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The resistance of employers against works councils

Germany votes. However, this time it's not about the politicians – instead it's about the works councils. It's certainly worthwhile: Many studies have shown that works councils all in all have a positive impact on productivity, wages and profits. Despite this, employers are sometimes very resistant to the idea of staff involvement in company decision-making. A common argument is that such participation limits managerial freedom and that employers are willing to sacrifice the benefits of staff participation in return for greater room for manoeuvre. Steffen Müller from the Halle Institute for Economic Research Halle (IWH) – Member of the Leibniz Association now provides an alternative economic justification for employer resistance: Employer associations are dominated by small and medium-sized enterprises, and in these works councils – in contrast to large firms – often produces no positive economic benefits.

Works councils enjoy many information, consultation and participation rights, which expand with increasing firm size. However: less than 10% of all establishments that meet the legal requirements for having a works council actually have one. Although these firms actually employ more than 40% of German employees, there are a large number of workers for which staff participation would be possible, but who nevertheless don't have one. Employers sometimes argue about the economic disadvantages to explain their reservations, although research shows that works councils do at first offer a number of productivity-increasing benefits:

Through the information and participation rights of the works councils, employees have the opportunity to communicate criticism to the firm management without having to fear sanctions. "This is both a valuable source of information for the management and a motivation driver for the workforce," explains author Steffen Müller, Head of the Department Structural Change and Productivity at IWH. Participation thereby leads to less fluctuation of staff and increased job satisfaction – which ultimately manifests itself through an increase in productivity. Central to the question of resistance on the part of the employer, however, is the effect on wages and profits. Although wages are higher in codetermined enterprises, research has also shown that while the wage increase reduces employers' gains from increased productivity, such employers still make higher profits as long as they simultaneously pay according to collective agreements.

So why is there resistance? "Many small and medium-sized firms with up to 100 employees actually do not profit economically from staff participation. At the same time, however, such firms actually represent the majority in most employers'

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associations. In the case of Gesamtmetall, for example, they make up 70% of the members," says Müller. Since in most associations, each member firm enjoys the same voting rights, small and medium-sized enterprises can also constitute the majority when it comes to voting. This can explain what might seem paradoxical at first: that for economic reasons, employers' associations argue against a generally efficiency-enhancing labour market institution.

Publication

Müller, Steffen; Stegmaier, Jens: Why is there Resistance to Works Councils in Germany? An Economic Perspective, in: Economic and Industrial Democracy, forthcoming.

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