Prospects for trade unions in the evolving European system of corporate governance

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Executive summary

1. Currently there is a battle over the character of the evolving European system of corporate governance. At issue is the fundamental choice between two different conceptions of the firm: the shareholder model, where the purpose of the firm is to maximize value in the interests of shareholders, and the stakeholder model, where the firm has responsibility to a broader range of stakeholders. Despite Enron and other US financial scandals, the shareholder model (as practised in the US) remains hegemonic in European policymaking circles. This is of great concern to European trade unions, since labour's voice is for the most part excluded from the US model.

2. The first two sections critically appraise the US system relative to the European stakeholder system. In the 1970s and the 1980s the stakeholder model seemed to be superior because GDP growth rates in the Anglo-Saxon countries were lower than the OECD average. Since the early 1990s this situation has been reversed, and US institutions appear to be more efficient because of a higher growth rate in that country. This higher growth rate, however, was arguably caused by factors which are unsustainable in the long run: an excessively loose monetary policy, a massive buildup of debt by companies, households and the state, and a huge increase in the trade deficit. A review of the history of 'hegemonic national models' since the 1950s suggests that the time of leadership of the US model may be reaching an end. The European stakeholder model should have a strong candidacy for the new leading position: advantages are fewer financial excesses, stability in a lower growth environment, and a greater ability to integrate diverse national cultures and industrial relations environments.

3. The third section reviews quantitative studies on the impact of workers' participation (WP), focusing on workers' representation on company boards. This literature is very uneven across countries, with research on Germany being the best developed. Measuring the impact of WP at the board level is tricky because both board representation and other variables are highly correlated with firm size. It thus becomes difficult to separate the impact of WP from these other factors on firm performance. Nevertheless, recent 'state of the art' studies on Germany have shown that there is no negative impact of WP at the board level on firm performance. The section concludes by presenting some country-level evidence that board level participation does not impede company competitiveness.

4. The fourth section focuses on strategies that European trade unions could adopt in supporting the stakeholder model. These suggestions include: emphasizing the unsuitability of the US model for European conditions; using the opening created by the Lisbon agenda to argue for a broader notion of 'collective welfare', which includes workers' utility in the collective utility function; strengthening communication with workers on the benefits of WP; fostering 'patient capital' (i.e. blockholders with long-term investment horizons); using employee shareholding to gain 'voice' in the boardroom; and strengthening links with the CSR (Corporate Social Responsibility) movement.

Introduction

This report examines the current debate on corporate governance reform in the European Union, from the point of view of the prospective role for trade unions. What is striking about the current debate is the extent to which the US corporate governance system is seen by European policymaking elites as definitive of "international best practice" – despite Enron and other financial scandals, and the lack of solid evidence showing that the US system is economically superior. Few (if any) innovative ideas have been offered regarding the improvement of corporate governance in the very different institutional context of Europe, where there is 1) a commitment to strengthening the rights of worker information, consultation, and participation in the company, and 2) a much higher level of concentration of share ownership and less participation by households in the stock market.

This situation is of course of great concern to trade unions, since the US system of corporate governance focuses on the interaction between management and shareholders, to the exclusion of the representation of interests of workers and other stakeholders (Greenfield 1998). This report focuses on the issue of how trade unions could impact upon this debate and what concrete measures unions could support in the construction of a corporate governance system more suitable to European conditions.

The first section looks at why there is a tendency in the economic and social sciences to argue that there is "one best" system of social organization, and why this game is so popular in the media and policymaking world. The second section critically examines the performance of the US system of corporate governance relative to the "stakeholder" system predominant in Europe. It shows that the literature has failed to make a convincing link between the institutional features of the US corporate governance system and superior economic performance. The third section reviews the literature on the economic effects of worker participation, which focuses more on works councils than on board-level representation, and is targeted at the national level. It also offers the results of an analysis on the European level. The fourth section discusses ways in which the trade unions could strengthen their position in the debate on European corporate governance reform, including which policy measures they could be lobbying for at the European level.

> "Despite the meaningfully different views initially held of the way the world does, and should work, powerful global competitive forces appear for now to be driving the economic and legal paradigms of many nations into closer alignment around a more competitive market capitalism."
>
> --- the "Washington Consensus", expressed by Alan Greenspan, 25 August 2000

Section 1: Battle of the systems

On the surface, corporate governance is a highly technical subject dealing with multiple issues in the fields of corporate law, securities regulation, corporate finance and industrial relations. Deeper down, however, the basic issue underlying corporate governance reform is the fundamental choice between two different competing conceptions of the firm. In the *shareholder model*, the firm is a private association of shareholders, who come together and found a firm with the intention of increasing their wealth. This firm purchases the factors of production (labour, fixed capital, etc.) necessary to increase this wealth. The clear primary responsibility of managers hired to run the firm is to the shareholders, and to the mandate of increasing the value of the firm.

In the *stakeholder model*, in contrast, the firm is a *community* in which shareholders are only one of a number of other stakeholders in the firm. The public has an interest in regulating the firm so that the different stakeholders have a 'voice' in the decision-making process, and that a reasonable balance in the goals pursued by the firm is achieved, not just the maximization of profits. The US is the country where the shareholder model is most advanced, whereas most European countries have developed a stakeholder model of corporate governance.[1]

For roughly the last decade the US shareholder system of corporate governance has been hegemonic in Europe, and indeed in the rest of the world. Many actors in business, policymaking, and academic elites at the national and EU level have argued that this system is superior and have actively tried to transfer aspects of it. Although the reference to the US is sometimes disguised under the cloak of 'international best practice', the origin of this system is nonetheless clear.

What is striking about 'corporate governance reform' in Europe is how few innovative ideas have been proposed by policymaking elites, despite the fact that labour and capital markets in Europe are organized on the whole quite differently than in the US. In particular, information, consultation and participation within the company have been defined as 'fundamental rights' in the European Union, and most EU states have legal rights to workers' representation on the boards of at least a subset of large companies (Höpner 2004; Kluge 2005). Furthermore, the US system is oriented to the interests of small shareholders. In Europe, however, ownership of European listed companies is much more concentrated, and only a minority of households own stocks.

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[1] The UK has traditionally been lumped together with the US in this typology. However, there is a growing literature suggesting that the UK may be somewhere "between" the US and continental Europe – see for example Pendleton (2005).

The tendency to identify ‘one best system’ is unfortunately deeply engrained in the scholarly world. This has both methodological and reputational reasons. In economics, the predominant methodology tends to define optimal ‘single peaks’ in economic performance (Freeman 2000). In the social sciences ‘ideal types’ are typically used to analyze different countries or other objects of analysis. The methodology of “ideal types” involves the identification of two or more groups, in which there are sharp differences between countries along one or more dimensions. The tendency frequently is to emphasize the advantage of one type over the other.

On the level of reputation, even though social and economic reality is quite complex, a strategy of adopting simple and extreme positions in one’s own work is often a promising strategy for scientists wanting to create a reputation within their academic circles. This also applies to the media and policymaking worlds, where those offering clear (if oversimplified) solutions are more likely to be heard and to appear convincing. This is particularly the case if the policy solutions advocated are based on practices in other countries, where the audience has little or no direct knowledge. Differentiated analysis involving more variables and more conditional approaches tends to pass unheard and unheeded in the cacophony of policy advice on offer.

