

Codetermination and the Quality of Working Life

Wolfgang Scholl

After 30 years of codetermination laws in the Federal Republic of Germany surprisingly little is known about the usefulness of codetermination for the intended beneficiaries, the employees. A review of research (e.g. Wilpert, 1975) reveals a complete absence of variables measuring the quality of working life or the realization of employees' interests. This might be partly due to a general belief that codetermination has inherent advantages for employees, such that this basic question was not hotly debated. This lack might also be due to underdeveloped theoretical reflections on the ways in which codetermination might affect the promotion of employees' interests.¹

In this chapter I shall report some of the results of a combined theoretical and empirical research project,² concerning the effect of codetermination on the quality of working life. After a short review of relevant empirical research (Section 1) I shall present excerpts of our theoretical frame of reference (2). Following this is a description of the design of the empirical investigation (3) and of the measurement of the quality of working life (4). The empirical answers to the theoretical questions are presented in sections 5–8.

Section 1: The outcomes of codetermination for employees—a review of empirical research

Wilpert (1975) characterized the manifold codetermination regulations³ as '...probably...the most gigantic wholesale attempt in postwar Western Europe to change organizational structures and intra-firm behavior by way of legal prescriptions' (Wilpert, 1975: 53).

Does this enormous and resource-consuming effort pay off, not only for the employee representatives, but also for the employees themselves? As noted in the introduction, no direct answers to this question are available from

earlier research. Yet three research conceptions have been proposed to give an indirect answer to this problem:

- (1) In several surveys the attitudes of employees toward codetermination have been investigated. They showed sometimes more, sometimes less positive attitudes, depending on the sample, the questionnaire's content, and the interpretation (see the review of Wilpert, 1975: 58, and the respective investigations cited on p. 61).

However, it would be inadequate to draw conclusions about codetermination attitudes of employees alone. Employees have little opportunity for comparison between plants, companies, and codetermination practices. Employees may not have given much thought to the many factors which contribute to a realization of their interests. Thus, employees' attitudes reflect not only personal experiences with codetermination, but also the (pre-)judgements of their environment.

- (2) Several investigations included measures of work satisfaction (see Wilpert, 1975: 58; IDE, 1981: 127). Some researchers look for a positive correlation between average work satisfaction and strength of codetermination across plants. Yet there is no sound theoretical basis for such an expectation because work satisfaction is also dependent on variations in aspiration level. It is conceivable that in situations of weak codetermination, employees adapt to a lower quality of working life. They may actually appear more satisfied than others *with a better quality of working life*, because stronger codetermination has raised aspirations to an even higher level.
- (3) Many investigations have shown that employee representatives really can change the plans, policies, and decisions of management to a certain extent in a direction they desire (see Wilpert, 1975: 60; Tegtmeier, 1973: 165-99). But it is premature to conclude that this means a better realization of employees' interests in face of the following possibilities:
 - (a) Employee representatives might be more oriented toward their own or their union's interests. Wilpert (1975: 61) notices a possible estrangement of representatives from their constituency.
 - (b) The enhancement of certain employees' interests on one side might be detrimental to other interests of the same employees on the other side, e.g. raising *special payments* can induce rationalization, and lead to demotions and dismissals (see the theoretical analysis of Chmielewicz, 1975, chapter 6.3: Conflicts between individual goals of employees).
 - (c) Some economists, critical of codetermination, argue that the market system, including labor markets, guarantees the optimal factor allocation and welfare. In the best case a codetermined economy will bring about the same allocation as a purely capitalist system. Yet in the more probably worst cases investments are altered or sacrificed in favor of a better quality of working life with higher costs and lowered

profits. So, in the long run codetermination will be financially detrimental to all, capital owners and employees (see Prosi, 1978; Pejovich, 1978; and the critical discussion between Backhaus and Pejovich in Backhaus and Nutzinger, 1982).

- (d) Opposite to the advocates of a pure capitalist market economy, there are critics of codetermination who also see no advantages for employees, but from a different perspective. They argue that codetermination gives too little real influence to employee representatives. Instead, they become involved in management thought and action so that they lose their counter-power capabilities. Alterations of management policy are therefore only superficial and remain in a predetermined zone of management acceptance (see Deppe et al., 1973, as well as the contributions of Hoffman, pp. 78–88, Mandel, pp. 168–80, and Taliani, pp. 194–230, in Vilmar, 1975).

It follows from this review of past research on codetermination that using indirect variables to draw conclusions about the quality of working life for employees cannot be done on a safe, theoretical basis. One precondition for a proper assessment of the possible benefits of codetermination is to directly measure the quality of working life. Another precondition is to build a theoretical frame of reference guiding the design of the investigation and the interpretation of obtained data.

Section 2: Theoretical frame of reference: basic forms of responsiveness

Participation and codetermination are primarily introduced as a means to improve the *responsiveness* of company decision-making to those who are affected by them. The underlying societal problem is the increasing division of labor: more and more people are dependent upon and affected by the decisions and actions of others. This leads to a central theoretical question, relevant for all social, political, and economic fields: What mechanisms or basic forms of responsiveness are available to secure the mutual responsiveness of the actors and to avoid a destructive struggle for existence?

