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Robert Scholz\*

## Labour in the Board and Good Work: How to Measure and Evidence From Germany\*\*

### Abstract

Can board-level co-determination promote Good Work? Good Work can be characterised by fair income, job security, opportunities for personal development, low stress and misuse, and high-quality work equipment. Good Work is not easy to measure, in part since it has a subjective aspect. For this reason, the indicators used in this paper are derived from data on corporate and personnel structures that are supportive of Good Work. Supplementing the numerous studies that exist on the impact of works councils on Good Work, this paper highlights how board-level co-determination can also have a strong positive influence. The paper uses data from the co-determination index (*Mitbestimmungsindex*), a new and innovative indicator that measures the extent to which co-determination is institutionally embedded within firms. Three examples illustrate the impact of board-level co-determination on Good Work: first, on the linking of elements of Good Work with the remuneration of directors in a highly co-determined corporation; second, on the independence of the member of the management board responsible for the personnel department; and third, on the level of vocational training in the companies.

Keywords: corporate governance, labour management relations, personnel management and executive compensation, training  
(JEL: G34, J53, M12, M53)

### Introduction

What is Good Work, how can it be measured and what contribution does German co-determination make to promoting it? General societal changes, such as demographic shifts, the increasing relevance of reconciling work and family life, or digitisation, pose increasing challenges for the company's personnel department. And despite low unemployment and a well-performing economy, precarious employment is widespread and it was necessary to introduce a statutory minimum wage to reduce poverty in Germany. While there is general agreement on what Good Work is, its realisation is fiercely contested. It is a challenge for employees,

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companies, trade unions and business associations to find a workable balance of interests.

Within the German model, co-determination is mandatory for most large corporations with some exceptions, for example in companies with the legal form as *Kommanditgesellschaft* or in *Tendenzunternehmen*, i.e. companies which are active in the media sector or predominantly charitable. Here, the dualistic model dominates in corporate governance with the supervisory board as controlling body and the executive board as management body (set out in the Stock Corporation Act (*Aktiengesetz*), or Co-determination Act (*Mitbestimmungsgesetz*)). The supervisory board has the right to make general decisions and to set the strategy of the company, for example regarding mergers and acquisitions or dividends. The supervisory board further has the legal possibility to control the executive board, appoint and dismiss its members and determine their remuneration. In Germany, not only shareholder representatives sit on the supervisory board, but also elected employee representatives. Depending on the number of employees in Germany either no, one third or fifty percent of the supervisory board members are employee representatives. However, especially through parity co-determination, the elected employee representatives are able to have a significant influence on the strategic direction of the companies and on the composition of the executive board.

With regard to the realisation of Good Work, there is an intense debate among economists and social scientists about the influence of works councils. However, relatively little research has been done on the influence of board-level co-determination on the configuration of Good Work. One reason is the difficulty of the operationalisation of the two phenomena. While there is an institutional framework for both the implementation of Good Work and board-level co-determination, how these work in practice are strongly dependent on the individual companies, on the sector and organisational structure, as well as specific individuals. In order to address this problem and to provide an objective standard, researchers at the WZB have developed the conceptual framework for a co-determination index (*Mitbestimmungindex MB-ix*) and collected the data needed to calculate it for a sample of German companies. The MB-ix measures the institutional embeddedness of co-determination in companies and the legal possibilities for labour representatives to influence board decisions. However, although labour representatives may be able to act, they do not have to. The paper also points out possibilities to identify indicators of Good Work, at least for the large companies considered here. Based on these conceptual frameworks the paper examines the influence of co-determination on the realisation of Good Work.

The second section explains how Good Work is defined in this paper, how it can be operationalised and what influence co-determination can have on Good Work. Section three describes the MB-ix in more detail and provides information on the sample of companies drawn upon for the selected examples. The paper then gives

three examples: first, how the executive board remuneration system can be used to create a top-down Good Work realisation process; second, how the relevance of personnel management in the executive board is linked to co-determination in the corporate governance of large companies; and third, how co-determination is linked to the vocational training behaviour of companies. All in all, these examples show how heterogeneous the influence of co-determination can be, as one of the factors are decisive for the implementation of Good Work.

## Conceptual Background

### Characteristics of Good Work

Job quality is not only relevant for labour force participation, productivity and aggregate economic performance, but also central for the well-being of individuals and the households they live in (Cazes et al., 2015). The literature on Good Work is vast; it can be viewed from many perspectives. There are numerous international organisations that deal with the definition of Good Work such as the ILO (International Labour Organization), Eurofound (European Foundation for the Improvement of Living and Working Conditions) or UNECE (United Nations Economic Commission for Europe), as well as companies (through Business Europe), trade unions (European Trade Union Institute), researchers, and others (see Cazes et al., 2015, p. 10f.). There are formal framework collective bargaining agreements and voluntary initiatives at the national level in Germany, such as the “Index Gute Arbeit” (Good Work Index) which was established by the umbrella organisation of the German trade unions (DGB, 2019). Furthermore, there is an intense debate in academia that overlaps with other topics, such as employee job satisfaction (Hipp & Givan, 2015), employee well-being (Cazes et al., 2015; Guest, 2017; Horowitz, 2016), or the quality of working life (Grote & Guest, 2017). To sum it up, there are many perspectives on how to define the characteristics of Good Work.

