EMPLOYEE DIRECTORS

– What is their say?

“Employee directors – What is their say?”
is published by:

CO-industri
Vester Søgade 12,2
DK-1790 Copenhagen V
Tel. +45 33638000
Fax +45 33638099
www.co-industri.dk
E-mail:co@co-industri.dk

BAT-kartellet
(The Cartel of Unions in the Building,
Construction and Wood Sectors)
Kampmannsgade 4
DK-1790 Copenhagen V
Tel. +45 33142140
Fax +45 33972263
www.bat-dk.org
E-mail: bat@sid.dk

GIMK-kartellet
(The Cartel of Unions in the Graphic
Industry and the Media Sector)
Weidekampsgade 8
DK-0900 Copenhagen C
Tel. +45 33304343
Fax +45 33304088
www.gimk.dk
E-mail: gimk@hk.dk

Handelskartellet
(The Cartel of Unions in the
Trade Sectors)
C.F. Richsvej 103
DK-2000 Frederiksberg
Tel. +45 38182010
Fax +45 38182019
www.handelskartellet.org
E-mail: handelskartellet@net.dialog.dk

Ingeniørforeningen i Danmark (IDA)
(The Danish Society of Engineers)
Kalvebod Brygge 31-33
DK-1780 Copenhagen V
Tel. +45 33184848
Fax +45 33184888
www.ida.dk
E-mail: ida@ida.dk

Text: Ingrid Pedersen
Photography: Harry Nielsen
Illustration: Lise Trampedach
Layout and printing: Hafnia Grafisk/531206
September 2004
Print run: 1.000ex.
ISBN: 87 - 91537 - 23 - 1
CO publication no.: 2004/108

Employee directors
– What is their say?

This summary has been prepared by Ingrid Pedersen, journalist, on the basis of the report “Employee Directors” by Caspar Rose and Hans Kurt Kvist, Copenhagen Business School, 2004.

Great influence

Employee directors have the same rights and duties as directors elected by the general meeting. Many of them feel that they really make a difference even though they can only make up a third of the board of directors.

Female employee directors rate their influence lower than the male employee directors do.

Educational background does not have any impact on their influence, but targeted courses and a solid network internally in the enterprise ensure influence.

These are some of the results of the survey *"Employee directors"* carried out by Caspar Rose and Hans Kurt Kvist, Copenhagen Business School.

The survey was made in collaboration with CO-industri, The Danish Society of Engineers, The Cartel of Unions in the Building, Construction and Wood Sectors, The Cartel of Unions in the Graphic Industry and the Media Sector and The Cartel of Unions in the Trade Sectors.

More than 30 years have passed since the employees won the right to elect directors to the boards of directors of public limited companies with more than 35 employees. This right is used by the employees in about 20 per cent of the enterprises in which they are entitled to this.

The act was adopted unanimously by the Danish Parliament after long discussions about profit sharing and union-controlled central funds, and Denmark's entry into the European Community was expected to lead to the introduction of some sort of employee participation in the decision-making processes of the enterprises.

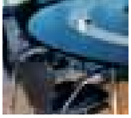
The right-wing parties accepted the proposal for employee representation on the boards of public limited companies because it was based on employment in the enterprise and not on membership of a union.

The aim was to ensure the employees a right of participation that gave them the opportunity to present viewpoints and proposals to the board of directors. However, the actual implications of this right of participation were not specified in detail.

The rules entitle the employees to occupy a third of the seats. This means that the directors elected by the general meeting will always be a majority. Still, employee participation:

- intervenes in the shareholders' rights of ownership
- may impede the decision-making process
- may mean that the employees will fight necessary production cuts

In favour of employee participation is, however, the fact that the enterprises' activities concern many people – particularly the employees. It is therefore natural that the employees participate in the decisions of the management.



Good corporate governance

Recent years' corporate scandals in the USA, Italy, etc. have revealed that management does not always safeguard the shareholders' interests loyally. Consequently, focus has been put on "corporate governance".

