

# EUROPEAN COMMUNITY

## BACKGROUND INFORMATION

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BACKGROUND NOTE

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### COMMON MARKET REVIEWS PLANS FOR GIVING LABOR A VOICE IN COMPANY MANAGEMENT

To improve industrial efficiency and workers' on-job satisfaction, the Commission of the European Communities has been working, for nearly a decade, on plans to give labor a voice in major corporate economic decisions.

The latest paper in the debate on "codetermination" was released today in Brussels by EC Commissioner Finn Olav Gundelach, responsible for internal market and customs union. The paper reviews the Community's actions to date in the field of company law and focuses on future needs for employee participation in management. Each member country's current legal situation is also summarized.

#### Purpose of Community Legislation

Member states' laws governing corporate decision-making and employees' role in it differ. These differences almost preclude transnational corporate mergers and usually result in complicated, inefficient, and costly arrangements for a new "management organization" that meets legal requirements in each country where it operates. Legal snarls run the gamut of corporate management -- from labor relations through management of capital and investor uncertainty.

Corporations with limited liability and share capital (*societes anonymes*) are the most common type of company in the Community and, because of their economic might, an important shaper of Community economic and social policies. Societes anonymes are the Community's main generators of wealth, a major source of jobs, and the largest corporate borrowers and lenders of capital.

The Community has become involved in employees' role in corporate decision-making because:

- Narrowing legal differences in employees' role in corporate decision-making will remove one bar to transnational mergers.
- The Common Market Treaty guarantees equality of opportunity for all workers.
- Involving workers in management would revitalize some institutional arrangements now creaking under the pressures of social, technological, and economic change.

It would recognize the increasingly prevalent conviction that employees' interests in the health of their companies are as vital as those of stockholders. Labor-management dialogue would reduce the chances of confrontation and speed the reconciliation of the need for profits and the need for job satisfaction.

In trying to remove the legal red tape discouraging transnational mergers, the Community is concentrating on two approaches

- "approximation" of member countries' national laws by directives setting Community-wide standards for corporate disclosure, for example, to protect stockholders
- creation of an entirely new Community company law, such as the draft European Company Statute and a Convention on International mergers. These new legal forms, existing side-by-side with national law, will create a single procedure allowing companies to do business anywhere in the Community as easily as in one member country.

### Community Initiatives to Date

In the area of approximation of laws, the Community's most important initiatives affecting employees' role in corporate decision-making to date have been proposals for

- a third directive on safeguarding employment after mergers between societies anonymes
- a fifth directive on corporate organization. This draft directive would require all societies anonymes to have a two-tier board system and employee participation in the supervisory board.

The proposed European Company Statute, unlike the directives, will be directly applicable in EC member countries, without any national legislative action.

### The Draft European Company Statute

The European Company Statute will provide a comprehensive and sophisticated organization. European companies would be run by: the general stockholders' meeting, a two-tier board with a management body responsible for managing and representing the company and a supervisory body responsible for appointing and removing the management body, if necessary. The supervisory body would have to give consent before major decisions by the management body, such as on expansions or cutbacks, organizational changes, and long-term arrangements with other companies. Other decisions requiring the supervisory body's prior consent could be specified in the company's articles.

European companies' employees could also influence decision-making in the following ways:

- European collective agreements between the company and labor unions may regulate working conditions.
- A "European Works Council" would represent the interests of all company employees. The council would have the right to be informed, to discuss, to be consulted, and to give or withhold consent before any management decision affecting employees closely, such as on severance or lay-off pay following business contractions.

Labor unions and other current employee associations will, however, continue to handle their usual employee representation functions.

Employees will have the right to appoint at least one-third of the supervisory body and the stockholders, one-third. These appointed representatives will co-opt the remaining members. These provisions, expanding the employees' role, were amended on the recommendation of the European Parliament.