

# BUSINESS POLICY AND CODETERMINATION

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## 1. Introduction

In 1976 we began a theoretical and empirical research project with a view to assessing "The impact of participation and codetermination on business policy-making".<sup>1</sup> The project had two principal objectives:

(1) To develop further a theoretical frame of reference for the description and explanation of business policy-making which could also elucidate the practice of codetermination.

(2) To provide empirical data on the reality of codetermination in order (a) to attain more information on the impact of codetermination on business policy making, (b) to test some hypotheses derived from the theoretical framework and thereby test its usefulness, and (c) to present a tentative appraisal of politically controversial questions.

A discussion of the theoretical frame of reference falls beyond the boundaries of this article.<sup>2</sup> Also, much of the empirical material has to be omitted.<sup>3</sup> We shall concentrate on three basic questions concerning codetermination:

(1) The amount of influence on business policy conferred upon the representatives of labour through codetermination (section 3).

(2) Are policy-making and implementation functions restricted by codetermination, as is argued by the German employer association? (section 4)?

(3) Is the quality of working life significantly improved by codetermination, as is argued by the German trade unions (Section 4)?

Before attempting to answer these three questions, we will present a short

<sup>1</sup> We are indebted to the DFG (German Research Council) for funding the project within the section "Empirical Decision-Making Theory". The project was proposed and directed by Werner Kirsch, while Wolfgang Scholl coordinated the day-to-day research efforts as a project manager. We thank Günter Paul, Harro Blumschein, Jürgen Fischer, Kurt Gerl, Jörg Kemper and Aaron Rosenkind for their contributions in the research process. We thank Vaughn Mulder for improving the English grammar and style of a first draft.

<sup>2</sup> Cf. Kirsch and Scholl (1977), Kirsch (1981b), Paul (1977), Scholl (1980).

<sup>3</sup> Cf. Kirsch, Scholl and Paul (1984), Rosenkind (1981).

résumé of the theoretical (sections 2.1 and 2.2), legal (section 2.3) and empirical (section 2.4) bases of this report.

## 2. Bases of the research project

At the beginning of our research we found no coherent theoretical framework with which the impact of codetermination on business policy could be realistically described and adequately explained.<sup>4</sup> Two years of research were almost completely devoted to adapting, developing, and integrating theoretical concepts from the social, political, and economic sciences into a general socio-economic framework. Two parts of this theoretical paradigm will now be briefly described.

### 2.1. The active organization

The movements towards a better quality of working life, consumerism, and environmental protection, have given rise to the concept of a socially responsible enterprise.<sup>5</sup> How can we conceptualize a socially responsible business organization, which does not merely react to external forces, with a view to securing efficiency and survival, as in many organizational theories?<sup>6</sup> In developing the concept of the "active organization", we were stimulated by Etzioni. He found a convincing solution to a similar problem at the societal level in his book *The Active Society* (1968).<sup>7</sup>

Etzioni argues that a social unit can be called "active" if it is capable of self-control and value-oriented self-transformation:

A societal unit has *transformability* if it is able to set – in response to external challenges, in anticipation of them, or as a result of internal developments – a new self-image which includes a new kind and level of homeostasis and ultra-stability, and is able to change its parts and their combinations as well as its boundaries to create a new unit. This is not higher-order ultra-stability but an ability to design and move toward a new system even if the old one has not become unstable (Etzioni, 1968, p. 121).

<sup>4</sup> The earlier sociological investigations rarely used theoretical concepts, as Dahrendorf (1965) criticized (without effect in the following investigations). In economic theory an acceptable analysis of the co-determined economy was (and presumably is as yet) lacking, as Pejovich (1978, p. 6) stated. Some useful attempts of theorizing on participation have been made in organization theory, cf., for instance, Rhenman (1968).

<sup>5</sup> Cf. Eels (1960) and Walton (1967).

<sup>6</sup> An excellent overview and critical appraisal of organizational theories is given by Kieser and Kubicek (1978). They emphasize the intentional character of organizational choice and behaviour.

<sup>7</sup> Cf. Kirsch (1979, 1981b, pp. 290–440). Further stimulation had come from Ackoff and Emery (1972) and Jantsch (1975).

Social systems with the capability of self-transformation can (a) adapt successfully to more changes of the environment, (b) actively influence these changes and (c) realize more own values (Etzioni, 1969, pp. 155–156).

In our opinion, three basic – in themselves multi-dimensional – properties are necessary for an active organization: (1) an ability to attain *valid information* about itself, its environment and the interrelated problems between both; (2) *an ability to act*, i.e. the potential to handle organizational problems through decision-making and policy-implementation;<sup>8</sup> and (3) *responsiveness* to the needs, values and interests of its members and other relevant parties.

These properties are certainly not fully developed in any existing organization and the attempt to improve one of them along one or more dimensions may well reduce its obtained level on another dimension. Thus, the concept of the “active organization” is a counter-factual ideal. Organizations can vary in activeness along these three properties and their subdimensions. Therefore, the consideration of activeness will yield a more complete picture of the problems and effects of business policy than the organization concepts of survival and growth or the financial concepts of rentability or value added.

The idea of an active organization has a dual suitability for an analysis of codetermination: (a) Its properties can serve as a general instrument for the comparison of the relative worth of any organizational form, including codetermination. (b) The controversial claims made in the political debate on codetermination (cf. questions (2) and (3) of the introduction) can be easily (re)formulated within this framework.

It would be interesting to explore further the concept of the active organization for business policy-making, with particular attention given to the potentiality and pre-conditions of self-transformation. The concept is, therefore, of high suitability to questions of strategic management (Kirsch, 1981b, pp. 290–440). Given, however, that the limits of space do not permit us to delve more deeply into the above questions, we will turn to the second central aspect of our theoretical frame of reference: the basic forms of responsiveness. An analysis of the latter allows for a fuller understanding of the role of codetermination in a liberal economy and society.

## 2.2. *Basic forms of responsiveness*

A social order, which permits and encourages the free interplay of economic, social, and political forces, requires mechanisms for securing the mutual responsiveness of the actors, and for the avoidance of a destructive struggle for existence. This problem comes more to the forefront, the greater the complex-

<sup>8</sup> There are slight differences to the concepts used by Etzioni, who combines cybernetic and implementing factors to the “control capacity” of a social unit.

ity of the division of labour. The latter has two main consequences, which serve to accentuate the above described problem. These are increased social heterogeneity, and a social system, in which increasingly larger numbers of people are dependent upon and affected by the decisions and actions of other people. The required mechanisms can be classified into three *basic forms of responsiveness* or combinations of the three. These fall under the general headings of participation, marketing, and general regulation.

The most obvious form of responsiveness is *participation*. It enables the participants first to articulate their needs and objectives; secondly, to discuss ways of fulfilling them; and thirdly, to review the priorities on the basis of the possible ways and outcomes. In a large number of cases, however, the number of persons affected (e.g. all the employees in a factory), would not enable all to participate in the decision-making process, because this would exceed the ability to act (besides the probability that many of them would not have sufficient motivation, time, or knowledge; see Scharpf, 1970).<sup>9</sup>

The second basic form of responsiveness is *marketing*; it is here used in a broader sense: it is not restricted to consumer goods and services, but is also applied to political or social affairs. Marketing extends to all decisions and actions which demand at least the tacit acceptance of those affected by, but who are not involved directly in the decision-making process.<sup>10</sup> Given that some people are affected by a decision but not involved, the problem of responsiveness is solved in the marketing approach in another way. Information regarding the needs, values and interests of the affected population enters into the decision-making process, sometimes only through the preconceptions of the decision-making body, sometimes through intensive marketing research. Then the production of goods, services, or "decisions" is shaped to varying degrees (depending primarily on their power position and that of the decision-makers), by this information. The relevant group is exposed to information designed to secure its acceptance of the decision, by means of "marketing channels", "advertisement" and "promotion campaigns".

In principle, participation and marketing are both open to manipulative efforts, although participation gives 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

<sup>9</sup> The participation of many is feasible only if it is restricted to voting for alternative options in form of persons, parties, or proposals.

<sup>10</sup> The broadening of the marketing concept was promoted primarily by Kotler, in its most generalized form in Kotler (1972). The difference to our use of the concept is that we exclude all forms of direct involvement in the decision-making process in order not to blur the distinction to participation. Of course, often a decision-making process is a mixture of participation and marketing.

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.<sup>11</sup>

An alternative to the limited range of direct participation is conceivable *indirect participation*. That is to say, participation through the representatives of those affected. The number of participants is sufficiently reduced and the problems of motivation, time, and knowledge are more easily solved. 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 they have to adopt marketing techniques in order to inform themselves about the interests and feelings of the people they represent, and inform the constituents about achievements, decisions taken and future plans. In indirect participation, authority is entrusted in a representative; the only act which the electorate has to therefore perform is the act of judging and selecting a representative.