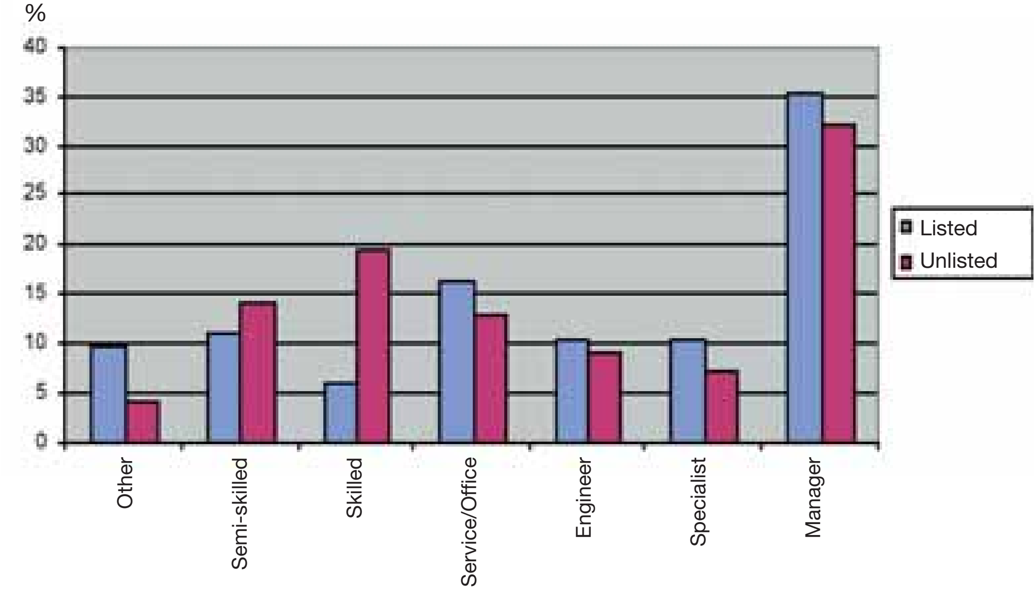
The aim of corporate governance is to strengthen the investors' confidence in the management. This is decisive in a system like the Danish when new capital is to be raised.

The discussion about the composition of the board of directors is essential in this connection. The Danish Public Companies Act lays down the division of work between the management and the board of directors. The management is responsible for the day-to-day operations, and the board of directors is responsible for supervising the management and makes decisions in the most important and significant matters in the enterprise.

A few years ago, Denmark introduced its own code of good corporate governance based on a report by the "Nørby committee". It contains a number of specific recommendations to companies listed by the stock exchange, including concerning the composition of the board of directors. Surprisingly, employee directors are not mentioned by one word in the Nørby report, despite the fact that they are found in almost all listed companies.

In its report on good corporate governance the Copenhagen Stock Exchange subsequently stated that *"employee directors who are by virtue of their employment with the enterprise not independent may raise doubts about the independence of the board of directors if this arrangement is not explained to foreign investors".*

Figure 1. Employee directors' position in the enterprise



The role of the employee directors is not covered by the report, but it is hinted that the Stock Exchange would gladly do without them, primarily out of regard to foreign (especially British and American) investors.

There is reason to fear that employee participation as it is known today will be challenged in the future as the American approach to corporate governance, which does not leave room for employee participation on the board of directors, is almost uncritically copied by other countries.

On the other hand, the employee directors themselves – 80 per cent in the listed companies and 70 per cent in the unlisted companies – find that they must seriously consider the question.

The employee directors

What the employee directors "look like" has never been examined before. According to this survey, they usually hold a supervisory/middle-management position. This applies to about one third. Skilled workers are strongly represented with 20 per cent in the listed companies, but only 6 per cent in the unlisted companies. There is a significant over-representation of semi-skilled workers – in relation to specialists – in both types of companies. Evidently, the employee directors come from many different trades, which is positive from a democratic viewpoint.