Long-term observers of the academic and policymaking worlds will recall that we have seen many cycles of fashions in terms of perceptions of the ‘one best system’ (see Table 1). In the 1950s the Soviet system was considered superior by many because of its supposed ability to force high levels of investment and demand in a post-Depression era. In the 1960s indicative planning appeared to be successful in promoting the rapid industrialization of France, and was tried in a number of countries. In the 1970s the corporatist countries, such as Sweden and Germany, seemed to be best able to deal with a macroeconomic environment characterized by stagflation. In the 1980s Japan with its system of planning ministries and state-administered credit system was considered unbeatable, with books even describing the system as a miracle. In the early 1990s up until the Asian crisis the Asian tigers were thought to have the right policies leading to above-average growth rates. After having been criticized as too market-oriented and short-termist in the 1980s, the US system had a resurgence in the 1990s and is now the hegemonic economic model.

Table 1: Leading national models after World War II

Period	Leading "Best System"
1950s	Soviet planned economy
1960s	French indicative planning
1970s	Corporatist countries (Scandinavia, Germany)
1980s	Japan
Early 1990s	Asian Tigers
Mid-1990s – now	US neo-liberal model
Next model	??????

Source: adapted from Freeman (2000).

What explains the current hegemony of the US corporate governance system? Certainly the self-interest of important actors in Europe plays an important role here. It would be naïve to ignore the much higher levels of executive compensation in the US system as a motivating factor. Furthermore, many large financial services providers have a strong financial interest in shifting Europe more in the direction of the US system. The large banks, for example, have been making less money on traditional lending activities, and are interested in increasing their fee-based earnings, from investment banking activities (such as hostile takeovers and mergers & acquisitions deal structuring) and asset management (such as administration of company pensions). Also, some state elites have decided that they no longer want to take responsibility for state enterprises, or that they desperately need the revenues from privatization, and find the supposed superiority of the US system of stock market governance to be an appealing justification for privatization.

However, the strongest fact these elites have had on their side in the last decade has been the stronger economic performance of the US (and of other countries ‘close’ to it in terms of economic organization, such as Canada, Australia and the UK). The substantially higher economic growth rates and lower unemployment rates in the US and its ‘fellow travelers’ in the past decade have created a climate in which it has been very difficult to criticize the US system and argue for alternatives. Much as, in the 1980s, the Japanese and German systems could ‘do no wrong’, the whole complex of US institutions enjoyed the “status of the blessed” throughout the 1990s.

“Mirror, mirror on the wall
who is the fairest one of all…”

---- Brothers Grimm

Section 2: Blemishes of the shareholder system and achievements of the stakeholder system

What is to be done, given the difficult context outlined in the last section? This section argues that one possible response is a three-part task involving: 1) exposing the lack of evidence that elements of the US system of corporate governance have actually led to better economic performance, 2) understanding the causes of above-average, but arguably non-sustainable, growth in the US economy over the past decade, and 3) looking at the neglected achievements of the stakeholder system.

Lack of solid evidence on the effects of corporate governance

Despite the widespread belief that features of the US system of corporate governance lead to better firm performance and superior growth, there actually is a serious lack of evidence backing up this assertion. A number of large-scale comparative studies carried out by academics working in the ‘Law and Finance’ perspective have been the most widely-cited evidence in support of the assertion that ‘common law’ systems like the US, which provide high levels of transparency, strong legal enforcement, and strong minority shareholder protection, are the best at promoting financial system development and growth (La Porta 2003; La Porta et al. 1997; La Porta et al. 1998).

These studies, however, have come under rather severe criticism. Siems (2004) shows that the methodology used in the studies is built on rather shaky ground. Furthermore, in a detailed historical study of the UK, Franks et al. (2003) show that the order of development suggested by the Law and Finance people (i.e. good governance leads to increased investment) may actually be reversed. Current corporate governance structures in the UK actually arose *after* a large number of institutional investors became active in the market and demanded these measures.

Company-level studies have also failed to find significant or consistent results linking corporate governance and firm performance, even for three of the characteristics considered to be central to good corporate governance: board independence, split roles for the CEO and chair, and board size (Heracleous 2001). Bebchuck et al. (2004) for example find that 18 of the 24 corporate governance characteristics used by the Investor Responsibility Research Center (IRRC) to make negative recommendations on investing in companies actually had no significantly negative impact on company value and share price. Larcker et al. (2004) conclude that: "Overall, our results suggest that the typical structural indicators of corporate governance used in academic research and institutional rating services have very limited ability to explain managerial behavior and organizational performance." An earlier survey of literature conducted by two researchers at the OECD concluded that the evidence on firm performance showed that "…there is no single model of good corporate governance, and both insider and outsider systems have their strengths, weaknesses, and different economic implications" (Maher and Andersson 1999).

Non-sustainable sources of economic growth

If corporate governance institutions cannot account for superior firm performance and growth in the US, what can? The point on which the US is most vulnerable to criticism is that high economic growth since the early 1990s has, at least in part, been based on macroeconomic policies which are unsustainable in the long run. This is a point upon which an increasing number of Wall Street and academic economists in the US would agree. The (to some extent interrelated) factors leading to this unsustainably high growth rate include:

- an excessively loose monetary policy, chosen by the US central bank (Federal Reserve Board) as the preferred response to a series of financial crises (1987 crash, early 1990s crisis of the US banking system, 1994-1995 Mexican peso crisis, 1997-1998 Asian crisis, 1999 fear of a Y2K-related disruption of the international bank payments system, and 2000-2002 stock market crash) rather than a stronger regulation of speculative tendencies in US financial markets;[2]
- a decrease in the household net savings rate to 0.2 percent, which represents a huge consumer-led stimulus to the economy;
- a massive buildup of debt[3] by companies, households and government, from $13.5 trillion in 1990 to $36 trillion in 2004. Outstanding debt now accounts for more than 300% of the US GDP;
- a high and rising trade US deficit, which has steadily increased to about six percent of GDP in annual terms, and which also represents a massive stimulatory influence for the economy.

The most visible indicator that the international investment community has lost faith in these policies is the sharp drop in the value of the dollar of about 40 percent (measured against a basket of major currencies) since the stock market peak in early 2000, and the belief that the dollar decline still has a long way to go.

Achievements of the stakeholder system

The flip side of the coin is that the European stakeholder model should be seen as “better than its reputation.” The achievements of this model have been to some extent hidden by the lower growth rates in Europe. These lower growth rates have in part been caused by tight monetary

[2] In the 1990s investors called this policy preference the "Greenspan put", i.e. the assurance that the Federal Reserve Board would protect investors in the stock market from "downside risk" by loosening monetary policy and increasing liquidity in the system in response to financial crises.

[3] For a critique of the massive increase in US debt see e.g. Baker (2004).

policies pursued by central banks in response to the inflationary financing of German unification and the attempt to create credibility in the run-up to the introduction of the Euro (Carlin and Soskice 1997). A short list of the main advantages is:

- fewer financial excesses and scandals than among US corporations, and a significantly lower debt level;[4]
- less social inequality between top management and workers. The ratio of average pay of the top 100 CEOs in the US to the average pay of manufacturing workers reached more than 1000 to 1 in 1999 during the peak of the bubble (Lannoo and Khachaturyan 2003: 6). The ratio of the average pay of all US CEOs to average manufacturing workers' pay was reported to be 44:1 around the same time. The same ratio in Germany was 17:1, in Sweden 21:1 and in France 32:1 (Osberg and Smeeding 2003: 47).
- the more modest increase in top management pay in Europe also means that there is more money available for investment and shareholders in European companies. Management pay in the US has increased at such a rate that the pay of the top five managers of listed companies currently accounts for about 10 percent of profits of these companies, i.e. quite a significant proportion of profits (Bebchuk 2005).
- proven stability in a slow growth environment. The US is also likely to develop such a slow growth environment, and it is not clear how stable the corporate sector will be in this environment (e.g. difficulties in repaying debt, disappointing investors' high growth expectations, etc.); and
- a greater ability to integrate diverse national cultures and industrial relations environments. The international management literature has shown that US corporations tend to have a much more unitary structure, which they impose in different countries regardless of the institutional context.

