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Financialisation of wages and works councils' policy: Profit sharing in the German metalworking and electrical engineering industries**

Profit sharing wages are of growing importance in Germany. They are indicating a nascent trend of financialisation of wages. However, little is known about the regulation of profit sharing wages especially on plant level and the way they affect the policies of works councils. Plant level wage policy is a subject of codetermination according to the German Works Constitutions Act, and wage policy has always been one of the most crucial topics of works councils' activities. What is the role works councils play regarding the negotiation and regulation of profit sharing wages? What is the collective interest they define and pursue in this respect? And what are the effects of wage financialisation on the legitimacy of works councils? These questions are analysed with respect to the development of profit sharing wages in the German metalworking industry. Based on a variety of research methods, our analysis shows that profit sharing wages are a source of legitimacy for the works councils. In many cases the works councils, usually regarded as victims of financialisation, are actively striving for the financialisation of wages in their companies. However, they have to cope with the problem that profit sharing nowadays is based on a redistribution of income between capital and labour, between firms and between different categories of employees.

Key words: **profit sharing, works councils, financialisation**
(JEL: G34, G35, J33, J53, L63)

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Introduction

Financialisation is a big challenge for German works councils. The growing importance of the financial markets and the financial reorientation of corporate governance by serving shareholder interests, introducing short-term profit targets and focusing on a profitable core business can hardly be reconciled with long-term growth strategies and high employment stability that have been identified as main features of the German coordinated market economy and that have traditionally been supported by works councils on plant level (Hall & Soskice, 2001). The "financial concept of control" (Fligstein, 1990) affects works councils` policy by putting pressure on employment and labour standards (Dörre, 2009; Sauer, 2013). In a financialised environment the works councils have to fight actively for the safeguarding of jobs and the preservation of labour standards in the firms. This is one of the main reasons for the spread of local alliances of work during the last decade (Rehder, 2006).

Profit sharing is an important aspect of financialisation (Breisig, 2009). For some years now, press and television reports in Germany on high profit-sharing bonuses for employees covered by collective agreements have been a regular feature of the spring months. Besides large companies in the chemical industry and banking, these reports tend to focus particularly on the large German car manufacturers. According to Bispinck (2011), the bonuses paid in 2010 and 2011 are the main reasons why the reduction in the wage drift (i.e. the difference between the wages actually paid and the collectively agreed rates), which had begun as long ago as the 1990s, has now come to an end and actual pay in Germany has for the first time risen more sharply than collectively agreed rates. At the same time, profit sharing is one of the main issues of works councils' wage policy in the German system of labour relations, based on the legal right of codetermination in case the company wants to change given standards of fringe benefits and wages paid by the companies above the level of the collective bargaining agreements. In most of the industries, among them the metalworking and electrical engineering industry, profit sharing is paid on top of agreed wages in collective bargaining.

Given the problems of financialisation and the central role of works councils in plant level regulation of profit sharing, this paper aims to analyse policy and practice of the works councils in implementing and regulating profit sharing in the companies. There are four questions that will be tackled: First, how do the main patterns of regulation of profit sharing in the plants look like? Second, in how far is profit sharing coupled with the broader trend of financialisation of corporate governance in the companies, and what are the rationales used to legitimise profit sharing in the plants? Third, what are the positions and strategies developed by works councils with respect to profit sharing? And fourth, what are the effects of profit sharing both on the development of wages and on the position of works councils in plant-level labour relations?

The analysis is based on the results of a research project financed by the Hans-Böckler-Foundation in the years 2012 and 2013 in the course of which we made use of three methods. First, we evaluated various sources of data on profit sharing like the Socio-economic Panel (SOEP) and the IAB Company Panel in order to get an impression of the spread and dynamics of profit sharing. Second, we surveyed and analysed the agreements on profit sharing in the forty largest firms of the metalworking industry as far as they exist. In this way, we could identify patterns of plant level regulation of profit sharing with respect to the definition of profits, the entitlements of employees or procedures of codetermination. In addition, third, nine case studies in large companies of the metalworking industry were undertaken. The cases have been selected in accordance with the metalworkers' union IG Metall and were to represent practices of profit sharing, mainly along the value chains of the automotive industry where profit sharing is most widespread. They are based on expert interviews with works councils, local or regional union secretaries and representatives of HR management. The case study analysis sheds light on the patterns of strategies and interactions in the plants or the effects of profit sharing in terms of money (for the employees) or legitimacy (for the works councils). However, before presenting the empirical findings, a glance will be thrown at the sociological discussion about financialisation, profit sharing and works councils.

Financialisation, works councils and profit sharing

Financialisation or financial market capitalism has become a dominant frame of reference in the German industrial relations literature (Minssen, 2011). There are three characteristics of financialisation stressed in this respect. Financialisation is marked, first, by excess savings based on the redistribution between profits and wages (in favour of the former), the reduction of economic growth rates and the privatisation of old-age pensions (Huffschmid, 2007); second, by the emergence of a new „service class" of financial market capitalism composed of institutional investors and other financial agents (Windolf, 2008); and third, by the changes of corporate governance and control towards the model of shareholder value and the implementation of financial concepts of control, in which enterprises are regarded as a portfolio of assets in form of decentralised business units with operative autonomy (Fligstein, 1990).

Financialisation in the third sense is going hand in hand with a new form of justification to rationalize and legitimize management action (Kädtler, 2009). Top-management is constructing and inventing tales to convince investors and other financial actors of the coherency of management strategy (Froud, Johal, Leaver, & Williams, 2006). At the same time, financial justifications pave the way for posing demands on works councils and unions and for interpreting financial targets as inherent necessities of the markets. Creating value (Stern, Shiely, & Ross, 2002) is becoming the core goal of economic action, thereby avoiding an open partisanship for shareholder interests (Kädtler, 2009, p. 14). In this way, a connection with long-term employment interests and arguments for material concessions of employees is created. If employment can only be safeguarded by value creation, wages and working conditions are not to jeopardise profit targets.

By defining capital costs as a threshold for the creation of value (Bontrup & Springop, 2002; Chahed, Kaub, & Müller, 2004), the value oriented management has severe impacts on wages. On the one hand, capital costs define a minimum profit rate and thereby seem to guarantee the incomes of the investors and shareholders – at least as far as it is possible in a market economy. However, taking the interests of these groups as given means that profits are re-defined from a residual to a contractual income (Chahed et al., 2004, p. 58). On the other hand, wages are, at least according to the logic of the concept, transformed in residual incomes by shifting the entrepreneurial risks towards the employees (Deutschmann, 2008). Wages are regarded as an expense factor – and not as a factor of innovation – which has to be reduced or at least kept at a level compatible with the threshold of the capital costs. Profit sharing wages are the adequate wage component to fulfill the requirements of the capital costs, for wages and profit margins are directly coupled and ensure that the wage development is in line with the profit targets set by management. In this way, it is the financial performance and the financial output of the company and not the individual performance or the input in form of quality or volume of work by the employees which is assessed by profit sharing wages (Voswinkel, 2005; Bahnmüller, 2001). Legitimising economic action by creating value corresponds to a sense of performance in terms of financial results assessed by the markets.

