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## **The Dialectics of Trust and Control: About Different Concepts in Human Resource Management and Mandatory Co-determination**

The paper elaborates the differences of two functional equivalent institutions which give labour a voice in production processes. HRM is primarily understood as a sophisticated method of personnel management which usually includes schemes of direct participation by employees, particularly through teamwork. At first sight HRM and mandatory participation seem functionally equivalent. Both give employees a voice in firms' decision making – the works council a collective voice, HRM an individual voice. Both are devices for conflict resolution and for labour-management cooperation. Works councils are more focussed on conflict resolution, while HRM focuses more on cooperation. Both devices base on trust relations with the employees. The trust provided by HRM depends on a self-binding strategy by management whereas works councils are democratic institutions which function as trust agencies controlled by the vote of their electorate.

Corporate Social Responsibility (CSR) is an enigmatic and dazzling phenomenon without a strong consensus on a definition (McWilliams et al., 2005, p. 12). Sometimes it is used as a synonym for business ethics. According to the English Wikipedia, 'CSR strategies encourage the company to make a positive impact on the environment and stakeholders including consumers, employees, investors, communities, and others'. The American scholars Abigail McWilliams, Donald S. Siegel and Patrick M. Wright have scrutinized the subject in a review of theories and strategies. They outlined the spectrum of CSR as following:

CSR activities have been posited to include incorporating social characteristics or features into products and manufacturing processes (e.g., aerosol products with no fluorocarbons or using environmentally-friendly technologies), adopting progressive human resource management practices (e.g., promoting employee empowerment), achieving higher levels of environmental performance through recycling and pollution abatement (e.g., adopting an aggressive stance towards reducing emissions), and advancing the goals of community organizations (e.g., working closely with groups such as United Way) (McWilliams et al., 2005, p. 3).

The authors identified a whole array of theories addressing CSR, among them: agency theory, stakeholder theory, stewardship theory, institutional theory, theory of the firm and strategic leadership theory.

For the purpose of my paper I prefer the stakeholder approach. This approach of CSR aims to balance the interests of the stakeholders, among them are employees

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and their representatives. McWilliams et al. sum up the stakeholder theories of Freeman (1984) and Jones (1995) as following:

Managers should tailor their policies to satisfy numerous constituents, not just shareholders. These stakeholders include workers, customers, suppliers, and community organizations (Freeman, 1984).

Firms involved in repeated transactions with stakeholders on the basis of trust and cooperation have an incentive to be honest and ethical, since such behavior is beneficial to the firm (Jones, 1995).

To satisfy employees' complaints and interests management must give them a voice to utter their demands. The notion of workers' voice stands for representation and participation of employees in a firm, an industry, a nation or in supra-nation institutions.

Workers' voice is an offspring of Albert O. Hirschman's concepts of 'exit' and 'voice', which play an important role in economics and social sciences. They threw new light on daily examples of social interactions in different social settings. If an organization does no longer deliver the goods expected by its members they can leave it ('exit') or protest in order to improve the delivery ('voice'). Similarly, discontent customers can change the shop or ask for the manager.

Richard R. Freeman and James L. Medoff applied these concepts to the labour market (1984, p. 8). The dissatisfied worker can quit the job or discuss with the employer about improving job conditions. Both authors have extended the 'voice' concept to trade unions as being 'collective voices' of the workers.

Workers voice can be expressed in various ways: individually or collectively, via channels of human resource management or of mandatory institutions like works councils. In this paper I apply the voice concept to two different but, in a way, functional equivalent institutions: mandatory participation, e.g. works council, and human resource management.

Human resource management (HRM) is primarily understood as a sophisticated method of personnel management, and usually includes schemes of direct employee participation, particularly through teamwork (see Weitbrecht, 2003). At its core, HRM is a self-binding management strategy. Managers bind themselves to employees by taking account of their concerns and interests in a formalized manner. In doing so, management expects trust to spread among employees. Trust is an intervening variable, on which the attainment of productivity goals partly rests.

Works councils are mandatory institutions being elected by the workers and dispose of rights of information, consultation and co-determination.

At first sight both systems – works council and HRM – seem functionally equivalent. Both give employees a voice in company decision-making: the works council typically in the form of a collective voice, HRM as an individual voice. Both are devices for conflict resolution and for labour-management cooperation. Works

councils are more focused on conflict resolution, while HRM focuses more on co-operation (Weitbrecht & Fischer 1993, p. 204 ff.).

Workers voice as an element of HRM is subordinated to corporate governance. Their practices seek to recognize the human factor in work in order to improve individual and organizational performance (Kaufman, 2008). This is typically seen as a win-win-situation.

Looking at both systems from the perspective of achieving good labour relations resulting in improved productivity or efficiency, one could conclude that HRM could be the easier way to attain the productivity goal. However, HRM can hardly satisfy the claim of being a mechanism of industrial democracy as works councils are.