**Table 1. Examples for conceptions about Good Work**

| Author    | Conception            | Components  |
|-----------|-----------------------|---|
| ILO, 2013 | Decent Work           | (i) employment opportunities; (ii) adequate earnings and productive work; (iii) decent working time; (iv) combining work, family and personal life; (v) work that should be abolished; (vi) stability and security of work; (vii) equal opportunity and treatment in employment; (viii) safe work environment; (ix) social security; (x) social dialogue, employers' and workers' representation. |
| DGB, 2019 | DGB-Index Gute Arbeit | (i) appropriate and fair income; (ii) job security (iii) low in stress and low misuse (iv) promoting personal development; (v) valuable work equipment  |

| Author   | Conception                       | Components  |
|--|----------------------------------|---|
| Grote & Guest, 2017;<br>Walton, 1973; Walton, 1974 | Quality of working life criteria | (i) adequate and fair compensation; (ii) safe and healthy environment; (iii) development of human capacities; (iv) growth and security; (v) social integration; (vi) constitutionalism; (vii) consideration to the total life space; (viii) social relevance; (ix) individual proactivity; (x) flexible working |
| Horowitz, 2016                                     | Job quality                      | (i) monetary compensation; (ii) job security; (iii) individual task discretion; (iv) work intensity; (v) safe working conditions  |

Source: Own composition.

Table 1 shows selected examples of Good Work concepts. Although the components involved differ, there is much overlap between the concepts. On the one hand, there are three complementary central elements in Good Work according to the OECD Job Quality Framework: earnings quality, labour market security and quality of the working environment (Cazes et al., 2015). Martínez-García et al. (2018) understand it from the perspective of human resource management in a more comprehensive way and include questions of work quality, working time, work intensity, employees' involvement and performance. Urban (2019), on the other hand, sees a much broader meaning in the concept of Good Work that is not limited to job security and pay. Rather, he sees Good Work as a core element of freedom and social emancipation for the individual.

Apart from this range of definitions, two other phenomena are central to the expression of Good Work. Firstly, the perception of working conditions is subjective. And if overall working conditions are good, employees tend to accept individual shortcomings (Martínez-García et al., 2018). Secondly, jobs with one Good Work feature are also likely to have many other Good Work conditions. That means good and bad work jobs tend to reinforce themselves (Horowitz, 2016; Vidal, 2013).

It is understandable that Good Work is desirable from the employees' point of view. But why should an employer promote Good Work, above and beyond complying with laws or collective agreements? There are several answers to this: Firstly because good working conditions are associated with a higher level of motivation of the employees and therefore higher productivity, which results in economic benefits (Horowitz, 2016). Secondly, if the company is investing in fixed assets it needs a motivated workforce; it is only through human labour that investment in capital can be amortised, and high fixed costs can be converted into low unit costs (Abelshauser, 1999). Thirdly, in addition to these motives to increase motivation, measures to implement Good Work are also necessary to prevent the negative implications of bad work, such as absenteeism for health reasons, a bad working atmosphere, etc. Good working conditions not only have positive effects but also

can help avoid negative effects. In other words, satisfaction does not necessarily exist simply because there is no dissatisfaction (Herzberg et al., 1959; Vidal, 2013).

### How to Measure Good Work

There are different ways to measure Good Work. Very often surveys are used in which the employees themselves assess how good their working conditions are (Gomez et al., 2019; Koch et al., 2019). But these surveys are carried out in different contexts and they are only random samples from the companies, mostly at individual locations, divisions or even only departments so that they only reflect the structures in larger groups to a limited extent. In addition, the data is collected on a company-specific basis and is generally not freely accessible. Even when the numbers are available, comparability is limited.

Another way of measuring Good Work is to draw conclusions based on characteristics of the enterprise, i.e. from personnel structures. This ultimately captures the conditions under which Good Work can develop. One potential source for getting information about these structures is annual reports. In the case of large companies, they can be accessed on the websites or, in the case of smaller companies, in the German Business Register (*Unternehmensregister/Bundesanzeiger*). The companies are obliged to publish the reports and some key figures can be examined in a comparable manner.

Table 1 shows an overview of the different thematic areas and possible indicators for measuring Good Work. To make statements about job security, for example, the employee turnover rate, the average length of stay in the company or vocational training hiring rates can be used. The area of occupational health and safety for example can be illustrated by the number of accidents at work per million working hours or the number of sick days per year and employee.

**Table 2. Examples for indicators of Good Work on the basis of annual reports**

| Category                               | Indicator  |
|--|--|
| Employment and job security            | <ul style="list-style-type: none"> <li>- Number of employees</li> <li>- Turnover rate in %</li> <li>- Average job tenure in years</li> <li>- Proportion of temporary contracts</li> <li>- Proportion of part-time employees</li> </ul> |
| Personnel expenses and social benefits | <ul style="list-style-type: none"> <li>- Personnel expenses in Euro per employee</li> <li>- Social security contributions in Euro per employee</li> </ul>  |
| Personnel structure                    | <ul style="list-style-type: none"> <li>- Average age in years</li> <li>- Proportion per age cohort in %</li> </ul>   |

| Category  | Indicator   |
|---|---|
| Job safety and health protection                              | <ul style="list-style-type: none"> <li>- Work accidents per million work hours</li> <li>- Sick days per year and employee</li> <li>- Proportion of employees away sick</li> </ul>   |
| Vocational training   | <ul style="list-style-type: none"> <li>- Overall number of vocational trainees</li> <li>- Number of new vocational trainees</li> <li>- Training rate</li> <li>- Proportion of vocational trainees subsequently offered a contract</li> </ul>            |
| Further training  | <ul style="list-style-type: none"> <li>- Spending on further training</li> <li>- Participation rates</li> <li>- Proportion of employees having taken part in at least one training</li> <li>- Days of further training per year and employee</li> </ul> |
| Diversity (gender, nationality, severely disabled persons...) | <ul style="list-style-type: none"> <li>- per overall employees</li> <li>- per management positions</li> <li>- per temporary contracts</li> <li>- per part-time employees</li> <li>- per trainees</li> </ul>   |

Source: Own composition.

Numerous indicators are therefore available. The increased commitment to non-financial reporting, for example in sustainability reports prepared according to the standards of the Global Reporting Initiative (GRI), also contributes to a very thorough picture for some companies. For others, however, this is not yet the case.