However, at the moment profit sharing wage components are by far too little widespread among workers to transform wages in residual incomes (Faust et al., 2011). Profit sharing is only one – and a minor – wage component amongst others which are still fixed by industry collective bargaining agreements, although most of them allow derogations on plant level (Haipeter, 2009). However, these caveats do not contradict the fact that the spread and significance of profit sharing wages is increasing. First, there are many hints that profit sharing wages more and more substitute other wage components paid by the companies above the general wage scale, especially in companies that are strongly exposed to the capital markets (Faust, Bahnmüller, & Fisecker, 2011), Second, profit sharing wages could be implemented in the plants in form of a trickle-down effect by transferring wage systems from the area of management to the employees covered by the collective bargaining agreements. The goal of this transfer would be to create a coherent wage system covering all groups of employees (Faust et al., 2011). Third, profit sharing wages are introduced on plant level because they are regarded as a model of good human resource management and as a proven good practice in the organizational field, creating legitimacy for the personnel departments by isomorphism (Di Maggio & Powell, 1983).

In the literature, the view on the general effects of financialisation on works councils is rather skeptical. There are at least five negative consequences of financialisation that can be concluded from literature (Deutschmann, 2008; Dörre, 2009; Kädtler, 2009; Sauer, 2013). The first is the short-termism of management. Investments have to create short-term value and to convince external investors. At the same time, job fluctuation among managers is increasing, and the horizon for successful economic action is shortened as a result of the career ambitions of managers. Short-term horizons go along with a reluctance to finance long-term projects of innovation or organizational development. In both cases, works councils have to fight for long-term investments or projects.

Long-term investments, second, are calculated with reference to the interest rates given by alternative investments. Investments that do not meet these targets will not be made, or will be made only if the profitability of the investment can be increased respectively. If works councils demand investments, they have to show at the same time how the profitability of investments can be raised. In this way, works councils can be forced to agree on measures to improve profitability or even to develop them on their own.

Third, concessions on wages or working times can be part of these measures. Profitability can be raised by innovative forms of work organization; however, their development and implementation usually is a long-term process with little support by management. Short-term cost-cutting of personnel costs by wage reductions seems to be a much more probable solution. In this case, works councils and workers might have to pay for investments with material concessions.

Fourth, outsourcing or offshoring of activities or business units is an important element of financialised management strategies, for two reasons. On the one hand, business units who do not meet the return targets of management are either restructured to become more profitable or defined as not belonging to the core business of the company and therefore sold or produced by external companies. On the other hand, the wage differentials between sectors and industries within Germany and between different countries make it attractive to source activities out to other industries or to relocate them to other countries with lower wage standards. Outsourcing and offshoring have become usual business for companies and works councils as well, who might be, if at all, able to safeguard jobs or to make agreements for a business transfer of employees to another company only at the price of concessions.

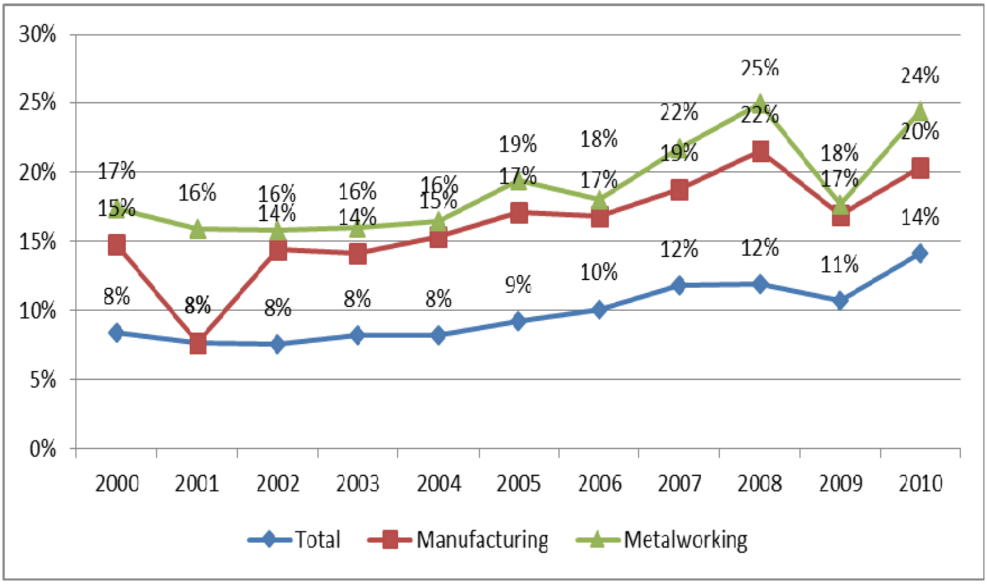
Fifth, wage differentials might be used also within the company by making use of precarious forms of work. An important example in this respect is the strategic usage of temp agency work characterized by cutting personnel costs and the replacement of core workers by flexible workers (Holst et al., 2010). Works councils try to prevent the expansion of precarious work by agreeing on quotas or other instruments with management; however, they use to have to make concessions in these agreements. Moreover, the wage differentials between core and precarious workers might put pressure on the works councils to agree on material concessions for core workers in order to prevent further replacements of the core workforce by precarious workers.

Taken as a whole, the financialisation of corporate governance seems to have severe impacts on works councils' policy and power resources. Even though the formal and institutionalised rights of codetermination the works councils can build on have not been changed, the bargaining context has a lot, forcing the works councils to give political priority to the safeguarding of jobs and the preservation of labour standards which are both endangered by financialised management strategies.

Regulation of profit sharing wages in collective agreements

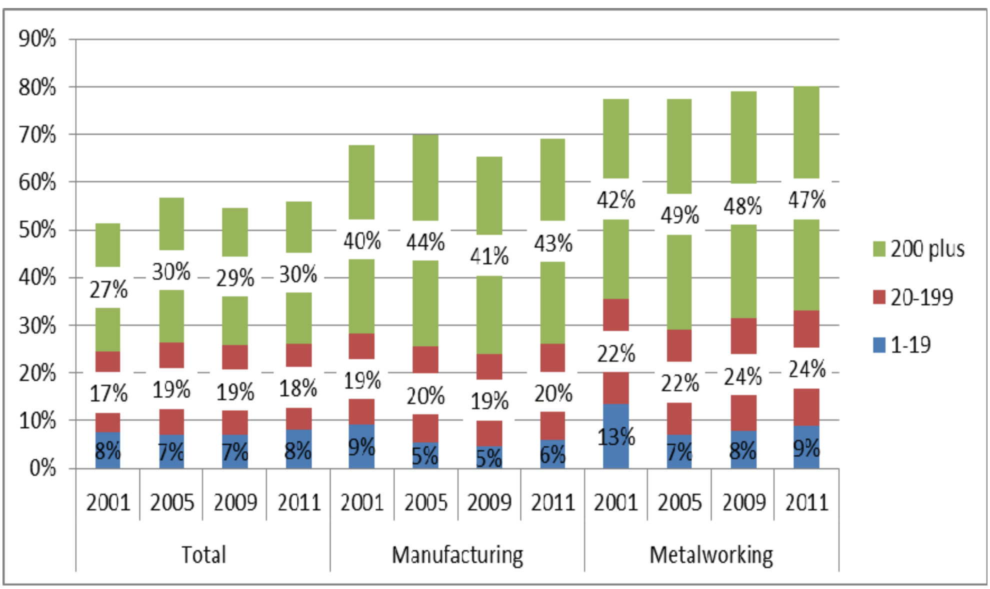
Given the growing defensive of works councils in a financialised environment, how does profit sharing fit in this picture? In the German metalworking industry, profit sharing wages are regulated by plant level agreements only, despite several advances of the employers' associations to make them an issue of collective bargaining. This contrasts with the chemical and banking industries, where collective agreements have now been concluded in which the Christmas bonus is variabilised within a limited range and linked to company performance, with negotiations to determine the precise details delegated to the parties at firm level. However, profit sharing is booming in metalworking and its spread is far above the average both of the German economy as a whole and the manufacturing sector including the chemical or energy industries where regulations about profit sharing in collective bargaining agreements exist.