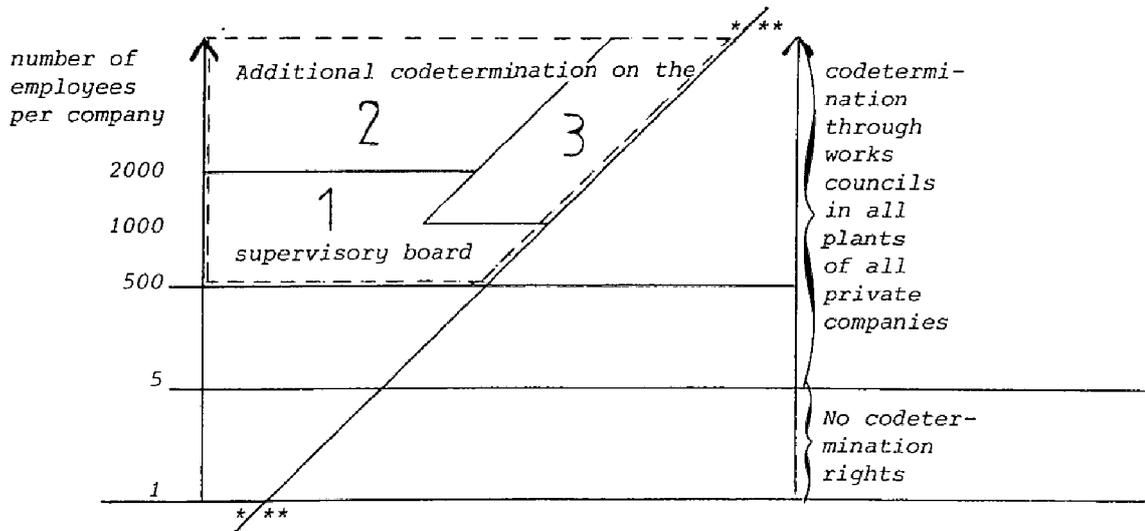
The third basic form of responsiveness, *general regulation*, is totally different from the first two. General regulation can be defined as a binding antecedent decision for subsequent areas of decision-making. General regulations encompass legal, contractual, and normative regulations. Six subcategories of general regulations can be constructed of which two are especially important with regard to codetermination.

(1) *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 more important decision rights in our societies are rigorously organized towards securing high levels of responsiveness of the decision-makers within these arenas.

(2) *Protective regulations* restrict the range of permissible behaviour 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.<sup>12</sup>

<sup>11</sup> 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 article they are of minor importance.

<sup>12</sup> The other four categories are: (3) public supply regulations; (4) redistribution regulations; (5) control regulations; and (6) metaregulations. For a deeper discussion, cf. Scholl (1980).



\* companies where owners' liability is limited

\*\* companies with full liability of owners' private property

Proportion of employee representatives on the supervisory board according to

- 1 The Works Constitution Act (1952, §76 seq./1972, §129) = one third
- 2 The Codetermination Act 1976 = quasi parity
- 3 The Montan Codetermination Act (1951, suppl. 1956) = full parity  
(only coal mining, iron- and steel producing industry)

Fig. 1. Areas of codetermination laws.

General regulation has an even broader range of responsiveness than marketing and is essential for the functioning of a society. It also has specific advantages over participation and marketing in that it serves collective needs and secures minimum standards. It is, however, not usually suited to the satisfaction of individual needs which have to be specified through decisions in participation or marketing.<sup>13</sup>

We will now outline the specific German codetermination regulations, which will make for a clear comprehension of the later parts of this article.

### 2.3. Codetermination laws in the Federal Republic of Germany

There exist three codetermination laws. These can be differentiated by the size of company, to which each law applies, and the amount of participation accorded by each act (see fig. 1). For our purposes only the basic features will be mentioned.<sup>14</sup>

<sup>13</sup> A full treatment of our theoretical framework can be found in Kirsch, Scholl and Paul (1983).

<sup>14</sup> More extensive descriptions together with comments on the historical and socio-political background of codetermination can be found in Adams and Rummel (1977) and Diamant (1977). A precise account is given in Chmielewicz et al. (1977).

(1) The *Works Constitution Act* (WCA/*Betriebsverfassungsgesetz*) extends to all private companies. In all establishments with at least five employees a *works council* has to be elected, at the request of the workers. The number of works council members depends on the number of employees. In small enterprises the task of representation is organized on a part-time basis, in larger firms it is a full-time job for some of the councillors.

The works council has to supervise the execution of all protective regulations for the employees. It has the right to early information and consultation on all matters concerning employees' interests. It has limited veto rights in cases of individual engagement, dismissal, classification, redeployment, or transfer. It has full codetermination rights in personnel selection policy, in the execution of training programmes, in working hours, in wage scales, piece-work and bonus rates, in safety regulations, and especially in all measures of compensation for employees, who have to accept a deterioration of employment conditions.

All these regulations refer to the works council, regardless of liability circumstances. For companies where liability is limited on shares, there are in the WCA and in two other laws special regulations for the participation of *employee representatives in the supervisory board*. It must be mentioned that these companies have (or have to form) a "double-decker" board: an executive board (*Unternehmensleitung*) and a supervisory board (*Aufsichtsrat*), the latter being the control organ for the supervision of the former. The supervisory board appoints the directors on the executive board, controls the annual balance sheet and can decide that larger transactions need its consent. The executive board is the legal representative of the company and is therefore fully responsible for the general policy as well as for day-to-day operations. Codetermination in the supervisory board means that employee representatives are elected into this controlling organ – in varying ratios according to the different laws. The WCA states that one third of the members of the supervisory board have to be elected by the employees. The range of application is shown in fig. 1.

(2) The *Codetermination Act 1976* (CA 76/*Mitbestimmungsgesetz 1976*) gives an equal number of seats to the representatives of owners and of employees. On the labour side there is one representative of higher management (*leitende Angestellte*), who is excluded from elections to the works councils and also excluded from elections to the supervisory board in the other codetermination laws. The unanimity of labour votes is thus more questionable than under the other regulations. The chairman of the board is always an owner representative.

In the case of a stalemate, the chairman has – after reconsideration of the problem – a casting vote. Therefore, the CA 76 provides only quasi-parity to the employee representatives on the supervisory board. The area of the act's application is indicated in fig. 1.

(3) The 1951 *Montan Codetermination Act* (MCA/Montan Mitbestimmungsgesetz), which was amended in 1956 to include holding companies, gives full parity to the employee representatives vis-à-vis the owner representatives. In order to avoid a stalemate through this parity, an additional neutral person is co-opted by both sides from the public sphere. Another important feature is the prescription of a labour director who is a member of the executive board, responsible for personnel and social matters. He cannot be elected against a majority of the labour side on the supervisory board. In practice he is well connected with the union. The MCA, which grants the most extensive codetermination rights to employee representatives, is restricted to coal mining and iron and steel producing industries (see fig. 1).

Described in theoretical terms, codetermination is a legal arena for the regulation of business organizations. Codetermination creates a new arena – the works council – which is given participation rights in management decision-making. It also changes the control arena of companies, the supervisory board, for participation of employee representatives. Traditionally, only owners have profited from both forms of responsiveness – management marketing via capital markets and participation via representatives on the supervisory board. Now also employees are able to take advantage of both forms: management marketing and indirect participation through codetermination. From the view of the employees, the participation of employee representatives implies marketing vis-à-vis the represented employees and a (potentially useful) marketing competition between management and employee representatives for employee support.

#### *2.4. The empirical investigation*

For the purposes of empirical investigation we divided the research project into four subprojects, as shown in fig. 2. (The words in capital letters appeared on the front page of the questionnaires.) The main source of data for the following findings were surveys carried out in project areas 2 and 3 between December 1978 and July 1979. Six questionnaires were sent to 603 companies (with more than 500 employees) from seven very different industries. Three were sent to management and three to the works council. The response rate (which is shown in fig. 2) was low, especially that of management. The primary reasons were presumably the length of the questionnaires, the fear of desired results of political consequence, and – on the side of the management – the objection towards codetermination. An examination of response bias on several variables showed on most variables no bias, on the others only minor bias. The one-page mini questionnaire, which was used for this examination,<sup>15</sup> yielded

<sup>15</sup> Further data for the examination of response bias were secured from the published company reports.

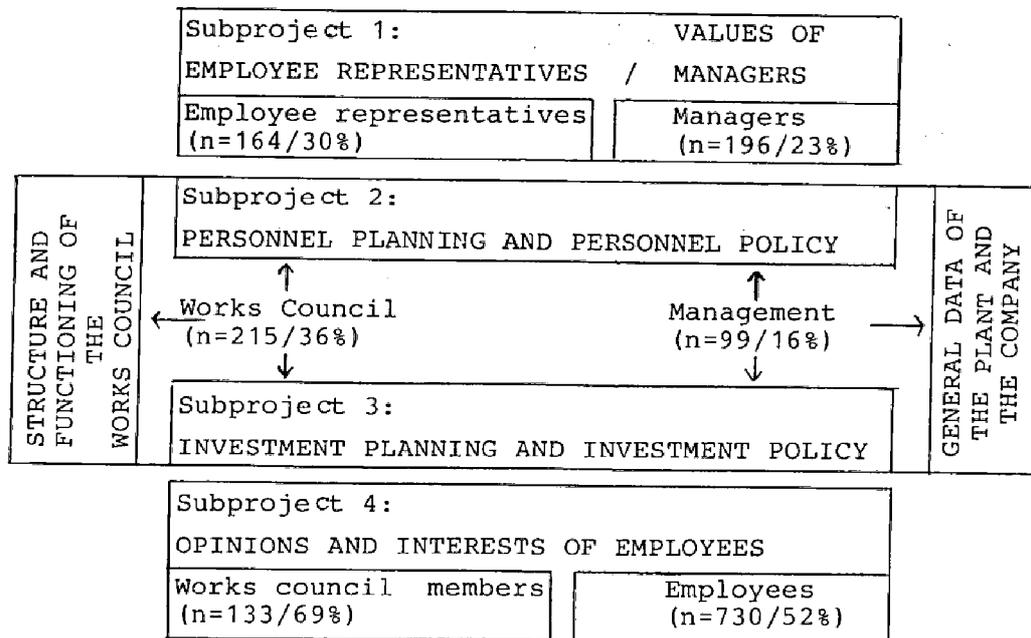


Fig. 2. Structure of the project and titles of questionnaires.