In this perspective, *participation* is the most obvious basic form of responsiveness. It enables the participants to articulate their needs and goals, to discuss ways of fulfilling them in an arrangement with those of other participants, and to establish their priorities based on possible outcomes. In many cases, however, the number of persons affected (e.g. all the employees in a factory or all the citizens of a nation), would make it difficult for all to participate fully in the decision-making processes. An extensive exchange of ideas and arguments is only feasible for a small number of people, besides the probability that many would not have sufficient motivation, time, nor knowledge (see Scharpf, 1970: 54–65: 'Demokratie als Partizipation').

Marketing is the second basic form of responsiveness. The term 'marketing' is used here in a broader sense than usual: it is not restricted to an orientation of firms *vis à vis* consumers, but is also applied to other economic, social, and political relations. This broadening of the marketing concept was promoted primarily by Kotler (in its most generalized form in Kotler, 1972). He gives the following definitions: '*Marketing* is human activity directed at satisfying needs and wants through exchange processes' (Kotler, 1980, p. 10). Any exchange of material or immaterial values between any social actors is included in this generic concept of marketing. Marketing activities usually include needs assessment, market research, product development (or decision-making by politicians, executives, employee representatives), communication, distribution, and service (see Kotler, 1980: 4 and 17). That is, in most cases marketing is a one-sided activity of a supplier of goods or other values directed at non-participating target persons for exchange, and we restrict the concept of marketing to just these cases of non-participation.⁴ Thus the term 'marketing' extends to all decisions and actions, which are directed at any valuable exchange, and which require at least the tacit acceptance of those affected by, but not directly involved in, the decision-making process. There are striking similarities, for instance, between the marketing activities of producers who try to raise the turnover with consumers, and those of politicians who seek to raise their proportion of votes, or those of churchmen who seek to attract believers.

Just as the concept of 'participation', the concept of 'marketing' opens an enormous body of theoretical and empirical knowledge for the study of responsiveness. Instead of 'marketing', we could have used the economic concept of 'markets' for an analysis of responsiveness to actors not participating in decision-making about supplied goods and services.⁵ Yet we prefer the marketing (and consumerism!) literature, because it offers—as a behavioral science approach—more detailed and empirically better-founded information about actors, actions, and consequences in the market(ing) process than the relatively abstract and simplified concept of markets peopled by economic men.

Given that some people are affected by a decision but do not (and perhaps cannot) participate, the marketing approach entails three typical stages: First, information regarding the needs, values, and interests of those possibly concerned may be made available to the decision-making body through intensive 'market research', though, in the worst case, information is present only through the unreflected assumptions or preconceptions of the decision-makers. Secondly, the production of goods, services, or other inducements⁶ is shaped to varying degrees by this information within the decision-making body. Of course, the degree of responsiveness depends not only on the quality of market research but also on the power position of the decision-makers relative to that of the people affected. Those affected may react negatively if they feel themselves disappointed by the offered inducements. Thirdly, in order to give an account of the decisions made and the offered

inducements, the decision-makers have to inform the relevant people who did not participate. This is done by means of 'marketing channels' (e.g. a plant assembly), 'advertisement' (e.g. vacancies in the newspaper), and 'promotion campaigns' (e.g. supervisors systematically keeping their employees informed). The major advantage of marketing in contrast to participation is that it is applicable to large numbers of people concerned.

The term 'marketing' has a manipulative connotation, because information is usually biased by the interest of the decision-makers in an attempt to gain wide acceptance. Yet participation is open to manipulation too; especially if expertness is unequally distributed, so that full-time specialists gain expert power over participants from other occupations or lower educational levels.⁷ In general, participation has a greater chance for authentic responsiveness because it enables a deeper understanding and consideration of the priorities of all concerned. If a choice is possible, participation is likely to manifest higher responsiveness in the handling of complex, situationally bound problems, which necessitate tailor-made solutions. Marketing, however, is likely to yield higher responsiveness in the handling of more simple, standardizable problems, because they are amenable to low-cost, ready-made solutions. Thus, participation has some distinct advantages, but is—in contrast to marketing—severely restricted in range.⁸

An alternative to the limited range of direct participation seems to be *indirect participation*—that is, participation through representatives. The number of participants is sufficiently reduced and there are fewer problems of motivation, time, and knowledge. Indirect participation cannot, however, be a complete substitute for marketing. At closer inspection it appears to be an interesting combination of participation and marketing: representatives participate in decision-making with a view to advancing the interests of their constituency. For this purpose, however, they have to adopt marketing techniques in order to become informed about the interests and feelings of the people they represent, and to inform the constituents of decisions, achievements, and future plans. With indirect participation, authority is entrusted in representatives; the only participatory act, which the electorate has to perform, is judging and selecting representatives.

The third basic form of responsiveness, *general regulation*, is totally different from the first two. General regulation can be defined as a binding antecedent decision for subsequent areas of decision-making. General regulations encompass legal, contractual, and normative regulations. For instance, general regulations regarding employees' interests can be legal rights, e.g. the right to build unions and to strike for better conditions. They can be contractual regulations, e.g. a raise in wages negotiated between employers and unions, or they can be normative regulations, e.g. 'custom and practice' rules in the workplace.

We distinguish six sub-categories of general regulation. Two are especially important with regard to codetermination and are discussed here.⁹

Arena regulations are institutional frameworks for the free interplay of forces; for example the way a parliament and a government can be elected, or the ways in which economic, social, or political organizations are allowed to exist and function. The most important decision rights in our societies are legally organized into complex systems of checks and balances towards securing high levels of responsiveness of the decision-makers within these arenas.

