

Expert Group "Workers' Voice and Good Corporate Governance in Transnational Firms in Europe"

**Research Report**

## Workers' voice: Transnational companies - a concern for strong workers' voice

I.M.U. Policy Brief, No. 2

**Provided in Cooperation with:**

Institute for Codetermination and Corporate Governance (I.M.U.) of the Hans-Böckler-Stiftung

*Suggested Citation:* Expert Group "Workers' Voice and Good Corporate Governance in Transnational Firms in Europe" (2019) : Workers' voice: Transnational companies - a concern for strong workers' voice, I.M.U. Policy Brief, No. 2, Hans-Böckler-Stiftung, Institut für Mitbestimmung und Unternehmensführung (I.M.U.), Düsseldorf

This Version is available at:

<https://hdl.handle.net/10419/246925>

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# POLICY BRIEF

No.2 · Policy Brief · February 2019

## WORKERS' VOICE

Transnational companies – a concern for strong Workers' Voice



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## 1 GLOBALIZATION AND ECONOMIC OPENNESS ARE UNDER ATTACK

Trade and economic openness are of great importance to the EU and European companies which have exported goods with a value of EUR 1.74 trillion to third countries in 2016 (Statista). The EU is one of the biggest player on the global trading scene accounting for around 15% of the total exports worldwide which is making the EU one of the most outward-oriented economies in the world (EU-Commission 2016, p. 3). Companies become more and more transnational, global value chains are of relevance for many companies. However, globalization and openness to trade are nowadays under attack. Not only in the US, but also in Europe one can find movements opposing the idea of an open economy while supporting protectionism. Fears and skepticisms towards what is apparently foreign and unknown are on the rise. Several national elections such as the ones in Italy or Austria have been dominated by populist movements which in some cases are even part of the government. EU-sceptic groups already hold about 20% of all seats in the European Parliament today, polls suggest that the proportion of anti-EU groups may be even bigger in the newly elected European Parliament following the European elections in May 2019 (Reuters 2018).

## 2 GLOBALIZATION MUST BE SHAPED – BUT HOW?

Populism and fear of globalization are often connected to fear of economic loss and the wish to gain back control (Pastor and Veronesi 2018) which has become apparent in the context of Brexit or the election of Donald Trump. As a matter of fact, the growing number of transnational companies does question the effectiveness of national or even European regulation of the economy. It becomes more difficult to ensure sustainable growth and social equity

because companies as central actors in society play on a global stage while rules governing companies remain an issue for the European or even national level (Habermas 1998). Varying national legislation in the area of taxes or workers' rights opens the door for regime shopping. The reasons why some states don't establish and/or enforce standards in the area of labor and environmental rights are various: On the one hand, there are states which simply don't want to comply because their fear losing an apparent competition advantage, on the other hand, there are developing states which are only in the process of establishing democracy and/or a functioning economic system. Looking on the global level, we need to shape globalization, however, on the global level, governance and therefore effective rules are hard to establish and often lacking. Especially, due to this lack of governance on a global level the role of transnational companies as social actors is reinforced having an even bigger impact on stakeholders such as employees.

The EU understands itself as value based community which is not only respecting but also actively proclaiming social and environmental rights. The European single market can be seen as a first step towards fair competition on the base of common values, social and labor standards. The European understanding of the interlocking of social and economic objectives as social market economy, however, is in competition with laissez-faire economies on the international scene.

The EU uses Free Trade Agreements (FTAs) as one way to promote human rights and environmental standards. The aim stated by the European Commission is next to increased trade to reduce child labor, forced labor, environmental destruction and to encourage transparency and traceability in supply chains (European Commission 2016, p.6). Besides chapters regarding tariffs and Non-Tariff-Barriers, modern FTAs contain chapters about workers' rights and environmental responsibility. Nevertheless, when looking at transnational companies in Europe, the number of countries being part of the supply chain exceeds the number of FTAs the EU

has by far. Global Framework Agreements (GFAs) between transnational companies and global trade unions can be seen as complementary way to ensure social and environmental minimum standards along the supply chain.

### 3 WHAT ARE GLOBAL FRAMEWORK AGREEMENTS?

GFAs are one way to shape globalization and to ensure minimum standards are established and enforced in transnational companies. In contrast to FTAs, GFAs are negotiated between transnational companies and trade unions on a global level. Hence, GFAs can be considered social dialogue on the global scene. The goal of GFAs is to ensure the implementation of core labor rights across the global supply chain of transnational companies. It ensures transparency for all workers as minimum standards are implemented in all business premises of the respective company.