valuable additional data on the influence distribution.<sup>16</sup>

For Subproject 1 and Subproject 4, separate surveys were completed. The response rate in Subproject 1 was evened out, the rate in Subproject 4 was much better, as shown in fig. 2. In Subproject 1, employee representatives and managers who had seats on the supervisory board were chosen from company reports. The purpose was to compare the values of both groups in order to assess the fundamental potential for cooperation and conflict. A second purpose was to look for possible differentiation in the value orientation of both groups, resulting from the different codetermination laws.<sup>17</sup>

In Subproject 4, employees and works council members from 18 companies<sup>18</sup> were asked about their interrelations. The subjects of the survey were: working conditions, employee interests, ways of interest articulation by the employees, and interest perception by the works council, problems of interest realization, and an assessment of the responsiveness to the employees. The central objective was to assess the degree of cohesion or division between the employees and their representatives.<sup>19</sup>

In the following outline of empirical findings, only one result from each of the Subprojects 1 and 4 will be displayed. In general, the following presentation uses data from core projects 2 and 3.

<sup>16</sup> More information on the design of this investigation and on data collection is given in Kirsch, Scholl and Paul (1984).

<sup>17</sup> The results of Subproject 1 are published in Rosenkind (1981).

<sup>18</sup> The works councils of these 18 companies had participated also in Subprojects 2 and 3.

<sup>19</sup> Some results of Subproject 4 can be found in Kirsch, Kemper, Paul and Scholl (1980).

### 3. The distribution of influence within German corporations

If codetermination should have any impact on business policy, on company responsiveness to the employees, or on the ability to act through decision-making and policy implementation, it has to confer influence to employee representatives. In a critical appraisal of various schemes of workers' participation, Strauss and Rosenstein wrote in their conclusion: "As suggested earlier, participation has often been designed for symbolic purposes, to give people a feeling that there is a difference" (1969, p. 212). In support of the above statement, German attitude surveys conducted in the Montan industries are mentioned. The measurement of influence will enable us to evaluate whether codetermination is merely of symbolic value or if it confers actual influence to employee representation.

#### 3.1. The measurement of influence

Influence of power is difficult to measure in objective terms, because of the wide range of sources of power, and the varying inclinations and abilities to activate power potentials are, in general, too complex. Therefore, we followed the research tradition of the Institute for Social Research at the University of Michigan in using subjective estimations of influence by involved persons (cf. Tannenbaum, 1968; Tannenbaum and Cooke, 1979).

In the two general questionnaires (see the vertical boxes in fig. 2), we posed the following question: "How much *effective* influence have the following persons or group on planning and decision-making for your plant?"

In the personnel and investment questionnaires the field of influence was specified as "personnel (resp. investment) planning and decision-making".<sup>20</sup>

In order to acquire more reliable and valid estimates we combined the three answers of each side (or at least two, where a question had not been answered). The correlations between these three measures on each side were always higher than those between management and works council in a specific field; and they were highly significant in contrast to many correlations between both sides.<sup>21</sup> Where only one party participated in the survey, we used responses from the

<sup>20</sup> The resulting influence distributions from the general, personnel and investment questionnaires were, by and large, similar. Significant and predicted differences were the following: the works council had more influence in personnel than in investment matters, while the influence of owner representatives on the supervisory board differed inversely. The general estimates lay in between.

<sup>21</sup> The problem of bad intercorrelations between different groups is also mentioned in Tannenbaum and Cooke (1979, pp. 184-185). It may partly stem from different perception opportunities and partly from ideologically influenced in-group information processing, which both may be partially wrong and partially valid. Of course, random error is always involved, but for the larger part interrater differences may be systematic.

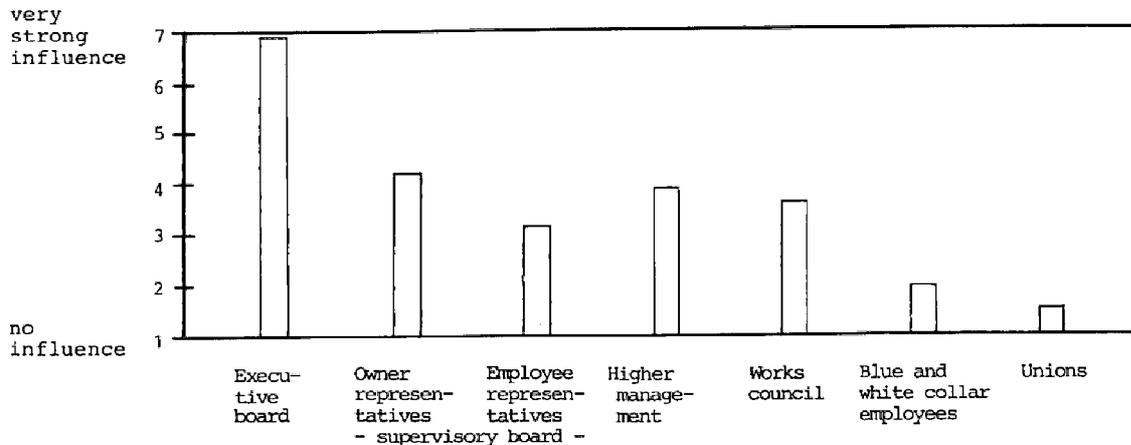


Fig. 3. Distribution of influence within German companies (median values).

mini questionnaire (section 2.4 above) – if available – in order to attain an estimate of the other party. Finally, the average values of both sides were combined into a total average value for each group in each company. Thus, the total average is composed of three to six different estimates with an equal weighting of management and works council views. The resulting distribution of influence medians is shown in fig. 3

The executive board has an overwhelming influence in most corporations, the distance to all other groups is very large. Owner representatives and higher management have some influence in the median company, but one must add that the influence of owner representatives shows by far the greatest variation of all groups (standard deviation = 1.32). The median influence of the works council is somewhat lower than that of the owner representatives and of higher management. The unions have least influence, i.e. almost no influence at all. However, 90% of works council members are unionized and the union membership percentage of the employee representatives on the supervisory board is even higher (no exact figures can be given). The estimation of union influence, therefore, was apparently in terms of direct influence (outside the codetermination channels). The same holds for employees whose direct influence seems to be rather low. Of great interest is the significantly (\*\*\*)<sup>22</sup> higher influence of the works council vis-à-vis the employee representatives on the supervisory board. One has to bear in mind, however, that there is always partial overlap in membership,<sup>23</sup> so that the difference probably stems from institutional opportunities.

<sup>22</sup> Due to occasional low numbers, four significance levels are used:  $p < 0.10$  – weakly significant: +;  $p < 0.05$  – significant: \*;  $p < 0.01$  – very significant: \*\*;  $p < 0.001$  – highly significant: \*\*\*. If  $n > 100$ , a weak significance level (+) is not reported.

<sup>23</sup> Under WCA, usually all employee representatives in the supervisory board are at the same time members of the works council, whereas under MCA and CA 76 some external union representatives are obligatory.

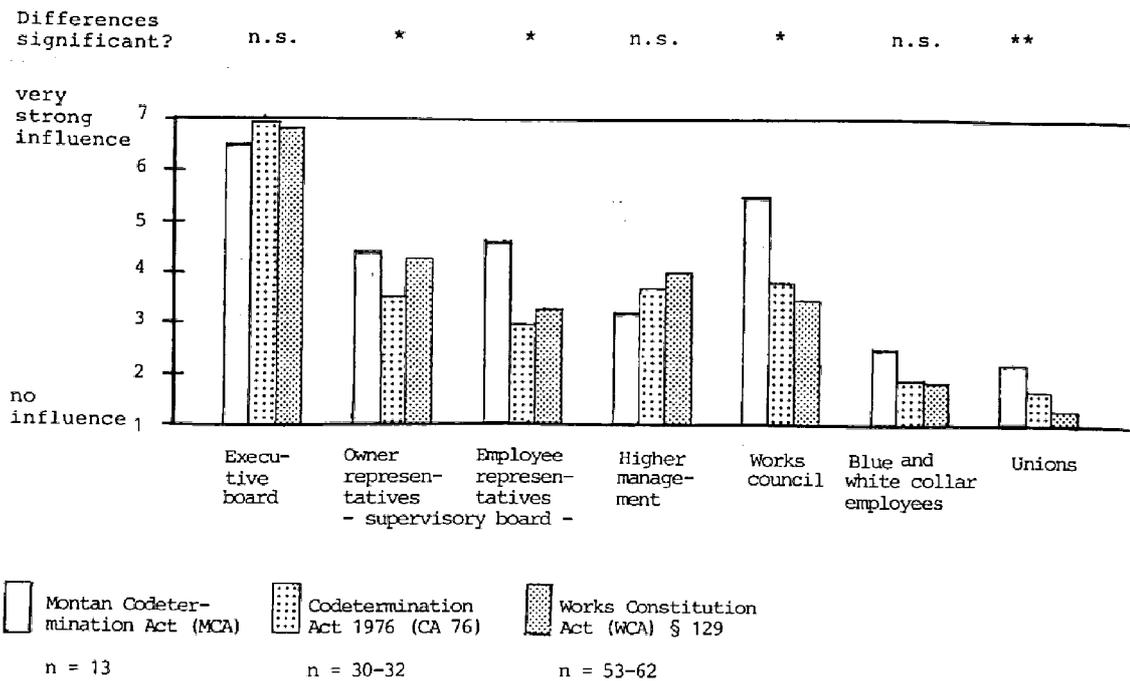


Fig. 4. Distribution of influence, partitioned according to the different codetermination regulations in the supervisory board (median values).