Nevertheless, this diversity results in a methodological challenge, as reporting differs across reports. Although the companies might report on further training according to GRI, one company indicates the total amount in million euros spent on training, another one how many hours the employees spent on training courses on average and another one the share of employees that have participated in a further education programme. There is a problem of comparability in these indicators. In addition, there are thematic differences in the frequency of reporting. For example, data on part-time employment or average age is reported comparatively frequently, while information on fluctuation and length of stay as well as on sickness rates and accidents at work is published much less frequently. Finally, a criticism of the use of data from annual reports is that they are defined, designed and published in a company-specific and selective manner. However, these are the most objective measures, since other surveys, databases or rating agencies ultimately use this data and are also subject to such a systematic error. The data used in this paper was harmonised as far as possible in order to ensure comparability.

## Co-determination and Good Work

There is a strong variation in workplace quality, especially in cases where co-determination is weak or not present. According to the exit-voice approach (Hirschman, 1970), the idea is that through co-determination the workers gain a legally based voice which they can use to improve their working conditions (Gomez et al., 2019). According to this concept when employees are dissatisfied they can either leave the firm (exit) or voice their dissatisfaction to improve their situation, for example via co-determination (Koch et al., 2019). But the function of co-determination is not limited to conflict resolution alone. Co-determination in its broad meaning institutionally implements employee participation on the workplace- as well as company-level. There are two main mechanisms of influence for co-determination: at the plant-level, via works councils (Works Constitution Act: *Betriebsverfassungsgesetz* 1952/1972/2001), and at the company level via labour representatives in supervisory boards (Co-determination Act: *Mitbestimmungsgesetz* 1976; *Montanmitbestimmungsgesetz* 1951) (Frege, 2002).

Plant-level co-determination has a significant positive impact on the realisation of elements of Good Work, as demonstrated by many studies concerning wages, job satisfaction, employment growth, company closures, family friendliness, further training, working time models, performance incentives and atypical forms of employment (Addison et al., 2019; Bellmann & Ellguth, 2006; Hübler, 2003; Jirjahn, 2010; Jirjahn & Tsertsvadze, 2006; Schnabel, 2008; Frege, 2002). Additional studies show for example that works councils are associated with longer tenures and lower fluctuation rates, fewer employees who quit and fewer layoffs by employers (Bellmann et al., 2011; Boockmann & Steffes, 2010; Frick, 1996; Hirsch et al., 2010; Koch et al., 2019; Pfeifer, 2011). Other studies focusing on economic consequences show that works councils are associated with higher productivity and wages in Germany (Addison et al., 2001; Addison et al., 2004; Hübler & Jirjahn, 2003; Zwick, 2004).

## How Board-Level Co-determination Can Affect Good Work

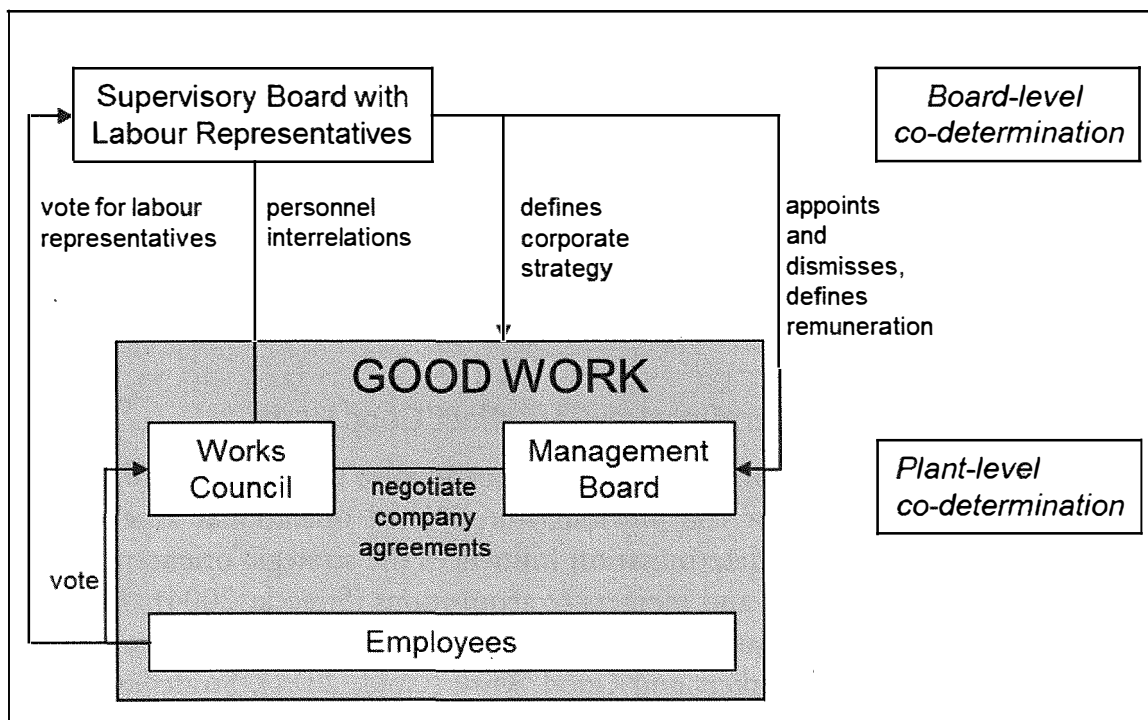
Board-level co-determination generally does not involve decisions regarding workplace employment issues or the previously-mentioned operational aspects at the plant-level. Board-level co-determination influences the strategic orientation of the company, large investments and mergers & acquisitions (Streeck, 2004). These strategic issues are planning issues. Policies are generally valid for the entire company and can have effects on workers and Good Work (Gold, 2011). Strategic decisions can influence Good Work directly or indirectly. If, for example, a company decides to compete based on price, it will be difficult to reconcile this strategy with high investments in R&D or high personnel costs. Under these conditions, it is difficult to realise Good Work. Investment and personnel costs are rather high in industries producing sophisticated technical products (Sorge & Streeck, 2018). In



this respect, a company's strategic orientation determines the realisation of Good Work. In addition, there is an important function of the supervisory board, which is responsible for the appointment and dismissal of the members of the executive board and the determination of their remuneration. This way, too, can influence the design of Good Work; see examples 1 and 2 in section results.

