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A Social Europe Needs Workers' Consultation and Participation

A social Europe worthy of the name will need to be more than a concept promoted by governments. This blend of democratic and social participation must be exercised within society, and not least within industry.

Like any other aspect of the European social model, industrial democracy has taken shape in very different systems in the various countries of the European Union. But there is also a common thread: the idea that working men and women should participate in company decision-making. Apart from shop-floor representation through workplace trade unions or on works councils, the great majority of European states also make provision for workers' representatives to sit on the highest-level committees of their enterprises.

I would like here to formulate a few theses on workers' participation – partly in response to the attacks on workers' codetermination that we have witnessed in Germany, which centre on the argument that it is out-of-date, and that our Europeanised and globalised economy and the new role of the capital markets have rendered it non-viable.

I believe firmly, however, that codetermination reinforces a well-functioning social democracy, that it is the key to tomorrow's economy, that it helps to prevent the division of society, that it is a vital component of the European Single Market and that it is essential to prevent the unbridled influence of financial investors on corporate management.

Codetermination reinforces a well-functioning social democracy

The economy is not an autonomous universe which exerts no impact or influence on other systems. Economic power always entails political power. Wherever consultation and participation enable workers to monitor power, a key condition is created for a well-functioning political democracy. This becomes even more relevant as the political world is handing over its ability to define societal processes to the corporate world.

Democracy, then, must not stop at the factory gate. Questions about the future of society can only be resolved together with working men and women and

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not by flying in the face of their interests. Hence, codetermination brings consensus rather than enduring conflict.

Those who expect people to take responsibility for themselves and for a successful economy must offer people a framework to do so. Codetermination is such a framework. Its significance is borne out by the high rate of popular approval it enjoys. Companies are not merely the private affair of their owners, but social organisations and hence part of "civil society". A company is a community of men and women who draw their income from the same economic project. Consequently, the equal participation of workers in corporate management, on whose decisions they so deeply depend, is a necessary component of the social rule of law and a piece of the culture of democracy that has evolved organically in Europe.

Trade union representatives serving on the supervisory or administrative board of a company are vested with an unusually broad democratic legitimacy: they are elected by the workforce and also represent their trade union as a democratic and social organisation. Moreover, they contribute to sustainable corporate management by defending the general interests of the industrial sector concerned, reining in any company egoism and contributing valuable knowledge of the trade. That is why strong trade union participation is regarded as self-evident in many European countries.

Codetermination is the key to tomorrow's economy

A company is constituted by the factors of production: information, labour and capital. In our modern-day economy, information and knowledge are increasingly important. This applies not only to IT and other fields of high-tech, but also to the "mid-tech" sectors such as car manufacturing and mechanical engineering. As the vessels of knowledge, people are thus becoming the most significant production factor. The growing importance of human capital in a knowledge-based industrial society makes codetermination particularly desirable and justifiable in the forward-looking decision-making processes of corporate management.

Kurt Biedenkopf, who chaired the German Commission on Workers' Participation, is not exactly a trade unionist or politically left-wing, but he summed this up aptly by observing: "Nowadays the financial markets dominate the way we think and act. This dominance of

capital will fall into perspective once people note that the work and knowledge invested by the staff and their motivation are just as important to a company's success as the availability of capital on the financial markets."

When corporate management builds on the consultation and participation of company employees, it shifts the focus towards its workers, their talents and the role they can play in sharing responsibility. This is a unique selling proposition for our system as it competes with both the Anglo-Saxon and the Asian economic philosophies. And I would venture to predict that the model rooted in continental Europe will turn out in the long run to be the most successful. It has been recognised in academic research that corporate codetermination makes a valuable contribution to the economic success of companies that adopt it by cutting transaction costs, reducing information asymmetries and promoting willing investment in the human capital specific to the company.

Recent studies have concluded that workers' consultation and participation enhance the productivity and innovativeness of a company. Many captains of industry have explicitly praised its positive effects. Germany, where companies with more than 2,000 employees have parity representation of management and labour on their supervisory boards, is demonstrably one of the world's favourite countries for investment, especially around headquarter operations.

Codetermination helps to prevent divisions in society

The globalised economy has highlighted the significance of workers' participation, because the risks companies face are borne increasingly by the men and women who work for them and not by their shareholders. In times of globalisation, workers run a higher risk of losing their jobs, and hence their livelihoods. Unlike the executives of capital, they cannot contain this risk by spreading the portfolio. The result is a growing divide in society – with dangerous social and economic consequences.

By contrast, workers' participation on the supervisory board, where strategic management decisions are taken, is a vital instrument for redressing the balance between capital and labour and protecting employees. This not only applies to the workforce where the company is domiciled, but also to those men and women

employed by a corporate group in other countries. To retain their democratic legitimacy, the representatives of both shareholders and employees on this supervisory board must establish international structures. This means enabling workers in other countries to participate in elections to supervisory and administrative boards.

Codetermination is a vital component of the European Single Market

Workers' consultation and participation have been recognised as a principle of European law and they respond to a legitimate desire by workers to have their say in decision-making. Codetermination is part and parcel of the European social model and it has been implemented in the great majority of European countries.

Representatives of the workforce can be found both in two-pillar management structures, i.e. in companies which have a supervisory board and an executive board, and in single-pillar structures, which simply have one administrative board. Depending on the country, there may be only one workers' representative, or they may make up a third or a half of the board. In some places a company may need only 20 workers before statutory consultation kicks in, whereas in other places the threshold may be 2,000. But whatever the rules, they have one thing in common: the participation of workers and trade unions is considered to be necessary and self-evident.

To restrict national rules on workers' participation on the grounds that there is no place for this in Europe would, therefore, run counter to European traditions, to the objectives outlined in the EC Treaty and to the very idea of European social policy. The harmonisation of European law should aim, rather, to strengthen workers' participation at corporate and workplace level while respecting the fact that the rules governing industrial relations vary across Europe.

The rules defined for the European stock company (SE) and cross-border mergers express the Community's will to uphold existing standards of workers' participation in the Single European Market. On this basis, it is right and proper, and also necessary, to devise solutions for cross-border developments such as mergers and take-overs and to establish minimum European standards for workers' participation. There is no justification for restricting workers' involvement.

Codetermination limits the unbridled influence of financial investors on corporate management

The role of the financial markets has been changing fast, and consequently so has the shareholder structure of many European companies. More and more we are seeing strategic investors, whose association with the company tends to be long-term, replaced by financial investors. Because the latter's commitment is limited in time from the outset, their corporate strategy focuses on maximising their returns over a short span of a few years. In this context, there is a particular onus on workforce representatives on the supervisory board to examine the long-term impact on company development likely to be induced by any restructuring measures sought by financial investors.

The aim is to encourage forward-looking business ideas submitted by genuine private equity companies and to resist any damaging policies that would subordinate the company to the self-seeking interests of investors.

Sustainable corporate management means giving consideration to ethical, economic and social interests and seeks to balance the interests of all company stakeholders. A company strategy of this kind will, therefore, not only be orientated towards the long-term generation of wealth but also foster relations of trust between employers and their employees, encouraging the social responsibility of both management and labour. In this sense, company codetermination, as an essential corrective mechanism to counter short-term profit-seeking, helps to combat mismanagement and contributes substantially towards good corporate governance.

Codetermination, then, is an essential component of our social Europe, whose strength lies in bringing together long-term economic vigour, social cohesion and democracy. If we wish to preserve that strength in the globalised capitalism of the 21st century, driven as it is by the capital markets, there is a greater need than ever to secure and expand workers' rights of consultation and participation.