European works councils: What determines their uptake?

IESE's Javier Quintanilla and coauthors identify what accounts for different approaches to EWCs among multinational companies across the Continent.

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The European Works Council (EWC) Directive is a regulatory response to the international integration of the operations of multinational companies (MNCs). It stipulates that employees must be informed and consulted on matters such as employment trends and organizational changes.

The 2009 revised directive sought to boost the establishment of EWCs and to improve their functioning via better management dialogue with employee representatives.

The results are summarized in "Variation in Approaches to European Works Councils in Multinational Companies" by IESE's Javier Quintanilla, together with Paul Marginson and Duncan Adam of the University of Warwick (U.K.), Jonathan Lavelle of the University of Limerick (Ireland) and Rocío Sánchez-Mangas of the Autonomous University of Madrid.

Improving EWC uptake & functioning

As of 2011, only 40 percent of MNCs that fell within the scope of the directive had established an EWC, with considerable differences in the extent and quality of their transnational dialogues.

The directive leaves considerable scope for variation in management practice toward EWCs. EWC practice also deviates from what is formally specified in agreements.

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Management information and consultation practice range from minimalist approaches to extensive engagement. An example of extensive practice is the EWC of General Motors Europe, which is a result of effective cross-border workforce organization within its European operations.

Managers, as well as employee representatives, may see benefits flowing from the establishment of an EWC, while in other circumstances both may perceive no additional value.

Variations in Ireland, Spain & the U.K.

To comprehend variations in approaches to EWCs, the authors conducted a study drawn from three large-scale surveys of employment practices in the national operations of MNCs in Ireland, Spain and the United Kingdom.

The surveys involved interviews with senior H.R. executives in 892 MNCs and covered the operations of both foreign- and home-owned MNCs with at least 500 employees worldwide. The study included questions on the existence of an EWC and the nature of management information and consultation practice.

Spain has dual-channel arrangements with unions for collective bargaining and employee representation. Until recently, Ireland and the United Kingdom have had the single channel of unions, with limited impact from a 2002 E.U. Directive introducing information and consultation entitlement.

EWCs were found to be present in 36 percent of cases on average: 40 percent with operations in Spain, 39 percent in Ireland and 28 percent in the United Kingdom.

In Spain and Ireland, the incidence of EWCs was markedly less among home-owned than foreign-owned MNCs.

The contrast between Spain, at 7 percent, and the United Kingdom, at 25 percent, supports the notion that employees in countries with established domestic arrangements for employee information and consultation may see less added value in establishing an EWC than in those without them.

The study showed considerable variation in reported practice. A minimalist approach, or close to it, was reported in 27 percent of cases; an engaged approach in 30 percent; and 43 percent were in between.

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Responses in home-owned MNCs tended more toward minimalist approaches than those in foreign-owned MNCs.

Factors affecting EWC establishment & practice

Both EWC establishment, and information and consultation practice, are influenced by: the degree to which business operations and management organization are internationally integrated; the internationalization of the H.R. function; and workforce organization.

Internationalization of the H.R. function emerged as the primary influence on the incidence of EWCs, and even more so on information and consultation practice — stronger than the effects of international integration of operations and the presence of a European management structure.

This suggests that EWC establishment is shaped more by downstream decisions organizing the specific management function than by upstream decisions concerning the integration of operations and overall management structures.

Implications of the 2009 directive

The 2009 directive's bestowing of a formal role to European-level trade unions in establishing EWCs may prove helpful, but it can only provide limited support for organizing initiatives to increase union presence within the operations of MNCs. The findings suggest this is crucial to increasing the establishment of EWCs.

The findings confirm that in a significant minority of EWCs, managers do little more than the bare minimum in order to be perceived as ensuring compliance. As an internationally organized H.R. function becomes more widespread among MNCs, this minimalist management practice may be ameliorated.

Interpretations of the practice of a transnational employment structure may themselves vary because of national conceptions of the spectrum of information and consultation practice open to management.

The findings indicate that national influences shape management practice toward transnational structures such as EWCs, as well as the internationalization of management organization.

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