Figure 1: Incidence of profit-sharing by employee and industry



Source: SOEP, own calculations (weighted data)

Figure 2: Incidence of profit-sharing arrangements by sector and size of firm

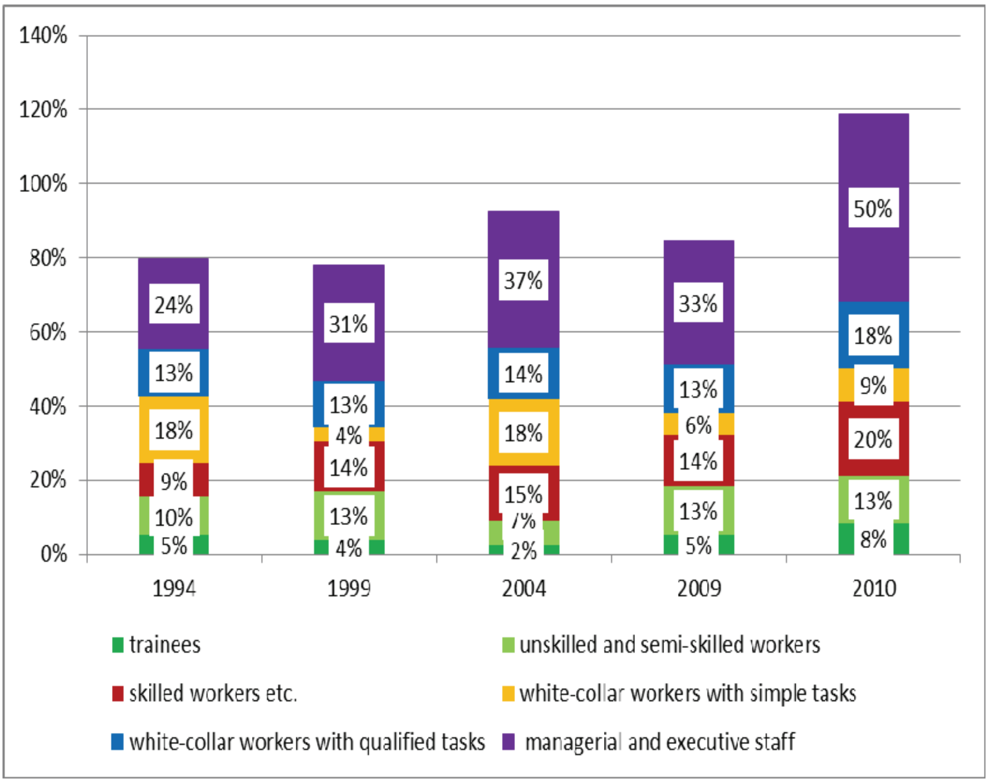


Source: IAB company panel, own calculations (weighted data)

The incidence of profit sharing varies by size of firm. Profit-sharing arrangements are, especially in the metalworking sector, usually put in place by large firms but much less often by small firms, as Figure 2 shows. In 2011, 47 percent of large firms (and 24 per cent of medium-sized firms) in the metalworking sector had a profit-sharing scheme.

In addition, the distribution of profit-sharing schemes differs along occupational positions. It is true that the share of employees benefitting from profit-sharing schemes increased in all occupational categories, but the rise was particularly evident among managers and executives (Figure 3). Profit-sharing arrangements for employees paid outside the agreed pay scales and managerial staff mostly regulated separately, with the payouts constituting a variable component of monthly pay for these categories. For employees paid according to the agreed pay scales, however, the level of the profit-sharing is calculated for each pay grade and paid as an annual lump sum.

Figure 3: Profit sharing by employees and occupational position in the metalworking and electrical engineering industries



Source: SOEP, own calculations (weighted data)

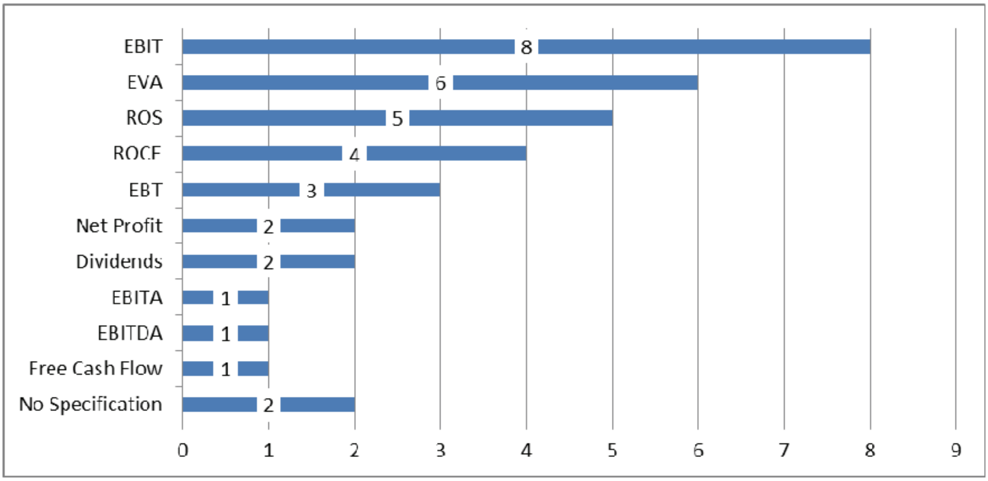
How is profit sharing regulated on plant level by means of collective agreements? Among the 40 largest companies of the metalworking and electrical engineering industries only six enterprises have no profit sharing scheme. Thus, the majority of large firms operate such schemes. Of these, a collective agreement on the topic has been negotiated in 26 companies. Agreements on profit sharing use to include the area of coverage, the period of validity, the indicators for defining profit, the forms of calculating profit sharing wages and connections to other topics or procedural rules to cope with problems of controlling or with conflicts. Concerning the period of validity of the agreements it is interesting to note that quite a lot of the agreements have been implemented recently. 16 of the 26 agreements have been implemented since 2000, and six agreements have their origins in the three years before 2009. Only three agreements are valid for ten years or longer. This observation leads to the conclusion that a wave of modernisation in regulating profit sharing wages took place in the companies in the last years.

The area of coverage of the agreements in most of the cases is the whole company, whereas it is in a minor number of cases either only the parent company or defined subsidiary companies. All employees paid according to the collective bargaining agreements are covered by profit sharing wages. In some cases, also the employees in wage groups above those of the collective bargaining agreements are included. In the bigger number of cases there are different agreements made for this group of employees. However, the main line of segmentation is drawn elsewhere. The provisions governing the application of the collectively agreed arrangements to the various occupational categories are characterised by clear fault lines between core and peripheral employees. Workers with temporary contracts are entitled in about two thirds of the agreements. Temp agency workers, however, are covered in none of them. Profit sharing wages are fragmented along the employment status of the workers. Thereby, they are aggravating wage fragmentations that already exist because the temp agency workers use to get much lower basic wages.

