

**Synergy between Direct and Representative Forms of Employee Voice:**

**Evidence from the European Car Components Industry**

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## **Abstract**

This paper analyses the implications of combining direct and representative forms of worker participation for business performance. Direct participation refers to such things as quality control circles, continuous improvement teams and other problem-solving groups, while representative participation refers to joint consultation committees, including those between works councils and management. Using a 1994 survey of first-tier automotive parts plants in Europe, this paper finds evidence that better quality and information sharing result from having both forms of worker participation than having one or the other. The survey also shows that in the first half of the 1990s, there has been a rapid diffusion of direct participation (together with a commitment to employment security) and a moderate diffusion of indirect participation mechanisms in the UK. While not ruling out legislation, the paper concludes by drawing implications of this finding for a further diffusion of these practices through voluntary means.

### **Autobiographical Note**

Mari Sako is Professor in International Business at the School of Management Studies, University of Oxford. Educated in economics, her recent research interests include inter-firm relations and labour-management relations in the car industry. Major publications include *Prices, quality and trust: inter-firm relations in Britain and Japan* (1992 Cambridge University Press), and *Japanese Labour and Management in Transition: Diversity, Flexibility and Participation* (co-edited with H. Sato) (1997, Routledge). The work reported in this research note was carried out while she was at the Industrial Relations Department of the London School of Economics and Political Science.

Is worker participation good for business? This question looms large in 1990s Britain, where companies continue to face intense overseas competition, and live with the prospect of European Works Councils spreading in Europe. This paper attempts to shed light on this question by focusing on the synergy which might result from having both direct and representative forms of worker participation. Direct participation refers to voice mechanisms which enable individual employees to influence their day-to-day operations, such as quality control circles (QCCs), continuous improvement teams, and other problem-solving groups. Representative participation is through joint consultation committees (JCCs), including those between works councils and management, which may have varying rights of information, consultation and co-decision.

At least three distinct camps may be identified in the debate over whether worker participation is good for business or not. First, there are the adamant defenders of managerial prerogative, who argue that both types of employee voice are unnecessary to run a good business. This camp is authoritarian (Fernie and Metcalf 1995), and at best would use downward communication (such as company newsletters) but no other forms of employee involvement. Second, there are those who are in favour of direct participation (QCCs, etc) because it harnesses individual employees' skills and knowledge to the full, but are opposed to representative participation especially if it is to be imposed by legislation (Marchington et al 1992, p.41). This camp is content that since the neo-liberal 1980s, the terms of the debate over industrial democracy has shifted from workers' right over collective representation towards individual employee motivation and concern for enterprise efficiency. Lastly, there are those who believe that good business performance can best be achieved by giving employees an influence both at the day-to-day operational level and at the policy level. This position is held by the Involvement and Participation Association (IPA) which advocates an Industrial Partnership model. A hallmark of the IPA model is this synergy which might result from having both direct and representative

forms of participation (IPA 1997). The survey of car component plants in Europe examined in this research note provides evidence in favour of the third view.

There is nothing new about the theoretical arguments for this type of synergy, although the human resource management literature dominated by US writers gives it a slightly different emphasis from the one given in this research note. Recent empirical studies of human resource management identify a 'bundle' or a package of practices (including direct worker participation) which improve firm performance (e.g. Huselid 1995, McDuffie 1995). These innovative or transformed work practices are adopted especially by firms which face international competition (Osterman 1994), such as in the car industry. There is ample empirical support for the synergistic relationships, or complementarity (Milgrom and Roberts 1992), among such things as teamwork, job rotation, problem-solving groups, and performance-related pay. The HR 'bundle' examined in the US, however, does not include representative participation. The latter is a separate policy concern, arising out of a worry over the declining union density and the corresponding increase in the 'representation gap' (Kaufman and Kleiner 1993, Rogers and Streeck 1995). The main bridge provided between the work focusing on human resource policy bundles and the work on works councils in the US is the 'mutual gains enterprise' framework of Kochan and Osterman (1994, p.89). This gives unions (and perhaps other representative forms of employee voice) a role in sustaining the effectiveness of innovative HR practices once they are adopted. For example, if management, under pressure to meet a production target, is tempted to withdraw its commitment to job rotation or quality circles, the union would put a check on such hasty withdrawal (Levine and Helper 1995). The case of Saturn, a General Motors plant, with co-management structures at all levels of the organisation, may be considered an example, albeit atypical, of the synergistic link between direct and representative forms of participation (Rubinstein et al 1993).

