

Information sheet 5

26 June 2008

EWC – an essential part of good corporate governance

Senior managers increasingly recognise the advantages of serious employee involvement. Such managers take to heart the following principles of good corporate governance:

- The company must commit itself to its workers, pay attention to the social (and ecological) effects of doing business and respect the right of workers to organise themselves in trade unions.
- The bodies representing workers in the company must be organised effectively at transnational level, so that in the run-up to the introduction of significant changes they can act as a conduit to the workforce, engage with management and other stakeholders concerned and formulate positions on management proposals which can be incorporated into the decision making and execution processes.

Indeed in Europe we can see that the most competitive companies are also very often the companies where employees are most actively involved in decision making processes.

Studies which examine the effect of information, consultation and participation laws on companies support this observation, showing positive economic impacts for the companies themselves as well as in relation to national economic performance and further benefits to society as a whole.

Most companies today accept that workers' knowledge and engagement can contribute directly to positive economic results. Indeed, experience shows that workers are willing to make positive contributions to the management of change if and when they are pro-actively informed and are able to have a meaningful consultation on company decisions and accompanying social measures. This can be seen in the practice of many European works councils. So, it is not surprising that effective employee participation structures have been shown to have a positive impact on innovation, productivity and employee satisfaction. Nor is it surprising that these findings are reinforced by the fact that countries in which company managements are obliged to enter into social dialogue with their employees and in which labour relations are more partnership based have also shown high levels of economic performance.

Codetermination Rights and the Comparative Performance of Countries

	GROUP 1: COUNTRIES WITH STRONG CODETERMINATION RIGHTS	GROUP 2: COUNTRIES WITH WEAK OR NO CODETERMINATION RIGHTS
AVERAGE ROE (Return on Equity) for companies in the FTSE All-World Index	18.4 %	17.9 %
EMPLOYEE SATISFACTION (percentage of workers who are satisfied or very satisfied with working conditions)	87.7 %	82.1 %

Note: Group 1: Austria, Czech Republic, Denmark, Finland, Germany, Hungary, Netherlands, Norway and Sweden. Group 2: Belgium, France, Greece, Ireland, Italy, Poland, Portugal, Spain and the UK. Employee satisfaction is weighted by total country employment in 2006, according to OECD online statistics. (www.oecd.org)

Source: Own calculations from FTSE All-World Review (November 2006) and the European Foundation's Fourth European Working Conditions Surveys (2005)

How do EWCs contribute to the development of a modern corporate culture?

EWCs are a special category of information and consultation bodies because they are transnational. By involving workers in an effective and structured way at transnational level, companies that are moving towards a more transnational organisation of management can use EWCs to create a necessary anchor for good employee relations forged at national level.

Corporations are faced with a number of key challenges when they expand across national borders – how do they integrate diverse national cultures and industrial relations practices? How can they create a common corporate identity, especially when workplaces in other countries are acquired? How can they see that minimum standards for labour practices are implemented outside of the home country? How can they ensure a good flow of information from the workforce in different countries directly to top management? These are all functions which EWCs can fulfil. A recent survey of senior managers shows clearly that EWCs perform functions that are difficult to fulfill at the national level in multinational companies. Company values and/or mission

Source: Etui & ETUC: Benchmarking Working Europe 2007

However, this is not only an advantage for progressive management in a few far-sighted companies. It is also widely acknowledged that legal obligations for employee involvement, such as the legislation on European Works Councils (EWC), can help to generate social harmony and high productivity across the board by promoting partnership-based working relations.

statements were discussed at recent meetings in 69 percent of the EWCs surveyed; CSR in 62 percent. Issues like cross-border relocations and benchmarking plant performance across borders are also increasingly being discussed in EWCs.

Most Frequent Topics Discussed at Recent EWC Meetings

Topic Discussed	% of EWCs
Company's financial situation	99
Corporate values/mission	69
Acquisitions and mergers	68
Plant cutbacks or closures	66
CSR/Sustainability	62
Process innovation	60
Product innovation	49

Source: TIM Project "Innovative Corporate Cultures and EWCs", 2006.

Percent of managers believing that EWCs have a positive versus negative impact

Impact of EWC on:	Positive	Negative
Communications with employees	67	2
Employee commitment to company objectives	62	0
Effectiveness of implementation of management decisions	37	3
Speed of decision making in the company	10	9

How do managers judge the impact of EWCs on company operations?

Although there is a diversity of management opinions regarding the effect of EWCs on their companies, in general the assessment is positive. 67 percent of managers thought that EWCs improved communications with employees "somewhat" or "significantly", versus only 2 percent who thought that communications worsened. Almost two thirds felt that employee commitment improved, and none thought that there was a negative impact in this area. 37 percent believe that the effectiveness of implementation of management decisions was improved through the EWC versus only 3 percent negative. Only in the case of "speed of decision making" was there a balance of positive and negative opinions – however the clear majority (82 %) felt that altogether there was no significant impact here.

(read more in ETUI & ETUC: Benchmarking Working Europe 2008, page 78)

Indeed, overall, there are a number of important benefits to good corporate governance at transnational level:

- When an EWC becomes a respected partner for discussion and an important actor in negotiation with company management it shows that the Europeanisation and internationalisation of the company will not alienate workers or make obsolete the structures for representing them which have underpinned positive social relations in the past.
- By including representatives of different national workplace cultures and labour relations systems EWCs can help central management understand how transnational decisions are likely to be taken up and interpreted on the shop floor in different countries and regions.
- The workers' side at European level has been shown to do be a much better a seismograph and early warning system for shocks and inefficiencies which are produced – often inadvertently – by management decisions, than the often 'monocultural' management team of a multinational company, who are more easily blinded to (or unwilling to point out) the mistakes of their peers and superiors.

So, all in all, effective EWCs are good news for successful corporate governance. Many companies already know this and will have little to do following an improvement of the EWC Directive. Others will discover that development of serious transnational information and consultation structures can have a significant upside for their companies.

Useful links:
The ETUC website: http://www.etuc.org/
The ETUI website: http://www.etui.org
The ETUI special website: http://www.worker-participation.eu
Social Development Agency (SDA) database: http://www.sda-asbl.org/DbInfo/inizio.asp
For further information, contact: Norbert Kluge, senior researcher- nkluge@etui.org , Sigurt Vitols, associated researcher, svitols@etui.org