The effect of board-level co-determination on working conditions has been less researched to date (FitzRoy & Kraft, 2005; Gold, 2011; Scholz & Vitols, 2019). Some work focuses on the internal functioning of the boards, i.e. conflict or co-operation between shareholder representatives and employee representatives (Rosenbohm & Haipeter, 2019). Some studies focus on calculating the impact of co-determination in economic terms, such as productivity, profits or stock performance, but here the results are neither clearly positive nor negative as they depend on the specific variables and methods used (Addison & Schnabel, 2009; Conchon, 2011; FitzRoy & Kraft, 2005; Jirjahn, 2010). But concepts like Good Work are not measured in purely economic terms, but rather try to include indicators that have social or ecological implications, such as vocational or further training or the measures to implement corporate social responsibility (Scholz, 2017; Scholz & Vitols, 2019).

**Figure 1. Conceptual possibilities of influencing Good Work by co-determination.**



Source: Own illustration.

This paper aims to fill this gap and examine the relationship between board-level co-determination and Good Work. A new instrument for the operationalisation,

the co-determination index, is also being used. Figure 1 shows three ways in which co-determination at the board level can influence Good Work. Firstly, this involves influencing strategic decisions that have a direct impact on the implementation of Good Work, e.g. preventing mergers or at least formulating conditions for the merger from the employee's point of view, such as job guarantees. Secondly, this is also done by influencing the executive board composition, because this affects the personnel work and the realisation of Good Work. Thirdly, there is an interlinkage of co-determination at plant-level and board-level, as other studies have already shown (FitzRoy & Kraft, 2005; Gold, 2011; Rosenbohm & Haipeter, 2019). Most employee representatives in the supervisory board are also works council members. This can link operational interests with strategic decisions, such as the question of company training, as an element of human resources at the sites but also for the long-term personnel strategy of the whole company. By using the MB-ix it is possible to analyse the possible influence of the employee representatives, measured by the institutional embeddedness of co-determination in companies. The idea is that higher MB-ix scores are associated with the higher achievement of indicators of Good Work.

## Methodology and Data

### The Co-determination Index (Mitbestimmungsindex)

To date, most studies on co-determination have used one of two different ways to operationalise co-determination. Most quantitative studies have treated co-determination as a categorical variable (dummy variable); i.e. either co-determination: exists or does not exist, or alternatively differentiates between no co-determination/one-third participation/parity co-determination (FitzRoy & Kraft, 2005). Scholz & Vitols (2019) give an overview of 37 quantitative studies which deal with the effects of co-determination on different topics. Most of the remaining literature is qualitative and includes expert interviews, case studies or typologies (Gold, 2011; Rosenbohm & Haipeter, 2019; Waddington & Conchon, 2016). It is remarkable that both the quantitative and the qualitative studies conclude that the implementation of legal rights of co-determination varies. They either aggregate too much or too little (Gomez et al., 2019). This is one of the reasons why the co-determination index was developed. In addition, there is variation in the actual practice within the companies, which is emphasized again at the end of the section.

The idea of an index is not new. The first step in developing an index of co-determination was done by Witte (1980). He used it to compare the formal to the subjective assessments of co-determination (Hörisch, 2009). Kirsch et al. (1984) conducted a written survey and concluded that the influence of employees was strongly linked to the legal possibilities (Hörisch, 2009). Further studies have been carried out by Bamberg et al. (1987), who developed a typology of participation patterns and by Gerum et al. (1988), who included the position of employee

representatives on the supervisory board and transactions requiring approval (*zustimmungspflichtige Geschäfte*).

Zugehör (2003) understands co-determination in a more complex way than these previous studies. He includes several components, such as the deputy chairman or chairwoman of the supervisory board, who usually is a labour representative, the role of employee representatives on the investment committee and others; and calculates an indicator from these variables. In this work, the position of employee representatives is combined with their competence, although the empirical focus of the work is then two company case studies. Hörisch (2009) takes a similar approach and also constructs an index of co-determination. It also covers the deputy chairman or chairwoman of the supervisory board, the labour director, the composition of committees, and the application of the Co-determination Act of 1976 and the coal and steel industry co-determination. He calculates this index for all companies listed in the DAX and MDAX to compare these values with primarily economic performance indicators such as productivity, capital market valuation or dividends. Höpner and Müllenborn (2010) finally construct an index from five dummy variables, indicating parity, the role of the supervisory board chairman or chairwoman, the composition of the Audit Committee and others. As a result, their study allocates the companies on a scale of 0 to 5, whereby a high value is seen as a high co-determination potential.

The studies mentioned above have their own advantages and disadvantages. The early ones, in particular, have a rather narrow view, for example, if the strength of co-determination is measured using two components alone. Despite the large number of studies, the operationalisation of co-determination is not yet complete. Therefore, the objective for the MB-ix at hand was to operationalise a comprehensive understanding of company co-determination across several components in a transparent manner, to preferably using freely accessible data, e.g. from annual reports; and to collect these data in a comparable way in order to calculate the MB-ix-value for as many companies as possible also in order to achieve a sufficiently high variation in the values. It enables researchers to consider a larger number of companies with a “one number approach” between 0 and 100. The MB-ix is a new and innovative measure of the degree of embeddedness of co-determination in companies and consists of six components, which are presented in the following together with some theoretical arguments (Scholz & Vitols, 2016; Scholz & Vitols, 2019):

The first component measures the number and type of worker representatives on the supervisory board. The theory is that both the proportion of worker representatives and what kind of representatives they are (since the type of representatives in Germany vary) is important. This component considers both the proportion of worker representatives on the board and the extent to which they are connected to a works council or trade union. The full score for the first component is reached

if half of the supervisory board members are worker representatives, all the internal employee representatives (those working for the company) are works councillors and all external members are full-time trade union officials.