In Britain, as in the US, much of the recent interest in participation has come from looking at the Japanese example. Problem-solving groups and continuous improvement teams are considered a central core of 'lean production' which must be adopted if companies are to survive in international markets (Womack et al 1990). Direct worker participation for enterprise efficiency exists as a common feature in Japanese transplants in Britain and the US. But while US-based Japanese transplants remain mainly non-union with fewer representative participatory mechanisms (Helper forthcoming), British-based Japanese firms have had joint consultation committees as part of the single-union deal (Bassett 1986). However, even in Britain, the emulators of Japanese transplants have focussed mainly on adopting direct participatory practices on the shopfloor without much regard to the support mechanism off the shopfloor (Oliver and Wilkinson 1992). In contrast in Japan, direct participation, which has diffused widely, is typically complemented by joint consultation between employee representatives and management both at the plant and enterprise levels (Nakamura 1997). Management has had an incentive to implement joint consultation to conduct the annual wage negotiations, and to demonstrate to workers that strategic decisions are made without compromising their commitment to employment security.

This paper is structured as follows. First, the hypothesis concerning the synergy between direct and representative forms of employee voice is put to empirical test, using a survey of automotive component supplier plants in Europe. Second, we examine how widespread both forms of employee voice are in Britain as compared to the rest of Europe, using the same survey evidence. The paper concludes by drawing some implications for policy and practice.

## **Is There Synergy between Direct and Representative Forms of Employee Voice?**

A large-scale postal survey of first-tier automotive component plants was conducted by the author in 1994 in collaboration with Susan Helper of Case Western Reserve University and with the sponsorship of the International Motor Vehicle Program (IMVP) (it will be referred to as the IMVP survey in this note throughout). We obtained valid responses from 221 plants, half (114) of which were located in Britain and the other half in the rest of Europe (predominantly in Germany, France, Italy and Spain). This constituted a response rate of 25% in Britain and 13% in the rest of Europe. Due to a relatively low response rate, results must be interpreted with caution. In particular, the results are biased towards larger-sized plants.

In order to assess whether employee voice has business benefits, the three views alluded to earlier are repeated here, rephrased in ways which can be examined using the survey data. The first view (the 'authoritarian' view) says that neither direct nor indirect forms of worker participation matters for plant performance. According to the second view (the direct participation view), direct participation is what matters for plant performance; the corollary is that representative participation is irrelevant or even damaging (because it adds an unnecessary burden to business overheads). The third view (the synergy view) states that both direct participation and representative participation are necessary to bring about good plant performance.

In order to test the validity of these three views, the IMVP survey sample was divided into four groups: plants with quality control circles (QCCs) but without joint consultation committees (JCCs); those with JCCs but without QCCs; those with both QCCs and JCCs; and those with neither. (The presence of QCCs was defined here as 'Quality Circles, continuous improvement groups, employee involvement groups, or other problem-solving activities' in which 50% or more of the eligible



employees took part. JCCs are joint labour-management committees or employee committees with representatives who are either elected or appointed by management.) This four-way classification of the sample is used to examine if the plant performance is significantly different in the four groups. The performance indicator selected for examination is quality, as measured by the proportion of products shipped to the customer which are rejected or voluntarily recalled. As is evident in Figure 1, there is no support for the 'authoritarian' view; significant differences exist between plants with neither QCCs nor JCCs and those with at least one of these participatory practices. As between the two other views, there is greater support for the synergy view on two accounts. First, even those plants with JCCs but without QCCs (the second bar in the Figure) do better than those with neither, countering the argument that representative participation may be irrelevant or damaging to plant performance. Also, in direct support of the synergy view, combining QCCs and JCCs improves quality over and above having just direct participation.

