

# Influence of management attitudes on the implementation of employee participation

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## Abstract

This article examines the role of management in the system of employee participation. It builds on the premise that management can have a sizeable impact on how employee participation is put into practice. The authors develop a comprehensive index of employee participation implementation and test the relation between management's attitudes towards employee participation and the implementation of employee participation in a cross-sectional survey among 225 managers in Slovenia, using a mail-solicited web-based questionnaire. The results indicate a positive link between managers' support for participation and its actual implementation. If managers perceive a positive link between employee participation and corporate performance they will tend to put such participation into practice to a greater extent.

## Keywords

Codetermination, consultation, employee participation, information disclosure, management

## Building collaboration models between management and employees

Recent developments in human resource management, corporate governance and labour law stress the importance of employees as a stakeholder group in the company. In addition, a lot of attention is paid to the system of employee participation as a way of giving

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employees and their representatives opportunities to collaborate in management decision-making. Helfen and Schuessler (2009) find that, despite the prevailing opinion that employee participation positively affects corporate performance, the literature is largely silent on the impact of management on implementing employee participation. We explore this aspect on the premise that management can have a great effect on how employee participation is put into practice.

A key issue regarding employee participation is identifying the most suitable and appropriate model and form for introducing and implementing employee participation in a company. Although the answer depends strongly on the particular company involved, the European legislator has sped up the legal regulation of representative participation by adopting several directives. Legal arrangements requiring companies to introduce employee participation in management do in fact increase the influence of employees (Strauss, 1992), restrict management's prerogative and actively influence management (Rebhahn, 2004). However, such legislation is in itself no guarantee that employees will actually play an important role in the decision-making process. A lot depends on various factors, including how management views employee participation. If employees and their representatives are perceived as a resource for the company, their actual power can be greater. In other words, if management is hostile to employee participation it is likely that the voice of the employees will not be heard. In the new market economy there is still significant reluctance to accept employee participation as a feasible system (Weiss, 2004b), mostly because employee participation helps employees protect some of their important interests (Freeman and Lazear, 1995; Moriatry, 2010). Moreover, in practice it is quite common for employee participation bodies to be under the control of management (Stanojević and Gradev, 2003). One of the best known cases involves the favourable treatment on the part of management towards members of the works council in Volkswagen in Germany (Hartz case) which ended with the courts ordering several forms of punishment and the German Ministry of Justice introducing several new provisions that led to the effective influence of employee representation on board decisions.

However, the theory largely affirms that employee participation holds many positive effects for organizational practice. Based on a meta-analysis of several studies, Busck et al. (2010) conclude that representative participation positively affects the work environment. Many authors believe that the implementation of employee participation is rare (cf. European Commission, 2011), but there are few empirical data to confirm this. The aim of this article is to establish a methodology to measure the implementation of employee participation. Many authors (e.g. Vitols, 2005) have argued it is difficult to measure the positive effects of employee participation since there are many variables which cannot be controlled. Measuring the implementation is a challenge in itself, yet it is a necessary condition in order to measure the positive effects. Without knowing the extent to which employee participation has been put into practice it is impossible to discuss its positive effects regardless of the methodological issues. Since the management of employment relations in continental Europe is relatively formal, the EU and national legislation about employee participation should be considered as it determines the framework for its implementation in several countries. We first propose a composite index to measure the actual implementation of employee participation. Next we analyse the factors which can influence how employee participation is realized. We develop a

model that attempts to explain the level of implementation of employee participation in a company. The explanatory variable we test is managers' understanding of the positive direct or indirect effects employee participation has on the company's performance. In the model, we control for the size, ownership characteristics, industry and legal form of the company. We use an ordinary least squares regression to test the model.

The article makes two main contributions. First, we develop and illustrate a comprehensive measure of employee participation which can be applied to different types of companies, industries and even countries. The second contribution lies in the theoretical justification and empirical testing of the link between managers' understanding of the positive effects of employee participation and the actual implementation of such participation.

After the introduction we first discuss what we understand by employee participation and provide an overview of the European challenges of regulating employee participation. Following a brief introduction of the Slovenian employee participation system, we analyse factors which can possibly influence the implementation. We then discuss our data and measures. Finally, the results are summarized and some implications are discussed. Further, conclusions about the implementation of employee participation are drawn.

## **Ambiguity of the term employee participation and European challenges in regulating employee participation**

Employee participation can be defined in several ways. Employee participation means the entrance of employees into the authority and operations of management (Busck et al., 2010; Walker, 1974) or, as Leat (2007) suggests, it represents some sort of erosion of management's ability to take decisions unilaterally without consulting or paying any attention to the views or wishes of employees. In a way it implies the wearing away of the traditional master–servant relationship between managers and employees. It is consequently quite difficult to define the term employee participation unambiguously.

Most authors claim the term includes a variety of organizational practices, such as employee involvement, employee voice, codetermination, empowerment, etc., which have to be understood and analysed in a specific context (e.g. Biagi and Tiraboschi, 2004; Hyman and Mason, 1995; Kalleberg et al., 2009 Kester and Pinaud, 1998). Participatory decision-making is also often referred to as a style of management (Carmeli et al., 2008) based on autonomy over specific work tasks, consulting with management and teamwork (Kalleberg et al., 2009). Put more simply, Busck et al. (2010: 287) point out that employee participation is about the participation and influence of employees in decision-making throughout the company. They argue that the meaning of the term may be evolving over time, initially being understood as mutual recognition of a social compromise between two parties with different interests and nowadays as mutual recognition of the company's needs and aims. This leads back to the two fundamental, historically constructed paradigms within the theory and practice of participation: employee participation and employee involvement (Hyman and Mason,

1995). The first paradigm, employee participation, builds on the assumption of a fundamental compromise between two parties with inconsistent interests, whereas the second, employee involvement, builds on a uniform conception of common interest. Thus employee involvement tends to be seen as a human resource management technique emphasizing high-commitment employment practices (Addison, 2009) and as closely related to direct employee participation (Wood and Wall, 2007).