The second component relates to the deputy chair of the supervisory board, who consults the chair to prepare meetings. In some companies, there are two deputy chairs. In companies with parity co-determination, one of these deputies is supposed to be a worker representative. This can grant further information and influence for labour representatives. The highest score for the second component is reached if there is only one deputy chair, and this person is either an external trade union official or a works councillor.

The third component measures the extent of worker representation on board committees. These committees prepare decisions and formulate recommendations to the full supervisory board. Although the full board generally is supposed to take a final decision, committees can often have considerable influence. The full score here is achieved if half the members on all the key committees are worker representatives.

The fourth component focuses on the degree of fragmentation of worker representation through the internationalisation of employment. The lower the proportion of employees in Germany, the more difficult it is to organise workers' voice. Because workers in other countries generally will have other institutions and cultures of representation. However, a European or an international works council can coordinate the transnational worker representation. The highest score for the fourth component is achieved if all employees are in Germany (no fragmentation across national boundaries); or otherwise, if there is a European or an international works council. This ensures that there is at least one institutional body that tries to coordinate employee interests across borders.

The fifth component measures the importance of the supervisory board in the corporate governance of the firm. The decision-making powers of the supervisory board vary across company legal forms. If the supervisory board has limited powers the potential for worker representatives to influence company decisions will also be limited. The full score here is reached if the company has a legal form that states extensive decision-making rights for the supervisory board.

The sixth component, finally, assesses where the responsibility for personnel management is located in the executive board. If it lies with the chief executive officer (CEO) or the chief financial officer (CFO), personnel policy will possibly tend to be subordinated to the financial priorities of the company (Giertz, 2021). The full score for the last component is obtained if the personnel director is independent from the CEO and CFO. In other words, the personnel department is not occupied by the CEO or CFO. A quasi third person is responsible for the human resources department. Depending on the size of the board of executives, the personnel

director is primarily responsible for the human resources department, sometimes he or she takes over other functions (but not chairmanship and finance).

The description of the six components of the MB-ix shows that the co-determination index represents a complex company-specific phenomenon but that it is still possible to directly compare different companies with each other. At the same time, the index can be used to measure changes within companies over time and to identify relationships with other variables. This expands the existing research because the variation of the institutionally embedded co-determination is quantified. Nevertheless, a residual remains. The MB-ix measures the implementation of the institutional framework of co-determination in the company. This implies some restrictions because the supervisory boards and their members have legal rights, but in practice, they not always make use of them. The MB-ix cannot capture the lived practice of co-determination which has often developed in a path-dependent and company-specific way (Rosenbohm & Haipeter, 2019; Waddington & Conchon, 2016). The respective configuration of co-determination is subject to further factors such as company development, organisational structure, shareholding relationships or the management cultures – and on all levels, they are dependent on the acting persons.

### Sample Selection for the Examples

The results section of the paper will illustrate three examples of how co-determination can influence the implementation of Good Work. These examples were compiled from the MB-ix-project with respect to this special issue of management revue about Good Work. The first example is about implementing measures of Good Work via executive remuneration and refers to an individual case study of a specific company, the Salzgitter AG. That company reaches with 100 points the highest possible MB-ix score which foremost is described in detail. In some companies, executive compensation is recently linked not only to the economic firm performance (e.g. share performance) but also to stakeholder objectives (see for example annual reports of Allianz SE, Siemens AG and others). Normally, members of supervisory boards are bound to secrecy. It is therefore difficult to obtain direct information by doing expert interviews, for example on negotiations or discussions. The minutes are also not publicly accessible. The information about this case study was derived from a presentation of Lauenroth and Weckes at the Annual Meeting of Labour Representatives in 2019 (*Böckler-Konferenz für Aufsichtsräte*) and from companies' annual reports.

Following this case study, the two further examples consider not only one company but a larger sample of companies. The second example deals with the importance of personnel work in the executive boards of the companies, as a pre-condition for realising Good Work. The third example is about the link between co-determination and vocational training. For examples 2 and 3 two different samples are used but

both are based on the data from the MB-ix study. One is data for all companies listed on the stock exchange and included in the stock indices DAX, MDAX, SDAX, and TecDAX, which adds up to 160 companies in each year from 2006 to 2017; almost half of the companies in this sample are not co-determined. This sample is used for example 2 on the relevance of personnel directors, as it is particularly suitable for analysing differences between co-determined and non-co-determined companies. The second sample for example 3 includes companies with parity co-determination for the year 2017. Of the 636 companies, the MB-ix could be calculated for 348 so far. This selection is not entirely representative but it follows pragmatic reasons and is to date still unique on this scale. The investigation is very complex and many companies are only active as financial holding companies. For this or for other reasons not all reports or data are available, this includes the exact composition of the supervisory boards with mandates. Data on vocational training could be collected in 279 cases, of which 45 are subsidiaries whose data are also included in the consolidated data of the parent companies so that they have to be excluded. There remain 234 cases that could be used for the analysis of example 3.

## Results

### Example 1: Linking Executive Remuneration With Good Work

Is it possible to give executive board members an incentive to promote Good Work by creating a link between its realization and their remuneration? This section shows that it is possible by giving an overview on the company concerned, the importance of co-determination in it and how its MB-ix score is calculated. It explains how the remuneration system for the management board is structured and to what extent stakeholder goals are anchored to making Good Work possible. Stakeholders have an influence or interest in the firm's actions and decisions, like employees, customers, government, non-governmental organisations, etc.

