Co-Determination and Forward Looking Corporate Governance

Measuring Workers’ Strength and Influence with a Co-Determination Index (MB-ix)
A Co-Determination Index – What For?

The MB-ix allows for a comparison of the degree of embeddedness of co-determination in German companies for the first time. At the same time, it provides empirical evidence for the impact of worker participation. Companies with co-determined supervisory boards invest more. Where co-determination is firmly rooted in the company, more vocational training is done. Where co-determination is “at home” in the company, “good work” is also at home. Personnel policy has stronger institutional backing in co-determined companies. Strongly co-determined companies are more likely to systematically and thoroughly implement CSR.

The Hans Böckler Foundation supports research on the MB-ix at the Berlin Social Science Center (WZB). It intends to use the findings to invite the public to a discussion on the future of co-determination and good corporate governance.

We need reliable mechanisms for a fair search for good solutions including all those concerned equally, precisely because nobody knows for sure and can unilaterally prescribe the best way into a digital and globally networked world. The MB-ix provides good arguments for supporting co-determination and for securing and expanding it in the future.

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▼ www.mitbestimmung.de/mbix
**01 Methodology**

The co-determination index MB-ix is a new and innovative measure of the degree of embeddedness of co-determination in companies. By using a “one number approach” complex structures of co-determination are represented by a single score between 0 and 100.

The Six Components

The MB-ix is composed of six components. With this multi-dimensional approach, the MB-ix distinguishes itself from all previous research efforts to identify the impact of co-determination in supervisory boards.

1. Supervisory Board Composition
2. Supervisory Board Internal Structure
3. Supervisory Board Committees
4. Internationalisation
5. Personnel Director
6. Supervisory Board Influence

All components are summarized in one metric.
02 Results

The Co-Determination Index MB-ix represents a complex company-specific phenomenon in a single metric. This makes it possible to directly compare different companies with each other. At the same time, the MB-ix can be used to measure changes over time and to identify relationships with other variables.

▶ www.mitbestimmung.de/mbix
Co-Determination Defies the Financial Crisis

In the last decade, the MB-ix has remained stable despite the financial crisis. In parity co-determined companies (1/2 of board seats), the average MB-ix value has stayed stable at approximately 85 points. Among the one-third co-determined companies (1/3 of board seats), it even rose slightly to about 47 points, mainly because of the establishment of European and SE works councils.

A Comparison of MB-ix Average Scores

BY TYPE OF CO-DETERMINATION
- 85 Parity co-determination
- 44 One-third co-determination
- 0 Companies without co-determination
- 76 All co-determined companies
- 53 All companies in the sample

BY STOCK MARKET INDEX
- 81 DAX – big firms
- 60 MDAX – medium sized firms
- 28 SDAX – small firms
- 27 TecDAX – high tech companies

BY SECTOR*
- 78 Industry, construction, agriculture
- 91 Logistics, energy, telecommunications
- 72 Wholesale and retail
- 65 Banks, finance, insurance
- 58 Services
- 70 Health, education, social

Calculate the MB-ix yourself (only in German)
www.mitbestimmung.de/mbix

* only co-determined companies
Employee Representation Becomes International

The share of companies with European or SE works councils and the proportion of companies with employee representatives from abroad have both increased over the past decade.

Employee Representatives

Half of the employee representatives on the supervisory boards are works councilors, about a quarter are full-time trade unionists.

Co-Determination Promotes Independent Personnel Policy and Good Work

There are independent HR directors in only about one-fifth of the non-co-determined companies versus one half in parity co-determined companies. This measure reflects the relevance of HR work at the top level of management.

Vocational Education

Parity co-determined companies have higher rates of vocational training than non-co-determined companies.

Sustainability is Better Integrated in Corporate Governance at Strongly Co-Determined Companies

Does the company integrate sustainability in its daily decision-making?
- 82%
- 50%
- 25%
- 7%

Does the company belong to a sustainability index?
- 7%

Does the company publish a sustainability report?
- 50%
- 27%

Does the company explain how it engages with stakeholders?
- 47%
- 24%

Is executive remuneration linked in part to sustainability goals?
- 16%
- 1%

MB-ix = 100
MB-ix = 0

Co-Determination a Brake to Innovation? Not a Trace!

1,000 global companies with the highest R&D expenditures

42 are based in Germany

40 are co-determined, of these 36 parity and 4 one-third co-determined

84 average MB-ix score for these companies

For comparison:
All co-determined companies listed in DAX, MDAX, SDAX and TecDAX have an average score of 76 points.

Co-Determination is More Necessary Than Ever!

In 2005, the most important shareholders in the largest German listed companies were also from Germany. By 2015 a few large foreign investors dominate. The former “Deutschland AG” has been replaced by “Wall Street Inc.”.
Co-Determination is Spatially Unevenly Distributed in Germany

Co-determination index in German stock listed companies (DAX, MDAX, SDAX, TecDAX)

03 At a Glance

**Good Work**
If the MB-ix is high, there is a higher emphasis on HR on the board, more training, more secure employment and more women on the supervisory board.

**Regional Differences**
Bavaria has a much higher than average number of companies listed on the stock exchange; many of the co-determined listed companies are located in North Rhine-Westphalia.

**Sustainability**
Where the MB-ix is high, corporate reporting is more detailed and sustainability practices are more common.

**Executive Remuneration**
Where the MB-ix is high, top managers’ average remuneration is lower and less oriented to the stock market.

**Investors**
The so-called Deutschland AG no longer exists, as the formerly dominant domestic investors have been overtaken by a few large foreign investors.

**Board Interlocks**
The companies are strongly networked by persons who have multiple supervisory board mandates.

**Continuity**
The MB-ix is very stable over time.

**Large Conglomerates**
The MB-ix is higher in the DAX than in the MDAX, SDAX and TecDAX indexes and there are significant industry differences.

**Internationalisation**
The share of foreign employees in total employment is constantly increasing, as is the percentage of international employee representatives.

**Gender**
The share of women in total employment varies widely across companies. Their share is lower among executives and even lower on management boards.

**Personnel Director**
Company size, co-determination strength and the existence of an independent personnel director are positively correlated.

**Innovation**
Globally highly innovative companies from Germany are strongly co-determined.

**Investment**
Strongly co-determined companies have higher investment rates and invest more in the future through capital goods.