The level of profit sharing payouts is determined first and foremost on the basis of *financial indicators*. The majority of firms use just one indicator for this purpose. However, in eight of the 26 firms with collective agreements, several indicators are used. In these cases, indicators for the company as a whole and for individual business units or subsidiaries are combined. The indicators most frequently used are operating profit (EBIT), economic value added (EVA) and return on sales (ROS). Four firms use return on capital employed (ROCE) and three earnings before tax (EBT). In two agreements, the annual surplus or dividends were used. Earnings before interest, tax and amortisation (EBITA), earnings before income, tax, depreciation and amortisation (EBITDA) and free cash flow were mentioned only once (Figure 4).

In business economics, a distinction is made between traditional and value-oriented indicators (Meyer, 2011). The principal characteristic of value-based indicators is that they take account of capital costs. The capital costs for borrowed and own capital, which are reported as the minimum interest return on capital used, define the claims of creditors and shareholders on company profits. Company value is not created until these claims have been met, which means that they are taken as given and fixed. Because they are geared to the interests of actors in the capital markets, value-oriented indicators are a manifestation of the financialisation of corporate management. Of the total of 33 indicators in use, value-oriented indicators (EVA, ROCE, Free Cash Flow) are used 11 times to calculate profit sharing. In two agreements, the level of dividends is used for this purpose. Since this indicator also relates to investors, it can be classified as value-oriented financial indicator. It is true that, overall, value-oriented indicators are still in the minority. However, value-oriented indicators are on the rise as means of calculating profit sharing. A high share of the agreements (16) were negotiated in the last four years and virtually all these more recent agreements stipulate the use of value-oriented indicators exclusively.

Figure 4: Distribution of profit indicators in the collective agreements (absolute figures)



Source: own survey, multiple counts possible

Two forms of calculating profit sharing wages can be distinguished. On the one hand, individual profit sharing wages are directly connected to the indicators, either in form of thresholds defined or to the development of the indicators. In this case, which can be found in 18 of the 26 agreements analysed, the level of profit determines directly the wage level. On the other hand, the level of profit can also be connected to a profit sharing payroll which is distributed among the employees entitled to get profit sharing wages. The second form of calculation corresponds to the famous model of profit sharing by Weitzman (1984). It implies that the individual payment varies with the number of entitled workers, whereas in the first form of calculation the payment is determined directly by the profit level. Within these two forms, profit sharing wages can be influenced by intervals, thresholds and limits. In a minor number of agreements, profit intervals are defined and levels of profit sharing are assigned to them. In the other cases the payments vary continuously with the profit level. Profit sharing wages can as well be based on a profit threshold, as it is the case in 19 agreements. In these cases profit wages will only be paid after a certain minimum profit level larger than zero is achieved. Finally, profit sharing wages can also be limited from above by a threshold. In 16 of the 26 agreements such a threshold is defined beyond which the wages remain on a constant level.

The agreements also can contain procedural rules concerning controlling or conflicts. Such rules are defined in roughly half of the agreements. Seven agreements contain separate rights of continuous information and consultation of the works councils about the development of the profit sharing wages; five agreements certain rules for coping with conflicts are implemented in case the works councils do not agree with the level or the calculation of the wages. And in two agreements it is explicitly said that beyond the technical calculation the concrete level of profit sharing wages has to be negotiated between management and works councils afterwards.

In eleven of the agreements, finally, profit sharing wages are connected in the one way or the other to other topics of collective regulation. In all of these cases, profit sharing wages are part of local alliances for work, dealing with concessions by employees and counter-concessions by management. Profit sharing wages are concessions made by management to compensate concessions made by the workers on issues like the extension of working times, the variabilisation of the Christmas bonus, changes in the wage framework – especially concerning the implementation of the new framework agreement on wage groups that was negotiated in the metalworking industry in, 2003 – or the suspension of collectively agreed wage increases. The connection to other topics in local alliances of work gives first hints of the origins of profit sharing wages in the companies. However, the origins, the practice of profit sharing wages and the role of the works councils will be analysed more detailed on the base of nine case studies in the following chapter.

The regulation of profit sharing at company level and the works councils' policy

Given the regulatory patterns of profit sharing and the ways profits are defined and profit sharing is distributed among the employees, the questions posed in the introduction remain to be answered in how far profit sharing is coupled with the broader trend of financialisation of corporate governance in the companies, what the positions and strategies developed by works councils with respect to profit sharing are and what the effects of profit sharing on the development of wages and on the position of works councils are. These questions will be tackled based on case study research in nine companies. The cases have been selected according to two criteria: first, they have paid out above-average high profit sharing, and second, they have been identified by the metalworkers union as important plants in the respective local administrative units. The studies were based on guided expert interviews with works councils, trade union officials and management representatives. In total we conducted 29 interviews, among them 13 with works councils, eleven with trade union officials and five with HR managers (Table 1). The interviews had a length from one to three hours each. They have been transcribed and afterwards coded, analysed and summarised to single case studies. Although the case studies give some important insights into the plant level regulation and practice of profit sharing, the restriction has to be stressed that it was not possible to make employee interviews. Therefore, statements on the legitimacy of profit sharing or of the works councils in general among the employees are on shaky grounds, because they are based only on the reflections of the works councils about their position vis-á-vis the employees and the effects of their policy. They are revealing the definitions of the situation of the works councils, not those of the employees.

Not by chance, eight of our nine case studies are taken from the automotive industry, the most dynamic sector of manufacturing in Germany in the last years with many big companies at the head of the value chain, either being OEMs or big first-tier suppliers (see also Table 1). *Car*, *Vehicle*, *Limousine* and *Automobile* are big OEMs. *Limousine* and *Automobile* are belonging to the same company holding; *Limousine*, *Vehicle* and *Car* are mainly producing luxury cars for the upper segments of the market. *Automobile* has a traditional focus on the mass segment of the market and is the by far most highly internationalized among the German OEMs. *Power Train*, *Electronics*, *Gears*, *Bearings* are big suppliers with dominating business activities in the automotive industry; the names of the abbreviations are indicating some of their core business, like electronics, which is producing mainly electronic based systems for brakes and steering systems. The automotive sector is without doubt forming the booming core of the development of profit sharing wages in the metalworking industry. The remaining case study (*Jet*) is a big producer of the aircraft industry which is the only case of a European agreement on profit sharing.

Table 1: The case study sample and the interviews

Case	Description	Interviews Works Councils	Interviews Union Secretaries	Interviews HR Managers
Power train	Automotive component supplier	1	1	
Car	Automobile manufacturer	1	1	
Electronics	Automotive component supplier	1	2	1
Vehicle	Automobile manufacturer	1	1	1
Gears	Automotive component supplier	2	1	1
Jet	Aircraft manufacturer	1	1	1
Limousine	Automobile manufacturer	1	1	1
Bearings	Automotive component supplier	2	1	
Automobile	Automobile manufacturer	3	2	

The analysis of the social patterns of action and the role of the works councils in regulating profit sharing wages is structured along six topics: the origins of the regulations, the initiative to the regulations, the level of payments, the definitions of performance used to legitimise profit sharing wages, the interpretation schemes of the employees and the effects on the legitimacy of the works council. The main findings of the analysis are summarised in Table 2 and will be explained in this chapter.