When the US model in fact falls from grace – as all leading models inevitably do – then the European stakeholding model should have a strong candidacy for the position of new leading model.

[4] A recent paper by Coffee (2005) argues that the *nature* of financial scandals in the US and Europe is also significantly different. Financial scandals in the US, such as Enron, were caused mainly by attempts to mislead investors. In the US system there are considerable financial incentives for top management to do so. Scandals in Europe (e.g. Parmalat) were caused mainly by management's attempt to steal.

"…[economic] theory gives no guidance as to the likely effects of mandated codetermination. The beneficial or detrimental effects of co-determination ought, therefore, to be demonstrated empirically."

--- Baums and Frick 1998, p. 144

Section 3: Workers' participation and economic performance

This section examines the relationship between workers' participation (WP) and economic performance, focusing on the case of worker representation on company boards. Despite the extended political debates on worker board representation in Europe, surprisingly few econometric studies have actually been done on the topic outside of Germany. Reasons for this include the methodological problems involved in measuring this impact and the difficulties of obtaining good data.[5] After a discussion of conceptual and methodological approaches to measuring the impact of participation, and a brief survey of the available country-level literature, a novel attempt to measure the impact of worker board representation on economic performance at the country level is presented.

Conceptual approaches to participation and performance

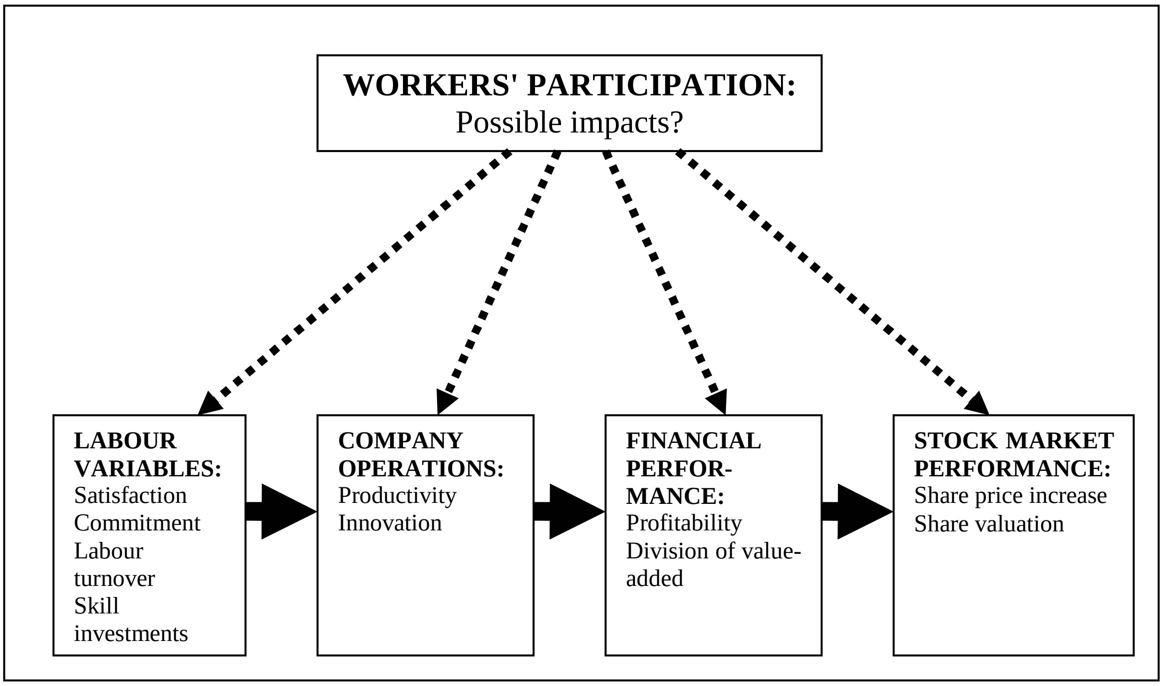
Previous approaches to studying the impact of WP have identified many different possible effects on performance (Wigboldus 2004).[6] A first question is *where* participation might have its (main) impact. The literature identifies four main possible areas where performance might be affected by the presence of worker participation (see Figure 1):

1) upon employees themselves – variables like job satisfaction and commitment, level of labour turnover, and willingness to invest in firm-specific skills would measure this impact. The argument here is that participation affects the quality, quantity, and cost of labour input into the 'production function' of the firm;
2) upon company operations (understood as the combining of factors of production into goods or services) – here productivity is the typical measurement of operational efficiency within the firm, but innovation is also important;
3) the financial performance of the firm – typically measured in terms of profits or the division of value added between capital and labour; and
4) the stock market performance of the firm, measured by share price performance or share valuation.

[5] The literature on works councils is much more extensive, particularly in Germany where good company-level panel data is available. The edited volume by Rogers and Streeck (1995) provides the most comprehensive cross-national survey on works councils.

[6] This subsection draws heavily on Wigboldus' excellent paper. See also Freeman and Lazear (1995), which has become something of a classic regarding the economic effects of works councils, and Addison et al. (2004) who survey the 'state of the art' in terms of studies on Germany.

Figure 1: Possible impacts of workers' participation



One problem in measuring the effect of WP is that most studies have only one dependent variable, i.e. they measure only one possible impact of WP on performance. In theory, of course WP could affect one of these areas without having a direct impact on the others. The labour input might be increased (or labour costs decreased, e.g. through less turnover) without any change in company operations (e.g. technology used) or in the division of value added between different stakeholders. Similarly workers' participation might affect company operations – even in the absence of direct effects on workers – perhaps through an agreement between works council and management on the use of an alternative technology. Finally, worker participation could in principle affect only financial performance, e.g. through increasing labour's share of the value added created in the firm. In reality, however, WP probably affects more than one of these areas simultaneously.

A second issue is how performance is affected by workers' participation. The positive view stresses the increased quality of labour input available to the firm through greater job satisfaction, commitment, etc., and through the improved efficiency of operations, e.g. through valuable suggestions for improving company operations. The negative view stresses increased rent-seeking by labour: restricting the optimal reduction of labour during downturns, blocking the use of more efficient technologies, or trying to increase the share of value added appropriated by labour at the expense of investors. As highlighted by the quote from Baums and Frick (1998) at the top of this section, economic theory gives no guidance as to which effect might dominate. The 'old' view expressed by Jensen and Meckling (1979) more than a quarter of a century ago, which stated that co-determination could not be efficient if it was not voluntarily adopted around the world,[7] has been put into question by

[7] The quote in question is as follows (p. 474): "If co-determination is beneficial to both stockholders and labour, why do we need laws which force firms to engage in it? Surely, they would do so voluntarily. The fact that stockholders must be forced by law to accept co-determination is the best evidence we have that they are adversely affected by it."

developments in microeconomics and game theory. Newer theory shows that we cannot conclude that institutions are not more efficient if they do not exist voluntarily, due for example to the difficulties in making 'credible commitments' to other agents in a voluntary setting.