Protective regulations restrict the range of permissible behavior within these arenas in order to secure minimum standards of responsiveness. For instance, consumers are protected from unsafe products, firms are protected against unfair competition, employees are protected from short notice of dismissal or from health hazards in the workplace.

General regulations have an even broader range of application than marketing, and they are essential for the functioning of society and their public and private organizations. They have specific advantages over participation and marketing because they serve collective needs and secure minimum standards of responsiveness. They are, however, usually not suited to satisfy individual needs, which have to be reflected in subsequent decisions in the form of participation or marketing.

We can now apply these basic theoretical concepts to the question of codetermination and the quality of working life. Codetermination laws are specific arena regulations for private companies, which introduce legal rights to indirect participation. Employees can elect representatives who promise to further their interests through participation. These representatives have the right to get all relevant information concerning employee interests and to be consulted in all cases which might hurt those interests. They have the duty to control the observation of all protective regulations in favor of the employees. In certain well-defined areas they have full decision or veto rights, especially in the fields of personnel measures, of working time, and of monetary compensations for any deterioration in the quality of working life.

Indirect participation induces marketing efforts of employee representatives *vis-à-vis* their constituency. However, codetermination is not the sole arena in which employees have a chance to further their interests. The labor market is another, perhaps equally important, arena and thus management is induced to marketing efforts *vis-à-vis* the employees as well. The internal labor market within the companies, and the necessity for continuously motivating the employees, intensifies the reasons for employee-oriented management marketing.

Seen from this perspective, the codetermination regulations may have created marketing competition between employee representatives and management, where each side tries to get maximum support from the employees for their own goals and actions. This possibility has influenced our empirical investigation. We asked to what extent participation by employee representatives might further employee interests on the basis of codetermination regulations and also to what extent management marketing might play an

equivalent part. This comparison can be deepened by the analysis of the relevant determinants of either form of responsiveness.

Section 3: Research procedures

After a series of unstructured interviews and an extensive case study about the functioning of codetermination, we decided to focus our empirical research in two fields: investment planning and policy, and personnel planning and policy. In both fields, central employee interests are concerned. However, investment questions were traditionally seen as primarily influenced by capital-owners and personnel questions were seen as the 'natural' target for influence attempts of employee representatives and unions.

Between December 1978 and July 1979 we addressed a survey to all companies with more than 500 employees from seven very different industries, including Montan Industries (coal, iron, and steel), machinery construction, chemical industry, motor vehicle production, building trade, insurance, and banking. Six questionnaires were sent to each of the 601 existing companies: three questionnaires were sent to the management and three to the works council of the headquarter's plant (see Figure 8.1). Within the company the questionnaires were answered by specialists in investment and personnel matters from the management and the works council. An additional member from management delivered general data about the plant and the company, and an additional member of the works council was asked about

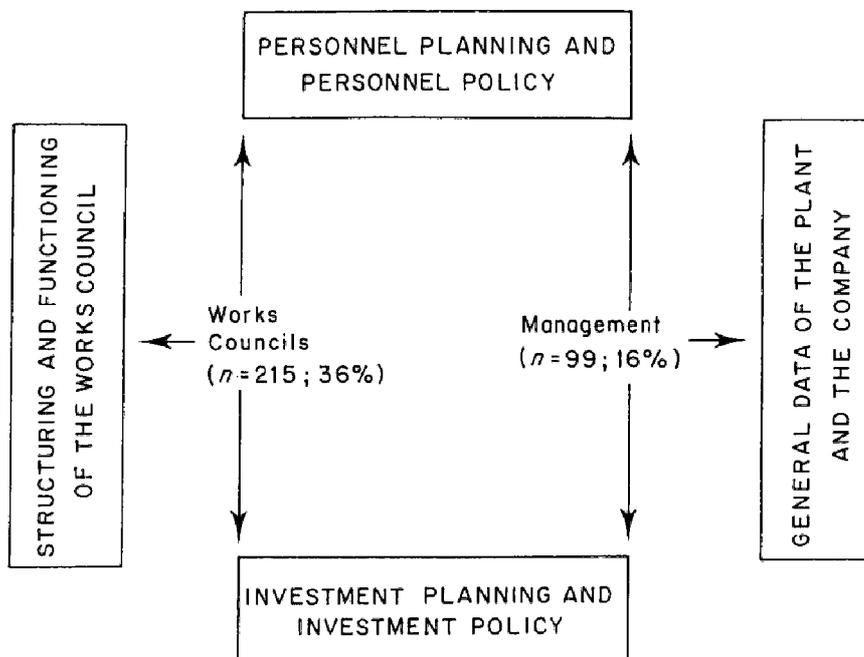


Figure 8.1 Survey questionnaires and response rates (the words in capital letters appeared on the front page of the questionnaires)

the structure and functioning of the works council, and about union infrastructure within the company. By this method we could place a few questions, regarding the most interesting theoretical variables, within four of six questionnaires in order to get several distinct answers from each side which could be combined to form more reliable and valid measures.

If one side, management or works council, answered, generally all three questionnaires of that side were filled out. The decision to participate in the survey was usually taken at a very high level of management, respectively, at a central meeting of the works council. Yet the response rate was low, especially that of the management side (it is shown in Figure 8.1, including the few cases with less than three answered questionnaires per side). The intersection of the 99 management and 215 works councils answers was even smaller: answers of both sides were available only from 55 companies. The primary reasons were presumably the length of the questionnaires, the fear of political consequences, and an unfavorable climate in industrial relations during the time of the survey. It also seems likely that managers had a lower interest in codetermination issues than works councils.