Salzgitter AG is a German steel group company. Its core competencies are in the production, processing and global trade of rolled steel and tube products and in the field of machinery and plant engineering. The company is listed on the stock exchange and in 2018 it posted a turnover of 9.28 billion euros. Salzgitter has about 25,360 employees, 81 % of whom work in Germany (Salzgitter AG, 2019, p. 28). As the company is active in the steel industry, it is subject to Montan co-determination. This means that there are 10 shareholder representatives on the supervisory board, 10 labour representatives and one independent member chosen jointly by both sides. In this case, it is a former state secretary in the Federal Ministry of Labour and Social Affairs. In the event of a disagreement between the shareholder and worker representatives on the board, the vote of this independent person is decisive.

How high is the co-determination index at Salzgitter AG? The individual components have been described in more detail above and the following values result.

The first component of the composition of the supervisory board is fulfilled in full since the labour representatives hold half of the mandates on the supervisory board. Furthermore, there are 7 works councils and 3 full-time trade unionists (component 1 = 100). There is only one deputy chairman of the supervisory board and he works full-time in a trade union (component 2 = 100). To prepare its consultations and decisions, the supervisory board has currently formed three relevant committees (Presidium, Audit Committee, Strategy Committee), all of which have equal representation (component 3 = 100). There are employees outside Germany, but for them, there is an associated body for the cross-border representation of employee interests, a European Works Council (component 4 = 100). Furthermore, the supervisory board in the AG has extensive rights (component 5 = 100). Finally, there is a personnel department in the executive board that is independent of the CEO/CFO (component 6 = 100). Since all individual components reach 100 points, the total MB-ix score also adds up to 100 points; all indicators of the MB-ix are completely fulfilled.

To classify this value: Of the 160 listed companies in the stock indices DAX, MDAX, SDAX, and TecDAX, 60 are not co-determined (MB-x = 0), 90 have a score greater than zero but less than 100, and 9 others also have 100 points. The MB-ix in the MDAX, i.e. the index with the medium-sized companies which included Salzgitter in 2017, averages 59 points and 77 points respectively among only the co-determined companies (12 from the MDAX were not co-determined).

All in all, Salzgitter has the highest possible level of institutionally possible embedded representation of labour interests. This is a strong prerequisite for shaping the remuneration of the executive board on the one hand, but also an opportunity for shaping Good Work on the other. In 2018, the supervisory board approved a new remuneration plan for the executive board (Salzgitter AG, 2019, p. 22). According to this plan, executive board members receive a fixed annual basic remuneration, fringe benefits (i.e. a company car), variable annual remuneration and a pension commitment. The variable compensation, which is generally used to have a multi-year assessment basis, consists of an annual bonus and an additional remuneration (performance cash award). Stakeholder goals, i.e. worker goals, are contained in the variable remuneration in two different ways (Lauenroth & Weckes, 2019): the achievement of three equally weighted social goals make up 30 % of the short-term (annual) bonus (the other 70 % is based on earnings before taxes, EBT); secondly, two equally weighted social goals make up 30 % of the performance cash award with a time horizon of 4 years (the other 70 % is based on the return on capital employed, ROCE). While short-term targets can be set with the bonus, long-term targets are formulated and addressed with the performance cash award. The goals are defined annually by the supervisory board.

How are stakeholder goals defined? Currently, the focus lies on further training and reducing the number of accidents. These are important prerequisites for the

realisation of Good Work. However, it should be emphasised that the concrete goals are redefined annually so that other topics can also be considered in the future, such as environmental protection, social commitment, a decrease of the gender pay gap or similar fields of action. Thus, a rotating system was introduced, i.e. new targets can be set annually by the supervisory board. However, in the area of the annual bonus, there are three objectives that have been formulated for each year, i.e. 2019: goals 1+2+3, 2020: goals 4+5+6, 2021: goals 7+8+9, etc. That means the long-term goals can rotate. In the course of the initiation of the new remuneration structure, there are still thematic overlaps in the objectives, but this does not have to stay like that in the future.

So how relevant is the achievement of the target ultimately for the remuneration? On the basis of the numbers from 2017 (Salzgitter AG, 2019, p. 22), the total remuneration of the executive board amounted to EUR 4.56 million and the achievement of stakeholder goals accounts for around 10 % of total compensation. Since there is a CEO, a CFO and a personnel director who are paid at a ratio of about 2:1:1, there is approximately EUR 200,000 for the CEO and EUR 100,000 for the CFO and personnel director respectively.

All in all, if more work safety and training are implemented, this does not only have an effect on the employees but also through co-determination to a considerable extent on the remuneration of the executive board. There is no doubt that Salzgitter is a special case, the company is subject to Montan co-determination in the coal and steel industry. As described above there is real parity, contrary to the Co-determination Act from 1976, the chairman or -woman could not simply make use of his or her double voting right to reject the new system. Nevertheless, it shows the possibilities for acting offered by the German law and system of co-determination. These rights and possibilities can be used by the board members. This example helps motivate the other two quantitative examples, with focussing on a large number of companies, about the link between co-determination and the relevance of human resources and vocational training.

### Example 2: Personnel Management and Co-determination

As described previously, an important feature of large German companies is the separation between management (executive board) and control (supervisory board). Management boards have more than one member, thus the question of allocation of responsibilities over different departments becomes relevant. From the employees' point of view, it is relevant who on the board is responsible for the personnel department. This is usually the case because human resource is a function in the company, such as finance, marketing, sales, etc. and executive board members are generally responsible for a number of functions.

Human resources work concerns job security, personnel planning and personnel development and, because of the employment effect of large companies, even



regional labour markets. For this reason, the German Co-determination Act from 1976 (parity co-determination) stipulates that a member of the executive board must be appointed as labour director (*Arbeitsdirektor*) and take direct responsibility for personnel matters. The law leaves open, however, what other responsibilities the labour director should have, specifically, if the CEO or CFO may also be the labour director.

