (local level)

“The main reason is lack of knowledge on the arrangement. People assume that this only apply to the larger companies.” (national level)

#### Employers resistance

In 2005 91 per cent of the CEOs in the largest Norwegian companies responded by “totally or partially agree” (on a four point scale) to the following statement: Employee right to participation and co-determination found in the legislation and the collective agreement are a major advantage to the Norwegian working life (Engelstad et al 2003). In Fafo’s 2007-study, 92 per cent of CEOs, when asked for any changes in the proportion of BLERs at the board (1/3), responded by claiming status quo. Only 7 per cent wanted to decrease the number of BLERs. In companies with no BLERs, the figure was resp. 84 and 16 per cent. Concerning the BLERs themselves, only 19 per cent wanted to increase the number (see Hagen 2010).

Few of trade unionists we interviewed “blamed” the employers:

“It’s up to us to utilize the legislation; we can hardly blame anyone else. We need to focus on our own work. Does the management resist ... no, I can’t remember any cases where we had to fight for the rights regarding employee reps” (national level)

However, in our quantitative data, the support seems substantially lower, note that only CEOs in companies where no BLER arrangement – either at company or group – has been established is part of the sample.

Table 4 Proportion of CEOs (in companies with no ERs) with negative answers (1-3 on a scale 1-6 where 1=very negative and 6=very positive). The assumed reaction from employees was measured by whether or not they would support the demand, the figures in the table show the proportion of “no support”

If the employees were to demand board level representation - how would <b>you</b> respond, how do you think the <b>shareholders</b> would respond and do you think the <b>employees</b> in the company would support the demand?				
	Own reaction	Assumed reaction from shareholders	Assumed reaction from employees	N
Demand for representation at mother level - answers from group CEOs	23	34	54	110
Demand for representation at mother level - answers from subsidiary CEOs	29**	45	45	144
Demand for representation at subsidiary level - answers from subsidiary CEOs	21	35	35	127
Demand for representation at the board - answers from CEOs in independent comp.	35	39	39	182

Source: Fafo 2007 \*The CEOs were asked how the group management would respond

Two important findings emerge from table 4. Among CEOs at different levels, between ¼ and 1/3 express negative reactions towards employee representation. Secondly; a large number also assume that both the owners and the employees are sceptical. It is interesting to note that the CEOs seem to portray themselves as more positive than their assumption on both the shareholders and the CEOs. Thus, this might be perceived as a kind of justification – “it’s not me, but...”.

Our results from the CEO may be understood in the context of a free rider-problem. Employers are in favour of the participation system as such and the positive effects of regulation the Norwegian labour market, but they might never the less be characterised by an attitude stating that “it is important, but it doesn’t really fit in our company”. Some might have negative experiences from other companies or some might assume that the administrative consequences or expenses are substantial. It is important to note that CEOs in the smallest companies are more sceptical than CEOs in the larger companies, this strengthens our assumption that the resistance among the CEOs are less ideological and more connected to more pragmatic arguments: we don’t need to bureaucratize the relation to the employees, the collaboration with the trade union reps is functioning well and we do not need an additional channel.

However, not all employers close ranks about the “Norwegian model”:

“There are some villains out there, managers who don’t want to collaborate at any level or by any arrangement. We all know who they are and that trying to establish board level representation is a dead end” (national level)

Also some of the local trade unions reps used obstinate employers as an explanation:

“Establishing any collaboration with the management is more than enough. It took us four years to establish meetings once a month”. (local level)

“More than enough” are the important key words here, the quote no not only refer to employers with a negative attitude to collaboration in general, it also imply an important different in rank between the entitlements found in the company acts and the basic agreement.

### Strategic considerations – using your resources at the most important level

Even if we do detect some important differences between national and local trade union reps, they do have one important opinion in common: The basic agreement and the collaboration between the social partners at company level is priority number one among the trade unionist.

”We have to admit – our focus have been concentrated at the Basic Agreement - utilising § 9 ( the § in the Basic agreement stating trade union rep rights to information, consultation and the employers duty cooperate with the trade union reps) This is where the management obstruct. § 9 is more important than board level representation, it feels closer, although there is co-determination at board level too”. (national level)

In some of the companies, arguments like this one was based, as the respondent below indicates, on the fact that they were already satisfied with the working conditions, there was no need to be represented at the board.

“We’re doing ok as it is” (local level trade union rep).

The day-to-day collaboration between management and trade union rep provided the employees with the anticipated level of influence. Two features were typical for these companies: either small and the collaboration between the management and the employees did not depend on trade union reps - or larger and the relationship between the CEO and trade union reps was close and covered all important decisions in the company. In these cases we will find a weak or a rubber-stamp board.