[INSERT FIGURE 1 ABOUT HERE]

How can this result be best interpreted? In order to answer this question, we need to understand what is happening to employees' willingness to share their ideas with management when QCCs and JCCs are implemented. It is often said that employee involvement improves communication and the quality of decision making in an organisation. But from the employees' viewpoint, being asked to take part in QCCs without representative participation for higher-level issues is like being asked to contribute without having a 'real say'. If representative participation through JCCs is combined with direct participation, employees are more likely to feel that their voice is heard, and only then are they willing to give their hearts and minds to QCC-type activities.

This line of argument sounds all too plausible, but is rarely subjected to empirical tests. The IMVP survey is able to shed light on an aspect of what is going on. In the survey, plant managers were asked to show their degree of agreement with the statement: 'workers sometimes feel reluctant to share their ideas about improved work methods with management.' As shown in Figure 2, at least according to just over 200 European car supplier plants, such reluctance on the part of workers is highest when plants have neither QCCs nor JCCs. Having either QCCs or JCCs goes a long way to reducing worker reluctance to share their ideas, but the best strategy is to combine the two forms of participation.(1)

[INSERT FIGURE 2 ABOUT HERE]

### **How and Why is Worker Participation Spreading?**

If worker participation has business benefits, and if managers are aware of such benefits, that creates a necessary condition for the diffusion of participatory practices. Of the two 'ifs', the first one was already addressed in the last section. What about the second 'if'? The related surveys of the IMVP are able to provide a clue.

The questionnaire asked the respondents how important each of a list of eight items was in their manufacturing strategy. The ranking of the items according to the proportion of those who said they were important or extremely important is shown in Table 1. In the UK, 'increase employee involvement' emerged as the most important, followed by 'improve quality', 'reduce overhead', and 'reduce inventory.' Of course, these items are not mutually exclusive, and it is quite likely that employee involvement is important to achieve better quality and reduce inventory. Moreover, it was not made explicit what was to be included in employee involvement, so that some responded with mainly problem-solving groups in mind while others had financial participation or representative participation

in mind. However, what is clear is that UK managers felt that employee involvement was of utmost importance, while managers in the US and the rest of Europe considered it of less importance. Interestingly, Japanese managers considered employee involvement of least importance, either because it has been diffused for a few decades already (thus losing the marginal improvement which could be derived from it), or because it has actually lost its effectiveness with the shortening of model cycles, the advances in technical knowledge necessary on the part of workers to make relevant suggestions, and the decline in the quality of shopfloor labour.

[INSERT TABLE 1 ABOUT HERE]

Given that British managers in the car components industry were highly aware of the importance of employee involvement in improving their manufacturing strategy, it is not surprising to find that more and more plants are adopting participatory practices. The IMVP survey asked plant managers whether their plants had the two forms of participation at the time of the survey (in 1994) and 4 years prior to the survey (in 1990). As shown in Figure 3, the proportion of British plants with direct participation rose from 3% in 1990 to 34% in 1994, rising at a much faster rate than in the rest of Europe. In 1994, British plants are significantly more likely to have problem solving groups (such as QCCs) than other European plants. By contrast, non-UK plants are more likely to have joint consultation committees than UK plants, perhaps because of the relative absence of legislation in this area in the UK (see Figure 4). Nevertheless, even in the UK, there has been a slow, creeping increase in meetings between management and employee representatives, at both unionised and non-unionised workplaces (note that 80% of the plants in the sample are unionised).