There are several forms of employee participation, among which the most common one is the distinction between direct and indirect participation (Knudsen, 1995). Direct participation implies the participation of a single employee or a group of employees in the decision-making process, usually regarding issues related to their workplace (Gonzalez, 2010; Kester and Pinaud, 1998). On the other hand, the system of indirect participation, which is the focus of this article, enables employees to nominate or elect their representatives, such as works councils, to represent them. In contrast with direct participation, which is ordinarily not regulated by law, indirect participation is codified in nearly all European countries. This has been largely influenced by the European Union, since several EU documents emphasize the role of employees in business decision-making, for example the Davignon Report (1997) which makes several recommendations about implementing employee participation in companies. The European Union has clearly followed the stakeholder approach and consequently given a voice to employees via different instruments. The importance of this topic is also shown in the Treaty on the European Union (1993). Article 3 P888 and the provisions of Article 22 RevESC (which in this regard are identical) provide for the employees' right to take part in the determination and improvement of the working conditions and working environment in their respective undertakings.

In addition, the adoption of several directives concerning employee participation by the European Union shows that employees and their participation are key elements of the European social model. However, these directives also impose certain obligations on management. Directive 94/45/EC on the establishment of a European Works Council for the purposes of informing and consulting employees emphasizes that the central management is responsible for creating the conditions for setting up a European works council. This obligation extends not only vertically, but also horizontally – from the central management to the local management and other undertakings in the group, meaning that every management level in the undertaking belongs to the Community-scale group of undertakings. Thus, the central and local management are obliged to provide workers with the things they need to start negotiations on setting up European works councils (Alaimo, 2010: 224). Management's duties are supplemented in European company directives that make it clear that a company can only be registered if the requirements of the directives have been met, meaning that employees' involvement cannot be ignored. Although the Directive on Information and Consultation 2002/14/EC is quite general, it has had quite a large impact on the implementation of employee participation. In reality, the impact has also been quite general since the directive (like most of the national legislation in European member states) does not clarify what happens if an employer fails to implement an agreement reached with the employees.

As some authors suggest, all of the directives have their weaknesses, they are unnecessarily complicated, not always consistent and very vague in their use of terminology

(Weiss, 2004b). Despite these weaknesses, when discussing the suitability of enforcing employee participation, the argument of Jensen and Meckling (1979) continues to be salient. They argued that if codetermination is beneficial to stockholders and labour, then there would be no need to legally enforce it since the parties would undertake it voluntarily. Moreover, some authors (e.g. Baglioni, 2002) question whether employee participation is consistent with globalization and the new economy as this has led to extreme competition, concentration, pressure to cut costs and a wish for deregulation. Accordingly, there have been great difficulties in ensuring that participation goes beyond mere information and consultation to become true participation in decision-making (Rebhahn, 2004). Moreover, in practice, it is still very common for management to inform an employees' representative *after* a decision has been taken and as a way of gaining legitimacy for such decisions (Jenkins and Blyton, 2008). Something similar applies to consultation: management tends to consult employees about how to implement a decision and not to consult whether or not the decision should be taken at all (Marginson et al., 2004; Waddington, 2006). Other authors contend that all of the related case studies reveal that European works councils have had little or no influence on general management practices and transnational decisions. As Alaimo (2010: 225) concludes, this managerial attitude to the works council reveals the widespread absence of any clear managerial commitment to effective consultation. This leads us to the conclusion that, despite the European and national legislation, there is plenty of space for management to foster or inhibit the implementation of employee participation.

By contrast, the European Union has clearly influenced the legislation of the member states and consequently gives employees an opportunity to have an actual influence on the decision-making process (Strauss, 1992). The influence is not just present in new member states but, for example, the German codetermination and trade union systems have also been influenced by European integration since at least the late 1960s (Fetzer, 2010). EU-level debates about employee participation have exerted a strong impact on contemporary developments. However, all attempts at unification have so far been unsuccessful. Authors hence ask whether the existing standards in national regulations can be preserved in an ever more integrated economy or if they can be renewed by means of regulation at the European level (Keller and Werner, 2010). This presents the starting point of the Slovenian legislative framework as the country had employee participation legislation in place well before it adopted the European directives. We analyse and present this regulation from the management perspective.

## **The Slovenian employee participation system**

In this article we examine how employee participation is being implemented in Slovenia by considering the national legislation and presenting some basic features of the country's employee participation system. While Slovenian legislation is important for understanding the actual application of the index of employee participation implementation, we believe that the ideas and principles that are illuminated can be applied to any legislative system.

Article 75 of the Slovenian Constitution (1991) sets out the employees' right to participate in management, which is quite a rare provision for such a document. Even

the German Federal Constitutional Court has not regarded the right as constitutional (Magotsch and Morgenroth, 2010). The Slovenian Constitution states that employees shall participate in the management of companies and institutions in the manner and under the conditions provided by law. In 1993 the legislator adopted the Workers' Participation in Management Act (hereinafter 'Employee Participation Act'), which sets out the framework of the Slovenian employee participation system. The proponents of the Act followed the solutions of the German employee participation system with some elements considering Slovenia's political history. Former Yugoslavia was widely known for its employee self-management system. This system gave employees an important role in the decision-making process. In many cases employees' decisions replaced those of management. In 1991 the political system in Slovenia changed dramatically when Slovenia entered into a phase of transition from a socialist to a market economy system (Nahtigal, 2010; Tičar and Zajc, 2010). One of the consequences of this change was the establishment of the employee participation system. Yet managers have been reluctant to encourage employees to participate in decision-making, with memories of negative experiences of the employee self-management system remaining strong. Studies show that Slovenian management is chiefly taking advantage of employee representatives as a communication tool rather than an important element of the decision-making process, especially with regard to strategic and financial decisions (Stanojević, 2002).

