

Introduction to Symposium on The Impact of Employee Influence¹

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How it all Began

The three papers contained in this Symposium are the final products of a lengthy and fruitful research Odyssey. In retrospect, uncharacteristic almost to the point of surreal, the new incoming, post-Brexit referendum, British Prime Minister, Theresa May declared an intention to reform Corporate Governance in Britain. Perhaps in her mind were the opportunities for legislative and administrative changes created by the British departure from the European Union, including perhaps a need for stronger internal controls on firms' behaviour necessitated by the less competitive market structure for the UK likely to pertain outside the EU Single Market.

The UK Government went on to publish a Green Paper in 2016 requesting comments centering on the question: "How can the way in which the interests of employees, customers, and wider stakeholders are taken into account at board level be strengthened." However, the evidence base upon which much of the debate was framed was often rather dated and insular. This motivated David Marsden and I to organize a Policy Workshop in February 2017 so as to stimulate and better understand the recent research concerning for example employee board membership and other forms of worker involvement such as codetermination and their effects on variables as different as executive pay and employee health. The Workshop discussed the various issues raised in the Green Paper, drawing on research from the UK, Germany, Denmark, France and Korea, and analysing experience of, for example, Board diversity, employee consultation and participation, workers on Boards and the role of unions in representing workers through consultation and board membership. The invited group of researchers drew on the assembled papers and their own expertise to write a collective response to the Green Paper (Department of Management, 2017).

The range and depth of recent empirical work on the impact of employee influence on company behaviour was so impressive that David Marsden and I decided to organize a second workshop, this time centred on new work on these issues. This had the explicit purpose of inducing previous participants and the wider academic community to revisit these themes of employee participation and firm performance drawing on new theories, datasets, and experiences. The Workshop on Corporate Governance and Worker Representation took place, again at LSE, on December 2018, taking the form of a more traditional academic conference with formal papers and discussants. The authors were given detailed feedback and an extended timeline to submit their papers to this Symposium, subject of course to the standard review processes. There was then an inevitable process of culling as some authors became engaged in other issues while other papers fell victim to the tough review procedure. In the end, the three papers in this Symposium represent the final flowering of the seeds planted in 2017.

In this brief introduction, I will remind the readers of the research questions, highly policy relevant in the 1980s but less well known now, that Mrs. May's ill-fated Green Paper led us to revisit. The contemporary policy implications of that work also merit revisiting, so I will then quickly summarise the fruits of the Policy Workshop discussion. Finally, since the three papers cover a disparate range of issues and contexts, I will try to bring out the overarching themes that they raise.

The Early Literature on Corporate Governance, Employee Participation and Firm Performance

From the 1960s, it was proposed that there would be a positive relationship between worker participation in the firm in which they are employed, and the performance or efficiency of that organisation (Vanek, 1970; Clayre, 1980; Meade, 1989). However, this assertion covered a multitude of sins. First, the notion of employee participation was interpreted very widely, to include employee ownership (Bhagat, Brigley and Lease, 1984; Bradley and Gelb, 1983); employee participation in management through a variety of mechanisms including Works Councils and Codetermination (Steinherr, 1977; Svejnar, 1982; Freeman, 1976; Freeman and Lazear, 1995; Smith, 1991); and employee participation in profits (Weitzman, 1985; Estrin, Grout and Wadhvani, 1987). At the same time, the decisions hypothesised to be influenced by these wide-ranging concepts of employee participation were actually rather narrow and very much to the benefit of the organisation rather than the individual: most commonly productivity (Blanchflower and Blinder, 2011). The potential mechanisms underlying this proposed relationship were also quite diverse. Analysis centred on theories of employee motivation, focusing for example on incentives for workers to accumulate firm-specific human capital when working in firms where they were more closely engaged via participatory arrangements (Fitzroy and Kraft, 1985). Other mechanisms involved reduced employee turnover, increased intensity of work and improvements to the firm's organisational efficiency because of reduced needs to monitor employee effort (e.g., Long, 1980; Jones and Svejnar, 1982).

The biggest constraint on the development of this literature, however, was the paucity of relevant data. This was an era prior to the collection of national workplace surveys or widespread company level data, especially that pertaining to employees. Researchers therefore had to be innovative in teasing out appropriate datasets upon which to test these ideas, and their attention concentrated on organisational forms which were legally required to ensure some form of employee participation and for which data was collected by a representative national body. The most common such organisations were producer cooperatives, which were relatively common and for which data was collected by the relevant representative body in the UK, France, and Italy (Jones, 1980; Estrin, Jones, Svejnar, 1987). There was also some data on cooperatives in the United States (Jones, 1979; Jackall and Levin, 1984), as well the much-discussed network of cooperatives around Mondragon in Spain (Johnson and White, 1977).

Broadly, this literature reached a preliminary conclusion that there was a positive relationship between employee participation and company efficiency (see e.g., Hansmann, 1990; Bartlett, Cable, Estrin, Jones, & Smith, 1992; Blasi, Conte, Kruse, 1996; Blanchflower and Blinder, 2011). Indeed, there was some evidence that the deeper the form of participation, for example in decision making as against in company profitability, the more intense was the performance effect (Estrin et al, 1987). However, reservations remained about the limited nature of the independent variable: employee involvement seemed likely to influence a wider range of variables than simply efficiency. Moreover, there was the possibility in these studies of reverse causality: that better performing firms were less constrained when considering implementing higher levels of employee participation. The databases available offered few candidates as viable instruments. Finally, there was also concern about generalizability of the findings from employee-owned firms and cooperatives to more traditional and common organisational forms (Gospel and Pendleton, 2003).