An examination of response bias with the aid of company reports and a one-page mini-questionnaire showed that most variables had no sampling bias. However, the response rates across industries and from companies with a negative profit situation differed very significantly (**) from the respective population distributions. All reported analyses have been controlled for both these factors; but essentially identical results were obtained before and after the control. (In this chapter, the following significance levels are used: $p < 0.05$ —significant: *; $p < 0.01$ —very significant: **; $p < 0.001$ —highly significant: ***. Because of the sometimes very small sample, we also use $p < 0.10$ —weakly significant; +, as long as $n < 100$).

Section 4: Measuring the quality of working life

Since the quality of working life is the central dependent variable in this chapter its measurement will be presented in more detail. The variable 'quality of working life' is understood as comprehending all interests of employees. Yet, comprehensive measurement with all facets is too complex; so we looked for the most central interests of German employees, as articulated in public debates, union actions, and opinion surveys.¹⁰ These interests are, of course, not particular to German employees; most of them are also on the OECD list of social concerns (OECD, 1973). We shall refer to these respective OECD numbers in the following section. For our purpose we need data about the quality of working life aggregated at the plant level, in order to relate them to codetermination characteristics on that same level. Most of the chosen indicators stem from relatively reliable plant statistics; only two of them are subjective estimations. All indicators are taken from the management questionnaires. The statistical data were not requested from the works councils, because the danger of bias appeared to be low and the works council

could not provide other statistics, anyway. Though one of the two subjective indicators (4—working conditions) was also available from the works council, an averaging process between values from both sides would have lowered the sample substantially; so we decided to take all data from the management side. Validation data above will show that the possible bias seems to be very low.

The seven chosen indicators are the following:

- (1) The primary interest of German employees is *job security* (OECD: C-2-d). It was measured in reverse terms as the percentage of layoffs in 1978 (not including those depending solely on employee behavior), and interpreted as the probability of losing one's job. Table 8.1 shows the range and the mean value for all indicators. A mean value of 0.5 percent might seem to be very low, but in 1978 the German GNP rose by 3.6 percent in real terms and the number of employed persons by 1 percent.
- (2) A second area of concern is the *level of earnings* (OECD: C-2-b). We have averaged the total earnings and monetary fringe benefits (except overtime payments) of three groups with neatly described qualifications belonging to unskilled workers, skilled workers, and white-collar employees with apprenticeship. Thus, the level of earnings is not confounded with the qualification level across plants.
- (3) *Career chances* are associated with earnings, as well as with status and self-esteem (OECD: C-2-e). We computed the promotion rate minus the demotion rate for the year 1978. Demotions are relatively rare in comparison with promotions, which exceed demotion rates by 4 percent on average, partly because of tariff regulations which make demotions very expensive.
- (4) *Working conditions* are of high importance to the employees' well-being and health (OECD: C-2-a). We asked to what extent six different aspects of working conditions have been respected *in investment decisions*, thus

Table 8.1 Indicators of the quality of working life

	Sign	Minimum	Mean	Maximum	<i>n</i>
Job risk	-	0.00%	0.53%	6.46%	81
Level of earnings	+	23,776 DM	28,740 DM	34,234 DM	67
Career chances	+	-1.23%	4.22%	25.80%	92
Consideration of working conditions at investment decision	+	1.83%	4.67%	7.00	85
Existence and quality of social facilities	+	5.00	27.31	42.00	68
Absenteeism rate	-	3.70%	7.43%	16.32%	85
Voluntary employee turnover rate	-	0.15%	6.77%	20.90%	80

adapting working conditions to the employees, and not vice-versa. The average consideration of these six aspects—estimated by management—is used as indicator.¹¹

- (5) *Social facilities*, such as canteens, kindergartens, sports grounds, convalescent or vacation homes, or company-owned housing, often contribute to improving an employee's quality of life. The existence and quality of eight possible social facilities—estimated by the management on a seven-point scale with an additional zero for non-existence—were summed up in an index ranging from 0 to 56 (OECD: not mentioned).
- (6) *Absenteeism* largely reflects objective and subjective working conditions. The rate of absenteeism is computed as the percentage of time lost due to illness and work injury. Although illness is also caused by non-work conditions, the latter should be almost constant for all companies. Variable factors include physical and mental reactions to working conditions, as well as intentional absence such as calling in sick. This indicator is semi-objective because it measures subjective responses to objective conditions leading to countable actions (OECD: C-2-a, C-3-a).¹²
- (7) The rate of *voluntary employee turnover* is a semi-objective measure, too. The main weakness of this variable is that the local labor market partly determines the opportunity to leave the job. Its advantage is that it combines subjective reactions to all aspects of the job in an easily countable and reliable manner (OECD: C-3).

The total index of the quality of working life is computed by averaging all, or at least five or seven, indicators. Through standardization, all indicators receive equal weight. This might in principle be considered unsatisfactory because employees differ in the weights they accord to various aspects. However, for purposes of our investigation this should be less problematic because deviations in weight should largely balance over all employees within a given plant given that the most important interests have been included.

We also developed a criterion of validity for this measure of the quality of working life. We obtained four subjective estimates of the quality of working life through the following question in the personnel and the investment questionnaires sent to management and the works council:

Our company does a lot for the employees which can be seen from the wide-ranging social facilities, the high wages and the good working conditions.