The Employee Participation Act has a voluntary basis. Employees are not obliged to constitute their representatives or nominate their representatives for management bodies. In addition, management has no obligations towards the employees with respect to the establishment process. Provisions of the Employee Participation Act apply to commercial companies, regardless of how many employees they have, and to private entrepreneurs who have at least 50 employees. Commercial companies are regulated by the Companies Act. They can be organized as personal business companies (general partnership, limited partnership and silent partnership) or as capital business companies (limited liability company, joint stock company, partnership limited by shares and *societas europea*). The vast majority of Slovenian companies take the form of either a limited liability company or a joint stock company. Hence, our research includes only companies of these two legal forms. Except for capital requirements and the form in which capital appears in the balance sheets and is transferred between owners (private limited companies are privately held, while joint stock companies are public), there are two major distinctions between the two forms that may affect the implementation of employee participation. The first distinction is in corporate governance. Limited liability companies have (exceptions apply) a one-tier system of governance and are usually managed by a company manager. On the other hand, joint stock companies can now have either a one- or two-tier system of corporate governance. In the one-tier system, the company is led by a board of executive and non-executive directors, while the two-tier system has a supervisory board and executive board. Up until recently (the legislation was changed in 2006), the legislation demanded that joint stock companies adopt a two-tier system, so the vast majority of these companies still have two boards. The other important distinction between the two legal forms is in reporting and disclosure demands. These are much higher for public joint stock companies.

Indirect employee participation can be exercised in three forms: employees' assembly, works council or a worker representative, and an employee representative in management bodies. The employees' assembly is constituted by all employees and should be convened at least once a year. It is usually convened for the purpose of conveying information from top management or work councils. A crucial element of employee participation is the establishment of the works council as it is the centre of employee participation development. The Employee Participation Act provides an option for employees to establish a works council in companies employing more than 20 employees or to elect a worker representative if there are fewer than 20 employees. Both bodies have the same competencies and their rights and obligations are explained below. The only difference between them is that while the works council is a collective body comprised of at least three employees, the employee representative is just a single person. The Employee Participation Act states that a works council can conclude a participating agreement with management in which it can concretize the implementation of employee participation in the company. Moreover, it can create more participating rights than provided by the law.

Even though management has no legal duties to assist employees in establishing their representative body, it does, however, have legal obligations after such a body has been established. The works council has several rights concerning its participation in the decision-making process. Its main rights are the rights to be informed, consulted, to make joint decisions with management (codetermination) and the right to suspend the decisions of management. The Employee Participation Act defines areas in which employee rights can be exercised. Among others, such rights include the obligation of management to inform the works council with regard to changes in technology, to consult it with regard to personnel matters or to make joint decisions about downsizing. This means that to a certain extent management is required to engage in some activities. In other words, if management does not respect its obligations the employee participation system cannot be put into practice.

Although the Slovene legislator followed the German system, there is a great difference in the presence of employee representatives at the company level. Contrary to the German system, in Slovenia, management at the company level can deal with both types of employee representatives: the trade union and works council. Even though the activities of trade unions are separate from the activities of works councils, trade unions have a legal and practical implication on the implementation of employee participation. Based on the Employee Participation Act, trade unions at the company level have the right to nominate candidates to be elected as members of the works council, they can be actively involved in the election and the activities carried out by the works council during election and similar. However, in practice, the interconnection between trade unions at the company level and works councils can be even stronger. It often happens that trade union representatives are at the same time members of the works council. Although the importance of works councils has been on the rise in the last decade, the position of trade unions is still stronger, which can be seen as a legacy of the old Yugoslavian system (Stanojević, 2004). However, a recent decision of the Slovenian Constitutional Court indicated a change, giving the works council certain rights that were initially reserved solely for trade unions.

## **Challenges of implementing employee participation**

Employee participation promotes a sense of competence, self-worth, self-actualization and power-sharing (Markey, 2004), reduces employee resistance when introducing new technologies and provides for the greater legitimacy of management decisions (Biagi, 2002; Blanpain, 2002). Much research has shown a positive influence of employee participation on business operations (Addison, 2009; Addison et al., 2004; Askildsen et al., 2006; Busck et al., 2010; Gorton and Schmid, 2002; Kluge and Schömann, 2008; Weber et al., 2009) and other, more human resource/organizational effects (Gerlach and Jirjahn, 2001; Handel and Levine, 2004; Zwick, 2004). A study by Kalleberg et al. (2009) suggests that employee participation is associated with more good than bad outcomes for employees; among other things, it reduces job-related stress and it is positively correlated to skill development. A German study concluded that works councils along with union-bargained collective agreements reduce the number of quits (Pfeifer, 2011). However, not all positive results can be attributed solely to employee participation, which is a consequence of methodological demands and difficulties. Even if no positive effects can be confirmed, all authors at least agree that employee participation does not have any negative effects on business operations (Keller and Werner, 2010; Vitols, 2005). Moreover, the effects of employee participation may have changed over time; for example, Addison et al. (2004) suggest that either the early literature encouraged an overly negative view of the impact of the works council or else its functioning has since improved.

Concerning codetermination, Fitzroy and Kraft (2005) found a positive productivity effect of the 1976 extension to parity codetermination in large firms in Germany. Other research showed that codetermination laws are negatively associated with productivity, whereas profit-sharing, worker ownership and employee participation in decision-making are all positively associated with productivity (Doucouliagos, 1995). However, the author himself suggests that the results should be interpreted with caution as the research is based on several presumptions, one of which is that all research is of equal quality. To sum up, Vitols (2005) concludes that employee participation has several possible impacts. It can influence the employees (labour variables: satisfaction, commitment, labour turnover, skill investment), company operations (productivity, innovation), financial performance (profitability, division of value-added) and stock market performance (share price increase, share valuation). Employee participation can directly influence one of the mentioned variables or can influence one variable through another indirectly. Yet it is essential that the employee participation system allows adaptation to changing market conditions. Although the German system is one of the most sophisticated, in the opinion of some (Streeck, 2001) it has the ability to provide a great deal of flexibility since management is able to undertake a wide range of activities: outsource, sell the subsidiaries, downsize, merge, etc. in collaboration with the employee representatives.