Education of no significance

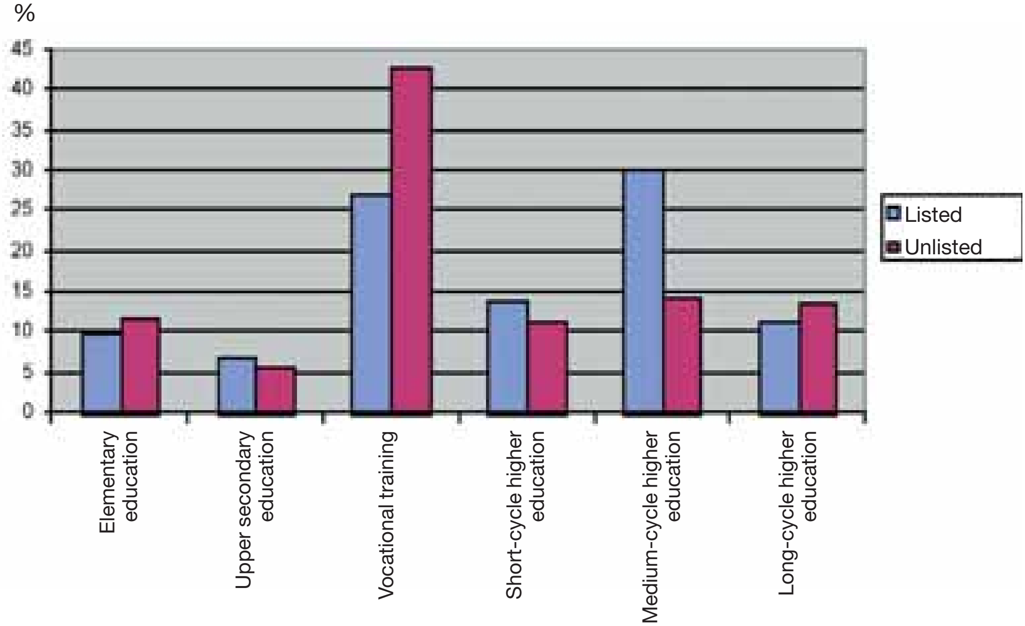
As regards education, most employee directors have completed vocational training or medium-cycle higher education. Only a few (11 per cent in unlisted and 14 per cent in listed companies) have completed long-cycle higher education. A corresponding number has only completed elementary school.

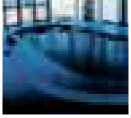
Between 35 and 50 years old

The employee directors are usually between 35 and 50 years old. In the unlisted companies, the share of persons aged 50 or more is larger.

It should be noted that the younger employee directors (under the age of 35) themselves state that they have significantly less influence than the older do. An obvious explanation would be that their competence or repute in the enterprise is lower than that of their older colleagues.

Figure 2. Employee directors' educational background





Do they have a say?

To Jyllands-Posten, one of Denmark's main newspapers, Anders Knutsen, former director of B&O, has said that *"There is considerable reluctance to deal with the employees on the board of directors. Focus should also be put on their profile. Some of the employees have not said anything at the meetings for 15 years".*

It is also a fact that the directors elected by the general meeting make up two thirds of the board of directors, which means that they will always be a majority.

Still, the vast majority of the employee directors feel that they have a relatively great influence.

29 per cent of the employee directors in the listed companies state that they have significant influence, and 40 per cent state that they have some influence. Only 8 per cent do not think that they have any influence. In the unlisted companies, the influence is less. Here, 16 per cent indicate that they have a great influence, 27 per cent state that they have some influence, and 20 per cent do not think that they have any influence at all.

Most say that their knowledge is sometimes of importance to the decisions made by the board of directors, especially when the employee director makes proposals to the board of directors.

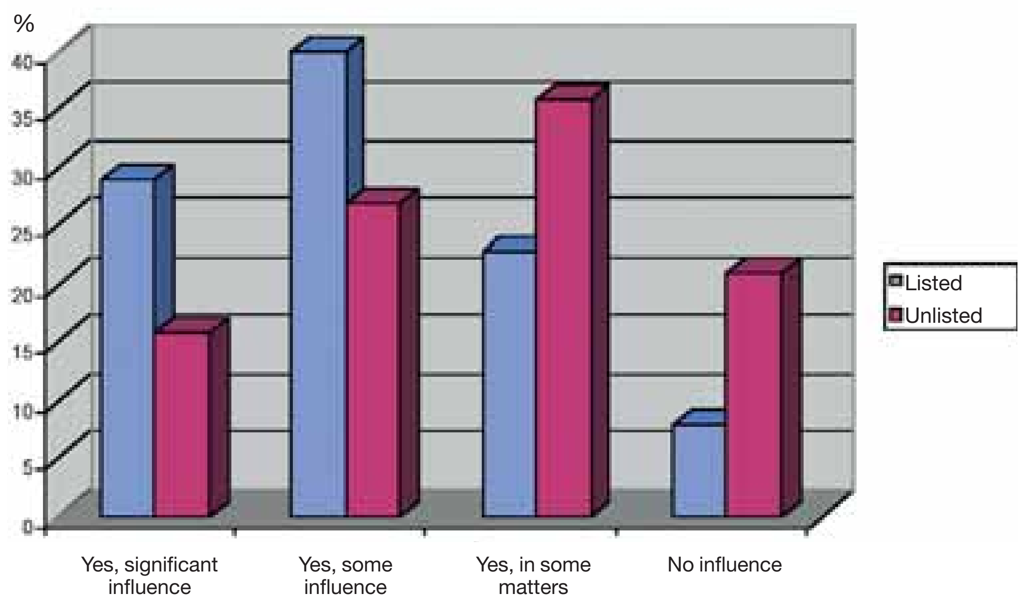
The employee directors think that they can influence the strategy of the enterprise. As regards the employee directors' own perception of their influence on the strategy, the figures almost coincide with their perception of their influence in general.

