

# POLICY BRIEF

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## CODETERMINATION FOR THE SUSTAINABLE COMPANY

Norbert Kluge and Sigurt Vitols



## INTRODUCTION

Codetermination remains what it has always been, even in challenging periods of transformation: the principle of taking responsibility for democratically shaping change in companies and society. But codetermination has been caught in the headwind of globalised financial markets. The ‘patient capital’ of Germany AG has been slowly crowded out by institutional investors since the mid-2000s. How can codetermination assert itself in the clutches of short-term-oriented shareholder value and help to shape companies sustainably in the interests of workers and society?

Unless they are bound to social sustainability goals companies will not be able to ensure their continued existence in the course of digital and ecological transformation. That is why the Sustainable Company was brought into the discussion to guide research. In contrast to the dominant ‘shareholder value’ approach to corporate governance, employee participation is a central element of the Sustainable Company in terms of decent work and decent incomes at production locations in healthy environments.

In terms of social policy the path from the trade union-inspired notion of ‘just transition’ leads to the Sustainable Company as a key micro-political actor in its implementation. ‘Just transition’ comprises two core elements: strengthening public responsibility for the importance of work for the transformation and a holistic approach to decarbonisation, which does not treat the social consequences as peripheral, but takes them into account from the outset.<sup>1</sup> Today, the concept has become a political instrument of international agreements and institutions, such as the ILO.<sup>2</sup> The formula ‘just transition’ made it into the Preamble of the 2015 Paris agreement on climate protection, since when – at the latest – it has been an acknowledged narrative in climate protection policy worldwide. Work is the social fulcrum as regards concrete policy measures on climate protection. That is very much a success story for an idea initiated by trade unions.

Institutionally embedded opportunities for workforce participation in Germany are measured by a Codetermination Index (MB-ix), developed jointly by the WZB Berlin Social Science Center and the Hans-Böckler-Stiftung

### More Information



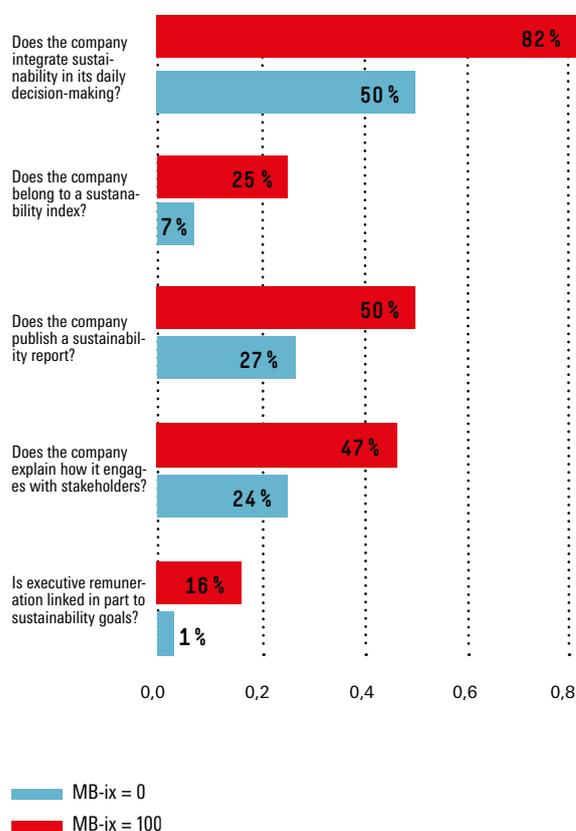
<https://www.mitbestimmung.de/html/codetermination-index-9420.html>

- 1 Just transition: its origins, especially in North American trade unions, go back to the 1990s.
- 2 Galgóczi, Bela (2018): Just transition towards environmentally sustainable economies and societies for all. Geneva: ILO ACTRAV Policy Brief.

The MB-ix provides information on the performance of companies with different levels of codetermination as regards sustainability.<sup>3</sup> For example, companies with a high level of codetermination are almost twice as likely to integrate sustainability in their corporate governance guidelines as companies without codetermination.<sup>4</sup> On the whole, if a company has workers’ participation it makes more of an effort to improve transparency and operate more responsibly.

Figure 1

### Sustainability is better integrated into corporate governance in companies with strong codetermination



Source: own figure based on Böckler Impuls 17/2016



- 3 The conception, structure and aims of the Codetermination Index (MB-ix) are described here: Scholz, Robert and Sigurt Vitols (2016): Der Mitbestimmungsindex MB-ix. Wirkungen der Mitbestimmung für die Corporate Governance nachhaltiger Unternehmen [The Codetermination Index MB-ix. Effects of codetermination on the corporate governance of sustainable companies], Düsseldorf Mitbestimmungsreport No. 22 (Düsseldorf: Hans-Böckler-Stiftung).
- 4 Böckler-Impuls No. 17 of 4.11.2016 (Düsseldorf: Hans-Böckler-Stiftung).