Although in this article we are primarily focusing on the role of management in employee participation, trade unions and their impact should also be addressed. Despite the global decline in union membership (e.g. European Commission, 2011), trade unions still have an overall impact on corporate governance and should be included in the



employee participation system (Vitols, 2009). Moreover, union membership in combination with other factors has a significant impact on employee willingness to participate in joint consultations (Cregan and Brown, 2010) and trade unions are often regarded as facilitators of the establishment of works councils (Rigby et al., 2009). Further, works councils are probably more successful at expressing the voice of employees when supported by trade unions (Pfeifer, 2011). However, low trade union membership can open the door to an alternative employee voice mechanism such as the works council. It is also possible for management to use employee participation to persuade employees not to unionize (Gollan, 2006).

Although employee participation is a voluntary right in many European countries, opinions on management's influence on its implementation are quite unified (Baglioni, 2002; Biagi and Tiraboschi, 2004; Leat, 2007; Marginson et al., 2004). In addition, management has many informal possibilities to positively influence the implementation of employee participation with a crucial view to employee participation and the expected positive results. Management is in principle in favour of employee participation, but merely on the level of lower participation rights like the right to be informed as regulated by Directive 2002/14/EC. In other words, management supports employee participation so long as it does not interfere too much in managerial decision-making (Blyton and Turnbull, 2004). It is thus not unusual for employers to cooperate with employees only because of the legislative requirements, and for them to often be overtly hostile to ideas of participation (Rigby et al., 2009). On the other hand, management can take a more cooperative attitude and collaborate with employees in order to achieve strategic positive outcomes (Helfen and Schuessler, 2009).

Regarding the factors that influence the implementation of employee participation, Strauss (1992) suggests that management more frequently initiates direct employee participation, while representatives as an institution tend to be initiated by trade unions. This is not unusual as the power of one individual vis-a-vis management is not as strong and powerful as a committee of employees. Visser (1995) notes the existence of a 'participation paradox', whereby the probability of participation is higher but the magnitude of the impact of the implementation stage is lower. Elected employee representatives take on their role of representing the employees parallel to the trade unions. Consequently, their development and activities are strongly influenced by trade unions (Kuhlmann, 2004; Weiss, 2004a).

Different factors have a minor or major effect on how employee participation is realized such as, for example, competition, organizational size, management structure, management policy, employees' organization, interaction between employees and management, etc. Strauss (1992) emphasizes that an efficient system of employee participation requires an adequate ideological and value system, legal support, training, advice and financial support. Some authors (Warner and Peccei, 1994) have identified other features that can affect the implementation of employee participation, like cultural differences, (de)centralization of the organizational structure, size of the company and foreign or domestic ownership. Based on 15 cases in Ireland, Dundon et al. (2006) conclude that participation is more robust when the channels for informing and consulting accommodate both conflictive and cooperative processes. Robust participation is more likely through processes that facilitate

independent representation. One of the conclusions of the EPOC survey (European Foundation for the Improvement of Living and Working Conditions, 1998) is that direct participation is implemented more, especially in workplaces with 'white-collar' occupations, task complexity, team activity, high qualifications and internal training. All forms of direct participation were considered to exert a strong impact on economic performance. Consequently, the more the employees were informed and consulted, the greater the economic effect.

Referring to the European works council (EWC), Marginson et al. (2004) identified six sets of factors with the potential to influence the EWC's impact on managerial decision-making: business alignment, management structure, industrial relations platform, management policy, employee side organization and EWC interaction. Cabrera et al. (2003) predicted that some factors are related to levels of participation in general, namely competition, the sector, the pursuit of a differentiation strategy based on either quality or service, and indirect participation.

## Research model

Our work extends the work of Helfen and Schuessler (2009) who examined the relationship between the presence of works councils and managers' attitudes to human resource management practices. They find that a positive managerial attitude to individual employee participation and direct supervision is crucial for the implementation of works councils in companies. Our research extends their work in two directions. First, we go beyond the simple presence or absence of a works council and measure the level of implementation by applying a complex set of indices that capture different forms and levels of putting employee participation into practice. Second, besides measuring managers' attitudes to human resource management practices we include managers' understanding of the direct and indirect effects of employee participation on the company's performance.

Following the work of Helfen and Schuessler (2009), we expect that the more in favour managers are of works councils and employee participation in general, the higher will be the observed level of employee participation. Due to the peculiarities of the Slovenian system described above and the observed interrelatedness of trade unions and other forms of employee participation, we include attitudes to trade unions and hypothesize:

*Hypothesis 1:* A positive attitude to employee participation in all forms is positively correlated with the implementation of employee participation in companies.

Although legislation sets the framework of employee participation, it does not provide any guarantee of successful implementation. In particular, management must believe that introducing employee participation will bring positive effects to the company's operation. There is a growing consensus among human resource management experts that participative management can enhance employee motivation, commitment, efficiency and satisfaction at work (Cotton, 1993). A variety of studies confirm the positive effects of employee participation, which form the basis for identifying factors which influence

the implementation of employee participation and persuading management of the positive influence of employee participation:

*Hypothesis 2:* Management's understanding of the positive effects of employee participation is positively correlated with the implementation of employee participation in companies.

## Measuring the level of implementation of employee participation

The goal of the present article is to show how the implementation of employee representation in companies depends on the managers' understanding of the impact of employee participation and their attitudes to it. The first challenge in our research was how to measure the level of implementation given the complex nature of participation. The existing literature uses two approaches to measure participation. One approach is to measure the perception of participation by interviewing employees (e.g. Kalleberg et al., 2009). Other studies focus on one of the instruments or bodies of employee participation. For example, Helfen and Schuessler (2009) use the presence of works councils as a measure of employee participation. While we find the second approach more objective, as it measures the actual situation and not the perception, it nevertheless has some drawbacks. First, there are many ways in which employees enter the decision-making process in a company and none of the studies we checked capture the whole complexity of employee participation. Also, the mere presence of instruments and bodies, although objective, may not capture the actual implementation of employee participation. Thus we propose that the level of implementation of employee participation be measured using the composite *index of participation implementation (IPI)*. As a comparison and in line with some of the existing research, we have also introduced a simpler *index of the presence of bodies (IPB)*. When constructing these indices, we followed a similar methodology to that used in constructing indices of development (see, for example, Rahman et al., 2005). Diamantopoulos and Winklhofer (2001) find that the use of composite indices constructed from formative constructs is a valid alternative to scales.