Also here, the employee directors in the unlisted companies feel that they have less influence than their colleagues in the listed companies do. Almost every fifth feels that he or she has no influence. This may be due to the fact that the owner is often also the chairman of the board in unlisted companies.

The employee directors only exceptionally rise at the general meeting or make proposals to the board of directors. They feel that they can exercise their influence by being active sparring partners who consider the management's proposals professionally.

They only exceptionally just sit and listen pas-

Figure 5. Employee directors' influence on decisions



sively. Influence can be exercised by rising and speaking in favour of specific viewpoints.

They feel that they act as a guarantee ensuring that account is taken of the employees' rights and interests.

How to gain influence

The employees' influence very much depends on their abilities to network with others inside the enterprise. It is of paramount importance that the employee director discusses his or her board work with the shop steward, the safety representative and the members of the cooperation committee, whereas discussion with other employees is of no importance.

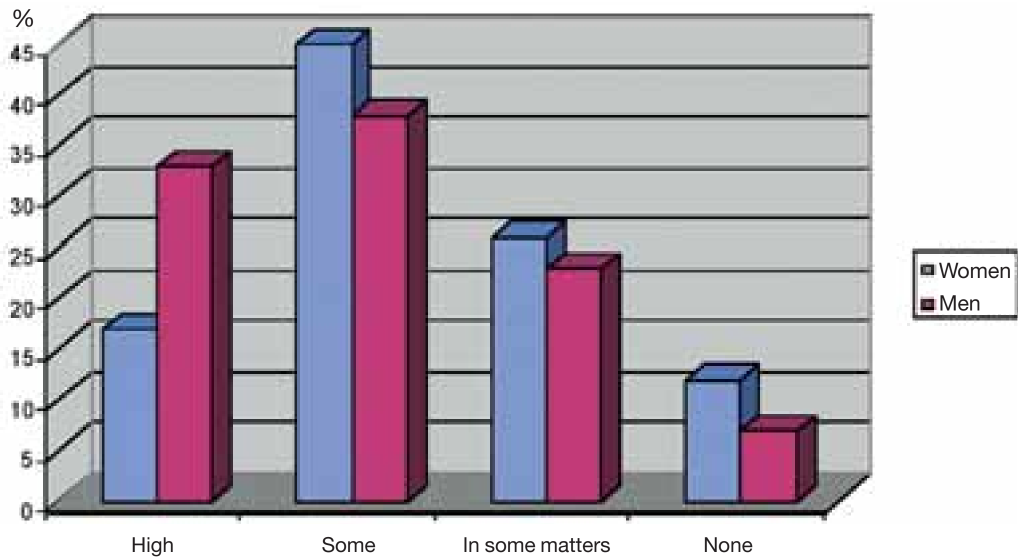
Besides, the influence increases with the number of years for which the employee has been on the board of directors.

It is also essential that the employee director is able to understand the material handed out at the board meetings.

The educational background of the individual employee director does not have any impact on the influence, but participation in targeted courses for board members is decisive, as such courses make them better prepared for the board work.

Position, enterprise size or membership of a union does not affect the degree of influence. However, it is very important also to be a member of the cooperation committee, as a member of the cooperation committee (who is not also a shop steward) is not seen as a person who solely looks after the employees' interests, and this will improve his or her clout towards the board in general.

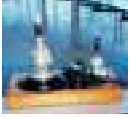
Figure 7. Employee directors' influence on decisions broken down by gender



To gain influence, it is also important that the employees coordinate their efforts, which they usually do. Besides, whether the employees own shares in the enterprise is also crucial.