Table 2: Summary of findings

Cases	Origins and Initiatives	Determination and Payment 2011	Indicators and Rationales	Interpretations of Employees	Legitimacy of Works Councils
Power train	Compensation Works Council and Union	By Calculation 1,040 Euro	EVA Distribution and Output	Approval and Critique	Legitimacy Improved
Car	Tradition and Compensation Works Council and Management	By Calculation 9,000 Euro	ROS Distribution and Effort	Approval and Critique	Legitimacy Improved
Electronics	Tradition and Safeguarding Works Council and Management	By Negotiation 1,600 Euro	EVA Distribution and Homogenisation of Wages	Approval and Critique	Legitimacy Improved
Vehicle	Safeguarding Management	By Negotiation 4,100 Euro	EBIT Financialisiation and Effort	Approval and Critique	Legitimacy Improved
Gears	Tradition and Safeguarding Works Council and Management	By Calculation 1,850 Euro	EBIT Output and Effort	Approval and Critique	Legitimacy Improved
Jet	Tradition Works Council	By Negotiation 1,800 Euro	EBIT and EVA Output and Effort	Approval and Critique	Legitimacy Improved
Limousine	Compensation Works Council	By Calculation 9,300 Euro	EBT Distribution and Effort	Approval and Critique	Legitimacy Improved
Bearings	Tradition and Safeguarding Works Council and Union	By Calculation 1,000 Euro	EBIT Distribution and Effort	Approval	Legitimacy Improved
Automobile	Compensation Works Council and Union	By Negotiation 7,500 Euro	EBIT Distribution and Effort	Approval and Critique	Legitimacy Improved

Profit sharing - origins and initiatives

Among the nine case-study companies investigated, the *origins* of profit sharing schemes can be divided into three categories. The first type is characterised by a long tradition of profit sharing as an additional company benefit. In the cases of *Car, Electronics, Gears, Jet* and *Bearings,* the history of profit sharing goes back in part to the time of the 'economic miracle' of the 1950s and 60s. In the case of *Electronics* for example, the 'performance and profit sharing bonuses' were part of a comprehensive range of additional company benefits that were regarded within the company as a key element of an employee-oriented corporate culture. The same motives of implementation were found at *Gears* and *Bearings.* At *Car*, profit sharing was introduced after a deep company crisis at the end of the 1960s and as an expression of a high sense of social partnership between management, works council and union. With the exception of *Car*, there was no formula in these cases for calculating profit sharing payouts. What constituted profits and to what extent employees should participate in them was negotiated anew each year by the negotiating parties at company level. In this first type, the works councils had a minor role with respect to the creation of profit sharing; it was management which had the initiative. However, works councils played an important role in the yearly negotiations about concrete payouts.

The initiatives are distributed quite differently in the second type of origins, which is made up of those cases in which profit sharing was introduced as compensation for material concessions made by employees in job safeguarding agreements. Here the works councils played a leading role in the implementation of profit sharing schemes. *Power train, Limousine* and *Automobile* belong in this category. In the case of *Limousine*, for example, the company management had demanded reductions in wage levels in the course of the introduction of the new framework agreement on wages (*Engeltrahmentarifabkommen* or ERA) in 2005 by threatening to make investments for new products not at the German locations but at locations abroad. Works councils and the union had to accept a reduction of the level of the basic wages in the company of about 4%, which originally has been above the levels of the collective bargaining and after the reduction is more or less on par. Besides production decisions in favour of the company's German sites, the most important reciprocal measure was the expansion and reorganisation of the profit sharing scheme. At *Automobile*, the company management linked product and investment decisions to working time increases without pay compensation, albeit with weekly working times here have been much lower and still are below the level laid down in the regional collective agreements. Automobile is the most internationalised among the sample companies and threats of relocation are easy to fulfil. Here too, profit sharing was a key component of the reciprocal measures that were negotiated by the employee representative bodies in return for the longer working hours.

In the third and final type, previously fixed wage components paid in addition to the collectively agreed rates have been converted into profit-sharing bonuses. This is the case at *Vehicle, Electronics, Gears* and *Bearings*. Partly, at *Electronics*, *Gears* and *Bearings*, they have been combined with older forms of profit sharing wages and regulated anew in this way. At *Electronics*, for instance, an extra payment on the performance based pay component which was traditionally paid by the enterprise was converted to profit sharing by adding its financial volume to the profit sharing scheme. In most of these cases, the works councils were the drivers of the conversion. One key motivation of the employee representative bodies to accept and even demand such a conversion of wages above the general pay scale was to safeguard additional company benefits. The works councils' explicit aim was to protect additional company benefits from the companies' cost-cutting drive. The employee representative bodies clearly feared that fixed wage components paid in addition to the collectively agreed rates would sooner or later be called into question in negotiations on job protection. This was not expected to apply to profit sharing arrangements, firstly because they are valued on the employer's side as a feature of modern management and secondly because they do not appear on balance sheets as cost factors (since they are deductions from profits).

Thus, the use of profit sharing arrangements as a *quid pro quo* for concessions on other issues and as a means of safeguarding additional company benefits marks a fundamental shift in the *bargaining context* for profit sharing. It is no longer participation in a company's success but rather locational competition, the threat of outsourcing and profit targets that determine the conditions under which profit sharing is negotiated and regulated. Not by chance, it is usually the works councils who call for profit sharing bonuses as compensation or protection, firstly because profit sharing bonuses are one of the few material company benefits on which consensus can still be reached with employers and, secondly, they are following the examples set by other works councils in other companies. Especially among the companies of the automotive sector, the works councils stressed that they wanted to imitate the positive experiences with profit sharing wages which were made in their eyes in other companies. So the growing spread of profit sharing to a certain extent also is an effect of mutual learning and isomorphism between works councils.

However, it is important to stress that in many cases it is not the company management, who is initiating and demanding profit sharing wages as part of a strategy of (shareholder) value orientation or to strengthen financial governance of the companies. Rather, it is the works councils who take the lead. Only in the case of *Vehicle* it was the management who has opted for profit sharing wages, and it did so explicitly with reference to a strategy of shareholder value it was willing to pursue. In most of the other cases, like at *Electronics* or *Gears*, management regarded profit sharing wages with favour as a model of a modern human resource wage police and as an instrument to increase the motivation and performance of workers, to strengthen entrepreneurship among employees, to make the company more attractive for workers or to flexibilise wages (see also Matiaske, Tobusch, & Fietze, 2009). However, management did not take the initiative and was reluctant to initiatives from the works councils for the reason that profit sharing wages are payments on top of the collectively agreed wages. Therefore, the only way to make profit sharing acceptable for the management of most of our sample companies was to transform other wage components like it has been done by wage concessions or the conversion of additional wage components.

This can be regarded as an indicator for the fact that the context of profit sharing today is completely different from the one in former days. In former times, in the 1960s and 1970s when profit sharing for the first time became more widespread in Germany, it has been an expression of the material participation of the employees in the well-being of the firms. And it is in this manner that profit sharing wages in some companies have become an issue of the wage policies of works councils. Today, profit sharing wages have returned as an important issue of works councils' wage policy. However, they are not an expression of material participation but of material concessions the employees have to make in the wake of local alliances for work.