Measuring impact on economic performance

Most econometric studies of the impact of WP on economic performance have focused on the company or plant level. An important reason for this is that statistical methods work better when there are a large number of *cases* examined: the larger the number of cases examined, the more confident we can be that a given difference is really due to the influence of a variable, and not just the result of random variation.

An important problem in the analysis of WP on company boards is that, in most countries legislating board representation, almost all companies above a certain size (e.g. with more than 2000 workers in Germany for quasi-parity representation) have representation. This means that one is in essence comparing large companies with smaller or mid-size companies. Statistically it is difficult to tell if differences between the two groups of companies are attributable to WP or to other variables that are highly correlated with firm size (i.e. the *size effect* of companies).[8]

Table 2: Typical dependent variables in worker participation studies

Labor variables:

- Satisfaction
- Commitment
- Labour turnover
- Skill investments

Operational measures:

- Productivity
- Innovation

Financial performance measures:

- Profitability
- Division of value added

Stock market performance measures:

- Share price performance
- Share valuation

[8] Some studies in Germany have tried to get around this problem with a 'before' and 'after' analysis of the impact of codetermination legislation on companies over time.

As discussed above, typical measures of impact performance include labour variables, operational variables and financial participation variables (see Table 2). Studies have used either workers' or managers' subjective evaluations of the impact of participation (e.g. very positive, somewhat positive, neutral, somewhat negative, very negative, etc.) or have tried to get 'hard' quantitative data on these variables. Supporters of hard data argue that subjective evaluations are not reliable or even misleading ('cheap talk'), whereas supporters of subjective data argue that too many factors influence short-term financial performance to allow meaningful econometric tests.

The universal approach in these quantitative studies is to include a *dummy variable* for worker participation, i.e. companies where WP is present are coded 1, and companies without WP are coded 0. A number of control variables are typically included, to try to account for variables other than participation that might affect company performance (e.g. main industry of company, etc.). The statistical test is then performed, and the results for this dummy variable and for the equation as a whole are analysed.

The first result of interest is whether or not the coefficient of the participation dummy variable is *significant*. This involves a measure of the consistency with which companies with participation have higher (or lower) economic performance than companies without participation. If the coefficient of the variable is significant, then we can be fairly confident that the participation measure does in fact impact on economic performance. If the coefficient is not significant, then the analysis generally stops at this point, and the claim is made that worker participation does not affect company performance.

If the coefficient is significant, the second result of interest is whether the coefficient for the participation variable is *positive* or *negative*. This gives us clues about whether the participation measure improves or detracts from economic performance. Since companies with participation are generally coded with a 1 on the dummy variable, a positive coefficient indicates that the presence of worker participation has a positive impact on economic performance.

A final result of interest is the *size* of the coefficient. In statistical analysis variables are often found to be significant, but with a small coefficient. This means that they have only a small impact on economic performance. If the coefficient is large and significant, however, this means that worker participation (WP) has a great impact on economic performance.

Table 3: Five possible results of econometric analysis of worker participation

Statistical result for coefficient on worker participation variable	Interpretation
Not significant	Worker participation (WP) has no systematic impact
Significant, large positive	WP has a large positive effect on performance
Significant, small positive	WP has a small positive effect on performance
Significant, small negative	WP has a small negative effect on performance
Significant, large negative	WP has a large negative effect on performance

This creates, in all, five possibilities for the impact of worker participation on economic performance (see Table 3): 1) WP does not systematically affect economic performance, 2) WP has a large positive influence on economic performance, 3) WP has a small positive influence on economic performance, 4) WP has a small negative influence on economic performance, and 5) WP has a large negative influence on economic performance. In section 4 the relevance of interpreting these results for the trade union debate on corporate governance reform in Europe will be discussed.

Survey of literature on employee board representation

There appear to be relatively few statistical studies of the impact of WP on company boards on econometric performance outside of Germany. This subsection will first review the studies on Germany, and then discuss the few studies that exist for the other European countries.

Germany

Germany appears to have attracted special interest from researchers, perhaps due to the strength of WP on company boards in that country. By law German stock corporations have a dual board structure (supervisory board and management board, with no overlap in personnel). One third of the supervisory board seats go to employee representatives in companies with between 500 and 2000 employees, and half of the seats go to employee representatives in companies with more than 2000 employees (so-called 'parity' codetermination).[9]

Earlier studies, which tended to be inconclusive about the effects of codetermination, suffered from methodological problems or small sample sizes (FitzRoy and Kraft 2005). A study by Schmid and Seger (1998), which claimed that parity codetermination caused a 21-24 percent decrease in share price relative to companies with 'one-third' codetermination, has been particularly severely criticised for methodological problems (Frick, Speckbacher, and Wentges 1999) This criticism was partially based on a study by Baums and Frick (1998), which found no negative impact on share price through the introduction of parity codetermination in 1976 or of significant court decisions regarding the applicability of codetermination.

[9] 'Parity co-determination', however, falls short of equal capital-labour representation because 1) the supervisory board chair (chosen by shareholders) can cast a double vote in the case of a tie, and 2) one of the labour representatives is a representative of middle management. A stronger form of codetermination (*Montan-Mitbestimmung*) applies only to large companies in the steel and mining industries.

Table 4: Statistical studies of board codetermination and performance in Germany

Study	Comments
Svejnar (1982)	Aggregated industry data used. No significant effect of board codetermination on performance.
Benelli et al. (1987)	Company-level data. No significant effect of board codetermination.
Gurdon and Ray (1990)	Sample of 67 companies. Introduction of parity codetermination in 1967 had a positive effect on profits, negative effect on sales.
FitzRoy and Kraft (1993)	Company-level data. Board codetermination has a negative effect on productivity, no significant effect on profits and wage levels.
Schmid and Seger (1998)	Company-level data. Parity codetermination reduces share price by 21-24 percent relative to 'one-third' codetermination.
Baums and Frick (1998)	Analysis of impact of legislation and court decisions relating to codetermination on industry-level stock market data. No negative impact of parity codetermination on stock prices.
Gorton and Schmid (2000)	Company-level data. Parity codetermination reduces the stock market value of companies by 26 percent relative to one-third codetermination.
Kraft and Stank (2004)	Sample of 155 companies. The introduction of parity codetermination had no negative effect, in fact a slightly positive effect, on the innovative activity of companies.
FitzRoy and Kraft (2005)	Company-level data. The introduction of parity codetermination had a slight positive effect on productivity.

More recent studies, which have used more sophisticated and appropriate methodologies than the earliest studies, tend to find positive (if small) effects of employee board representation. Kraft and Stank (2004) find a slight positive effect of the introduction of parity codetermination on innovation. FitzRoy and Kraft (2005) find that the introduction of parity codetermination also had a small but significant positive effect on company productivity.

Interestingly enough, the literature on the economic effects of works councils (where Germany is again a leader) has followed a similar pattern of development. Addison et al. (2004) report on 22 different studies on the economic effects of works councils – see also Frick (2005). Earlier studies from the 1980s and early 1990s, which suffered from poor data sources or methodological problems, tended to be inconclusive or negative about the effects of works councils. Since then, however, a reliable, large panel data set (IAB Panel) has become available, and the methodologies applied have become more sophisticated. The latest studies generally show significant productivity advantages of plants with works councils over works-council-free plants. This effect, however, appears to increase with plant/firm size.