It is surprising and striking that female employee directors feel that they have less influence than their male colleagues do.

An obvious explanation would be that men tend to overrate their own influence, whereas women tend to be more realistic in their assessments. But the result is surprising.



Which interests do they safeguard?

Should management exclusively safeguard the interests of the owners – or should it also safeguard the interests of other stakeholders, i.e. employees, customers, suppliers and society in general? This is a fundamental issue in the discussion about corporate governance.

The employees' right to be represented on the board of directors is an expression of the considerable orientation towards the other stakeholders in the Danish system in contrast to, for instance, the American system where only the dividend to the shareholders counts.

The employee directors must necessarily consider the employees' working conditions and the existence of the enterprise and not just focus on a narrow profit goal.

The enterprise and the surrounding society interact, and the employee directors do not see themselves as spokesmen of the employees only, but of society in general.

According to themselves, the employee directors differ from the other directors in that they consider social interests to a higher degree than the directors elected by the general meeting do. They want to safeguard other interests than just maximum profit to the owners.

In this context, it does not matter how long they have been on the board.

In general, women put more emphasis on the consideration for the share market than the men do, and they attach more importance to the consideration for the profit to the owners than the men do.

Even though other surveys indicate that women are more left-wing than men, the female employee directors do not prioritise the environment or other "soft" values higher than their male colleagues do.

The international challenge

In Germany, the employees – appointed by the unions – hold half of the seats on the large enterprises' boards of directors. In Sweden, the unions have greater influence on the appointment of the employee directors, but otherwise the Scandinavian countries have almost the same system as Denmark. In countries with well-developed welfare systems the employees tend to have greater influence.

During the more than 30 years that have passed since the employees won the right to participate on the boards of directors, this approach has not been questioned.

Figure 8

Positive difference from board in general

- Employees' reaction
- Social considerations
- Positive interaction with the departments of the enterprise
- Union's reaction
- Environmental considerations
- Safety considerations
- Local community

Negative difference from board in general

- Shareholders' dividend
- Reaction of the share market
- Quick financial yield
- Owners' reaction
- Media's reaction
- Market threats
- Reaction of the legislators

No significant difference from board in general

- Long-term financial yield
- Positive interaction with other companies

However, there is reason to believe that it will be challenged by the American influence. Still, the survey indicates the investors do not have any reason to fear the presence of Danish employee directors, as the owners are still controlling the enterprises.

Instead, the fact that the employees take their share of the responsibility and seek influence on the corporate strategy, etc. should be seen as a positive development.

Therefore, the Nørby committee should relate far more actively to the employee directors ensuring that they are not seen just as a necessary evil, but as active sparring partners who can contribute to the creation of added value in the enterprises for the benefit of owners, employees and society in general.

BOX

263 employee directors from listed companies and 236 from unlisted companies participated in the survey. They were randomly selected from the Danish Commerce and Companies Agency 's register of 3,087 employee directors. The survey was carried out as a telephone questionnaire survey by Statistics Denmark in September 2003.

CO-industri
Vester Søgade 12,2
DK-1790 Copenhagen V
Tel. +45 33638000
Fax +45 33638099
www.co-industri.dk
E-mail:co@co-industri.dk

BAT-kartellet
(The Cartel of Unions in the Building,
Construction and Wood Sectors)
Kampmannsgade 4
DK-1790 Copenhagen V
Tel. +45 33142140
Fax +45 33972263
www.bat-dk.org
E-mail: bat@sid.dk

GIMK-kartellet
(The Cartel of Unions in the Graphic
Industry and the Media Sector)
Weidekampsgade 8
DK-0900 Copenhagen C
Tel. +45 33304343
Fax +45 33304088
www.gimk.dk
E-mail: gimk@hk.dk

Handelskartellet
(The Cartel of Unions in the
Trade Sectors)
C.F. Richsvej 103
DK-2000 Frederiksberg
Tel. +45 38182010
Fax +45 38182019
www.handelskartellet.org
E-mail: handelskartellet@net.dialog.dk

Ingeniørforeningen i Danmark (IDA)
(The Danish Society of Engineers)
Kalvebod Brygge 31-33
DK-1780 Copenhagen V
Tel. +45 33184848
Fax +45 33184888
www.ida.dk
E-mail: ida@ida.dk