Profit sharing payments: determination and level

The central issue of regulation in agreements on profit sharing wages is probably the *determination of profit sharing payouts*. The cases in our sample fall into two categories: those in which the level of such payouts is clearly determined on the basis of defined indicators and the associated calculations and those in which the basis for calculation is indeed set out through a series of indicators and formulae but the actual level of any payouts is not determined until follow-up negotiations have taken place between the relevant parties at company level. In the second category, works councils again have a leading role in defining the wage level, because it is usually the works councils who demand for higher profit sharing wages than calculated with reference to the financial indicators.

In five cases (*Power Train, Car, Gears, Bearings* and *Limousine*), on the one hand, the level of profit sharing payouts is calculated automatically by using profit indicators and mathematical formulae. This practice is generally perceived by the works councils as an easing of their burden. At *Car*, for example, the negotiating parties in the company emphasise that this method avoids conflict. A similar argument is made by the works council at *Limousine*. In that company, the volume of the profit sharing payouts is calculated as a share of the operating profit. In the works council's view, there is no need for negotiations; there is a clear mathematical relationship between indicator and payout that requires no subsequent processing for political purposes.

At *Electronics*, *Vehicle*, *Jet* and *Automobile*, on the other hand, profit sharing payouts are determined not only by indicators and mathematical formulae but also by negotiations. These take the form of follow-up negotiations on the payouts, which are calculated initially on the basis of indicators and mathematical formulae. In all these cases, the driving force behind the negotiations is the works council. At *Jet*, these follow-up negotiations are enshrined in the agreements on profit sharing and hence are formally safeguarded. At *Automobile*, the follow-up negotiations are based not on official rules but rather on informal patterns of behaviour that are shared by the negotiating parties. At *Vehicle*, finally, the company profit sharing agreement expired a long time ago and is now used only as a starting point for annual negotiations. Whatever form they take, the works councils take the view that follow-up negotiations facilitate the *politicisation* of profit sharing and offer an opportunity to increase the level of payouts beyond that calculated by means of mathematical formulae alone, thereby strengthening the legitimacy of profit sharing arrangements among the workforce.

Comparison of the companies in our sample shows that the *level of profit-sharing payouts* in 2011 varied considerably. They ranged from around €1,000 at *Bearings* to an average of €9,300 at *Limousine*. In fact, the figure for *Limousine* is a conservative estimate, since up to 10 per cent of the payout can be paid voluntarily into the company's pension scheme and does not appear in the published figures. These differences in payouts reflect to a large extent the different positions the companies occupy in the *automotive value added chain*. It is the large end producers *Limousine*, *Car, Automobile* and *Vehicle* that make the biggest average payouts. Of these four, *Vehicle,* with a payout of €4,100, lags a considerable way behind the others, which is why the works council there is pushing for a new agreement to be concluded that makes provision for possible higher payouts. The component suppliers, *Power Train, Electronics, Gears* and *Bearings*, pay out between €1,000 and €2,000 a year. The gap between them and the end producers is not attributable to the fact that the works councils at component suppliers have less negotiating power. The calculation methods and shares of profits paid out to employees are very similar. Thus at *Automobile* and *Limousine*, the profit sharing payouts represent 10 per cent of the companies' operating profits, while at *Gears* the figure is as high as 11 per cent. In, 2011, however, this led to payouts at *Limousine* and *Automobile* of €9,300 and €7,500 respectively, while the average payout to employees at *Gears* was €1,850.

These developments reflect the power structures that have emerged in the automotive value added chains in the last two decades (Banyuls & Haipeter, 2010, pp. 57-70). The end producers have increasingly succeeded in shifting price pressures on to component suppliers. The large component suppliers can still escape these pressures to some extent, firstly by passing cost reductions on to their own suppliers and secondly by competing increasingly on the basis of innovation and quality. However, even for the small number of technology leaders among the suppliers, their ability to generate profits has declined compared to the final producers. This applies all the more to suppliers at the bottom end of the value added chain. These firms are usually able to pay just the collective agreed rates and indeed may have to negotiate derogations from those rates because they would otherwise be unable to meet their customers' cost targets. This is how the financial gap between firms in the value added chains widens. The differences in profit sharing payouts reflect this evolution and aggravate its effects on employee remuneration.

Indicators and rationales

Among the indicators, only at *Power Train, Electronics* and *Jet* value oriented indicators (EVA) are used to calculate profit and profit sharing wages. Therefore, the level of financialisation of profit sharing among the sample cases seems to be rather low. However, the indicators themselves are only one aspect of financialisation of wages by profit sharing. Another aspect is whether there is a connection between the indicators used to determine profit sharing payouts and those used in corporate management. The first thing to note is that all companies in our sample have introduced *a financial control system*. Decentralised units have been established and endowed with operational independence. Depending on the company in question, these units may be brands, product areas or divisions. In all cases, however, they are managed by means of financial targets. Business areas that lie outside the core business and are unable to demonstrate any long-term prospect of achieving the targets set are doubtful cases and run the risk of being closed down or sold off. And investments that cannot be shown to produce a return on capital used to match the targets set simply do not go ahead or, if they do, with conditions attached.

Nevertheless, the companies do differ in how strictly the system of management by indicators is actually operated. In this regard, there is a fairly wide spectrum of practices, which are determined not least by *exposure to the capital markets*. *Vehicle* is one of the companies that operates its financial control system very strictly, with shares owned by diverse shareholders. At the beginning of the 1990s, the company embarked on the process of dividing itself up into business units and divisions to which responsibility for profits was devolved. Management of these divisions is based on financial targets and investments are linked to requirements for return on capital that are derived from the interest yields that might be obtained in the capital markets. At the other end of the spectrum are *Gears* and *Electronics*, both of which have a low level of capital market exposure. Both are owned by foundations and the negotiating parties in both firms emphasise that this fact is accompanied by long-term investment and planning horizons. Nevertheless, even here fundamental changes in organisational structures took place, such as decentralisation and the subjection of the decentralised business units to financial scrutiny. The other firms in our sample lie somewhere between these two extremes. At *Automobile*, for example, capital market exposure is low because of the prominent role played by private and public anchor investors. The company is pursuing an explicit growth strategy. However, this strategy is linked to ambitious yield targets, which are measured by the returns on capital used and on sales.

Only at *Power Train, Electronics,* and *Jet*, the indicators used for corporate management purposes are at the same time used to calculate profit sharing. In the other companies investigated, profit sharing is not linked directly with the indicators used in corporate management. At *Power Train, Electronics* and *Jet*, value-oriented indicators (economic value added at the first two and cash flow at *Jet*) have been introduced for the purpose to create a homogeneous system of management by indicator, each of which takes account of capital costs. However, in these companies the financial indicators are not actively used either in company management or in personnel policy to reinforce the notion of 'company value' among employees. This adds to the former observations that the companies lack a coherent strategy of financialisation that includes human resource management.

Indicators give little rise to *disputes* in the companies investigated. In most cases, there was no disagreement on the matter between the negotiating parties. The creation of indicators usually followed the same pattern, with a proposal being made by management that was subsequently accepted in the ensuing negotiations. The decisive factors for the works councils are that the indicators should be transparent and readily comprehensible. They regard this as ensured if the parameters used also occur in the company's financial statements and hence can be proved to be correct by both themselves and the company's auditors.