Other countries

As mentioned above, the literature on the economic effects of board level WP in countries other than Germany is quite thin, and for the most part based on the subjective evaluations of managers and/or workers. However, this literature supports the view that employee board representation has positive – or at least no negative – effects on company performance:

- Brachinger and Leitsmüller (2005) report that in **Austria**, where works councillors have one third of board seats in large companies, the main problem in corporate governance is the fact that most supervisory boards monitor and control management only in the formal sense.
- Studies on board codetermination in **Sweden** (Levinson 2000; Levinson 2001; Levinson 2004) show that the great majority of managers are either positive or neutral about the effects of board codetermination. Furthermore, managers for the most part do not believe that board codetermination has significant financial costs.
- A study on employee representatives on the boards of companies in **Denmark** (Rose and Kvist 2004) reports that these representatives have 'some' or 'significant' influence on board decisions in about two thirds of listed companies, but does not report negative effects from this influence.
- Bertin-Mourot and Lapôtre (2003) claim that the experience in **France** with representatives of *employee shareholders* on the board, who receive representation when employees hold at least 3 percent of shares, has been quite positive. This view is shared by management as well. The authors of the study also argue that the contribution of the regular employee representatives to the board could be improved, and that trade unions could play an important role here.

General Remarks

Recent papers surveying the literature suggest that further research on WP should use a more sophisticated methodology (Addison, Schnabel, and Wagner 2004; Falkum 2005; Wigboldus 2004). One idea is that the previous approach of simply testing the presence or absence of WP may be too simple. Rather, we should focus on developing different typologies of WP mechanisms (e.g. active/passive, cooperative/conflictual) and use these typologies in our empirical research. A second idea is that methodologies need to take account of the complex and multiple impacts that WP mechanisms can have. A third related idea is that the interaction between different types of WP mechanism (e.g. board representation and works councils) can also be important. A fourth idea is that it would be good to combine case studies with quantitative analysis, since case studies can help uncover the complex impacts of WP.

Finally, even though not focusing on works councils or board membership, the UK (and US as well) have extensive and interesting literatures on the impact of other types of worker participation, and also on things like employee share ownership programmes (Guest 1997).

A country-level approach to measuring the impact of board-level WP

This subsection presents the results of a novel approach to measuring the impact of worker board representation on economic performance. It uses the *country* as the main unit of analysis, rather than the company, and looks at the relationship between the strength of WP at the board level and economic performance.[10] The population examined here is the 25 countries in the EU (‘EU-25’). These countries are divided into two groups according to the strength of rights to worker representation in company boards. The group with strong rights, in which rights for WP at the board level exist for most large private sector companies, include the following eleven countries: Austria, Czech Republic, Denmark, Finland, Germany, Hungary, Luxembourg, the Netherlands, Slovak Republic, Slovenia, and Sweden. The group with limited rights, which apply to worker board representation in public sector companies only, or rights to attend but not to vote, or no formal rights, include the following sixteen countries: Belgium, Cyprus, Estonia, France, Greece, Ireland, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Spain, and the UK.

Table 5: Comparison of European national economic performance

Performance variable(weighted averages)	Group I: EU countries with strong codetermination	Group II: EU countries with weak/no codetermination
Unemployment rate (2004), as % of labour force	8.0	8.2
Trade balance (goods), as % of GDP (annual average, for the 5 years 1999-2003)	3.9	-2.0
Current account balance, as % of GDP (annual average, for the 5 years 1999-2003)	1.0	-0.8
Labour productivity per hour (2003)	101.0	95.3
BCI (Business competitiveness index)	6.8	19.9
R&D expenses, as % of GDP, ca. 2000	2.4	1.6
Strike rate (days per 1000 workers), annual av. 2000-2002	9.7	104.8
Gini coefficient	0.259	0.321
GDP real growth (annual average, for the 5 years 1999-2004)	1.6	2.4

Sources: EUROSTAT, World Competitiveness Report, OECD, EIRO Online, Luxembourg Income Study.

Table 5 shows the average scores[11] of the two groups of countries along a broad range of indicators of ‘national performance’. The difference between the averages is quite striking. With the exception of economic growth, the group of countries with strong WP board rights scored consistently and significantly better than the group with limited or no rights.

[10] Thanks to Norbert Kluge for suggesting this approach, and for providing the classification scheme and identifying the countries that fit into the different groups.

[11] Weighted averages were used here, using GDP in 2003 as the country weight. This procedure gives greater weight to the larger countries in calculating the weighted average. The justification for this is that some of the smaller countries had values deviating quite significantly from the average (e.g. in trade balance), thus significantly distorting the simple average.

The individual variables examined include the following:

- The unemployment rate in 2004 reported by EUROSTAT. The group with strong board WP had an average unemployment rate of 8 percent, whereas the group with weaker or no WP rights had a higher unemployment rate of 8.2 percent.
- The trade balance, measured as exports of goods minus imports, divided by GDP. A positive trade balance is on the whole considered a sign of superior international competitiveness, in comparison with countries with a negative trade balance. The 'strong rights' group of countries had, on average, a strong trade balance of 3.9 percent of GDP (average of annual figures for the five years 1999-2003), whereas the 'limited or no rights' group scored considerably worse, with an average negative trade balance of -2.0 percent of GDP;
- The current account balance, which is considered by many to be a broader measure of country competitiveness than the balance of trade in goods. The current account balance includes trade in services as well as goods, and also includes income and fiscal transfers. The net current account balance is divided by GDP. The current account balance for the 'strong' countries was 1 percent of GDP (average of annual figures for the five years 1999-2003), and for the 'weak or no WP rights' group a much weaker -0.8 percent of GDP.
- Labour productivity per hour in 2003 was considerably higher in the 'strong' group than in the other group of countries (101.0 versus 95.3). This is calculated as an index, with 100 representing the average productivity in the EU-15 countries in that year.
- Business competitiveness index (BCI), developed by the World Economic Forum as part of the Global Competitiveness Report 2004-2005. This is a simple weighted average of the two components 'Company operations and strategy' and 'Quality of national business environment'. These are rankings of over 100 different countries based on a large-scale survey of business leaders. The lower the score, the more competitive is the country in the eyes of business leaders, with the best possible score being 1, the worst being 104. The weighted average score for the 'strong rights' group is 6.8, and the score for the 'limited or no rights' group considerably worse, at 19.9.
- R&D intensity, which is the amount of money spent in a country on research and development, divided by GDP. A higher level of R&D intensity is generally considered positive for country performance, since R&D is necessary for developing new, innovative products and services. The Lisbon Agenda has placed a high priority on increasing R&D spending in Europe. R&D intensity is considerably higher in the 'strong rights' group versus the 'limited or no rights' group (2.4 percent versus 1.6 percent of GDP).
- Strike rate, measured as the annual average number of working days lost due to strikes per 1000 workers over the period 2000-2002. This is the statistic in which the differences between the 'strong rights' and 'limited or no rights' group appear to be strongest: 9.7 days for the first group versus 104.8 days, i.e. a roughly ten-fold difference.
- The Gini coefficient, which is a measure of inequality in the distribution of income among a nation's population. A higher number indicates greater inequality in the distribution of income. Recent Gini coefficients are available for most EU countries through the Luxembourg Income Survey. The much lower figure for the 'strong rights' group shows

that there is much more income equality in this group than in the ‘limited or no rights’ group (0.259 versus 0.321).

- The only variable upon which the ‘weak or no rights’ group performed better than the ‘strong rights’ group of countries was GDP growth. The ‘weak or no rights’ group had a GDP growth rate of 2.4 percent (annual average for the 5 years 1999-2004) versus 1.6 percent for the ‘strong rights’ group.