The labour director is the representative of the employees in the executive board, just as the employee representatives on the supervisory board are elementary in corporate governance (Giertz, 2017). A labour director can involve the workforce, works councils and trade unions in personnel work. As a trusted manager of the workforce and as an equal member of the executive board he or she can function as a bridge-builder between the both. For this reason, there are a number of companies in which the employee representatives on the supervisory board also submit a proposal for the appointment of the personnel director in the executive board, which then has to be approved by the entire supervisory board. In companies in which co-determination at the plant-level as well as in the supervisory board is understood as a corporate principle, in most cases, the personnel directors enjoy the special trust of the employee representatives on the supervisory board.

In which way does the existence of a personnel department, independent from the CEO/CFO, influence the realisation of Good Work? With an independent personnel director the importance of personal management and therefore the relevance of realising Good Work in the company will be higher. The other way around, if the CFO or CEO is responsible for the personnel department as well, they are in conflict with themselves and the demands of contrary fields (within one person). In this case, the CFO or CEO, who is also responsible for personnel might have to decide whether to increase expenditures for vocational training (as an element of Good Work) or to save the money to improve the profit and loss account (as an element of financial attractiveness). The CEO/CFO as one person would have to trade the topics off against each other. If the personnel department is independent of the CEO/CFO, the responsible person will not have “two hearts beating in their chest”.

Between 2006 and 2017, in around 29 % of the 160 companies in the DAX, MDAX, SDAX and TecDAX neither the CEO nor the CFO was directly responsible for the personnel department (562 of 1920 company years). In half of the cases, the CEO him- or herself is responsible for the personnel department (978) and in just less than one-fifth of the cases the CFO manages personnel (345). In two per cent of the cases, the attribution of responsibility cannot be reconstructed for the years 2006 and 2007 because 35 values are missing. This data makes it clear that a non-CEO/CFO personnel director is not the typical case in listed companies. Only about one in three companies has a personnel department on its executive board that is independent of the CEO and CFO.

It is significant that 83 % of the companies with a non-CEO/CFO personnel director are parity co-determined (464 of the 1920 company years) (see Table 3 and Table 2). In other words, there are very few companies that have an independent personnel department from the CEO/CFO but are not co-determined (76). On the other hand, the majority of companies without an independent personnel department are not co-determined (619). However, this is also because some non-co-determined companies act as holding companies, as REITs, or with a foreign legal form or with *Tendenzschutz*. However, the compilation described above suggests that the independence of the personnel department from the CEO/CFO is associated with co-determination. This result is confirmed by a t-test: 50 % of parity co-determined companies have a non-CEO/CFO personnel director. Only 10 % of non-parity co-determined companies have a non-CEO/CFO personnel director. This difference is significant at the 1 % level. Additionally, there is no clear connection between size and independence (see also Giertz & Scholz, 2018).

**Table 3. Type of co-determination and independent personnel directors in the executive boards**

| Number of company years<br>(share of total)    | Personnel director in the executive board |                               |                   |
|--|---|-------------------------------|-------------------|
|  | Not independent of CEO<br>and CFO         | Independent of<br>CEO and CFO | Total             |
| No co-determination<br>(MB-ix mean = 0)        | 619<br>(45.6 %)                           | 76<br>(13.5 %)                | 695<br>(36.2 %)   |
| One-third participation<br>(MB-ix mean = 44,4) | 274<br>(20.2 %)                           | 22<br>(3.9 %)                 | 296<br>(15.4 %)   |
| Parity co-determination<br>(MB-ix mean = 84,2) | 465<br>(34.2 %)                           | 464<br>(82.6 %)               | 929<br>(48.4 %)   |
| Total  | 1358<br>(100.0 %)                         | 562<br>(100.0 %)              | 1920<br>(100.0 %) |

Source: MB-ix-database, own illustration (n=1920, 160 companies 2006–2017, MB-ix means 2017).

All in all, co-determination provides labour representatives with a considerable opportunity to influence the composition of the executive board in general, but especially with regards to the importance of the personnel department on the executive board. In addition to this strategic relevance for the composition of the executive board, the following third example shows the influence of co-determination on a more operational level in the realisation of Good Work, using the example of vocational training.

### Example 3: Vocational Training and Co-determination

One central element of human resources development, both in operational terms for individual company locations and for strategic relevance, is vocational training. This takes place in Germany in three different forms: in a dual form, in public schools or in the form of civil service (BIBB, 2020). But in the context of vocational training in companies, the dual form is the most important. It mostly takes place in a structured programme which combines theory in vocational schools with practice in companies. In addition, there is also the dual course of study, where theory is learned at universities of applied sciences and practical training again is realised in the company. But in most cases, there is no dual study programme offered. If it is, then the majority learns as dual trainees; they account in the investigated companies for about four out of five learners, while one in five is a dual student.

Although the figures on vocational training, published in company annual reports, are not always very detailed, they are nevertheless frequently provided and easily comparable, in contrast to many other indicators (see Table 1). In addition to the company sphere, vocational training has a societal function, since this form of education facilitates the transition from school to work and accounts for a significant part of the training of the labour pool.

The intensity of the training depends on many factors, but co-determination is one of the most significant ones. Vocational training is regulated in its own law (*Berufsbildungsgesetz*). As mentioned above, in-company vocational training is included in the Works Constitution Act (*Betriebsverfassungsgesetz*) and employers and works councils are expected to promote vocational training. For example, the works council can require the employer to calculate and specify the need for vocational training. Studies on the influence of works councils come to different results, partly because training is measured differently, by means of the training rate, expenditure on training, hiring rates or the quality of training. Some studies conclude that works councils are associated with higher apprenticeship rates, better training quality and with a higher retention rate of graduated apprentices (Allaart et al., 2009; Bellmann et al., 2011; Kriechel et al., 2014; Koch et al., 2019; Stegmaier, 2012). Other studies conclude partially the opposite (Backes-Gellner et al., 1997; Görlitz & Stiebale, 2011; Niederal, 2004).