The index of the presence of bodies – IPB – measures the mere presence of employees' participation bodies in the company (works council, employees' representatives on the board of directors, etc.). It is defined as the number of bodies present divided by the expected number of bodies, multiplied by 100. The number of expected bodies depends on the legal form and size of the company and ranges from two (employees' assembly and worker representative or work council) to four (work council, employees' assembly, employee representative in supervisory board and employee representative in managerial board in a public limited company with more than 500 employees). By using this index, our work is to some extent similar to that of Helfen and Schuessler (2009).

The index of participation implementation – IPI – measures how the participation is actually implemented. The index focuses on indirect participation through representative bodies. It is a simple average of several forms of putting employees' participation into practice, quantified in a way that uses 100 for the optimal state and compares the actual state to this optimum. For example, optimally the employees' assembly would

meet monthly, so 12 meetings per year is the optimal state and is represented by 100. A company with three meetings of the employees' assembly would thus score a value of 25. The other components of this index are the presence of a participating agreement (if yes, we give it the value of 100), the number of meetings with the works council (the maximum detected number receives 100), informing of management decisions (if they do this *before* a decision is taken, the score is 100), consultation with the employees' representative or council (*before* the decision, the score is 100) and codetermination with the employees' representative or council. For more details regarding these indices, see Franca (2008).

## **Research data, methodology and findings**

### *Data and sample*

The data were collected using a web-based questionnaire. Respondents were solicited by email to participate in the study. A total of 1500 randomly selected companies operating in different industries and regions in Slovenia were solicited to participate in the study and reminded twice to answer. A stratified sampling frame was used, with the strata consisting of regions and size groups. Larger companies were overrepresented in the sample. The final sample consisted of 225 managers from different companies who responded to the questionnaire, accounting for a response rate of 15%. The structure of the final sample of respondent companies according to size, industry and region did not differ significantly from the structure of the initial sample. In the first part of the questionnaire they were asked how the employee representation system is working in their company. The second part consisted of several questions regarding their attitudes to the employees' representation system, including works councils and trade unions.

The sample was representative of the population of Slovenian companies in terms of region and industry, while in terms of size larger companies are overrepresented on purpose. Small companies are prevalent in the sample with 29% employing fewer than 20 employees and another 29% up to 50 employees. Nearly 30% employ up to 500 employees, while 14% of the companies employ more than 500. A similar composition may be found for revenues. Industrial composition shows that slightly above a quarter of the companies operate in manufacturing, 6% in construction, 18% in financial and half in trade and other services. Approximately one-third of the companies are public limited companies, with the rest being private limited companies. Foreigners own one-fifth of the companies. Two-thirds of the respondents were male and their average age was around 40 years; nearly half of the respondents were top managers. Nearly 80% of the respondents have at least some college education.

### *Measuring the managers' attitudes*

For independent variables, we employ scales that measure managers' attitudes to employee participation and their views on the links between employee participation, corporate performance and the readiness to implement employee participation in a company. There were no 'off-the-shelf' scales available in the existing literature to match our

conceptual model, so we developed our own scales by applying exploratory factor analysis (maximum likelihood method of extraction, varimax rotation) on a previously qualitatively tested set of questions. Since the scales were obtained using factor analysis, they have very high discriminant validity as each of them measures its own dimension. All the scales also have solid construct validity, since all elements of a certain dimension can be interpreted to measure approximately the same concept (Thompson and Daniel, 1997). Since scale development was not the primary focus of the present article, other dimensions of validity were not further examined.

The reliability of scales was determined with Cronbach's alpha measure – all scales proved to be reliable, with alpha coefficients over 0.6 (Hair et al., 2006). Simple means of the items described were used in computing the summated scales.

Table A1 in the Appendix presents the factor loadings after rotation. Managers' general attitudes to employee participation were measured with three scales. The first independent variable is a scale measuring a favourable attitude to works councils. This is a four-item scale that measures whether the management has a positive or a negative attitude to employees' representation and participation through works councils. Cronbach's alpha for this scale is 0.76, making it a reliable scale.

Two scales measure attitudes to trade unions. The first is a favourable attitude to trade unions and the second one is the perception of union strength. They are both three-item scales and have Cronbach's alphas of 0.72 and 0.74, respectively.

Two scales measure how management sees the direct link between employee participation and corporate performance. Information and consultation with employees is a four-item scale that measures how managers view the link between information and consultation and corporate performance. It is a reliable scale with a Cronbach's alpha of 0.82. Codetermination is a four-item scale that measures how managers see the link between employee participation, the decision-making process and corporate performance. This is also a reliable scale with a Cronbach's alpha of 0.87.

Finally, we used two scales to measure managers' understanding of the indirect benefits of employee participation through increased motivation, etc. The first one measures the impact of employee participation on the employees, which measures how the respondents see the link between employee participation and their motivations, etc. It is a highly reliable, five-item scale with a Cronbach alpha of 0.92. Similarly, employee impact on corporate performance, which measures how, in the managers' view, employee motivation, etc. impacts the corporate performance, is a reliable, five-item scale with a Cronbach alpha of 0.88.

We checked all the scales used for common method bias using Harman's single factor test. Forcing all items into one factor extracts 24% of the total variance of items which is far below the critical 50% suggested in the literature.

Besides the described scales, we also used as a main explanatory variable a dummy variable showing the prevalent foreign ownership of companies. We used this variable to check whether there is a difference in the implementation of employee participation between foreign- and locally-owned companies.