## EVEN TODAY: THE DECISIVE ROLE OF COMPANIES WITH CODETERMINATION IN THE GERMAN ECONOMY<sup>5</sup>

In Germany, the Sustainable Company for the Green Deal will have codetermination for the foreseeable future. In 2017 more than one-third of all workers were employed by companies with codetermination (10.8 million out of 30.2 million), accounting for 40 per cent of sales volume and 45 per cent of value added in the German economy. Codetermination helps companies to withstand crises better.<sup>6</sup> Companies with codetermination were more robust during the financial and economic crisis and recovered more quickly from its effects. Such companies also maintained their investments in research and development and their fixed assets at a higher level than companies without codetermination. The stock market performance of companies with codetermination was also positive.<sup>7</sup>

Macroeconomic research yields further insights. In comparison with companies without codetermination in Europe, those with it exhibit higher investment and productivity.<sup>8</sup> Board-level employee representation has a positive and significant effect, with more benefits for various stakeholders.<sup>9</sup>

## CODETERMINATION IN THE FUTURE: THE SUSTAINABLE COMPANY AS MODEL

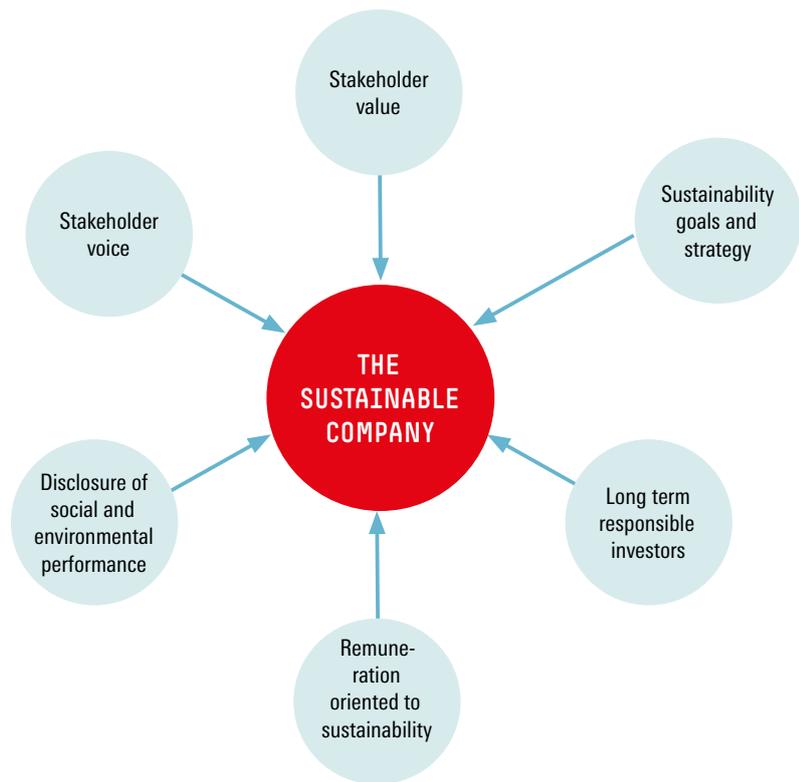
What is a company for and what role should it play in a digital and ecological transformation? Our model for this purpose is the Sustainable Company, with good prospects for decent work and incomes, for liveable production locations in accordance

with political democracy, economic competitiveness and ecological resource conservation.

The concept of the Sustainable Company was developed in the early 2000s at the European Trade Union Institute (ETUI). It links together conventional levers of corporate governance with corporate goals under the aegis of future viability (see figure 2).<sup>10</sup>

Figure 2

### Elements of the Sustainable Company



Source: own figure

IMU

5 The following data are based on analyses carried out by the Hans-Böckler-Stiftung on the structure of companies in Germany in 2017. We would like to thank Henrik Steinhilber and Stephan Kraft.

6 Herzog-Stein, Alexander and Fabian Lindner (2017): Mitbestimmung. Sicher durch die Krise [Codetermination: safely through the crisis], in Böckler-Impuls No. 17 (Düsseldorf: Hans-Böckler-Stiftung).

7 See Steffen, Marc and Michael Wolff (2019): Starke Mitbestimmung – stabile Unternehmen. Eine empirische Analyse vor dem Hintergrund der Finanz- und Wirtschaftskrise [Strong codetermination, stable company. An empirical analysis against the background of the financial and economic crisis], I.M.U.-Report No. 51, Düsseldorf.

8 Redeker, Nils (2019): Unlocking Europe's Piggy Bank. Corporate Saving, Labor Power and Policies for Investment: Berlin, Jacques Delors Centre Berlin, Policy Paper.

9 Vitols, Sigurt (2019): What drives sustainability in companies? Examining the influence of board-level employee representation on responsible practices in large European companies. Paper presented at ILERA-Congress, 5–7 September 2019, Düsseldorf. Sustainability indicators were examined for companies in the following six areas: personnel, environment, human rights, business ethics, social relations and corporate governance.

A key feature is the involvement of all interest groups and in this context in particular employees at all levels (national and transnational) in all processes of company decision-making and supervision. This can find expression in a variety of forms of participation, such as codetermination in the supervisory board, the involvement of the European works council, different kinds of collective agreements – for example, international framework agreements – and also the establishment of advisory bodies for representatives of societal interest groups in the company.