The respondents were given a seven-point, agree-disagree scale on which to express their opinions. The averaged subjective estimation of the quality of working life¹³ correlates + 0.74*** ($n=45$) with the objective index, *establishing a rather high level of validity for both measures*. Of course the index combining seven largely objective indicators is expected to be still more valid than the combined subjective estimations. Having developed these measures of the quality of working life, we can begin to look at the impact of codetermination.

Section 5: The effect of legal regulation

In the Federal Republic of Germany, private enterprises with liability limited on shares have (or have had to build) a separate *supervisory board* (Aufsichtsrat), which has control over the executive board (Unternehmensleitung). The different codetermination laws have altered the composition of the supervisory board and thereby the control situation for the top management.

In the Montan Codetermination Act (MCA) from 1951, one half of the seats in the supervisory board are given to employee representatives, while the other half remain for capital-owners or their representatives. A possible stalemate can be avoided by a co-opted neutral man. This situation is called (full) parity; only companies in the Montan Industries (coal, iron, and steel) are affected.

In the Codetermination Act of 1976 (CA 76), which relates to all other big companies, one half of the supervisory board's seats are given to employee representatives, but the chairman, who is nominated by capital-owners, has a double vote in cases of stalemate, so that capital-owners always have the chance to be in the majority. Additionally, a representative of higher management (Leitende Angestellte) has to be given one of the employee seats, but often votes with capital-owners. This situation is called quasi-parity.

In medium-sized companies with 500 to 1999 employees, worker representatives can only fill one third of the seats on the supervisory board. This is due to a special clause in the Works Constitution Act (WCA), which describes the election, size, and rights of the works council for all companies with more than five employees.

A fourth group of companies has no supervisory board and of course no employee representatives on it. These are companies *with full liability of owners' private property*, while a supervisory board is legally prescribed only in companies with liability limited on any sort of shares (e.g. limited liability company, private stock company, etc.).

So there exist four different codetermination regulations with differing representational strength. A first test of the impact of codetermination is a comparison of mean values of the quality of working life between these four areas. The result of a simple analysis of variance is shown in the first row of Table 8.2. The highest average quality of working life is found in companies which fall under quasi-parity, CA 76, whereas the MCA companies' rate is on average worse than that of the CA 76 or WCA companies. The lowest quality is found in companies without a supervisory board.

The relatively low ranking of Montan companies is unexpected, given the strength of codetermination. One has, however, to bear in mind that many other factors (e.g. the profit situation) affect the quality of working life which might be associated with industry differences. The coal and the steel industries in the European Economic Community are depressed, suffering from large over-capacities and high, sometimes politically reinforced, exit barriers. This situational analysis is confirmed by the highly significant (***) profit differences per industry.

Table 8.2 Quality of working life under different codetermination regulations

Legal regulations of the supervisory board	Montan Codetermination Act (MCA) (parity)	Codetermination Act 1976 (CA 76) quasi-parity	Works Constitution Act (WCA) 1/3ER	No supervisory board (NSB) No E. R.	Differences significant?
Quality of working life (objective index)	-0.05 (n=4)	+0.08 (n=24)	+0.05 (n=41)	-0.35 (n=13)	+
Quality of working life with covariate: mean profit per industry (***)	+0.31 (n=4)	+0.06 (n=23)	+0.03 (n=40)	-0.27 (n=13)	+

ER = employee representatives; + = weakly significant: $p < 0.10$.

In order to control for this industry factor, a second variance analysis was run with mean profit per industry as covariate: the variance in the quality of working life measure, which is due to industry (not company!) profit differences, is partialled out. Table 8.2 shows the results in the second row. The change in the MCA area is dramatic, the four Montan companies have now by far the best mean value, whereas the means in the other areas remain almost constant. This would suggest that there are positive codetermination effects which are outweighed by the poor economic situation of this industry.

Given the smallness of the Montan sample the evidence is not convincing, and the strength of the impact is not very impressive. In light of our theoretical frame of reference, however, this result is not unexpected. The codetermination regulations create only an altered frame of opportunities for indirect employee participation and management marketing. A more decisive impact on the quality of working life has to be expected from the actual use of these forms of responsiveness.

Section 6: Participation of employee representatives versus employee-related management marketing

Section 2 compared participation and marketing in theoretical terms. This section will compare their empirical importance. In order to assess the relative weight of indirect participation and management marketing, we presented the following statements directly after the subjective estimations of the quality of working life (cf. Section 4: 'The company does a lot for its employees...'):

This is primarily brought about by working together with the employee representatives of the works council and the supervisory board who advance the wishes and interest of the employees and press for them.

In this way we operationalized responsiveness through indirect participation. For management marketing, the words read as follows:

This is primarily brought about by management's considerations and inquiries into the wishes and interests of the employees.

Respondents could agree or disagree on a seven-point scale. The answers from the four questionnaires per company were combined for an average estimation. Respondents from each side tended to give higher estimates of their own efforts to be responsive to employees, and lower estimates of the efforts of the other side. By averaging the two answers from management and the other two from the works council, these biases should largely cancel each other, so that the combined estimation is supposed to be relatively reliable and about as valid as the subjective estimation of the quality of working life.¹⁴

With a mean value of 4.69 ($n=51$), responsiveness through indirect participation is rated significantly (* Wilcoxon test) higher than that through management marketing with 4.04 ($n=50$). Looking at the distribution of both forms of responsiveness, in 58 percent of the companies participation of employee representatives is seen to be more valuable to employees than management marketing. But the latter can be important too: in 33 percent of the companies the marketing efforts of management are rated higher, and in 9 percent, both are estimated to be equally effective.