We controlled for four factors. The first is the legal form of the company, followed by the size of the company measured by the number of employees, the third is the industry and the last the nature of owners – domestic private, state or foreign. We could expect

public joint stock companies to have a higher degree of employee participation, since it is easier for employees to enter into the ownership structure and participate in this way. There are also higher reporting demands and thus more public scrutiny in these companies. On average, public joint stock companies also have a longer tradition of employee participation. In larger companies and more labour-intensive industries, employees may have more bargaining power, which results in higher implementation of employee participation. There may be differences between state- and privately-owned and between foreign- and domestic-owned companies, mainly due to different corporate cultures.

Descriptive statistics of the variables used are presented in Table A2 in the Appendix. One may notice that, on average, about a third of all employee participation bodies were present in the companies, with the implementation averaging just below 20% of the maximum possible level. Nevertheless, variability in both is very high.

Table A3 in the Appendix presents the correlation matrix of the variables used. Bivariate relations between dependent and explanatory variables are mostly within the expectations described above. Since we used the summated scales approach, there is a certain degree of inter-scale correlation; however, none of the correlations between the scales exceeds 0.3.

Podsakoff and Organ (1986) warn against drawing substantial conclusions from self-reported data. Although we rely on self-reported data in our research, our dependent variables and some of the independents fall into the category of factual data which could be obtained from other sources as well. We thus believe that we do not have to address problems such as common method variance and consistency motif, although a certain level of social desirability may be present. The results of regression are presented in Table 1. We tested the dependence separately for the index of presence of bodies (Models IPBa, b) and the index of participation implementation (Models IPIa, b). Each model had two variations – with (denoted b) or without the control variables (denoted a).

The results presented in Table 1 show that managers' attitudes and their understanding of the impact of employee participation on the company's performance holds significant but nevertheless weak explanatory power with regard to the implementation of employee participation.

First, it may be noted that the results of the models with the index of body presence are very similar to the results of the models with the index of participation implementation. This is not surprising, since the two indices are very strongly correlated. A conclusion may be drawn that although the index of participation implementation is a more comprehensive measure, the simpler index of body presence performs well enough for most purposes. Still, one needs to bear in mind that such an index needs to incorporate all possible bodies and instruments, and not focus on just one of them.

On their own, control variables show that public limited companies have a much higher level of employee participation implementation compared to closely held companies. Legal form is also the single most important determinant of the level of employee participation. This is probably due to the much more detailed scrutiny these companies receive from the public and legislators. Capital-intensive companies implement participation to a smaller degree than labour-intensive companies, larger companies have more representative bodies in place and state-owned companies have a higher level of indirect participation.

**Table 1.** Results of the regression models – standardized regression coefficients, t-values for tests and indication of significance.

	Model IPBa	Model IPBb	Model IPLa	Model IPBb
Intercept	9.22 (3.33) ***	10.19 (2.54) ***	8.05 (3.93) ***	8.71 (3.4) ***
Control variables				
Number of employees	0.17 (2.2) *	0.16 (2.13) *	0.06 (0.83)	0.05 (0.66)
Foreign capital dummy	-0.09 (-1.35)	-0.1 (-1.41)	-0.03 (-0.44)	-0.03 (-0.49)
Public limited dummy	0.5 (6.56) ***	0.48 (5.65) ***	0.47 (6.16) ***	0.45 (5.29) ***
State-owned dummy	0.02 (0.27)	0.03 (0.43)	0.19 (2.56) **	0.19 (2.62) **
Industry dummy	-0.2 (-2.83) **	-0.17 (-2.18) *	-0.25 (-3.55) ***	-0.24 (-3.2) ***
Managers' attitudes				
Favourable attitude to works councils		0.13 (1.51)		0 (0.04)
Favourable attitude to trade unions		0.2 (2.03) *		0.16 (1.91) *
Perception of union strength		0.08 (1.00)		0.06 (0.79)
Direct impact on performance		-0.06 (-0.69)		-0.14 (-1.63)
General impact of employee participation on corporate performance				
Informing and consulting with employees		0.19 (2.41) **		0.2 (2.51) **
Codetermination		-0.06 (-0.63)		-0.03 (-0.3)
Indirect impact on performance				
Impact of employee participation on employees		-0.17 (-1.56)		-0.05 (-0.44)
Employee impact on corporate performance		0.21 (-1.97) *		0.21 (-1.98) *
<b>Adj. R<sup>2</sup></b>	<b>0.465</b>	<b>0.546</b>	<b>0.469</b>	<b>0.533</b>

\*\*\* and \*\* indicate statistical significance at 0.5, 0.1 and 0.01 level.

We found only weak support for our first hypothesis that management's positive attitudes towards employee participation and trade unions have a positive relation to the level of participation implementation. In both models, favourable attitude towards trade unions was positive and statistically significant. This result may be due to certain specifics in Slovenia, where the same person is often found in two roles – as a union representative and an elected employee representative. If management has positive attitudes towards trade unions and their representatives, it also has positive attitudes towards employee representatives in collective bodies. This is due to the fact, as mentioned, that very often the same person holds both functions. A positive attitude towards employee representatives (in either trade unions and/or collective bodies) fosters greater implementation of employee representation.

Hypothesis H2, the understanding that the implementation of employee participation has a positive relation with the company's performance, also received mixed support. There was a significant positive relation between the agreement that informing and consulting with employees helps the company's performance and the level of participation implementation in both models that were tested. The same is true for the relation between the implementation and managers' understanding of the beneficial role employees may have on corporate performance. On the other side, the remaining variables show no significant connection between understanding that implementing employee participation has a positive relation with company's performance and the level of implementation. Moreover, in some cases the sign of a relationship, although non-significant, is contrary to negative expectations. We believe that this negative relationship may have a reverse causality. For example, in some companies where a higher level of codetermination is in place, this was hurting the performance of the company, at least in the eyes of the management.

A relatively low number of significant variables may also be a result of a high level (nearly half) of the variance of dependent variables being explained by the control variables. 'Hard' variables, such as size, industry and legal form, explain most of the systematic differences between implementation levels, leaving only little to be explained by soft factors, such as managerial attitudes. Nevertheless, according to the standardized regression coefficients, the variables related to our hypotheses carry approximately the same weight in explaining dependent variables as in explaining control variables.