It became increasingly possible for these issues, and many others, to be addressed as new longitudinal workplace datasets became available. This has led to a flowering of research across a wider range of issues and set of national and institutional context. To take but a few examples, there is now much more evidence concerning the incentive effects of employee ownership (Pendleton, Bryson, Gospel, 2017); about the impact of works councils and workers representation at the company Board level and of codetermination (Jirjahn, 2009; Addison, 2009); and concerning the impact on a much wider range of variables including worker wellbeing (Oswald, 2010).

This recent work provided the evidence base for the LSE Department of Management response to the UK Department for Business, Energy, and Industrial Strategy Green Paper on Corporate Governance Reform (Department of Management, 2017). Reviewing the literature at our 2017 Workshop, we found empirical evidence in support of a relationship between more participative corporate governance arrangements and productivity, but also considerable variance of company performance within type of governance arrangement (see Bloom and Van Reenan, 2007). We also concluded that it was as yet still hard to establish causality, as against correlation, concerning the relationship between governance and productivity.

Nonetheless, we argued that there were other strong reasons in favour of reforms to the corporate governance systems, notably that current mechanisms do not permit a rounded evaluation of enterprise choices from the perspective of all stakeholders. As a result, for example, we observe the public disquiet about the rapid rise in senior executive pay; the shifting of jobs from the UK to overseas locations; and the outsourcing and deskilling of work. At present, corporate decisions on such matters are taken in the interest of the shareholders but less often taking into account the broader group of stakeholders. In particular, after reviewing the evidence from Germany, the Netherlands and Nordic countries, we came out in favour of worker representation on boards (WRB), arguing that the effects of introducing such arrangements have been widespread and largely positive. The processes underlying these positive outcomes have been via the enhanced exchange of information, a reduction in antagonistic employee-employer relationships and improved company morale reducing for example labour turnover and increasing bottom-up innovation. There is also some evidence that board diversity can lead to smaller increases in CEO and board pay. We proposed that WRB would be most effective when supported by intermediate mechanisms of representation, noting that in the German, Dutch and Nordic cases, board level representation is supported by works councils, often working closely with trade unions.

The Symposium

The three papers that follow are prime examples of how increased access to appropriate data has allowed researchers to ask new, interesting, and important questions about the relationship between employee participation and firm behaviour in a variety of contexts. They each support the view that one or another aspect of worker influence and involvement has significant effects on corporate decision-making that improve outcomes. Moreover, because the datasets have been constructed with endogeneity issues in mind, one can have greater confidence in the robustness of the findings, which have been subjected to a battery of econometric tests.

The papers also illustrate the broadening range of research questions that can be addressed in this literature. While there is a common framework, linking outcomes at the company level to

forms of employee participation, there is diversity in the dependent and independent variables used and the context studied. Thus, Jirjahn and Mohrenweiser (J & M) look at Germany, Marsden focuses on the UK and Park considers South Korea. Turning to independent variable, J & M use information about whether or not firms have Works Councils. In Germany, employees can decide whether or not to create a Works Council, but the institution has considerable authority in guiding company decisions if such a decision is made. J & M also addresses potential issues arising from endogeneity by instrumenting for whether or the firm has a Works Council. In contrast, Marsden, in terms of independent variables, is closer to the previous literature, comparing outcomes in firms with different organisational forms, including private firms and cooperatives. He draws on the Hansmann (1996) categorisation of companies by six classes of “patrons”: investors (public and family), producers, consumers, public purpose (e.g., charity), and state; arguing that governance arrangements ensure that some take much greater note of employee concerns than others. Park considers employee influence through the well-established path of trade union representation, though this has rarely been considered previously in the South Korean context. She also evaluates the role of organisational forms, distinguishing the specific impact of employee voice within Korean family business groups (Chaebols).

The phenomena hypothesised to be influenced by employees are also very different in the three papers. J & M are interested in family friendly practices and policies promoting equal opportunities for male and female employees. They argue that this is influenced by Works Councils through three main mechanisms: improved communication of worker preferences; increasing worker commitment; and reducing employer (supervisor) opportunism. Marsden focuses his attention on the balance of provision of extrinsic (material) as against intrinsic (wellbeing) benefits. Findings include, for example, that investor run (private) companies provide less in terms of intrinsic benefits than the average but instead provide their workers with compensatory pay. In contrast, charities score highly in terms of intrinsic benefits but have lower levels of compensatory material earning. Interestingly given the huge literature in the 1980s about cooperatives, he finds workers in such organisations do not forego compensatory earning in favour of higher levels of wellbeing. Park’s dependent variable is executive compensation. She find this to be lower both in firms which have trade unions, and when the rate of unionization is higher. Interestingly, these constraints on managerial excesses are more pronounced in Chaebols than among other Korean firms. The results are interpreted as illustrating the impact of employee voice, both through worker’s pressure and management’s voluntary recognition of their enhanced influence.

It was our hope that this Symposium would bring the question of the impact of increased employee participation on company decision-making higher up the agenda of Industrial Relations researchers. There remain many important contexts, organisational forms and mechanisms which have not yet been explored and we hope these papers will stimulate renewed research interest in this important field.

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