10 Vitols, Sigurt and Norbert Kluge (eds) (2011): The Sustainable Company: a new approach to corporate governance (Brussels: ETUI).

## CODETERMINATION - THE BASIS OF GOOD CORPORATE GOVERNANCE

In Germany, codetermination remains a mainstay of the social market economy. It is supported in this by the historical legacy of German economic development, 'to protect the emerging industrial society against the destructive effects of industrial dynamics (and today one might add the fundamentally harmful dynamic of rampant international financial markets)'.<sup>11</sup> Statutory codetermination in the supervisory board has been able to assert its corrective and orientating function in all this. The law on the European company (SE) of 2004 already protects existing codetermination at national level in accordance with the 'before-and-after principle', thereby extending this institution beyond national borders.

Even though in many other countries there is no such right for employee representatives to have a presence in the company's supervisory and executive bodies, 'functional equivalents' of codetermination as conventionally understood can be identified in relation to problems of restructuring and the embedding of more corporate social responsibility (CSR) in companies' principles of governance. This was a major finding of a European expert group set up by the Hans-Böckler-Stiftung on the issue of 'workers' voice in corporate governance'.<sup>12</sup>

## WHY CODETERMINATION?

Codetermination is a key element of the Sustainable Company, offering a future for decent work, incomes and a working life in healthy environments. Codetermination is lived democracy and transforms workers into citizens in the firm.

11 According to economic historian Werner Abelshäuser (1999): Vom wirtschaftlichen Wert der Mitbestimmung. Neue Perspektiven ihrer Geschichte in Deutschland [On the economic value of codetermination. New perspectives on its history in Germany] (Frankfurt/New York: Campus), p. 225.

12 Hassel, Anke, Sophia von Verschuer and Nicole Helmerich (2018): Workers' Voice and Good Corporate Governance. Closing research report (Düsseldorf: Hans-Böckler-Stiftung), available at: [https://www.boeckler.de/pdf/mbf\\_workers\\_voice\\_academical\\_final\\_report.pdf](https://www.boeckler.de/pdf/mbf_workers_voice_academical_final_report.pdf)  
For a summary of the results in German, see: Kluge, Norbert, Robin Leger and Maxi Leuchters (2019): Workers' Voice. Die Stimmen der Arbeitnehmer in der europäischen Corporate Governance [Workers' voice in European corporate governance] (Düsseldorf: Hans-Böckler-Stiftung), Mitbestimmungsreport No. 52, [https://www.boeckler.de/pdf/p\\_mbf\\_report\\_2019\\_52.pdf](https://www.boeckler.de/pdf/p_mbf_report_2019_52.pdf)

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**Dr Norbert Kluge** was head of I.M.U. at the Hans-Böckler-Stiftung between 2013 and 2020. Before that he was, among other things, senior research fellow at the European Trade Union Institute (ETUI) in Brussels, consultant to the European works council at ThyssenKrupp AG and coordinator of the works council association of Outokumpu Germany.

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### Policy Brief No. 1

Workers' Voice for better and sustainable Corporate Governance:



[https://www.boeckler.de/pdf/p\\_mbf\\_pb\\_2018\\_1.pdf](https://www.boeckler.de/pdf/p_mbf_pb_2018_1.pdf)

### Policy Brief No. 2

Worker's Voice:



[https://www.boeckler.de/pdf/p\\_imu\\_pb\\_2019\\_2.pdf](https://www.boeckler.de/pdf/p_imu_pb_2019_2.pdf)

### Policy Brief No. 3

Sustainable and responsible finance:



[https://www.boeckler.de/pdf/p\\_mbf\\_pb\\_2019\\_3.pdf](https://www.boeckler.de/pdf/p_mbf_pb_2019_3.pdf)

The I.M.U. (Institute for codetermination and corporate governance) is an institute of the Hans-Böckler-Stiftung. It provides advice and training to workers' representatives on supervisory boards, works councils, as well as to labour directors. Democracy thrives on workers' participation. All our efforts are directed towards fostering a culture in which people get involved, have their say and contribute to decision-making. Both in their everyday lives and at the workplace.



## TWITTER

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How do we want to work and live tomorrow? How can we safeguard and enlarge codetermination in the age of digitisation and globalisation? More information about #zukunftmitbestimmung on our Twitter channel:

<https://twitter.com/ZukunftMB>



## MITBESTIMMUNGSPORTAL

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The Mitbestimmungsportal is the gateway for the I.M.U.'s services for codetermination actors. Employee representatives need comprehensive orientational and practical know-how that is up-to-date, succinct and precisely matches their requirements. This is what the Hans-Böckler-Stiftung's online platform Mitbestimmungsportal offers. Register free of charge at:

<https://www.mitbestimmung.de>



## SHAPING CODETERMINATION THROUGH PRACTICAL EXPERIENCE

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Company and service agreements show that workplace practices today are shaping the decent work of tomorrow. We present cases in which codetermination actors and employers have reached agreement on regulations through which they can jointly tackle the consequences of digital and technological developments in ways favourable to the employees.

<https://www.boeckler.de/betriebsvereinbarungen>

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### **Issue**

Policy Brief No. 4

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