## **Conclusions**

In this article we have focused on the often neglected aspect of the influence of management on the implementation of employee participation. Many authors claim that the implementation of employee participation in companies is affected by management and its attitudes to employees and an employee voice, although empirical verification of these claims is scarce. Taking this into consideration we analysed the proposed claims on a quantitative set of data we collected from Slovenian management. As the term employee participation is quite difficult to determine since it broadly speaking includes any form of participation in the decision-making process, we limit ourselves to direct and indirect forms of employee participation as provided by Slovenian law.



This gave us the starting point to build an index to measure the implementation of employee participation.

The article contributes to the literature in two ways. First, we extended the measurement of the implementation of employee participation from simply counting the bodies and/or forms of participation, as some authors have done, to measuring the complexity of participation through a composite index of participation that captures different aspects of participation. Second, we tested the impact of managerial attitudes to employee participation on the actual implementation as measured by indices we constructed that also controlled for other features.

We defined the index of the implementation of employee representation as a composite index that measures the manner in which direct participation is in fact implemented – do employees have the right to give suggestions and how are these suggestions treated? In our opinion, this index has a major advantage over indices used in the existing literature. Contrary to most research conducted on the impact of employee participation, which focuses on one particular instrument, the index we propose captures a broad spectrum of aspects of participation. And contrary to the research measuring the perception of participation through surveys among employees, it provides a more objective measurement of implementation. As an alternative and slightly more in line with the existing literature, we also presented the index of the presence of bodies (IPB), which measures the mere presence of employees' participation bodies in the company. The results of our research reveal that the two indices are strongly correlated and perform similarly in regressions.

We applied the research to a sample of 225 managers from the same number of companies in Slovenia. We used a web-based survey involving solicitation by email. The response rate was 15% and the sample was representative.

We found some support for our first hypothesis that management's positive attitudes to employee participation and trade unions will have a beneficial effect on the level of implementing the participation. Somewhat surprising was the fact that it is managers' positive attitudes to trade unions rather than employee participation itself that is linked to better implementation of employee participation. This indicates that, despite the clear legal distinction between trade unions and employee representation bodies, the management does not distinguish between the two, since very often the same persons act as trade union representatives as well as employee representatives in participatory bodies. Therefore, it may be that positive relations between the management and trade unions and their representatives result in stronger implementation of employee participation. More research would be needed to ascertain if this is a general finding or a peculiarity of Slovenia where there is a lot of overlap between the trade union representatives and employee representatives in participatory bodies.

The second hypothesis, i.e. the managers' understanding that the implementation of employee participation has a positive effect on the company's performance, found mixed support. It appears that there may be some pure correlation or even reverse causality between the two concepts. We interpret the findings as meaning that stronger implementation of employee participation may have led to an opinion among managers that informing the employees, 'keeping them in the loop', has a positive effect on

performance as long as they do not participate in the actual decision-making. Longitudinal research would be needed to verify this observation.

There was a significant positive link between the agreement that informing employees and consulting with them helps the company's performance and the participation implementation level in both models that were tested. In contrast, support for the codetermination of employees was found to be negatively correlated with the level of implementation, although it was found to be statistically non-significant.

Each of our hypotheses was operationalized with several variables measuring different aspects of the concept. We find the result that some aspects play a more important role than others. Most relationships that are not significant in the model were not significant (and sometimes negative) already at the time bivariate relations were tested with dependent variables, so the reasons for the non-significance lie beyond the multicollinearity between scales and controls. We found that, in Slovenia at least, the management's positive attitude towards trade unions and agreement that informing and consulting with employees helps the company's performance are linked to stronger implementation of employee participation, while other aspects are not. In other environments, other managerial aspects may be important, thus we propose to keep them in the model for future testing.

We believe the reason for these results lies in the fact that management attitudes and consequently the degree of implementing like employee participation is largely a matter for management itself. The question is whether the results can be generalized to other European countries. To some extent we believe this is the case. Like in Slovenia, other European countries are regulated by European directives and influenced by similar economic opportunities and constraints. Moreover, many authors claim that management has a great influence on the implementation of employee participation. We proved this and think that this is also valid for other European countries, although the actual extent can vary significantly. On the other hand, every country has its own culture and rules, which is especially true when it comes to codifying employee participation as several attempts to unify the system at the European level have failed. In any case, the article adds value by providing contemporary research on voice and participation.

According to the above, further empirical research should focus on global employee participation as mentioned by some authors (Seifert, 2008) in order to see how the information and consultation procedures in worldwide enterprises are implemented, identify any differences, etc. Similarly to what is happening in Germany, the growth of international competition and the influence of incoming foreign multinational companies represent further challenges to the status and representation of employees' interests in Germany, as proven for other locations (Jenkins and Blyton, 2008: 349). Hence, this should also be taken into consideration. As above mentioned, we rely on self-reported data, although our dependent variables and some of the independents fall into the category of factual data that could be obtained from other sources as well. Future research should rely on methodological triangulation, complementing the self-reported questionnaires with the collection of factual data from reports and archives (if available) and complementing the survey with in-depth interviews in order to allow a deeper understanding of the relations between variables.

**Table A1.** Rotated structure matrix – factor loadings for proposed scales and Cronbach’s alphas.

	Employee impact on corporate performance	General impact of employee participation on corporate performance	Favourable attitude to works councils	Informing and consulting with employees	Codetermination	Favourable attitude to trade unions	Perception of union strength
Employees contribute to corporate performance if they are motivated	<b>0.819</b>	0.127	-0.100	-0.098	0.079	-0.073	0.19
Employees contribute to corporate performance if they are loyal	<b>0.728</b>	0.021	-0.030	0.109	0.146	-0.075	-0.002
Employees contribute to corporate performance if they are passionate	<b>0.846</b>	-0.077	0.136	0.145	0.151	0.097	0.083
Employees contribute to corporate performance if they are efficient	<b>0.772</b>	-0.057	-0.025	-0.052	0.161	-0.033	-0.038
Employees contribute to corporate performance if they are satisfied	<b>0.702</b>	0.161	0.236	-0.016	-0.019	-0.036	0.01
The implementation of employee participation can affect the efficiency of cost control	-0.029	<b>0.751</b>	0.207	-0.068	-0.081	0.22	0.127
The implementation of employee participation can affect productivity	0.014	<b>0.805</b>	0.175	0.121	-0.076	-0.008	-0.045
The implementation of employee participation can affect innovativeness	0.234	<b>0.599</b>	0.103	0.14	0.034	0.24	-0.004
The implementation of employee participation enables adaptability to changes in the market	0.166	<b>0.786</b>	0.219	0.012	0.194	0.165	0.011
The implementation of employee participation can affect profitability	0.113	<b>0.81</b>	0.159	0.034	0.233	0.243	0.196
The legislation gives the employees too many rights in business decisions (R)	-0.073	0.113	<b>0.822</b>	0.194	0.236	0.233	-0.034

