A Corporate Governance Alternative to Shareholder Value? Worker Participation and the Sustainable Company

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Shareholder Value Model of CG

- Core assumption: Share price best measure of company value
- Three main elements:
  - Competitive market for investors
  - Top managers’ pay tied to share price
  - Gatekeepers: auditors, regulators, independent directors
What does Share Price Measure?
Other Failures of Shareholder Value

• Externalities – share price doesn’t measure social costs
• Sacrifice LT investment for ST performance
• Incentives for fraud by managers
• Conflict of interest of gatekeepers
Climate Crisis
Financial Crisis
Social Crisis

Share of top 1% in US national income, 1915-2006 (%)
Part of the Problem: The Shareholder Value Model
The Sustainable Company
The Sustainable Company

- Company orientation to **environmental, social + financial sustainability**, not ST share price
- **Employee participation** as a correction for short term investment horizons
- Company reporting on sustainability involving recognized standards, external verification and **Stakeholder participation**
- **Negotiations** on sustainability goals and strategy between stakeholders + management
- **Management remuneration** tied to achievement of sustainability goals
- Long-term **sustainability-oriented investors**
Policy measures supporting sustainable companies

- **Mandatory** sustainability reporting
- **Independent** monitoring + rating
- Incentives for LT investment (transaction tax, differentiated dividends + tax rates....)
- Limits on variable pay, stock options + total pay
- Extension of employee participation rights in reporting systems, goal setting + strategies
THE FIRST STEP TOWARD IMPROVING A COMPANY IS TO KNOW WHAT IT IS DOING!!!!!!
Worker Participation and Sustainability – some examples

• 2/3 of European Works Councils discuss sustainability issues with management

• Companies with EWCs have more disclosure and higher scores on Carbon Disclosure

• Companies with Board Level Employee Representatives have fewer stock options
Worker Role in Reporting Systems

- Feedback: 60%
- Develop framework: 40%
- Refine reporting items: 40%
- Suggest new indicators: 40%
- Communicate to workforce: 40%
- Join signatory: 10%
Worker Reps Want……

- Mandatory reporting on sustainability: 90%
- Legal rights to negotiation: 90%
- Right to legal action on sustainability: 80%
A Central Question: How do we strengthen worker participation in companies, given diverse national industrial relations systems?
THANK YOU FOR YOUR ATTENTION!!!!!!!