The importance of indirect participation is underlined by the correlations with the measures of the quality of working life, shown in Table 8.3. Participation of employee representatives correlates substantially higher than management marketing with both measures of the quality of working life. Judged from these correlations, responsiveness through indirect participation

Table 8.3 Responsiveness and the quality of working life

Forms of responsiveness	Quality of working life	
	Objective index	Subjective estimation
Participation of employee representatives	+0.43*** ($n=44$)	+0.47*** ($n=51$)
Employee-related management marketing	+0.27* ($n=43$)	+0.31* ($n=50$)

explains statistically about 20 percent of the variance in employees' interest satisfaction, while management marketing explains only about 8 percent.

It is interesting to compare these results with those of the preceding section. The difference between legal codetermination regulations, which codify participation rights, and actual participation of employee representatives, which use these rights for policy-making, becomes evident. The impact of legal codetermination rights on the quality of working life is only weakly significant, while the impact of actual participation is highly significant. The functioning of participation and marketing will be further clarified in the next section.

Section 7. Determinants of responsiveness by employee representatives and managers

In the preceding section indirect participation and management marketing have been analyzed as direct antecedents of the satisfaction of employees' needs and interests. Now we want to go one step back in the presumed causal chain and look at possible determinants of both forms of responsiveness. To be responsive presupposes four determinants. First, a decision-maker must have some knowledge about the needs and interests of those concerned. Second, the decision-maker must have the will or the goal to respond to them in decision-making. Third, decision-makers need some knowledge about appropriate means to reach this goal. Fourth, they need enough influence to effect the intended means and goals, possibly against resistance from other involved parties in the final decision. I will take up these four determinants in turn and look for available empirical data. Since it is impossible to review a series of decision situations in each company, I have to draw conclusions from generalized estimations.

Knowledge of needs and interests

In order to be responsive to employee concerns, it is necessary to have relatively valid knowledge about the needs and interests of the employees. Empirical data on the modes of knowledge generation ('market research') were secured through the following statements in the four investment and personnel questionnaires:

- (1) Top management is informed permanently and extensively about the opinions, moods, and problems of the employees.
- (2) This information is assembled primarily through reports from managers of all levels, through personnel appraisal procedures, through employee opinion surveys, etc.
- (3) This information is assembled primarily through regular conferences and frequent discussions with the works council who are in permanent contact with the employees, partly supported by shop stewards.

Respondents could accept or reject each of these three statements on a seven-point scale (1–7). Then the four answers from each company were combined to an average estimation, just as the preceding statements.

The general level of top management information is rated 5.1 ($n=51$). Information gathering by managers is rated 3.9 ($n=50$), which is considerably lower, while the contributions of the works council are rated 5.1 ($n=53$), as high as the general information level. The correlations of these two forms of information gathering with the respective forms of responsiveness are in line with expectations. The extent of informational activities of managers correlates $+0.55^{***}$ ($n=47$) with the extent of management marketing, but not significantly with indirect participation. The amount of informational contributions of the works council correlates $+0.42^{**}$ ($n=51$) with the importance of indirect participation, but not significantly with management's marketing efforts. Judging by the lower correlation of $+0.42^{**}$, the information procurement ('market research') of the works council is not as important for indirect participation as that of managers for management marketing, presumably because employee representatives know better the needs and interests of employees from their own experience.

Goals of managers and employee representatives

It is much more difficult to measure the goals of managers and employee representatives empirically. Since responsiveness to employees is the primary reason for the existence of employee representatives, whereas managers are driven to satisfy also other interests—e.g. those of clients, suppliers, or capital-owners—responsiveness to employees is supposedly a goal of higher priority for employee representatives than for managers. The empirical data on indirect participation and management marketing (see section 6) are consistent with this assumption.

Of special interest is the question of why managers in some companies do more for the employees than their representatives. Section 2 derived from the theoretical frame of reference the hypothesis that codetermination regulations may introduce a marketing competition between management and employee representatives, because both sides might seek more support from employees. Our data show a weakly significant correlation of $-0.19+$ ($n=48$) between management marketing and indirect participation, which includes marketing with regard to the employees. This is consistent with the assumption of marketing competition but not as distinct as expected. Additional explanations are necessary.

Usually, the management has a severe handicap in employee-oriented marketing competition, because it also has to compete in other markets and to allocate scarce resources for respective inducements. So in many cases it is relatively easy for employee representatives to point out several instances of employee dissatisfaction and to put forward higher demands on responsiveness than the management is ready to meet spontaneously. Two exceptions to this customary situation are conceivable:

- (1) The company has reached high rentability, so that the interests of clients and especially of capital-owners are sufficiently satisfied, and resources are left for improvements in employee responsiveness,
- (2) The company is rapidly expanding. Therefore, the management is forced to unusually high responsiveness in order to be able to hire and to motivate a sufficient number of qualified employees.