### 3.2. The influence of employee representatives under different legal regulations

The overall picture of the influence distribution has now to be differentiated according to the three German codetermination laws relating to the supervisory board (section 2.3). The partition is shown in fig. 4. In this section we will comment on influence differences between employee representatives on the supervisory board and the works council.

Employee representatives on the supervisory board have most influence under MCA,<sup>24</sup> as expected from the legal regulation, which establishes full parity and where the labour director on the management board depends on their majority vote. Unexpectedly, employee delegated board members in the CA 76 area have on average less influence than those in the WCA area, although they have a larger proportion of seats. Several reasons can be responsible for this result. (a) The CA 76 had only been in application for about one year at the time of our survey. The influence of employee representatives may have grown since then. (b) The supervisory board collectively is weaker in the CA 76 area than in the WCA area, as the comparable variations

<sup>24</sup> MCA results in fig. 4 have been computed differently, because responses from both parties were only provided from two companies. Thus, the average of management answers from 5 MCA companies and the average of works council answers from 10 MCA companies were taken, and the mean of the two sides is shown as best estimate in fig. 4. Of course, even the 13 companies are a small base for comparison, but the differences are in most cases unequivocal.

in the influence of owner representatives indicate. Reasons for the relative weakness of the supervisory board in the CA 76 area may be due to variables connected with the size of the corporations (CA 76: > 2000, WC: < 2000 employees), or to circumstances of the recent change enforced by law.

Even more surprising from the legal point of view are the significant (\*) differences in the median influence of the works council because they have the same rights in all companies, regardless of the composition of the supervisory board. Apparently, however, a carry-over effect is at work: the influence and negotiating power of the works council is strengthened in the Montan area by full parity on the supervisory board, even if this strength is mainly used by the works council. A strong correlation<sup>25</sup> of +0.57 \*\*\* between the two forms of employee representation as well as other data confirm this interpretation.

We mentioned above that usually the works council has more influence than the employee representatives on the supervisory board. Fig. 4 shows that this relation holds for all three legal forms. Theoretically, this has to be explained by the fact that the supervisory board only meets a few times per year for one day, whereas the works council, and especially its full time representatives, have sufficient time to attain and process the necessary information, to negotiate extensively with top management, and to control the implementation of the negotiated results.

### 3.3. *The influence of "capital" and "labour"*

In fig. 3 we found that capital owner representatives had on average a higher influence in the supervisory board than the labour representatives: the difference being a full scale unit. Fig. 4 shows that this holds true only in the WCA area, where owner representatives have a clear two-thirds majority. The difference in the CA 76 area of a half scale unit is substantially smaller. The latter could be expected from a position of quasi-parity, though this approximation takes place on a rather low influence level.

In the Montan area, which provides for full parity, the actual distribution of influence shows full equalization. The relatively high influence of employee representatives has not diminished the influence of the owner representatives which, in the MCA area, is as high as in the majority situation of the WCA. As Tannenbaum (1968) and others repeatedly have noted, influence relations do not conform to the constant-pie assumption. This is underlined by the remarkable correlation of +0.42 \*\*\* (computed over all companies) between the influence of both parties on the supervisory board. The rather high positive correlation suggests that the total strength of the supervisory board may be as important for the influence of either side as the proportion of seats. That is to

<sup>25</sup> Throughout this article Spearman's rho is used.

say, owner representatives can eventually amend their control position vis-à-vis the executive board by influential employee representatives and full parity codetermination!

Comparing the influence of the owner representatives on the supervisory board with that of the works council produces a different picture. In the MCA area the works council has definitely more influence than the owner representatives, in the CA 76 area they have about equal influence, and only in the WCA there is a lead of the owner representatives. These findings deviate even more from widely held assumptions and surely do not indicate a symbolic use of participation rights. Of course, if it is true that the works councils in the MCA area have in general more direct influence than the owner representatives on the supervisory board, this does not mean to say that employee interests have a greater weight in policy-making. First, our influence measure presumably does not sufficiently reflect influence through the possibility of exit (see Hirschmann, 1970) on the markets for capital or labour.<sup>26</sup> We suppose that capital owners have better opportunities of exit than employees and thereby additional influence. Secondly, the executive board has more influence than any party on the supervisory board, and its values presumably come closer to those of capital owners. Last, but not least, one could ask to what ends the codetermination functionaries use their influence?

### 3.4. Values of employee representatives and managers

In Subproject 1 we attempted to attain an idea of the degree of value consensus or dissensus between managers and employee representatives.<sup>27</sup> A value questionnaire was used with 36 value concepts which are relevant for codetermination. Value concepts had been selected by a broad literature survey and reduced by expert rating. For emotional-affective evaluation the semantic differential technique<sup>28</sup> was used with a seven-point scale ranging from +3 for a high positive evaluation to -3 for a high negative evaluation. The respondents<sup>29</sup> were owners, top managers and senior managers on the one side and leading employee representatives on the other side. Most of them held a seat on the supervisory board of at least one company. So, most managers in this sample are at the same time owner representatives.

The average valuations in both groups are shown in fig. 5. The 36 value concepts have been ordered according to the differences between the mean

<sup>26</sup> Respondents seem to think in terms of *direct* influence as the above interpretation of the estimates of union or employee influence suggests.

<sup>27</sup> A full description of the following results is given in Kirsch, Rosenkind and Scholl (1980) and Rosenkind (1981).

<sup>28</sup> See Snider and Osgood (1972).

<sup>29</sup> The response rate is shown in fig. 2.

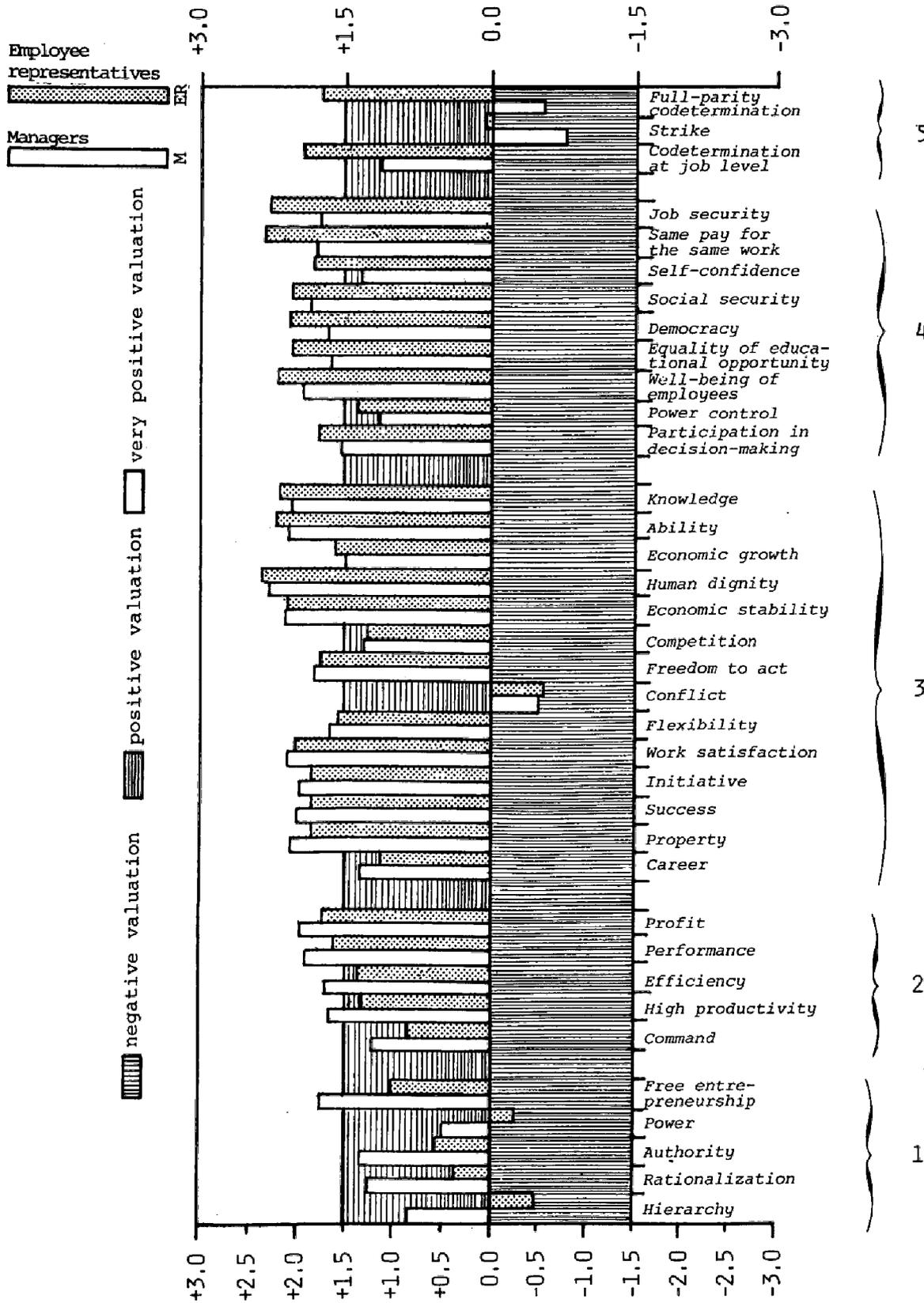


Fig. 5. Comparison of codetermination related values of managers (M) and employee representatives (ER), ordered along a difference continuum.