It is of course not possible to argue that strong participation rights ‘caused’ superior economic performance in the first group of countries. Nevertheless, this provides interesting evidence that strong WP rights on company boards do not stand in contradiction to strong national performance.

Section 4: Trade unions and the European debate on corporate governance

For discussion purposes, this section includes a set of suggestions for strategies that trade unions could possibly take as well as concrete political demands that could be made with regard to the debate on corporate governance reform in Europe.[12]

One size doesn't fit all

In the late 1980s and early 1990s support for the importation of stakeholder institutions into the US was quite widespread. In particular there was support for a German-style apprenticeship system, and even limited workplace representation through 'works councils' with information rights on health and safety issues. Similar to the current climate in Europe in which it is difficult to argue against US institutions, at that time opponents of stronger labour market institutions had a hard time finding good arguments due to the superior economic performance of the non-Anglo Saxon countries. However, a common 'last line of defence' used in the US during this time was that, even if institutions such as state-regulated apprenticeships and works councils function well elsewhere, they just wouldn't 'fit' into the US system.

In Europe this 'last line of defence' could also be used. There are at least three good reasons why the US system doesn't fit in Europe:

1) No stakeholder participation rights: as Greenfield (1998) has pointed out, US company law has no 'space' for the representation of labour. This is exclusively focused on the relationship between shareholders and management, even to the exclusion of other financial investors such as bondholders. The European Union, in contrast, has made a commitment to the European Social Model, in which labour should enjoy strong rights of information, consultation and participation (Kluge 2005).

2) Unlike in the US, shareholders in Europe are a clear (and decreasing) minority. Table 6 shows the percentage of households in selected countries which own stock either directly (i.e. hold shares of individual companies) or indirectly (through ownership of equity mutual funds). In the US and Australia a small majority of households own shares in companies. However, in Europe the highest level of share ownership is in the UK, where about one third of households have direct or indirect ownership. In other European countries it is significantly lower, and recent surveys in Germany and Switzerland show that ownership is decreasing further. Thus shareholders are a clear minority interest.

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[12] See also the consultation document by TUAC (Trade Union Advisory Committee to the OECD) on a trade union position on Corporate Governance 'An Employee Voice in Corporate Governance – A Trade Union Perspective' (www.tuac.org).

Table 6: Percentage of households with share ownership (ca. 2000)

Country	Direct ownership	Direct and indirect Ownership
Non-Europe: Australia	39	51
US		51
Canada		48
New Zealand	30	44
Europe: UK	27	34
Switzerland	28	30
Sweden	22	
France	15	23
Netherlands	14	24
Germany	9	19
Italy	7	15

Sources: (Australian Stock Exchange 2004; Deutsches Aktieninstitut 2003; Guiso, Haliassos, and Jappelli 2003: Table 4).

3) The level of shareholding is much more concentrated in Europe than in the US (see Table 7). In fact most large US firms have no blockholder (i.e. single shareholder with at least five percent of the stock of a company).[13] Most large European firms do have at least one blockholder, and the largest shareholder for most companies is considerably larger than five percent. In Italy, Germany, Austria and Belgium most companies even have a majority shareholder, with at least 50 percent share ownership. As discussed in sections 1 and 2, however, the focus of the US system is on small shareholders (generally with holdings considerably less than five percent), and thus not suited to the concentrated holding that characterises Europe.

[13] The table shows median figures for firms listed on both the NYSE (New York Stock Exchange) and the NASDAQ (National Association of Securities Dealers electronic trading exchange). Larger companies generally have less concentrated ownership than smaller ones, thus the medians for larger companies are considerably lower than the 5.4 and 8.6 percent figures listed above. Furthermore, many shareholders with 5 percent or more are large fund groups, such as Fidelity or Janus, which may have dozens of funds owning shares in the same company. These individual funds, however, generally do not coordinate their activities and behave the same way in corporate governance that a large shareholder would.

Table 7: Median size of largest shareholding block, late 1990s

Country	Largest voting block: Median %
Italy	54.5
Germany	52.1
Austria	52.0
Belgium	50.6
Netherlands	43.5
Spain	34.2
France (CAC 40)	20.0
UK	9.9
US – NASDAQ	8.6
-- NYSE	5.4

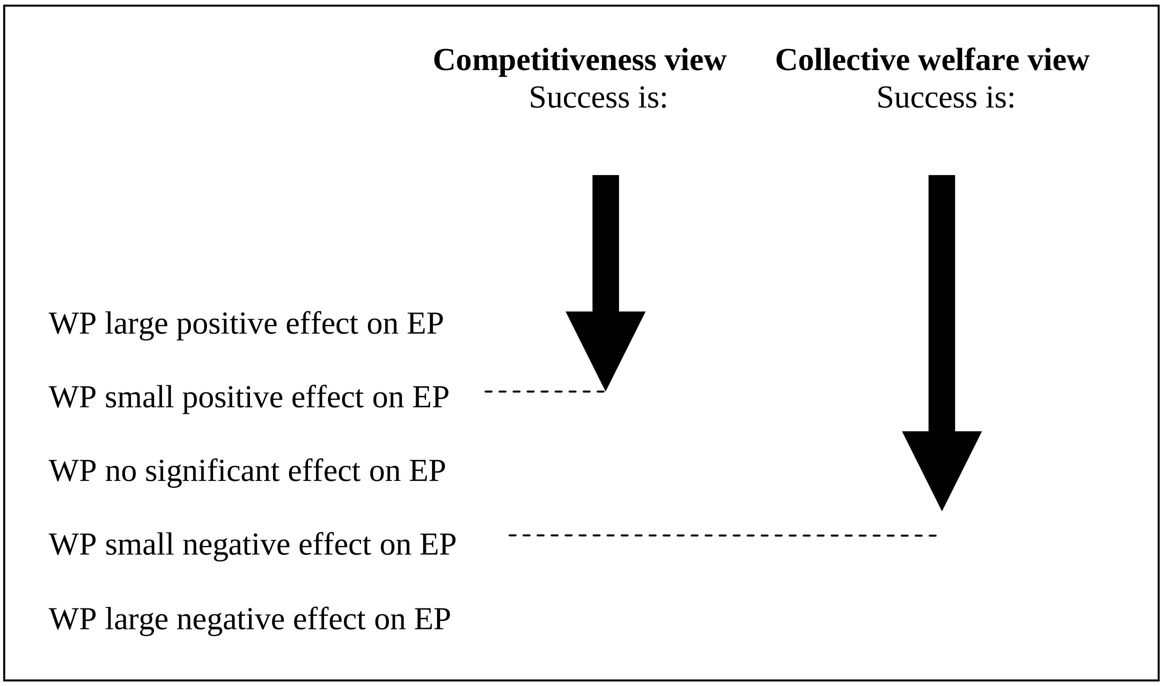
Source: Barca and Becht (2001).

Although these 'last line of defence' arguments can be useful, it is desirable of course to make stronger positive arguments for a European system of corporate governance. The next few points make suggestions for a stronger role for trade unions in such a European system.

Defining success – competitiveness versus collective welfare

One part of the battle over the future European corporate governance system is defining the criteria for 'success' of different institutional arrangements. Currently the public debate is dominated by the 'competitiveness' view of the success of different institutions. According to this view, institutions should be judged according to their contribution to the competitiveness of the European economy and institutions for workers' participation should, accordingly, be supported only if there is clear evidence of a positive impact on the financial performance of companies.