In order to empirically examine these possibilities we subtracted scores of indirect participation from those of management marketing per company to derive a responsiveness difference score. This score correlates with the company's rentability rate $+0.27^*$ ($n=38$) and with its growth rate $+0.37^{**}$ ($n=37$), supporting both possibilities suggested earlier. We can therefore conclude that the priority of a management's goal to be responsive to employees is dependent on the company's economic situation. In prosperous economic situations, companies can be active and leading in market competition with employee representatives. In most other situations the management has a defensive role and may try to come to an arrangement with the employee representatives. This suggestion is corroborated by the correlation of $+0.28^*$ ($n=42$) between a compromise style of conflict resolution of management *vis-à-vis* employee representatives and the extent of responsiveness through indirect participation.¹⁵

Knowledge of appropriate means

Even if the goal to be responsive to employees has a very high priority, this does not guarantee its success. It is also necessary to be aware of appropriate means for achieving responsiveness. This seemingly simple insight is quite intricate in practice because an improvement in the quality of working life is bound to a certain extent to the fulfillment of other, sometimes contradictory goals (e.g. better or cheaper products, higher profits).

We have only indirect empirical data on the appropriate means of achieving responsiveness. Of the several modes of conflict resolution, an open confrontation of opinions and interests leading to joint problem-solving is perhaps best suited to find out appropriate means to improve the responsiveness to employees. The intensity of open confrontation and problem-solving, exercised by employee representatives *vis-à-vis* management, correlates $+0.50^{***}$ ($n=50$) with the amount of responsiveness through indirect participation.¹⁶ This result shows the importance of knowledge generation and dissemination between negotiating parties, and lends strong support to the usefulness of open confrontation and joint problem-solving.

Influence

The last, but by no means least, important precondition of responsiveness is sufficient influence to succeed with the respective means and goals in

pluralistic decision-making. This is in general no problem for top management, however, because it is the most influential group in each of the investigated companies. Only in a few companies do capital-owners or their representatives have an equal amount of influence.¹⁷

This situation is reflected in the respective empirical data. The influence of top management correlates non-significantly +0.19 ($n=46$) with responsiveness through management marketing. If top managers want to be responsive they can do what they want; it is primarily a question of their goals and their information about employees' needs and interests, but not of their influence. Yet there is one exception to the rule that influence does not affect the extent of management marketing: the influence of capital-owners correlates $-0.25+$ ($n=34$) with management marketing. This means that if capital-owners have high influence, they are likely to push top management to be not 'too' responsive to employees; presumably because they themselves want the benefits of distributable resources.

On average, employee representatives on the supervisory board and on the works council only have medium influence. Therefore it is to be expected that variations in their influence are more important for successful indirect participation. The influence of employee representatives on the supervisory board correlates +0.37* ($n=38$) with responsiveness through indirect participation. The influence of the works council, with a correlation of +0.64*** ($n=46$), is even more important. This suggests that in order to be responsive to employees it is important for employee representatives to have great influence. Their influence is partly dependent on the legal strength of the codetermination regulation, partly on the degree of unionization of the work force, and partly on other historical and personal factors.¹⁸

Section 8: The relative importance of codetermination for the quality of working life

I shall now evaluate the importance of codetermination for the quality of working life on a broader scale. Though differences in the codetermination regulations have an impact on the quality of working life (cf. Section 5 and note 18), it is not possible to assess precisely the importance of legal regulations. Since the basic Works Constitution Act is in force for all the companies of our investigation, an empirical comparison between companies with and without a works council is impossible. In order to compare the relative importance of several reasons for a high quality of working life, we have to refer to the variance in the *practice* of codetermination; that is, the responsiveness through the participation of employee representatives.

In the search for additional predictors of the quality of working life besides indirect participation and management marketing, we found the profit situation of the company¹⁹ to be the central economic factor. Since the three variables are statistically almost independent of each other²⁰ they are well suited for a regression analysis. The relative weight of each predictor can be

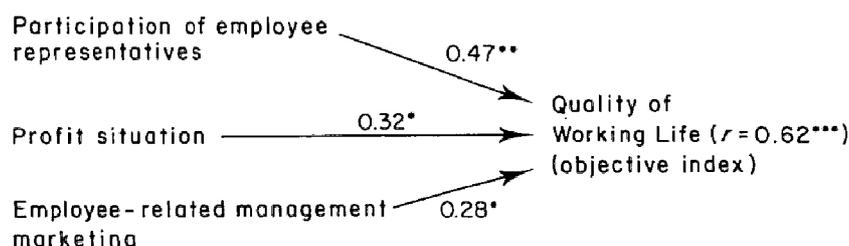


Figure 8.2 Predictors of the quality of working life

seen from the partial regression coefficients above the arrows of Figure 8.2. The participation of employee representatives is of primary importance in predicting the quality of working life. Of secondary, but also significant importance, are the profit situation of the company and the employee-related marketing efforts of management. Thus, the management may play a double role with regard to a good quality of working life. One role contains direct responsiveness to employees. The other comprises a general good economic management which suffices to secure employment and to cope with the costs of good working conditions.

A more general evaluation of codetermination for the quality of working life of employees has to take all the arena regulations²¹ of labor contracting into account:

- (1) Codetermination brings about considerable responsiveness to employees through the participation of employee representatives.
- (2) Codetermination introduces a marketing competition between employee representatives and managers. It is therefore valuable for employees not only if indirect participation improves the quality of working life, but also if the marketing efforts of the managers are more effective: without that, the managers' efforts presumably would have been lower.
- (3) The marketing competition between employee representatives and managers within companies, induced by codetermination, may have a reviving effect on the labor market competition between companies. Improvements in the quality of working life within a company because of strong indirect participation or effective management marketing offer new opportunities for outside employees, which stimulate other companies to improve their conditions for employees.