valuations of managers and those of employee representatives. On the left-hand side the valuations of managers are, to an increasing degree, more positive than those of employee representatives, whereas on the right-hand side the latter attach increasingly higher valuations to the value concepts than managers. The ranked concepts range from "Hierarchy", which is valued higher by management by 1.3 scale units, to "Full-parity codetermination", which is valued higher by employee representatives by 2.3 scale units.

The 36 value concepts have been divided into five typical zones of consensus or dissensus. In the middle zone 3, the mean differences are so small ( $d < \pm 0.2$ ), that we find basic consensus between industrial relations partners. Both parties agree, for instance, that "Human dignity" is the most positive value and that "Conflict" is a negative value. In general, the value concepts of zone 3 relate either to personal characteristics or to the general functioning of the economic system.

Differences in zones 2 and 4 are more pronounced ( $0.2 < d < 0.6$ ). Managers emphasize economic criteria more strongly than employee representatives (zone 2), whereas the latter emphasize employee interests and democratic principles more strongly (zone 4). Despite these differences, one cannot conclude that managers evaluate economic criteria higher than employee interests and democratic principles. In fact, it is interesting to note that the concepts of zone 2 and those of zone 4 are on average equally positively evaluated by managers with 1.7, whereas employee representatives value on average employee interests and democratic principles (zone 4) with 2.0 markedly higher than economic criteria (zone 2) with 1.4.

The largest value dissensus between both parties ( $d < \pm 0.6$ ) is given at the ends of the difference continuum in fig. 5 within zones 1 and 5. Value concepts in zone 1 have to do with the power position and prerogatives of management vis-à-vis employees. The reverse holds true for the concepts of zone 5, which relate to the means of power for employees and their representatives vis-à-vis management.

The extent of dissensus regarding the different value concepts presumably provides an indication of the sources of overt conflict in industrial relations in Germany. With a slight simplification, one may see in the concepts of zone 3 commonly shared ends, in those of zones 2 and 4 differently weighted, yet mutually accepted ends, and in those of zones 1 and 5 mutually contested means to achieve the differently weighted ends. The general conclusions might be that there is a value basis for "*antagonistic cooperation*" (Vilmar and Sattler, 1978, p. 110). That is, conflicts should be unavoidable, but a basis for compromise solutions seems to be present. Only two of the preferred concepts of one side are slightly(!) negatively valued by the other side<sup>30</sup> and "Conflict" is equally rejected by both industrial partners. Thus, we arrive at a paradoxical

<sup>30</sup> "Hierarchy" and "Power"/"Full-parity codetermination" and "Strike".

statement: although managers in general exhibit a negative evaluation of full-parity codetermination,<sup>31</sup> the necessary value base for working together within the codetermination arenas is not lacking.

#### 4. Problems of policy-making and implementation: The ability to act

As many observers agree, the complexity of corporate challenges has risen enormously in recent years and the inner complexities of policy-making and organizational (re)structuring have also grown. Thus, an organization's ability to act is constantly in danger of being paralysed by internal and external forces pulling in divergent directions. It is therefore not surprising that managers fear additional difficulties from enlarged codetermination. (This might be one of the main reasons for the negative valuation of full-parity codetermination.) The German employer association, as well as several corporations and owners, brought an action against the new CA 76 before the *constitutional court*, and one of the complaints was that greater codetermination is likely to hamper the decision-making capability. The court admitted the action:

The accusers could be infringed upon their constitutional rights on property if the enlarged codetermination would paralyze the functioning of the companies or would lead to the like, maybe because the policy-making process will become so complicated that decisions could be hardly arrived at (Mitbestimmungsurteil vom 1.3.1979, C III 1 b.cc).

The court then rejected the action as unwarranted – for the present time – but added:

Of course, the legislator would be obliged to revision if his prognosis, that the Codetermination Act will not severely hamper the functioning of the companies, would not be confirmed by future developments (*ibid.*)

We will now try to assess this question of high economic, political, and constitutional relevance.

##### 4.1. *Measuring the ability to act*

The ability of the organization to act can be impaired at any point in the process of policy-making or the implementation of its decisions. We used several possible instances of failure from the beginning to the end of this process for measuring the ability to act. In order to evoke concrete events we

<sup>31</sup> However, managers from Montan companies – the only ones with full-parity codetermination – indicated a weak positive evaluation.

focused on personnel and investment policy and planning in our questions on the management. The operationalization and the results are shown in fig. 6.

The ability to act is on all indicators on the average, more impaired in personnel questions than in investment issues. The differences are all, except one, significant (1, 2, 6, 8: \*\*; 3, 4, 7: +; 5: n.s.). Perhaps these differences stem from the decision object, because persons have a will of their own and can react themselves. Also, there usually is a higher rate of single personnel decisions which burdens the ability to act. Finally, the works council's veto power is stronger in personnel affairs so that we might have a first indication of an impaired ability to act through codetermination. We shall examine this question in the next section.

In order to get a stable and encompassing measure of the ability to act, multidimensional scaling was applied to the eight items of the personnel questionnaire, the investment questionnaire and to the respective combined items.<sup>32</sup> Since all three results were very similar, we use in the following the combined items solution. Before the empirical investigation, we hypothesized a decision-making and an implementation dimension (see Kirsch and Scholl, 1977). This expectation was partly fulfilled. The first six items form the *decision-making dimension*<sup>33</sup> while the remaining items 7 and 8 turn out to be separate aspects or *dimensions of implementation*. So, we have got a reliable measure of decision-making capability and two separate measures of implementation capability concerning an execution capability (item 7) and a concurrence capability (item 8). Yet, sometimes the last two are combined if they supplement each other.

#### 4.2. Does codetermination hamper the ability to act?

We may now try to answer the main question of this section. The dimensions of the ability to act are broken down according to the different supervisory board regulations. In this analysis we include also companies which have no supervisory board at all<sup>34</sup> and therefore no codetermination at board level. The results are shown in fig. 7.

Our original hypotheses were that codetermination is likely to impair the decision-making capability. It might be positive for the implementation capability, assuming conflicts could be solved.<sup>35</sup> A glance at fig. 7 shows that

<sup>32</sup> There are, throughout, significant correlations between the respective items, ranging from +0.22 \* to +0.44 \*\*\*.

<sup>33</sup> Originally, the sixth item should be more an indicator of implementation than of decision-making difficulties.

<sup>34</sup> Though we did not sample these companies intentionally, we got some of them by chance. No specific weight will be given to this group in the interpretation.

<sup>35</sup> See the detailed argumentation in Kirsch and Scholl (1977).

Planning and decision processes take place in reality not in that ideal way as sometimes is stated under the notion of *comprehensive rationality*. Therefore, we ask in the following: How often have deviations from an ideal decision and planning process happened in questions of personnel (resp. investment) policy and personnel (resp. investment) planning?