Figure 2: Two views of success of workers' participation



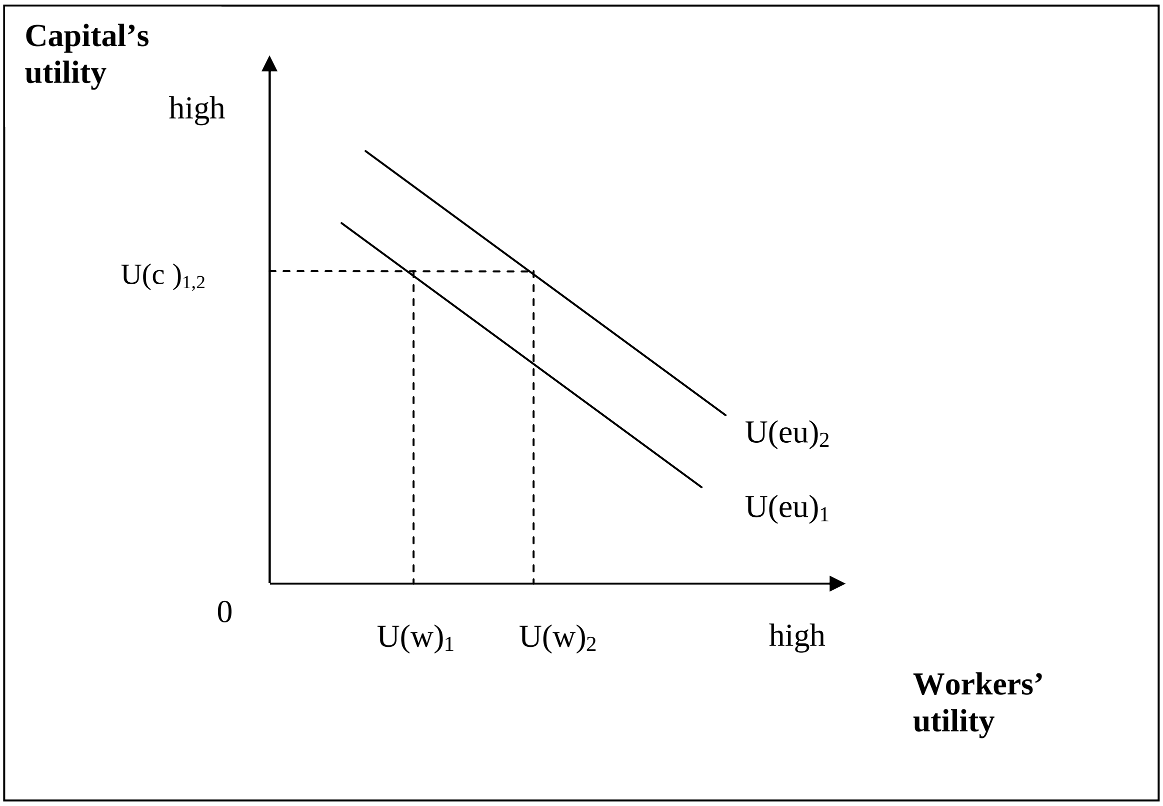
In terms of the possible outcomes of the econometric studies discussed above, this places a rather *high burden of proof* on supporters of workers' participation. Studies must consistently show that the coefficients for participation variables have both significant and positive signs (ideally *large* positive signs). Thus only two of the five possible statistical outcomes are supportive of participation under this view. Furthermore, the existence of one or more studies with opposite findings can relatively easily be cited as counter-evidence.

An alternative approach toward judging the success of institutions could be called the collective welfare approach. This approach is supported by economic theory, which argues that the collective welfare or 'utility' is the sum of the utility of all the actors in the system. Here we consider a simple utility function, where the collective welfare of the EU is a function of the utility of workers plus the utility of capital:

$$U(eu) = U(w) + U(c)$$

Unlike the 'competitiveness' approach, the collective welfare approach sees a clear improvement in the welfare of the EU, even without an increase in the welfare of capital, if there is an increase in the welfare of labour. Figure 3 shows this scenario. In economic terms, the introduction of WP measures that would cause this scenario to occur would be a Pareto Optimal outcome, which is defined as "a change in the status quo that makes at least one person better off, while making no one else worse off". In fact, although it would not be Pareto Optimal, the collective welfare of the EU could increase, even in the case of a small decrease in welfare of capital, if the increase in labour's utility more than compensated for this.

Figure 3: Collective welfare function for the European Union



The approval of the Lisbon Strategy by the EU member states opens the door for legitimating this type of argument. Not only growth and competitiveness, but also the quality of jobs, is now a key policy goal of the EU. Insofar as worker participation enters into the welfare function of workers, or leads to an improvement of factors in the utility function, then its introduction or spread leads to a Pareto Optimal outcome.

In terms of strategies for the interpretation of results of econometric studies on WP, the collective welfare view would argue that a broader range of results could be interpreted as supporting WP mechanisms. Specifically, studies finding that WP has no significant impact on the financial performance of the firm could be interpreted as supportive of WP: if there is no systematic negative impact on shareholders, but there is a positive outcome for workers, then WP is successful.

Although more difficult to argue, since it would not constitute a Pareto Optimal outcome, it could even be claimed that studies which show a significant, but only slightly negative, coefficient for the impact of WP on financial performance, could be interpreted as success for WP, under the presumption that the positive impact on workers' utility would more than compensate for the loss in the utility of capital.

Improving communications with workers

A related issue is the problem of communicating the results and benefits of workers' participation to workers. Where WP is already well established this seems to be less of a problem. For example, in Germany a large-scale opinion survey administered by Emnid for the Hans Böckler Foundation found that 89 percent of persons surveyed believed that works councils improve the motivation of employees and their identification with the firm. Furthermore, 82 percent of persons surveyed opposed reducing the extent of workers' representation on supervisory boards (Hans-Böckler-Stiftung 2004).

In places where WP institutions that are relatively new or are more 'far removed' from the workplace, such as European Works Councils, communicating the benefits of WP to workers is a difficult challenge (Vitols 2003). Even though WP might improve company performance here on the operational side (e.g. productivity), workers at the company might not be aware of the positive achievements of WP. An exchange of best practice could be a useful means of identifying strategies for dealing with this problem.

Not just rights - what about shareholder responsibilities?

A striking feature of the policy debate in Europe now is how much the 'shareholder rights' discussion is focused on the interests of institutional investors. The current proposals and initiatives under the EU Action Plan for Modernising Company Law and Enhancing Corporate Governance focus on strengthening the information and voting rights of 'minority shareholders' – in practice this comes down to the group of institutional investors that take small stakes (less than 5 percent, and often less than 1 percent of shares) in a large number of companies ('portfolio investors').

However, there is little or no discussion of 'shareholder responsibilities' vis-à-vis the companies in which they invest. For example, the issue of corporate social responsibility (CSR) is not integrated into the corporate governance discussion. Furthermore, 'shareholder responsibilities' vis-à-vis the households that entrust their money to them is lacking in the debate. For example, the European Commission consultation document 'Fostering an appropriate regime for shareholder rights' exempts investment funds from the corporate governance and disclosure rules that apply to non-financial companies. This is striking given the extremely low level of disclosure of financial holdings by investment funds in Europe in comparison with the US, where funds have to report every cent of their holdings on a quarterly basis.

A good place for trade unions to enter into the corporate governance debate in Europe is therefore the demand for 'shareholder responsibilities', as a balance to the current one-sided debate on 'shareholder rights'.