#### Infobox 1

#### **A successful example: The Global Framework Agreement between Solvay and IndustriALL Global Union**

Solvay is a multinational chemical company founded in Belgium. While in the beginning being a mainly Europe based Solvay has transformed into a multinational company. It has 124 sites with 24,500 employees in 61 countries. The well-functioning European works council worked as springboard for initiating the Global Forum and a global framework agreement. In February 2017, the Global Framework Agreement between Solvay and IndustriALL Global Union was renewed: the objective is the provision of the same basic labor and social rights to all employees of Solvay worldwide. The agreement goes beyond ILO recommendations and also refers to the OECD guidelines for multinational enterprises. What is more, suppliers and subcontractors are expected to comply to the rules as well. The enforcement of rules is often problematic when it comes to making Global Framework Agreements work in practice. In the case of Solvay, yearly audits are ensuring that the rules laid down in the agreement are respected.

### 4 WHY ARE GFAS BENEFICIAL FOR COMPANIES AND WORKERS?

There are economic incentives for companies to enter a GFA with a global trade union. Companies are eager to establish smooth working supply chains which can be realized more easily by common labor standards because GFAs reduce transaction costs and increase the reliability of the supply chain. What is more, the central management of a company is often lacking control over the business conduct of the management on local level. Hence, implementing a dispute resolution mechanism through GFAs can be beneficial for companies because it is easier to monitor whether the low-level management and sub-contractors are actually respecting the core values and strategy of the respective company (Hadwiger 2018, p.93).

”A functioning social dialogue is a huge asset – for employees and the employer.

Albert Kruff, Head of European Works Council Solvay

Entering a GFA can also be an important signal towards business partners, consumers and the media that a company is complying with labor standards. It contributes to a positive image of a company vis-à-vis third parties and the involvement of workers' representative can increase the legitimacy of a code of conduct (Hadwiger 2018, p. 92). More over, the support of sustainable investment is becoming increasingly important in the EU to achieve the Sustainable Development Goals (European Commission 2018). Within this context, GFAs could be an important signal towards investors who want to include social and environmental aspects when making their investment decision.

Beyond that, GFAs can contribute to fairer competition on a global level: as they are applied in every business premise even if the business premise is located in a country which has no legally binding labor standards they can support fair competition on the base of common standards in the area of labor and social rights beyond the borders of the EU which is in the interest of Europe based companies (Hadwiger 2018, p. 96).

GFAs emphasize positive aspects of globalization: Dissemination of workers' rights, fair competition and inclusive growth. In the societal debate globalization and consequences of globalization occasionally have a negative connotation. Positive examples of how globalization can improve the working conditions of employees around the globe could be an important argument when discussing benefits and drawbacks of globalization.

Not only spread GFAs workers' rights globally (even in countries where workers' right haven't been established yet) but they also add an important democratic element to transnational firms which has a positive effect on the staff but also on the firm and the economy. Countries with high standards

of workers' participation achieve higher scores in a range of important measures such as Research and Development expenditures than countries with comparatively low standards which may benefit a better adaption to change (Williamson 2013).

” *Social dialogue must be a key performance indicator, also in the global context.*

Albert Krufft, Head of European Works Council Solvay

GFA's can be understood as representation of Workers' Voice on the global level (Hassel and Helmerich 2017, p. 2). Workers' Voice in its different forms can be, furthermore, a tool to ensure that citizens feel represented in the EU because they can participate on different levels such as local level in the business premise, as well as European and even global level. Participation and representation may help addressing fears and insecurities caused by globalization and digitalization.

In simple terms, Workers' Voice has a positive impact on companies and on society in several ways. Steffen Müller (2012) points out that companies with workers' participation are more productive. Bernd Frick and Iris Möller have already found similar results for Germany in 2003. What is more, companies with BLER use their capital in a more expedient manner not only in the long run, but also in the short term as employee representatives have a positive impact on the working capital of a company (Lopatta et al. 2017). Also from the perspective of managers Workers' Voice is beneficial: Valeria Pulignano and Jeff Truk (2016) interviewed several managers from which 70% stated that EWCs contribute to value added to a company.

From a broader point of view, Workers' Voice can lead to more equal societies because employee participation leads to a more equal distribution of income (Hörisch 2012, p. 19).

## 5 WHAT IS NEEDED TO STRENGTHEN GFAS?

GFA's benefit from strong Workers' Voice in transnational companies. Workers' Voice in companies appears in different forms e.g. works councils, European works councils (EWCs) and employee representation in supervisory boards. Pro-active EWCs are especially important because they can function as learning platform canalizing different practices into one common framework. Hence, EWCs equipped with strong rights are important actors when it comes to initiating GFA's and need to be strengthened.