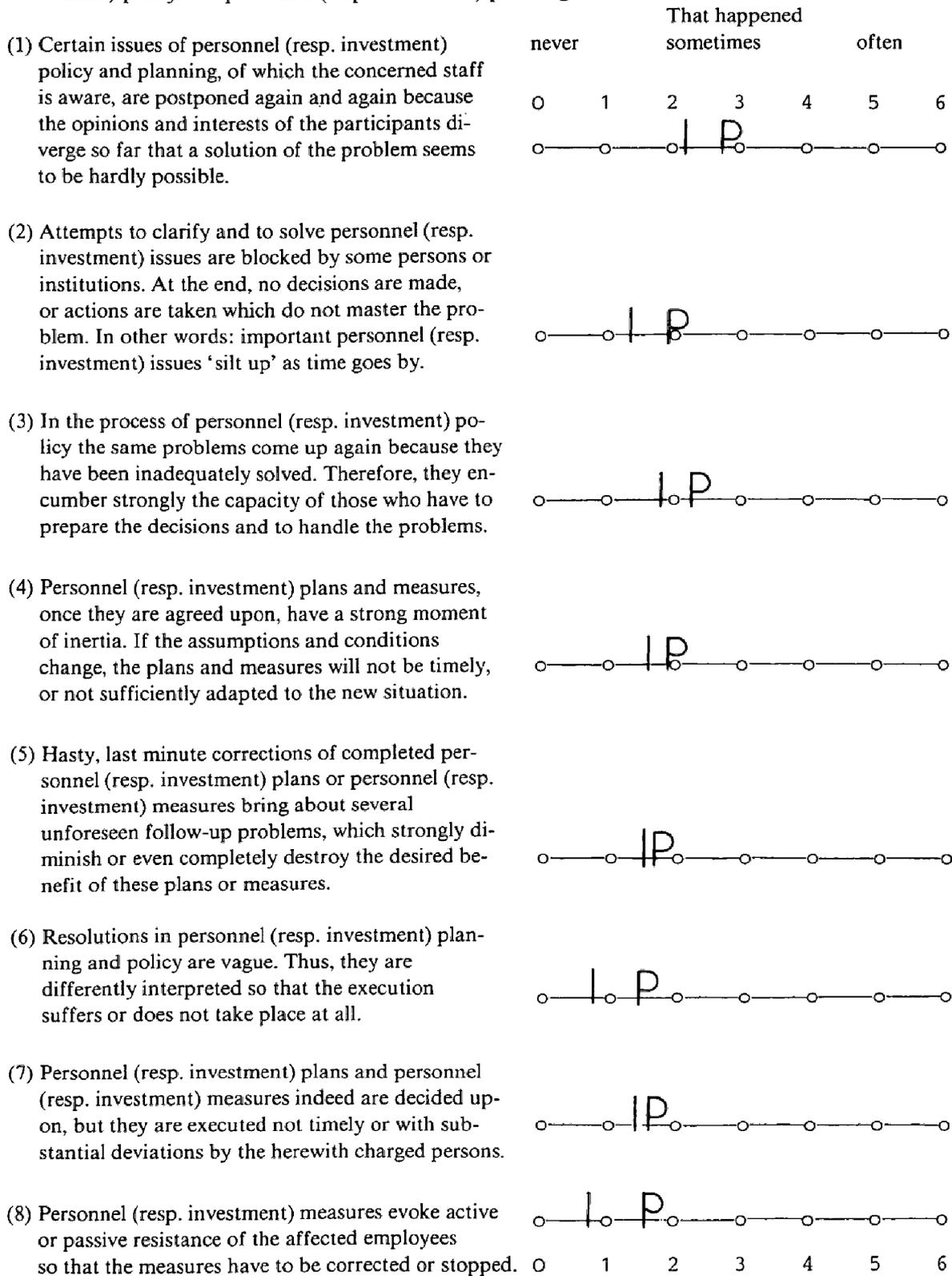


Fig. 6. Ability to act in personnel and investment matters ( $P$  = mean of personnel answers,  $n = 91-92$ ;  $I$  = mean of investment answers,  $n = 82-85$ ).

Dimensions of the ability to act	Legal regulations				
	Montan Codeter- mination Act (MCA)	Codeter- mination Act 1976 (CA 76)	Works Constitu- tion Act (WCA)	No super- visory board (NSB)	Differen- ces signifi- cant?
Decision-making capability (1-6)	0.95	1.74	1.95	2.15	*
Execution capability (7)	0.70	1.44	1.64	1.50	n.s.
Concurrence capability (8)	1.10	1.17	1.23	1.36	n.s.
Implementation capability (7+8)	0.90	1.30	1.43	1.43	n.s.
Number of cases	5	32	44-45	14	95-96

Fig. 7. Mean ability to act within different codetermination regulations. (The higher the numbers the more endangered is the ability to act.)

codetermination does not hamper the ability to act, as far as the legal regulations are concerned. On the contrary, there is a tendency towards facilitation. The stronger the codetermination position on the supervisory board, the less endangered is the ability to act on all dimensions. However, only in the dimension of decision-making capability are mean differences significant.

This rather unexpected result stimulated several cross-checks. Since there are significant differences in the ability to act between the industries in the sample, and the legal regulations are unequally distributed between the industries, we looked for the possible causes of industry divergences. They can to a large part be explained by variations in the degree of "technization", that is whether manual and craft work, mechanization, partial or full automation in the production dominate. The higher the level of technization, the more efficient is the ability of the firm to act. The correlations are: with decision-making capability  $-0.36^{***}$  ( $n = 79$ ), with execution capability  $-0.18^+$  ( $n = 78$ ), with concurrence capability  $-0.23^*$  ( $n = 78$ ) and with both combined to implementation capability  $-0.25^*$  ( $n = 78$ ).

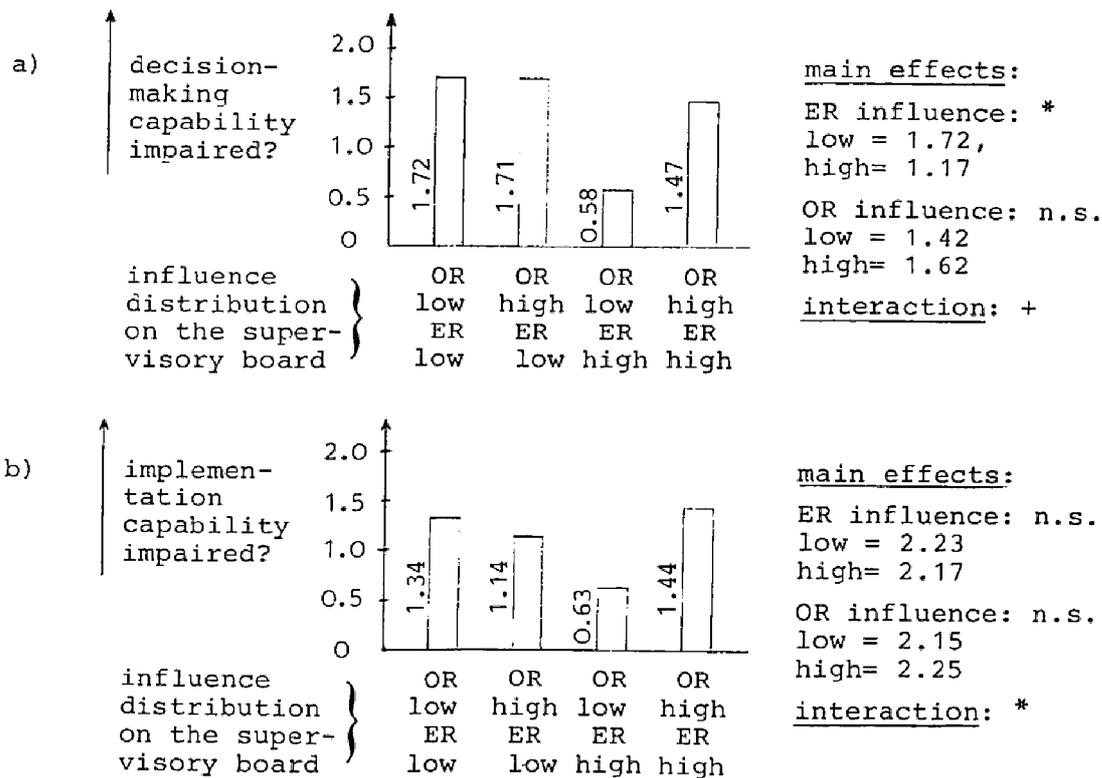
Having obtained these correlations, a new variance analysis was computed with the degree of technization as covariate. The former results proved to be almost completely stable, the significance and non-significances remained as they were. The results proved also to be stable with other checks.

#### 4.3. The ability to act and the influence distribution on the supervisory board

The impact of codetermination may be assessed not only by a comparison of legal areas but also by an examination of the influence of employee

representatives. The latter differs substantially within the various legal areas. While a simple correlational analysis provided no significant evidence, the influence distribution on the supervisory board proved to be more interesting. In the political debate on codetermination much has been said about a possible stalemate between the two groups on the supervisory board. While this debate focused on formal and procedural questions, there might be an analogous effect from the actual influence distribution. It is hypothesized that the ability to act in those companies is more hampered in which owner representatives and employee representatives have approximately equal levels of influence.

In order to test these presumptions, two-way analyses of variance were applied, with the dimensions of the ability to act as dependent variable and the influence level of both groups as independent variables. For that purpose, the influence of owner representatives and that of employee representatives were dichotomized, with 3.5 as the cutting point. The results are shown in fig. 8. On



<b>Number of cases:</b>	both low	OR high, ER low	OR low, ER high	both high
Total: n=37	n=11	n=14	n=4	n=8

Fig. 8. Ability to act and influence of owner representatives (OR) and employee representatives (ER) on the supervisory board.

both dimensions of the ability to act, there exist significant interaction effects between the influence of both parties, that is, the type of influence distribution is of importance.

In fig. 8(a) there is also a significant main effect: companies with low employee representatives' influence are more impaired in their decision-making capability than those with high influence. This confirms the analysis of the legal differences in fig. 7. With regard to the influence of owner representatives there is a reverse tendency which is not significant (see the values on the right-hand side of fig. 8). The weakly significant interaction effect means that the best decision-making capability exists in companies with low owner representative influence, but high employee representative influence.

With regard to the implementation capability, the main effects are not significant, but the interaction effect is significant in the hypothesized direction. If the two groups both have either low or high influence, the implementation capability is more hampered than if one side dominates. Again, the ability to act seems especially well developed in those companies in which the influence of employee representatives is high and that of owner representatives is low.