Developing a strategy for promoting "patient" capital

Much of the academic discussion of globalisation and shareholder value has tended to lump institutional investors (pension funds, mutual funds, etc.) together into one 'black box' group.

However, institutional investors in fact differ greatly regarding their investment time horizons, their selection criteria for the kinds of companies they invest in, and their willingness to play an active role in corporate governance. Insofar as certain types of institutional investors are more likely to be ‘friendly’, or at least ‘less hostile’, to the interests of labour, it is in the interests of trade unions to try to influence the situation to make the European environment as hospitable as possible to the ‘friendly’ (and as inhospitable as possible to ‘hostile’) institutional investors.

Although further research on this point is necessary, a reasonable assumption is that so-called ‘patient’ investors are probably more supportive of labour’s interests than less patient investors.[14] One major reason is that less patient investors would tend to exit more quickly by selling their shares when profits start declining or other news emerged, even though cyclicality in profits or a certain amount of negative events are a natural part of a company's history. The resulting greater decline in share price caused by the exit would put management under greater pressure to implement short-term measures that might not be in the long-term interests of the company, e.g. a severe cost-cutting programme.

Anecdotal evidence suggests that a number of factors affect the degree of patience of capital. One is the size of the investor. Very large investors find it difficult to quickly buy and sell shares in specific companies, since the act of buying or selling large numbers of shares in a short period of time can have a substantial effect on share price. Large investors are thus forced to adopt more long-term strategies.

Thus it is not surprising that the institutional investors pursuing more active roles in corporate governance, including dialogue with management instead of ‘exit’ of shares when there are problems with the company, tend to be the largest institutional investors, such as Calpers (California Public Employees Retirement System) in the US and Hermes in the UK.

Furthermore, the association of insurance companies in the UK (ABI or Association of British Insurers) routinely organises meetings between management of underperforming companies and its largest insurance company members (typically representing ownership of 10-15 percent of share capital of a firm). Rather than exiting the relationship by selling shares, these dialogues attempt to persuade management to improve performance by changing strategy and undertaking positive operational measures.

Since this type of patient capital is more in the interests of labour than the type of impatient capital becoming more predominant in the US, it would be advantageous to identify measures promoting patient capital in Europe, and for European trade unions to support these measures.

Promising measures for consideration here include ‘rewarding’ long-term investors through differentiated voting rights and dividend payouts. Such measures are already in place in some countries, e.g. France. A concrete proposal here is to have double voting rights and dividend payouts for long-term investors, i.e. for the shares which have been held by the same investor for at least a year.

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[14] See here the recent study by the Hans Böckler Foundation on the effects of the increased activity of hedge funds and private equity funds in Germany (Kamp and Krieger 2005).

A "voice on the board" through employee shareholding?

How can employees gain a voice on company boards, even in countries which are hostile to workers representation on boards? One way to do this could be through promoting employee share ownership and developing mechanisms for the collective representation of these employee owners, including representation on the board. In France, for example, a mechanism exists for selecting an employee representative to the board when employees own more than 3 percent of shares.

Schemes for the broad-based (i.e. not just top management) ownership of shares are already fairly widespread among European companies listed on the stock market. (Kalmi, Pendleton, and Poutsma) report that almost half of the European stock market listed companies they surveyed had a broad-based share ownership scheme (including stock options) (see Table 9).

However, relatively few of these schemes involving employee share ownership have any sort of mechanism for the collective representation of employee shareholders. Interestingly, the US has a relatively extensive history of employee share ownership, e.g. through ESOPs (Employee Share Ownership Plans). Studies show, however, that these plans are most effective when there is some sort of mechanism for collective voice and representation, above and beyond simple ownership of shares.

Table 8: Frequency of share ownership schemes at European companies

Country	Percentage of surveyed firms with a broad-based share ownership scheme
Netherlands	37.1
France	46.7
UK	64.3
Finland	35.7
Spain	11.8
Germany	48.8
Total (in 6 countries surveyed)	44.1

Source: Kalmi et al. (2004: Table 2).

Strengthening links with the CSR movement

One of the most important recent developments among the investing public is the CSR (Corporate Social Responsibility) movement. This movement is important because it attempts to expand the definition of the responsibilities of the firm: it tries to develop criteria for defining what a 'good firm' is, above and beyond maximising shareholder value.

Table 9: Issues covered in major CSR principles and codes

CODE:ISSUE:	UN CG	Amnesty	ETI	Sullivan	OECD	WHO/ UNICEF	ECCR/ICCR
Financial	●				●●		
Economic Development	●●	●	●	●	●		
Consumer Affairs	●					●●	●
Human Rights	●●●	●●●	●●●	●●●	●	●●	●
Employee Relations	●●●	●●	●●	●			●
Community Investment	●●						●
Bribery and Corruption	●	●●	●		●●		
Bio-diversity	●●						
Air quality and noise pollution	●						
Energy and water	●						
Waste and raw materials	●						

Source: Derived from European Commission (2003: Table 4).

Note: ●●● = issue included, with major coverage
●● = issue included, with some coverage
● = issue included, with minimum reference
= no reference

Although there is no single agreed-upon definition, in practice CSR is a diverse, broad based movement concerned with the behaviour and practices of companies regarding labour, environmental, ethical, and other standards. A number of private and public actors have developed CSR codes, which define ‘responsible’ behaviour for companies. For investors, CSR funds offer the option of investing only in companies that meet the minimum standards of a code.

To date the links between trade unions and the CSR movement in Europe have not been particularly strong. Although most major CSR codes involve employee rights, at least two of them (OECD and WHO/ UNICEF) do not (see Table 9). Furthermore, in only one case do employee rights receive extensive coverage (UN CG); the rest of the codes give employee rights minimal or moderate levels of coverage. Furthermore, the primary concern appears to be with the abuse of labour in developing countries, rather than the rights of employees in industrialised countries.

Stronger identification with the CSR movement could be an important way of improving the social legitimacy of WP, as a tool serving not only the interests of a particular group, but also the universal/social interest. One possibility would be to work more closely with groups developing CSR codes, to make sure that the interests of labour in industrialised countries are more strongly taken into account in the CSR codes. A second possibility would be to use WP on company boards as a mechanism for enforcement, or for certification of compliance with CSR codes. A third possibility would be for trade unions to use influence on the investment policies of pension funds where they have representation.

Conclusion

This report has explored various means by which trade unions could improve their position in the evolving European system of corporate governance. The first task is the deconstruction of the US corporate governance model, which is still hegemonic in European policymaking circles, despite the Enron et al scandals. The tendency for academic and policymaking circles to identify a ‘single best’ model overlooks 1) the real driving forces of superior economic growth in the US since the early 1990s, 2) the considerable internal problems that have developed in the US system, and 3) the basic unsuitability of the US model to Europe, due to the exclusion of labour interests and the fundamentally different patterns of ownership and household stock market participation here.

The report has advocated a more intensive examination of the effects of worker participation, particularly at the board level, since the literature is fairly thin on this topic (outside Germany at least). This research, however, should be interpreted in terms of the impact of participation on ‘collective welfare’ rather than on competitiveness. Thus workers’ participation contributes positively to the welfare of the EU, even in the absence of significant effects on the financial participation of the firm, if there are positive effects on the welfare of workers. Research should therefore examine the utility of workers’ participation for both capital and labour.

Finally, a number of suggestions are made for trade union strategies in the debate on a European system of corporate governance, and for concrete demands that trade unions could make to strengthen their position.

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