” *Trust and transparency on both sides are pre-conditions for a functioning workers' participation. Only then openness for change can be achieved.*

Albert Krufft, Head of European Works Council Solvay

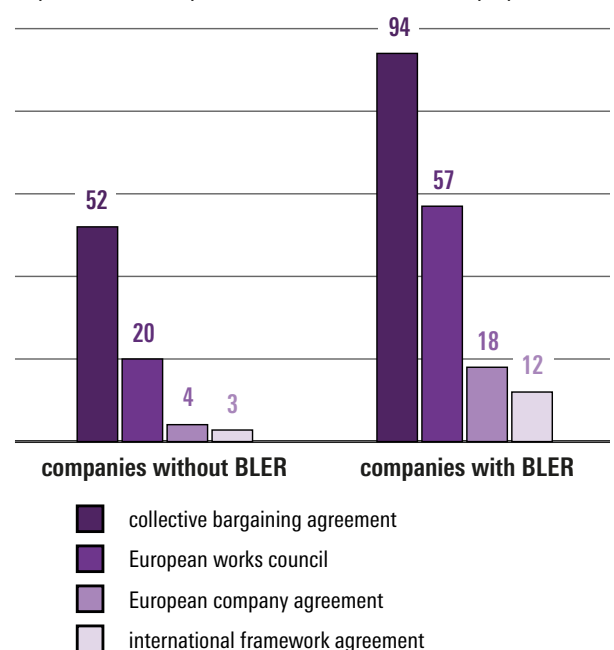
Often EWCs are only formally involved and have limited impact, especially when it comes to transnational company restructuring. Therefore, it is essential that the rights arising from the European Works Council Directive are enforced through effective and dissuasive sanctions: confidentiality clauses are often abused to prevent effective information and consultation, thus, it should be clarified on what grounds a company may withhold information (ETUC 2017). This is why, a revision of the European Works Council Directive is needed to strengthen capacities of workers' representation which may lead to the emergence of other forms of Workers' Voice as well.

The different forms of Workers' Voice usually don't exist independently from each other but interact with each other. Hassel and Helmerich (2017) have shown that 31.8% of companies with BLER have a GFA and 40.9% have a European Company Agreement while only 16.1% of companies without board level employee have a GFA. Fixed structures and obligatory forms of Workers' Voice is essential. Workers' Voice needs institutional structures and capacities in companies and trade unions and vice versa. Political institutions such as the EU should support establishing these. Taking into consideration that more and more companies are operating not only on national

Figure 1

### Workers' voice by BLER, 2014

in per cent, in companies with more than 100 employees



BLER: board level employee representation

Source: WV dataset Hassel/Helmerich

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Stiftung

but also on European level, if not on a global level, it is essential that the European legislator strengthens Workers' Voice on the supranational level to guarantee that workers' can make use of their rights in an effective manner.

Employee board level representation, for example, has a positive impact on all forms of Workers' Voice (Hassel and Helmerich 2017, p. 3). Today, there are no common European standards on board level representation in Europe (yet) although 18 of 28 know employee representation in boards by law. A "Framework Directive on Information, Consultation and Board Level Representation" could strengthen the existing standards for works council as well as workers' representation in boards.

## 6 CONCLUSION

The EU must assert itself and its values due to global competition. The EU considers itself to be a social market economy respecting and disseminating environmental standards and human rights. At the same time globalization and trade are under attack from the inside due to the rise of populist movements and parties. This is why globalization must be shaped from the perspective of a European social market economy. GFAs are an example how to improve workers' rights beyond the borders of the EU. In order to strengthen GFAs, it is important to strengthen institutional structures of Workers' Voice on European level.

Infobox 2

### Albert Kruff: Head of European Works' Council and Coordinator of the GFA



Source: <https://www.boeckler.de/63488.htm>  
[11.12.2018]

<https://twitter.com/albertkruff>

*On 2 October 2018 Albert opened the first Workers' Voice Breakfast with an impulse on the „Global Deal“. With a series of breakfast roundtables the Hans Böckler Foundation gathers a small group of experts and officials on a regular basis in Brussels to discuss the impact of codetermination in transnational companies. Albert Kruff has strengthened the involvement of a social dialogue at Solvay for many years. Since 2010 he is the Secretary of the European Works Council and coordinates the Global Forum in his company since 2015. As an employee representative he accompanied the transformation of Solvay in close cooperation with the management. Last October accompanying the breakfast event Albert had a couple of meetings with officials of the European Commission in order to give insight in his experiences and positions on globalization.*

### Workers' Voice Expert Group

*The expert group on "Workers' Voice and Good Corporate Governance in Transnational Firms" in Europe started its work in October 2015. Under the scientific leadership of Prof. Anke Hassel the group developed a report about the current state of play concerning workers' participation in companies.*

#### Further Informations:

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## IMPRINT

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### Issue

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