Even allowing for a cautious interpretation of these findings, due to the rather small subsamples, it is evident from the data that the ability to act is not hampered by codetermination. Extensive codetermination seems advantageous to the decision-making capability. How can this be explained? While codetermination might, in principle, be an additional challenge for management to secure the ability to act, strong codetermination surely demands a more systematic and regular cooperation and negotiation with the employee representatives. The more institutionalized the relationship between management and employee representatives, the easier the existing complexity can be mastered and an effective ability to act can be obtained.

Although there are several pointers in our data corresponding to this interpretation, they are insufficient for further analysis of this unexpected result. The concept of the active organization entails the possibility for progressive evolution, which means discovering better solutions for pervasive problems. Perhaps the strongly codetermined companies have found such an innovative solution which improves the ability to act.

## **5. Codetermined business policy and the quality of working life**

In a review article about research on German industrial democracy, Wilpert characterized the manifold regulations in the different codetermination acts as: "...probably...the most gigantic wholesale attempt in postwar Western Europe to change organizational structures and intra-firm behaviour by way of legal prescriptions" (Wilpert, 1975, p. 53).

Does this enormous and resource-consuming effort pay off, not only for the employee representatives who find a second ladder of promotion, but also for the intended beneficiaries – the employees themselves? Surprisingly, earlier research did not thoroughly investigate this central question.<sup>36</sup> We tried to assess this important aspect of codetermination and business policy with several indicators of the quality of working life.

### 5.1. Measuring the quality of working life

The quality of working life is a widely used concept with varying content.<sup>37</sup> In selecting indicators we tried to include central interests of German employees, as articulated in public debates, union actions, and opinion surveys.<sup>38</sup> These interests are, of course, not particular to German employees, most of them are also on the OECD list of social concerns (OECD, 1982). We shall refer to these respective OECD numbers in the following brief presentation.

(1) The primary interest of German employees is *job security* (OECD: C-2-d). It was measured in reverse terms as the percentage of dismissals in 1978, and interpreted as the probability to lose one's job. Fig. 9 shows the empirical range and the mean value for all indicators.

(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 (excluding overtime payments) for the year 1978, of three specified tariff groups of unskilled workers, skilled workers, and white-collar employees.

(3) *Career chances* are associated with earnings, as well as with status and

	Sign	Minimum	Mean	Maximum	n
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 decisions	+	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

Fig. 9. Indicators of the quality of working life.

<sup>36</sup> See Wilpert (1975, p. 58, table 1): Scope of empirical studies of co-determination.

<sup>37</sup> See, for instance, Davis and Cherns (1975).

<sup>38</sup> Basically, we conceptualize interests from the perspective of symbolic interactionism; see Paul (1977, pp. 73–136). Empirical material interpreted from a union background can be found in Nickel (1974).

self-esteem (OECD: C-2-e). We computed the promotion rate minus the demotion rate for the year 1978.

(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 are taken into account *in investment decisions*, thus adapting working conditions to the individual, and not vice versa. The average consideration of these six aspects is used.<sup>39</sup>

(5) *Social facilities*, such as canteens, kindergartens, sports grounds, convalescent or vacation homes, or company owned housing, often contribute to improving employees' quality of life. The existence and quality of eight possible social facilities were summed up in an index ranging from 0 to 56.

(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 injuries. 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 partly measures subjective responses to objective conditions leading to countable actions (OECD: C-2-a, C-3-a).

(7) The rate of *voluntary employee turnover* is a semi-objective measure, too. The main weakness here is that the local labour market largely 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 5 of 7, indicators. Through standardization, all indicators receive equal weight. This might in principle be unsatisfactory, because employees differ in the weights they accord to various aspects. For purposes of measurement, this might be less problematic, because deviations in weight should largely balance over all employees within a given plant.

For this measure of the quality of working life we have a criterion of validity. We attained four subjective estimates of the quality of working life through the following question in the personnel as well as the investment questionnaires to management and to 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 combined subjective estimation of the quality of working life correlates +0.74 \*\*\* ( $n = 45$ ) with the objective measure, establishing a rather high level of validity for both measures.

<sup>39</sup> Detailed questions on actual working conditions failed to provide sufficient and reliable answers.

Legal regulations on the supervisory board	Montan Codetermination Act (MCA)	Codetermination Act 1976 (CA 76)	Works Constitution Act (WCA)	No supervisory board (NSB)	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)	+
Quality of working life (subjective estimation)	5.25 (n = 2)	5.17 (n = 21)	4.73 (n = 23)	4.21 (n = 7)	n.s. (n = 53)

Fig. 10. Quality of working life under different codetermination regulations.

### 5.2. Does codetermination improve the quality of working life?

As in the preceding section, we start our examination of the possible impact of codetermination on the quality of working life by comparing the four legal areas. A simple variance analysis shows weak significant differences in the quality of working life (objective index); see fig. 10, first row.

The highest quality of working life is found in the big companies which fall under the 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 affect the quality of working life which might be associated with industry differences. The coal industry, and especially the steel industry in the European Economic Community, are depressed. This is resulting in small profits or even large losses. This is also shown by the high significant (\*\*\*) profit differences per industry. On the other hand, a healthy profit situation is an important prerequisite for improving the quality of working life. Thus, the correlation between profit estimate and quality of working life is  $+0.36^{**}$  ( $n = 68$ ).

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. Fig. 10 shows the result 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 strong codetermination effects

Influence of	with			
	Quality of working life			
	objective index		subj. estimation	
Executive board	+0.08 n.s.	(n = 45)	+0.01 n.s.	(n = 48)
Owner representatives	-0.22 n.s.	(n = 34)	-0.06 n.s.	(n = 36)
Employee representatives	-0.02 n.s.	(n = 38)	+0.19 n.s.	(n = 40)
Higher management	+0.14 n.s.	(n = 44)	+0.09 n.s.	(n = 46)
Works council	+0.23 <sup>+</sup>	(n = 46)	+0.39 <sup>**</sup>	(n = 48)
Blue and white collar empl.	+0.08 n.s.	(n = 40)	+0.19 n.s.	(n = 42)
Unions	+0.10 n.s.	(n = 40)	+0.18 n.s.	(n = 43)

Fig. 11. Influence correlations with the quality of working life.

which are outweighed by the poor economic situation. The second result is more consistent than the first with the differences in the subjective estimation of working life quality. The latter is shown in the last row of fig. 10. Although the differences are not significant, they tend to flow in the same direction. It seems quite possible that the respondents to the subjective question took the economic situation into account in their answers.

Given the smallness of the Montan sample, the evidence is not convincing. A more rigorous method to examining the impact of codetermination on the quality of working life is a correlational analysis with the influence estimations. The respective results are shown in fig. 11.

Only the correlations with the works council are significant. Allowing for a causal interpretation, this indicates that only the works council uses successfully its influence for improving the quality of working life, whereas the other groups either have insufficient influence or other goals. However, this small correlation alone allows no satisfactory explanation.

### 5.3. Participation of employee representatives and management marketing in comparison

Indirect participation by employee representatives is not the only form through which an organization can be responsive to its employees' needs and interests. An alternative form is marketing, carried out by the managers themselves. The motivation for management marketing efforts may be humanistic, but in most cases the possible reactions<sup>40</sup> of employees are the driving

<sup>40</sup> Reactions can be exit or voice, as Hirschman (1970) has argued. A third type of reaction is unilateral change of performance, for instance if employees restrict working speed or are calling in sick. This third type, too, can motivate managers towards greater responsiveness by increased marketing efforts. See Scholl (1980) and Kirsch, Scholl and Paul (1983).

force. In order to assess the relative weight of indirect participation and management marketing we asked: "This (suppl.: the company does a lot for its employees) is primarily brought about by working together with the employee representatives of the works council and the supervisory board who advance the wishes and interests of the employees and press for them."

In this way we operationalized responsiveness through indirect participation. For management marketing we asked: "This (suppl.: the company does a lot for its employees) is primarily brought about by management's consideration and inquiries into the wishes and interests of the employees."

Respondents could agree or disagree on a seven-point scale. The answers in the four questionnaires per company were combined into a single estimation.

With a mean value of 4.69 ( $n = 51$ ) responsiveness through indirect participation is rated higher (\*) than through management marketing with 4.04 ( $n = 50$ ). Correlations are consistent with this difference: the objective index of the quality of working life correlates 0.43 \*\*\* ( $n = 44$ ) with participation, but only +0.27 \* ( $n = 43$ ) with marketing. With the subjective estimation of working life quality the correlations are +0.47 \*\*\* ( $n = 51$ ) for participation and +0.31 \* ( $n = 50$ ) for marketing. While this underlines the importance of codetermination for the employees, marketing is not unimportant. In 33% of the companies, the marketing efforts by management are rated higher than participation efforts by employee representatives (in 58% of the companies the reverse holds true).