The quote below summarize a number of arguments:

“The policy of the shareholders determines whether or not employees want to serve on the board” (local level)

If the board is strong and in control of the company and secondly – if the majority is willing to listen to the BLERs, representation is considered important. Such considerations were particularly important when the companies were either owned by foreigners or employed in family owned companies. However, the arguments were not connected to any fear of becoming hostage, but is mainly based on either i) interpretation of the board as insignificant because the management or the members of the family makes the important decisions outside the board room of ii) an evaluation of possible influence at the board. Some labelled their foreign owners as burdened with a “non-Norwegian attitude towards employee co-determination”. Being constantly on the side-line, never able to influence or alter the decisions of the board was considered a waste of time and resources.

One of them gave this recommendation.

”Step one – think through and analyze the group, at what level do the important decisions take place. Step two – trade union reps in different companies must work together, figure out how to influence on the level which make the important decisions which influence the working conditions of our members – if not, the arrangement makes no sense (local level)

## 5. Conclusions and further research implications

In short, both at local and national level we find the collective agreement are perceived as more important than the legal right to demand representation. The trade union reps at local level do not, in their own evaluation, claim that they suffer from lack of knowledge or self-esteem, nor do we find any ideological resistance to the arrangement. And further, when asked, the local reps denied the importance of any competition between different trade unions. If anything, the presence of several unions in the same company could possibly result in a “not our responsibility-attitude”.

In our interviews we found an interesting difference between the trade unionist at national and local level. At national level information on rules and regulations and also lack of knowledge on board work was presented as the most important causes behind the lack of demands for representation. At local level these explanations were mainly rejected. Strategic considerations connected to i) lack of resources and priority to the collaboration based on the basic agreements and ii) decision making structure of the company and the group – if they considered the board either as unimportant as a decision making body representation was considered a waste of time. The same logic are used when choosing between representation on subsidiary or group-level, the local union rep will prefer to be represented at the, in their opinion, most important level.

For the national trade unions this is good news, the local representatives know their rights and display a high level of strategic capacity. From a trade union point of view, lack of BLERs based on strategic consideration made by the local reps, might not represent any problems. Support and help from the national to the local level should concentrate on providing the local reps with tools to figure out the real power structure and ownership of the company.

Looking for the “real power structures” brings us back to what we consider the three main factors when representation is demanded:

- the status of the board and their ability to govern the company and control the management
- the relationship between the board and the CEO and
- the relationship between the CEO and the trade union reps

To emphasize the relationship between the social partners makes sense as long as the important power relationship is between the organized workers and the managerial prerogative at company level. Historically the owners or the shareholders have played a passive role in the governance of Norwegian companies (see Trygstad and Hagen 2007, or Falkum 2008). Private ownership was regulated by a number of different institutional regulations limiting their role to “providers of capital”. At macro level the state limited property rights by legislation and taxation. The important decisions were made by the management. Thus, the conflict of labour and capital was found between trade unions reps and the management. This resulted in boards characterised by consensus and collaboration, and not conflict between shareholder and employee representatives. The basic agreements are the most important tool to organise and control this conflict. In this view the priority of the local unions reps – solid and reciprocal practice of the different provisions in the basic agreement must come first – is understandable.

The strategy is dependent on strong management and weak boards. However, deregulation and the “shareholder revolution” imply that owners (at national and international level) play an increasingly more important role and that the need for utilizing the legal right to participate has become more important. If the company is subject to a more or less hostage take-over and the new owners either do not understand or appreciate the “Norwegian model of participation” the employees can no longer rely on the agreement based collaboration between the social partners. Demanding representation after the take-over is important, but the employees have never the less lost the possibility to take part in the prerequisites of the take-over and to influence e.g. election of a new CEO. Paradoxically we have that seen that “a lost cause” is an important reason for demanding representation.

In this paper we have used Norwegian figures and Norwegian data to focus on reasons behind utilization of established workers rights. Our analysis show that comparative studies focusing on BLERs and their importance for both democratization and productivity at different levels, is in need to look into the extensiveness of the arrangement and to map out the feature of companies with and without representation. And further – the connections – both legally and in practice – between company legislation and collective agreements is very important. Non-representation may be a sign of union strength at company level.

Our findings have several important research implications. What are the figures of representation in other countries with extensive rights? Would our analysis stand in countries where works councils constitute the social partner at company level or where the relationship between management and trade unions reps are more formal and infrequent than in Norwegian companies?

The national trade unions receive a fairly clear recommendation from our findings; the local trade union reps need help in figuring out where the real power is found – or hidden. Only then may the different rights and privileges provided by the different agreements and legal acts be fully made use of.

We also need more knowledge on the importance of the board. Weak boards may be an advantage to employees if their representatives have strong relations to the CEO. If the company is run by a CEO strongly committed to the rights of the shareholders and in direct contact with large owners, maybe trying to strengthen the board is the right way forward?

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