What do we know about the relationship between employees and works councils? According to a recent German survey, only slightly more than a third of the works councils' electorate is well informed about the business of works councils (Wilkesmann et al., 2011, p. 169).

According to Wilkesmann and his co-researchers the expectations of employees are the following:

*Individual support* is the most mentioned expectation, irrespectively of the respondent's knowledge about the works council's competence. Those who expect help from their works council do this in different ways: as advice in cases of being fired or of personal difficulties with their supervisors, or as a backup in disputes with management and its subordinates.

Employees also expect transparency of the flow of *information* between works council and management and between works council and its electorate.

Acting as a *mouthpiece of the workforce* is another expectation of employees awaiting accordance with management about their demands.

From the works council is further expected that it effectively *controls* the compliance with joint agreements either of collective bargaining or of works agreements.

Only a small minority expects from the works council to take up *managerial functions*. Thus the academic discussion about co-managerial functions of works councils did not find its echo among the employees.

The majority of employers which have experiences with works councils do not hesitate to concede their important role in positively intermediating between management and workforce.

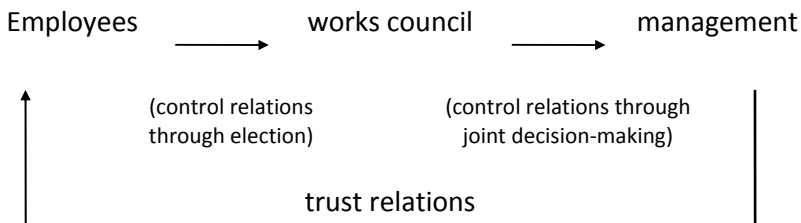
The decisive difference between HRM and works councils is that management's self-binding strategy can be unilaterally cancelled. Additionally, HRM concede only information and communication channels, but no co-decision rights. Works council, as a statutory institution, can only be removed if employees relinquish their vot-

ing rights. Briefly, HRM is a managerial device, the work council is a democratic institution.

There is also a dialectic relationship between trust and control. Employees have no control of HRM; their trust solely rests on past experiences with managerial promises and decisions.

The existence of a works council, however, gives employees some control over their representatives via their voting rights, and works councils have some control over management via their participation rights. In this case trust relies on a works council's obligatory participation in management decisions – insofar as employees trust their representatives to negotiate with management in favour of their interests. Thus a works council can be regarded as a 'trust agency' because it participates in decisions on social and personnel matters and can even challenge unilateral decisions taken by management. It is true, works councils have only information and consultation rights in economic matters, but they can strategically use their co-determination rights in social and personnel matters to achieve concessions on economic matters of dispute, e.g. by refusing approval of overtime.

Schematically, the acceptance of managerial decisions relies on the following relations:



Compared with participatory HRM techniques, the chain of trust and control relations is more complicated in a works council set-up, but it usually leads to more stable outcomes. Implementing unpopular decisions without undermining trust relations is easier for management when supported by a works council. A common perception of German managers is: 'When a works council participates in our decisions the process takes longer but the decisions taken are more acceptable to the employees.'

The question has been raised: If co-determination via works councils is advantageous for corporate governance, why do sensible employers not introduce them voluntarily? The answers are:

*First*, if works councils were voluntarily introduced, each party would seek to impose either too weak (by management) or too strong (by workers) a model. To be conducive to organizational and economic efficiency, the state must balance the duties and rights of both parties.

*Secondly*, a voluntary introduction creates initial risks with the potential to lead to serious competitive disadvantages, because of introductory costs and uncertainties about the composition of works councils (e.g. left-wing radicals could gain seats).

*Thirdly*, there exists a 'prisoner's dilemma' between competing companies. Co-determination improves productivity; at the same time companies with co-determination attract less productive and more expensive workers (who benefit more from co-determination, since it increases job security). To avoid an adverse selection of employees no single company will introduce co-determination, even if all companies and workforces would gain from its simultaneous introduction (Dilger, 2002, p. 50).

*Fourthly*, whether a works council set-up actually increases productivity depends on the particular employment system. David Marsden (2000) has shown that only some of the employment systems he specifies correspond positively with workers' co-determination (e.g. high-qualification jobs do more than low-wage jobs). However, if works councils become mandatory by law the parties involved can adjust the dominant employment system to exploit the productive potential of the new labour institution.

For countries with traditionally adversarial or low-trust labour-management relations it would take quite a while to reap any advantages from such an intermediary institution. Since the initial risks are high for both sides, only the state can make this institution mandatory and position it equidistantly between both parties. Whether this works satisfactorily is highly dependent on the attitudes and social practices of the parties involved, as the negative experience of the German inter-war years (Weimar republic) teaches us. From German labour history we learn that a long learning process was necessary to change the antagonistic attitudes of both sides of industry before the potential advantages of the works council system were recognized by them.

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