(Continued)

Table A1. (Continued)

	Employee impact on corporate performance	General impact of employee participation on corporate performance	Favourable attitude to works councils	Informing and consulting with employees	Codetermination	Favourable attitude to trade unions	Perception of union strength
Works council is an adequate form of employee participation	0.191	0.226	<b>0.629</b>	0.19	0.166	0.034	-0.03
In my opinion, the workers should collaborate in the management of the company	0.141	0.209	<b>0.574</b>	0.104	0.068	0.094	0.061
In my opinion, the workers should supervise managerial decisions	0.106	0.103	<b>0.689</b>	0.195	-0.042	-0.029	-0.031
Employees should be informed about legal issues concerning them	0.232	0.217	0.119	<b>0.546</b>	0.206	0.059	0.059
Employees should be consulted regarding the statutory issues concerning them	0.04	0.113	0.133	<b>0.824</b>	0.205	0.038	0.058
Employees should be consulted regarding issues involving employment aspects	0.243	-0.032	0.005	<b>0.748</b>	0.223	0.002	0.14
Employees should be consulted regarding issues involving health and safety	0.03	0.247	0.027	<b>0.671</b>	0.303	0.04	-0.038
Employees should have the possibility of codetermination regarding promotion criteria	0.056	0.203	0.076	0.247	<b>0.807</b>	-0.065	0.113
Employees should have the possibility of codetermination regarding rewards and bonuses	0.231	0.088	0.133	0.137	<b>0.797</b>	-0.082	0.013

**Table A1.** (Continued)

	Employee impact on corporate performance	General impact of employee participation on corporate performance	Favourable attitude to works councils	Informing and consulting with employees	Codetermination	Favourable attitude to trade unions	Perception of union strength
Employees should have the possibility of codetermination regarding corporate housing and other similar benefits	0.179	0.1	0.171	0.47	<b>0.647</b>	0.211	0.202
Trade unions can contribute to a more efficient business	0.072	0.148	0.242	-0.094	0.032	<b>0.843</b>	0.172
Management should develop a partner relationship with the trade union	0.138	0.236	0.056	0.191	0.036	<b>0.526</b>	0.097
The functioning of the elected bodies of employee participation is subordinated to trade unions	-0.006	0.116	0.127	0.212	0.21	0.019	<b>0.558</b>
There is no difference between employee representatives and trade union officials	0.014	0.027	0.057	-0.021	0.114	0.211	<b>0.582</b>
Cronbach's alpha	0.92	0.88	0.76	0.82	0.87	0.72	0.74

Note: (R) indicates that the statement was reversed for the purpose of the analysis.

**Table A2.** Descriptive statistics of the variables used in regressions.

	Minimum	Maximum	Mean	SD
Index of body presence	0	100	22.88	33.84
Participation implementation index	0	100	19.50	29.85
Foreign capital dummy	0	1	0.19	0.40
Public limited dummy	0	1	0.34	0.47
Number of employees	10	2000	271.46	552.44
State-owned dummy	0	1	0.09	0.28
Industry dummy	0	1	0.61	0.49
Employee impact on corporate performance	1	5	4.54	0.52
General impact of employee participation on corporate performance	1	5	3.14	0.80
Favourable attitude to works councils	1	5	3.09	0.87
Informing and consulting with employees	1	5	3.34	0.73
Codetermination	1	5	3.43	0.88
Favourable attitude to trade unions	1	5	3.22	0.90
Perception of union strength	1	5	3.00	0.78

**Table A3.** Correlation matrix of the variables used in regressions.

	Index of body presence	Participation implementation index	Foreign capital limited dummy	Public limited dummy	Number of employees dummy	State-owned dummy	Industry dummy	Employee corporate performance	General impact of employee participation on corporate performance	Favourable attitude to works councils	Informing and consulting with employees	Codetermination on	Favourable attitude to trade unions
Participation implementation index	0.91												
Foreign capital dummy	-0.09	-0.052											
Public limited dummy	0.499	0.529	-0.079										
Number of employees	0.387	0.391	-0.031	0.469									
State-owned dummy	0.254	0.327	-0.153	0.262	0.345								
Industry dummy	-0.317	-0.296	0.106	-0.22	-0.144	0.056							
Employee impact on corporate performance	-0.058	-0.069	-0.034	-0.055	-0.18	-0.03	-0.008						
General impact of employee participation on corporate performance	0.079	0.074	-0.02	0.137	0.152	0.079	-0.053	0.082					
Favourable attitude to works councils	0.141	0.124	0.062	0.011	0.07	0.046	-0.073	0.224	0.103				
Informing and consulting with employees	0.136	0.123	-0.105	0.101	0.064	0.054	-0.138	0.057	0.189	0.221			
Codetermination	0.026	-0.046	-0.132	-0.146	-0.004	-0.132	-0.162	0.1	0.263	0.196	0.263		
Favourable attitude to trade unions	0.108	0.104	0.063	0.22	0.218	0.061	0.12	0.116	0.278	0.164	0.233	0.139	
Perception of union strength	0.047	0.049	-0.153	0.17	0.041	0.053	0.051	0.194	0.263	0.34	0.246	0.101	0.278

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