As described above, however, there is a close connection between co-determination on plant-level and board-level (FitzRoy & Kraft, 2005; Gold, 2011; Rosenbohm & Haipeter, 2019). In this way, the works councils from the plants can represent the interests of the employees on the supervisory board. At the same time, the strategic decisions in the supervisory boards can have a feedback effect on the work of the works councils. Works councils, which at the same time assume supervisory board mandates, can advocate that sufficient investments are made to give production locations and a long-term perspective. Trade union representatives

are also in favour of companies providing vocational training in order to strengthen ties to the location and also to maintain the vitality of local and regional labour markets. Companies may provide training in excess of what is needed because they have a high regional responsibility or, for example, cooperate with other (smaller) companies in training cooperations and thus maintain joint training centres or create opportunities for job transitions. Employee representatives would also welcome this because initial vocational training cannot be a disadvantage. Employee representatives are therefore in favour of vocational training, and it is likely that they will be able to give greater expression to this interest if co-determination is more firmly embedded in the company. Especially from a strategic point of view: a high level of qualification makes it possible to transform the high investments in fixed assets into low unit costs, which increases productivity and profits. If employees are involved, this further strengthens cooperative industrial relations (Abelshauser 1999). Furthermore, strong industrial relations, such as strong co-determination on the supervisory board, influence the decision-making scope of company management to the effect that they tend to pursue quality-competitive strategies instead of price-competitive strategies (Haipeter, 2009; Thelen & Turner, 1999).

The 234 companies considered in this section are all co-determined on a parity basis and have at least one apprentice. Together they have a total of 7.46 million employees, 3.45 million of whom work in Germany. Together, the considered companies have about 162,000 apprentices in Germany (dual vocational training and, in some cases, dual studies). In relation to the total number of companies' employees in Germany, this adds up to 4.7 % apprentices. This ratio between the number of trainees and the number of employees in Germany is common for measuring training activity. The average training rate based on individual enterprises is 5.2 %.

Based on this constellation, a regression analysis confirms that the strength of co-determination (MB-ix) is positively and significantly (at the 5 % level) associated with the percentage of employees in training. All other things equal (company size, measured by the log. of the number of employees, and industrial sector measured at the SIC one-digit level), a company with a maximum MB-ix value (100) will have a training quota of 0.5 % (i.e. half a percentage point) higher than a company with no co-determination (i.e. MB-ix value of 0) (see table 4). A strongly embedded co-determination coincides with a higher level of vocational training.

**Table 4. Determinants of vocational education training rate**

| Variables                             | Model                    |
|---------------------------------------|--------------------------|
| Co-determination-index (MB-ix)        | 0.000531**<br>(0.000251) |
| Employees in Germany (log.)           | -0.00290*<br>(0.00173)   |
| Agriculture                           | -0.0184***<br>(0.00439)  |
| Mining, Construction                  | -0.00333<br>(0.00980)    |
| Manufacturing (rather consumer goods) | 0.00302<br>(0.00507)     |
| Manufacturing (rather capital goods)  | 0.00228<br>(0.00473)     |
| Wholesale and Retail Trade            | 0.00425<br>(0.0151)      |
| Finance, Insurance, Real Estate       | -0.00286<br>(0.00727)    |
| Services                              | 0.0376*<br>(0.0222)      |
| Health, Education, Social             | 0.00104<br>(0.0111)      |
| Public Administration                 | -0.0308***<br>(0.00687)  |
| Constant                              | 0.0307<br>(0.0199)       |
| Observations                          | 234                      |
| R-squared                             | 0.083                    |

Robust standard errors in parentheses

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

Source: MB-ix-database, own illustration.

## Conclusion

Can board-level co-determination be used to influence the realisation of Good Work? Good Work can be characterised by low stress, low misuse, fair income, job security, promoting personal development and valuable work equipment. For a scientific study, the operationalisation of Good Work is not easy. This is because Good Work is perceived subjectively and is implemented, experienced and interpreted across all levels of the corporate hierarchy. One possibility proposed here is to use information from the annual reports to obtain data on the enterprise

organisation and personnel structures, and thus to derive the success of Good Work from the structural conditions. Data from the co-determination index (MB-ix), which was developed at the Berlin Social Science Center (WZB), is used for this purpose. German law creates the legal prerequisites for employee representatives on the plant-level and board-level to be able to influence the implementation of Good Work. However, previous studies have focused primarily on the impact of plant-level co-determination. This paper here concentrates on the role of board-level co-determination instead.

The influence of the labour representatives on the supervisory board is exercised by influencing general strategy development, which is reflected, for example, in long-term personnel development, but also by affecting the appointment of executive board members. Three examples illustrate these findings. Firstly, how in a strongly co-determined company, through the influence of labour representatives, aspects for ensuring Good Work (in this case occupational safety, personnel development, further training) were linked to the remuneration of executive board members. Secondly, how co-determination is associated with the independence of the personnel director in the executive board, as a pre-condition for realising Good Work. Thirdly, how the embeddedness of co-determination in the supervisory board coincides with higher levels of vocational training in the companies.

The results show that board-level co-determination can have an important influence on the implementation of Good Work. The possibilities start at very different points, but still provide evidence on how the existing instruments can be used. It also becomes clear that these are not simple mechanisms. This fact was reflected in the structure and methodology of the paper. Measuring Good Work, as well as identifying influencing structures and actors is quite complicated. Therefore, the paper gives three examples for evidence in different fields while it is still necessary to address further questions. What other sources can be used to measure the realisation of Good Work in the companies as concretely as possible? Does the linkage of components of executive remuneration to the achievement of Good Work objectives also function in the long term? What role does the departmental structure of the executive board play for the realisation of Good Work? How is it possible to promote vocational training even in companies with a low level of co-determination? To answer these questions further research is necessary, some questions can be answered for a large number of companies, others only in case studies. The paper tried to give different starting points for further investigations.

However, the examples show personnel work in general, the existence and strength of co-determination and implementation of Good Work are linked. This means that the options for action cannot be viewed in isolation. The study has shown that the board-level co-determination can be useful and helpful for the implementation of Good Work, but overall it requires many adjusting screws.

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