The rationales the actors at firm level put forward to legitimise profit sharing in our sample are extremely diverse, since they combine considerations of distribution and performance as well as input and output-related aspects of performance. This diversity reflects a lack of clarity and consistency in the actors' objectives. At the same time, however, it increases the opportunities to link profit sharing schemes to a wide diversity of rationales and demands.

Considerations of distribution are naturally put forward by the employee representative bodies in order to justify profit sharing. This is particularly the case when profit sharing bonuses have been agreed in return for material concessions or are to be used to safeguard additional company benefits. Within the performance–based justifications, it is hardly surprising that the employers tend to emphasise output-related and, in particular, economic and market-oriented rationales, such as the flexibilisation of labour costs or the strengthening of their employees' market orientation. However, the employers also argue that market-oriented rationales may have a positive effect on the job performance which is an input oriented rationale. At the same time, the performance-based rationales put forward by the employee representative bodies are framed primarily in terms of inputs. Thus profit sharing payouts are legitimated on the grounds that they reflect the effort employees have put in which, it is argued, is the decisive factor in market success. This argument plays an important role whenever profit sharing payouts are the object of follow-up negotiations. The works councils justify claims for higher payouts by arguing that employees have put in a great deal of effort by working extra shifts or increasing their work rates and that they are therefore entitled to a higher share of the company's profits than that calculated on the basis of the indicators alone. In the same way the works councils have argued at *Vehicle* for example, and doing so with success, that because of its low profitability the figures of an American subsidiary company should be excluded from the calculation of the profit sharing wages, because the workers in Germany are not responsible for the economic situation of the American subsidiary. Management complained that this would stand in contrary to the logic of profit sharing wages; however the works council's demand has been successful, not at least because also the management at *Vehicle* used to promote profit sharing wages by drawing a connection to the input performance of the employees, and it would have been little convincing now to insist on the fact that profits sharing wages should be determined by the financial outcomes of the company and only by them.

Thus despite the existence of a collective settlement, an unambiguous indicator and a mathematical formula for calculating the level of the payout, profit sharing bonuses remain a politically contentious pay component. Reference to employees' effort is obviously an effective instrument for representative bodies to use in their attempts to politicise employee participation in corporate profits.

Interpretation patterns of the employees

Not only do the rationales outlined above contribute to the mutual legitimation of interests between the negotiating parties, but they also seem helpful for the legitimacy of profit sharing in the eyes of the works councils. Again it has to be said that the methods used in this particular investigation mean that employees' attitudes to profit sharing can be analysed only indirectly through the statements made by work councillors and management representatives. Even with this constraint, however, there are some interesting findings to be made. Firstly, in all the companies in our sample profit-sharing is described as being very popular among employees. As an additional component of pay it seems to meet with high levels of acceptance everywhere. The reasons put forward combine considerations of distribution and performance. On the one hand, profit sharing payouts are regarded as a welcome addition to their regular wages; on the other hand, they are also seen as recognition of their work effort.

In the eyes of the works councils, employees' assessments of the profit sharing schemes in the companies investigated depend essentially on three factors: experience, comparison and the origins of each scheme. *Experience* refers primarily to the development of profit sharing within the companies. In those companies in which profit sharing did not initially exist but has been introduced as a new pay component, or where the rate of increase has been high, acceptance is also high. *Limousine* is a case in point. Since they were introduced in 2007, profit-sharing payouts in this company have increased continuously and are the highest among the companies in our sample. The new profit-sharing scheme has proved to be a wellspring of legitimation for the works councils.

A second source of critical assessment is to be found in comparisons with the *payouts* made at other companies. In all the component supplier companies, the lower payouts compared to the end producers were perceived as unfair because the employees judged their performance in terms of effort and physical output to be equal in value to that of workers at the end producers. The works councils at each company tried to make employees understand and accept the situation by explaining the structure and position of their companies in the automotive value-added chain and to deflect the criticism on to the distribution of power within the value-added chain and the end producers' sourcing strategies. However, critical assessments also exist at the end producers themselves. At *Vehicle*, the annoyance was caused by the low level of the payouts relative to those made by the other manufacturers of prestige cars. In this situation, the works council reacted by explaining and defending the company's arrangements to the workforce. Its most important argument was the company's low level of transfer and outsourcing of production, which meant that the company had lower profit margins.

A third source of evaluation in addition to experience and comparison is the initial situation with regard to material concessions. At *Limousine,* employees' experience of material concessions gave rise to some severe criticism, but it was soon drowned out by the increasing demand for cars and the company's high profit levels. At *Automobile*, on the other hand, the wounds inflicted by the agreement on job security were not so quick to heal. The unpaid increase in working time conceded in exchange for job security had plunged both the works council and the trade union into a profound crisis of legitimacy. The works councils tried to bring the workforce on side by holding information events at which they sought to justify the increase in working time. However, their efforts met with little success. The works council's crisis of legitimacy was eventually overcome, primarily because the provisions on job security proved their value in the crisis of 2008 and 2009 and because the works council was able at that time to negotiate a profit-sharing payout of €1, 200, even though employees were not actually entitled to any payment at all (or at best a sum of €14 only). Nevertheless, the profit sharing scheme's origin as part of the compensation for material concessions cast a long shadow and made its acceptance more difficult.

However, pay gaps with regard to profit-sharing were also described as critical between members of the core workforce and temporary agency workers. In none of the companies in our sample are temporary agency workers included in the profit sharing scheme. As a result, profit-sharing payouts further intensify the pay fragmentation that already exists between the core workforce and workers whose pay and employment status are precarious. Most of the companies in our sample make considerable and strategic use of temporary agency workers, since they are used not only to deal with fluctuations in staffing needs but also to replace core workers, reduce costs and increase profitability (Holst, Nachtwey, & Dörre, 2010, pp. 108-138). However, only in a minority of cases are temporary agency workers critical of their exclusion from the profit sharing schemes. In most of the companies in our sample, they accept this additional unequal treatment. Two factors are cited by works councillors in explanation of this attitude. The first is the high basic rates of pay offered by large companies in the metalworking and electrical engineering industries relative to the collectively agreed rates in the temporary agency sector (in some of the companies in our sample separate agreements have been concluded that guarantee temporary agency workers are paid the rate of basic pay stipulated in the collective agreement for the metalworking industry). Secondly, many temporary agency workers hope to be offered a permanent job in the company. In three of the sample companies, however, critical reactions on the part of temporary agency workers are reported. In these cases, the agency workers raise the question of equity and ask the works councils why they are not entitled to a payout when their colleagues doing the same work are. At *Jet*, the works council has taken up this feeling of injustice and is demanding that agency workers are also included in the profit sharing scheme. This makes it an exception in our sample in this respect.

Codetermination of the works councils

What effects does the existence of profit sharing schemes have on works councils' codetermination practices? The findings on this issue could not be more unanimous. Despite the critiques of the employees mentioned by the works councils and the problems of wage segmentation along the value chains, all the employee representative bodies regard profit sharing schemes as an instrument that strengthens their legitimacy among the workforce and therefore also consolidates their position in the workplace industrial relations system. Profit sharing schemes enable works councils to further employees' material interests and to present themselves as assertive champions of their interests. What is more, they can point to concrete results and figures in evidence. In favourable economic circumstances, the works council can present the profit-sharing payouts as a success for their interest representation policy, while in times of economic crisis they can point to external circumstances that are preventing the company from making higher payouts. In comparison, the legitimacy problems caused by discontent among the workforce do not matter a great deal in the eyes of the works councils.