Section 9: Conclusions

With our investigation we filled a gap in the research on codetermination and found answers to the questions in Section 1. With the direct measurement of the quality of working life we were able to overcome the problems of unsafe theoretical conclusions drawn from the measurement of attitudes towards

codetermination (1), or of work satisfaction (2). Employee representatives in general do a good job of satisfying their constituency's needs and interests (3a). This is not restricted to single interests at the expense of other interests, because each of the most important interests are included in measuring the quality of working life (3b). A marketing competition between employee representatives and managers can help improve the functioning of the labor market without being detrimental to economic effectiveness: This can be judged from the fact that responsiveness through indirect participation is uncorrelated with the profit situation (see note 20) (3c). Alterations of management policy through the actual codetermination practice are not superficial, but have the most profound effect on the quality of working life (3d).

NOTES

1. This has been criticized (see Dahrendorf, 1965), but subsequent theorizing was not impressive. The most interesting attempts might be Rhenman (1968) within organizational theory; Pateman (1970) within political theory; and Backhaus (1979) within economic theory.
2. The project, titled 'The impact of participation and codetermination on business policy-making', was funded by the DFG (German Research Council) from 1976 to 1981. For further results see Scholl and Kirsch (1984) and Kirsch *et al.* (1985).
3. Extensive descriptions, together with comments on the historical and sociopolitical background of codetermination, can be found in Adams and Rummel (1974) and Diamant (1977). A precise account is given in Chmielewicz *et al.* (1977).
4. Our use of the concept differs from that of Kotler, in that we exclude all forms of direct involvement in the decision-making process in order not to blur the distinction to participation.
5. The broadening of the marketing concept parallels the notion of markets not only for consumers but also for capital, labor, buyers, and suppliers, as well as for politicians and votes (for the latter, see Downs, 1957).
6. 'Inducements' refer to the inducement-contribution theory of March and Simon (1958): companies have to offer inducements to all transaction partners, e.g. consumers, employees, capital-owners, in order to get sufficient contributions from them.
7. See Mulder (1971) with regard to participation, or Galbraith (1967) with his emphasis on the power of the 'technostructure' of an organization.
8. At first glance, marketing and participation seem to be similar to 'exit' and 'voice', the concepts introduced by Hirschman (1970). There is empirically some correspondence between these two pairs, though voice will also be heard in marketing research, and exit may be used in participative situations. Whereas participation and marketing characterize a relationship between primary decision-makers and other affected people, exit and voice denote possible (re)actions of either side within these relationships. Exit and voice have also an important place in our theoretical framework (enlarged by three other categories), but in this chapter they are of minor importance.
9. The other four categories are (3) public supply regulations, (4) redistribution regulations, (5) control regulations, and (6) metaregulations. For a deeper discussion, see Scholl (1981).
10. Basically, we conceptualize interests from a perspective of symbolic interactionism; see Paul (1977): 76-136. Empirical material interpreted from a union background can be found in Nickel (1974).

11. Detailed questions on actual working conditions failed to provide sufficient and reliable answers; the questions have been too complex. So we had to help ourselves with the corresponding subjective estimations.
12. In German companies it is absolutely unusual to offer money or other bonuses to employees in order to lower absenteeism rates. This sort of bias is not inherent in the data.
13. The total average estimation was computed in a stepwise procedure, beginning with an average value per side and then combining the averages of each side to the total average. If one value of either side was missing the other value was taken as the average value of that side, whereas no substitution was made between both sides if answers from one side were completely missing.
14. 'Compromise' and the other conflict resolution styles were introduced by Blake *et al.*, (1964). The items for the measurement of these styles were taken from Lawrence and Lorsch (1967): 266-7, and translated into German proverbs. Each side was asked in the investment and personnel questionnaires for its conflict resolution style *vis-à-vis* the other side, and the two answers of each side were averaged. With the aid of multidimensional scaling, four separate styles were identified for both sides, namely 'confrontation-problem solving', 'compromise', 'forcing', and 'smoothing over differences'.
15. This correlation and the former, reported in the preceding paragraph, are the only significant correlations of conflict resolution styles with responsiveness through indirect participation. With responsiveness through management marketing there are no significant correlations with conflict resolution styles at all, obviously because this form of responsiveness does not systematically involve employee representatives.
16. For the measurement of influence, we used the question format of Tannenbaum (1968), with parallel questions in each of the six questionnaires, averaged in a similar process like that reported in note 13; cf. the data and the comments in Scholl and Kirsch (1985), Section 2.
17. The influence of the works council varies significantly (*) with the strength of the codetermination regulation with respect to the proportion of employee representatives in the supervisory board on the one side, and it correlates +0.28** ($n=103$) with the degree of unionization of the workforce.
18. We use a subjective estimation of the profit situation of the companies, because it seems to be more reliable than the published 'objective' figures (judged from correlations with other objective data): companies often 'trim' the profit figures on the published balance sheets.
19. Indirect participation with management marketing: -0.19 ($n=48$). Indirect participation with the profit situation: -0.07 ($n=40$). Management marketing with the profit situation: +0.14 ($n=39$).
20. For this theoretical term, see Section 2.
21. For this theoretical term, see Section 2.

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