In the theoretical introduction we pointed out that indirect participation necessarily entails marketing by the representatives vis-à-vis the represented. We also mentioned that the marketing efforts of management may compete with those of the employee representatives, because each side wishes to earn the credit for an improvement. A negative correlation of  $-0.19^+$  ( $n = 48$ ) between participation success by employee representatives and marketing success by managers points in this direction. Nevertheless, the competition

Influence of	Responsiveness to employees through			
	participation of employee representatives		marketing efforts by management	
Executive board	-0.15 n.s.	( $n = 46$ )	+0.19 n.s.	( $n = 46$ )
Owner representatives	-0.08 n.s.	( $n = 34$ )	-0.25 <sup>+</sup>	( $n = 34$ )
Employee representatives	+0.37*	( $n = 38$ )	-0.09 n.s.	( $n = 38$ )
Higher management	+0.13 n.s.	( $n = 44$ )	0.00 n.s.	( $n = 44$ )
Works council	+0.64***	( $n = 46$ )	-0.12 n.s.	( $n = 46$ )
Blue and white collar empl.	+0.33*	( $n = 40$ )	-0.18 n.s.	( $n = 40$ )
Unions	+0.39**	( $n = 41$ )	+0.03 n.s.	( $n = 42$ )

Fig. 12. Influence correlations with indirect participation and marketing.

does not seem to be harsh in general, as judged by the rather low negative correlation.

The possibility of competition leads back to the role of influence in the policy-making process. Theoretically, successful responsiveness should be dependent upon the amount of influence and the ends to which it is used. The correlations between influence and both forms of responsiveness are given in fig. 12. The correlation between the works council's influence and successful participation exceeds all other correlations. Thus, the leading and critical role of the works council in securing and improving the employee's quality of working life is demonstrated. The correlations with the influence of employee representatives on the supervisory board, of blue- and white-collar employees and of the unions are also significant and point in the same direction, however, they are substantially lower.

The correlations with the influence of the executive board are not significant, presumably because of a ceiling effect of the influence measure, which impeded proper differentiation. However, they do point in the expected direction: a negative association with participation and a positive one with marketing. Influential owner representatives seem to have a negative impact on management marketing.

We can sum up the evidence from this section with the results of a regression analysis, predicting the quality of working life. According to our theoretical considerations and the empirical results, three factors should be of special importance: the responsiveness of employee representatives via codetermination, the responsiveness of management marketing, and the economic success of the firm, indicated by its profit rate. The three variables are almost independent of each other, and thus they are well suited for a regression analysis. All three variables turned out to be significant predictors. The relative weight of each predictor can be seen from the partial regression coefficients above the arrows of fig. 13.

In order of relative importance, codetermination comes first, secondly the economic success, and management's concern for employees in the third place. The multiple correlation of  $+0.62^{***}$  stands for a rather good explanation.

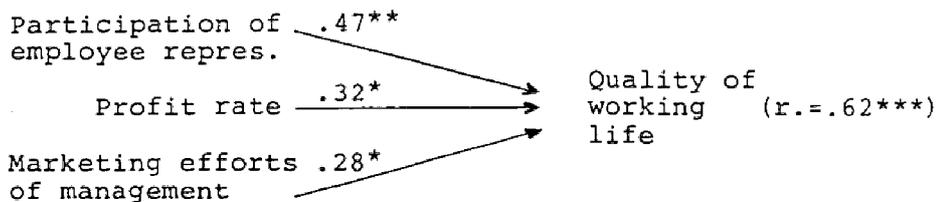


Fig. 13. Predictors of the quality of working life.

## 6. Conclusion

In the preceding sections we reported some of the central findings of the research project "The impact of participation and codetermination on business policy-making". At the end of this short report, we wish to add some notes of methodological caution, a general comparison with other codetermination investigations, and an outlook into the possible evolution of the codetermination system.

### 6.1. *Methodological caution*

Due to the short space left for presenting the preceding results, we could not attend to the methodological details and questions. Thus, we can only beg at the end of this article for a cautious interpretation of the results. In our view, Social Science is a chronically immature science (Kirsch, 1981a), which does not grasp the complexities of socio-economic evolution. Even with the use of large-scale surveys or well-defined laboratory experiments, Social Science remains exploratory rather than testing precise theories. The main methodological problems of our research are:

(1) There is no embracing and precise theory of business policy (and codetermination) from which unequivocal hypotheses could be deduced. We only developed a relatively wide-ranging theoretical frame of reference (which is scientifically progressive in our opinion).

(2) Our empirical design and the respective operationalizations fall short of a perfect conversion of the theoretical frame of reference.

(3) The measurement of organizational characteristics may not be satisfactory. It often cannot but use subjective estimations of a few members of the respective organizations. Sometimes, there may be no way at all to arrive at a largely accurate picture of an organization. Especially the measurement of influence, of the ability to act, and of participation and marketing might be affected by these problems.

(4) It might be impossible to entangle the real causal web with regard to the investigated problems. Especially the dynamics of the different industries, which are intertwined with the different codetermination regulations, may have produced the reported results and at the same time concealed the real causes.

(5) Our surveys mirror the situation of 1978, but they are not able to reveal the evolutionary dynamics of capital, management, and labour, of the changing socio-political background, and of learning processes with codetermination.

Thus, we simply do not know which of our results are correct or have to be corrected. However, we can give a rough estimate of confidence into the results, in using the evidence from other investigations.

## 6.2. Comparison with the results of other investigations

We posed at the beginning some fundamental questions concerning co-determination. We now summarize the main answers and look for supporting or contradictory evidence.

(1) In comparing the relative influence of different forms of employee representation, we found that the works council has usually more influence than the other bodies of employee representation, including the employees themselves. Although the employee representatives on the supervisory board have usually less influence, they apparently strengthen the works council differently according to their own level of influence. There is no comparative influence measurement in other investigations; however, there is some supporting evidence from the interviews and hearings of the official "Mitbestimmungskommission" (Codetermination Commission). Tegtmeier (1973) summarizes the relevant experience; he characterizes the works council as the "true centre of cooperation of the codetermination actors",<sup>41</sup> which lends qualitative support to our findings.

(2) Within the Montan area, the works council rates second in influence after the executive board and before the owner representatives. In CA 76, its influence equals that of the owner representatives, and only in the WCA does the latter have more influence. This result is not fully consistent with that of Witte (1982, 1986), who found in the CA 76 area an influence lead of owner representatives over employee representatives (works council and employee representatives on the supervisory board combined). The differences in the results are presumably due to several methodological differences and they are not easily explainable.<sup>42</sup> Thus, we are left with some uncertainty – and with a good illustration of the mentioned methodological problems.

(3) Codetermination seems not to have a negative, but a positive effect on the ability to act, especially on the decision-making capability of the companies. Earlier research only asked for delays on the supervisory board as a possible consequence of codetermination which is but one aspect of the decision-making capability. No essential delays were found,<sup>43</sup> which is consistent with our general result.

(4) According to our data, codetermination leads to higher responsiveness and a better quality of working life. In early research this has been always inferred from the activities of the employee representatives; however, it was not investigated directly. In a parallel research project, Witte (1981, p. 295) found a positive correlation of +0.37 \*\*\* between the influence of employee representatives and monetary gratification. He also found a negative correla-

<sup>41</sup> Tegtmeier (1973, p. 120). Cf. also Mitbestimmungskommission (1970, p. 90).

<sup>42</sup> For a detailed comparison see Kirsch, Scholl and Paul (1984, ch. 4).

<sup>43</sup> Cf. Mitbestimmungskommission (1970, pp. 70–72), and Tegtmeier (1973, pp. 97–99).

tion of  $-0.28 *$  between the degree of independence of the executive board and the rate of dismissals, which is, in our terms, an indication of positive management marketing. Both results are consistent with the theoretical distinction of responsiveness through participation and marketing, and with the respective empirical results.

Taken as a whole, we have the highest confidence in results (1) and (4), and some doubts in (2), whereas (3) needs further theoretical and empirical work.

### 6.3. *The evolution of codetermination*

Going back to ideas in the last century and starting with the Works Councils Law in 1920, codetermination evolved strongly in post-war Germany through several legislative stages and a growing practical experience. At the same time, the pressure for more social responsibility of business policy increased in all industrialized countries. With regard to the employees, codetermination apparently moved German companies a good deal to higher responsiveness while preserving their ability to act. Codetermination has strengthened an "antagonistic cooperation" (see section 3.4) between management and employee representatives, which channels economic necessities and employee demands into a feasible and successful business policy, making companies more "active".

In which direction will codetermination evolve in the future?<sup>44</sup> Three aspects are on the political agenda in Germany. (a) A sharing of capital by employees as part of the annual tariff agreements, which means profit-sharing in good times as well as cost-savings in bad times. That is a supplement to codetermination, a participation in results. (b) An extension of full-parity codetermination and/or a strengthening of works councils' rights. That means further steps on the traditional evolutionary line. (c) New efforts for codetermination at job level, which is more advanced in the Scandinavian countries, in some U.S. firms and, based on a different cultural background, in Japan.

In our Subproject 4, we found, in the answers of 605 employees,<sup>45</sup> that the demand for direct codetermination at the workplace is almost stronger than that for higher wages. On a seven-point scale ranging from 1 = less important over 4 = important to 7 = of exceeding importance, the mean desire for higher wages was computed as 4.6. The demand for profit-sharing (a) reached 4.4 on average; that for indirect codetermination of the works council and of employee representatives on the supervisory board (b) both reached 4.6. And the wish for direct codetermination at the workplace (c) amounts to 4.7 on

<sup>44</sup> A thorough overview of international developments, and prospects of workers' participation in management is given by Walker (1974).

<sup>45</sup> The sample is representative of the 14 plants, but not necessarily of all employees in the Federal Republic of Germany.

average. Thus, not only the political debate but also the wishes of the employees lead one to expect a continuing evolution of the codetermination system.

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