For all the works councillors surveyed, however, one important precondition is that they should be able to control and micromanage the flow of information about profit-sharing payouts. For all the works councillors, this includes being the first to announce the level of payouts, giving high-profile presentations at workplace meetings and declaring them to be a success for their interest representation policy. The works councils want to be regarded as the originators of the profit sharing schemes, the more frequently the better. At *Limousine*, the works council was able to obtain agreement that the profit-sharing payout in its several variants would take the form of three special payments distributed over the year. This ensures that profit-sharing becomes a long-running issue that the works council can address repeatedly at workplace meetings.

The positive effects on legitimacy profit sharing has according to the works council is one explanation for the willingness of works councils to introduce profit sharing schemes as a compensation for concessions they have to make or as an instrument to safeguard fringe benefits which otherwise would be disputed in conflicts about labour standards, employment and local alliances for work. Like the ups and downs of management concepts, profit sharing at the moment is regarded as a success model by works councils to regulate wages on plant level, and its growing spread can explained as a process of mimesis and isomorphism (DiMaggio & Powell, 1983).

However, there are three caveats that should not be forgotten in this respect. First, profit sharing is not part of a new and long-term strategy of wage policy that the works councils have developed and that they try to enforce in their companies. Even in their strongholds of the big automotive companies, works councils are threatened by their companies' plans to relocate production or to source out other activities, which enforces works councils to make concessions and to lower labour standards, being it wages or working times. In this new bargaining context profit sharing seems to be an opportunity to re-compensate the losses at least partially that the works councils negotiate and have to take the responsibility for vis-à-vis the employees. Therefore it is a short term instrument to re-gain legitimacy. Second, this instrument is viable not for all works councils; its opportunities and effects depend on the position of the company in the value chain. The higher the position in the value chain, the more the instrument can provide positive material results and legitimacy – and vice versa. And finally it has to be noted that the aspect of financialisation is not part of the considerations of the works councils. In none of the cases studied works councils have really called into question financialised concepts of control or profit targets defined by top management. Nor do they reflect the possible role profit sharing can play as a driver of financialisation of their companies which is contributing a great deal to the problematic bargaining contexts works councils are facing these days.

Concluding remarks

Profit sharing schemes reflect the financialisation of companies and the change in performance norms. The main parameter used to determine performance in profit sharing schemes is the company's economic success expressed in financial indicators. And within these indicators, there is a trend in the more recent agreements towards the use of value-oriented indicators that take account of capital costs and thus reveal the 'value added' that is being achieved for investors, i.e. shareholders. In this way, profit sharing schemes are reinforcing the financial mode of control that can be observed in all our case study firms and that is based on the use of financial indicators and targets to manage operationally independent business units. However, the indicators used in profit sharing schemes are not universally linked to those used in corporate management. Moreover, they are not being used for rigorous financialisation in the sense of establishing a new rationale for economic action or the development of a coherent strategy of a financialised human resource management.

The lack of a coherent strategy of financialised human resource management is one of the reasons why it is in most of the cases analysed the works councils and not management who demand for profit sharing wages in the companies, in many of the cases as a compensation for employee concessions. First, works councils think that profit sharing wages are a comparatively 'safe' wage component because they will not be called into question in employment pacts by management as easily as other wages paid above the levels of the collective bargaining agreements. And second, regarding profit sharing the works councils of the automotive companies are learning from each other in the way that they are mutually imitating practices they observe in other companies and that they regard as successful.

By taking the lead in demanding and regulating profit sharing the works councils tie in with older practices they have developed in cases where profit sharing has a long tradition in the companies. And yet the circumstances under which this is taking place have changed fundamentally compared with the 1960s and 70s. Today, the scope for distribution at company level is no longer the product of a broadly based process of growth, in which a small number of above-averagely successful firms stand out. Rather, whatever scope exists for distribution within the large companies is the product of redistribution within the automotive value added chain, concessions made by employees in the negotiation of employment packages, which have resulted in increasing corporate profits, and pay fragmentation between the core workforce and temporary agency workers. Obviously the payment of profit sharing bonuses still requires economic success, but in those companies that are able to make such payments, they are increasingly the product of redistribution between companies and employees and between different categories of employees.

This change in the context in which profit sharing schemes are implemented has considerable implications for workplace representative bodies. In the 1960s and 70s, such bodies had the upper hand and were in a position to negotiate benefits that were paid in addition to the collectively agreed rates. Today, their aim is much more to use profit sharing as a means of safeguarding those additional benefits that still exist or to demand employee participation in profits in exchange for material concessions. It is true that employee representative bodies have often taken the initiative in the introduction of profit sharing schemes, but they have done so from a defensive position. Globalisation and financial forms of control have permanently shifted power relations in the workplace in favour of employers and changed the context in which negotiations are conducted. Safeguarding jobs has become the principal concern of employee representative bodies and they are constantly faced with the real or potential threat of business areas, production sites or areas of activity being transferred or outsourced.

Against this background, profit sharing has developed into a new compromise position on pay policy between the negotiating parties at company level. For works councils, it has opened up opportunities for safeguarding additional benefits or demanding compensation for concessions; for employers, it appears to have the cachet of a modern remuneration policy and fits very well with the financial forms of control that have now been widely adopted by companies. Profit sharing payouts fluctuate with profits and do not appear on balance sheets as labour costs but rather as deductions from profits. This makes them attractive to both sides of the workplace industrial relations system. Profit sharing schemes are a wellspring of legitimacy for works councils in the eyes of those they represent, while for companies they are a bountiful source of returns.

However, when it comes to the practical implementation of profit sharing arrangements, different criteria for determining performance commensurability are repeatedly cited by the actors concerned. Employers, for their part, emphasise the goal of raising performance and motivation that is to be achieved by means of profit sharing. Above all, however, it is the works councils that make use of these alternative performance criteria in order to demand follow-up negotiations on the level of profit sharing payouts. Thus these various performance criteria are used to politicise profit sharing. The politisation of profit sharing is, besides the sheer level of wages paid, an important instrument to increase the legitimacy of the works councils. Although financialisation of corporate governance in general can be expected – and with good reasons – to weaken the power position of the works councils, financialised wages have proven to be one of the power resources of works councils in financialised companies.

At the same time however, it should be noted that the successful profit sharing schemes are well-known exceptions to the general rule. The dividing line in the metalworking and electrical engineering industries runs between the successful end producers in the automotive industry and their component suppliers. The scope for distribution at firm level is very unequal, which further reinforces existing wage differentials. Further research on profit sharing in other sectors of the economy would be necessary to show if the lines of wage segmentation along the value chains and groups of employees found in the metalworking industry also exist in other industries or not and what the sources of profit sharing wages are. However, with respect to the metalworking industry it can be said that profit sharing is full of ambivalence for works councils and trade unions. On the one hand, it is an effective instrument for exploiting the scope for distribution that exists at company level; on the other hand, it is a manifestation of a process of redistribution and increasing wage differentiation. In the current contexts of negotiation, these ambivalences are unlikely to be resolved.

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