[INSERT FIGURES 3 AND 4 ABOUT HERE]

At the same time, management commitment to employment security is also spreading more rapidly in Britain than in the rest of Europe (see Figure 5). The IMVP survey asked plant managers whether their plants had a 'policy of no layoffs resulting from productivity increases'. This is a limited form of guaranteeing employment security, which addresses workers' fear of doing themselves out of a job by working harder or making productivity-enhancing suggestions. Employment security rarely means jobs for life. Nor does management make a commitment never to lay off any workers under any circumstances. This is why this practice is prone to be criticised for being a 'good times only' policy. The test of such a policy is indeed in a downturn, when the employer should be seen to be making every effort to avoid layoffs. It is not the ultimate absence of layoffs, but employees' perception of the firm's degree of effort in avoiding them, which matters. Thus, in Japan (the country of lifetime employment) and at Japanese companies in Britain, some workers were made redundant in the early 1990s recession, but most companies were able to preserve the norm of lifetime employment. This retention of management commitment in the eyes of the employees was much helped by their having a representative form of employee participation. It is undoubtedly easier to show that layoffs are a last resort and retain workers' confidence in management by allowing employees to be party to a discussion on corporate performance than excluding them from such discussion.

[INSERT FIGURE 5 ABOUT HERE]

To summarize the survey evidence, management commitment to employment security is growing, and more plants have adopted direct and representative forms of participation in Europe. Compared to plants in the rest of Europe, British plants have been more prone to make commitment to employment security and to implement problem solving groups, but less prone to set up joint consultation committees. In the mid-1990s, however, only 15% of plants in the survey (14% of UK and 16% of other European plants) had both forms of worker participation.

## **Implications for Policy and Practice**

To conclude, this paper argued that the business benefit of employee voice comes from employees' willingness to share their ideas with management. This willingness is greater if direct and representative forms of participation are combined than if one or the other is used. The IMVP survey in Europe also showed that without the force of legislation, both direct and representative forms of employee voice are spreading in the British automotive parts supply industry. One main driver behind the diffusion at least of direct participation is the managers' belief that employee involvement is of utmost importance in improving their manufacturing performance.

In the automotive industry today, however, there is no consensus on the one best way of improving manufacturing performance in the car industry. Take cost reduction as an objective. One possible policy to achieve this objective would be to reduce the number of employees, or to switch to suppliers who offer cheaper prices, and perhaps also reduce unit costs by exploiting economies of scale. This is the conventional mass production approach, which may be called the exit model because the emphasis is on terminating contracts with employees and suppliers. An alternative policy would be to work together with existing employees, customers, and suppliers to think of ways of reducing costs. This may be called the voice model (Helper 1997). Exit certainly has the merit of bringing about efficiency savings immediately. But voice is more likely to lead to better communication, and the resulting richer flow of information facilitates long-lasting improvements in manufacturing performance. Hirschman's (1970) exit-voice framework has given much insight into the efficacy of employee voice mechanisms such as the union (Freeman and Medoff 1984). However, as Freeman and Medoff noted, the efficacy of voice depends on the way in which labour and management interacts, rather than whether unions exist or not. In the same vein, QCCs or works councils are likely to

function in different ways not only in different country contexts (Rogers and Streeck 1995) but also from firm to firm. This research note focussed on the synergy between direct and representative participation in an attempt to gauge the process of interaction between management and labour, and in particular how different types of voice mechanisms can be combined to maximise employees' incentives to communicate and impart ideas to management.

Looking at the diffusion of worker participation in the British car component supply industry, it might be tempting to conclude that at least in this industry subjected to fierce international competition, market and technological forces are sufficient to produce a natural evolutionary diffusion of participatory practices. However, it is difficult to tell from cross-sectional or pseudo-longitudinal surveys whether practices in place today will be sustained over time. Those in favour of legislating for representative participation argue that in the absence of legislation, attrition rates of participatory practices would be very high as they would be based on the withdrawable goodwill and the volatile sense of expediency on the part of employers. Employers may also find it too costly to adopt a participatory scheme when others in the same industry do not have it; moreover, even if worker participation improves the overall plant performance, the resulting increase in workers' bargaining power may lead to a smaller share of the total value added for management (Levine 1995). Thus, legislation is seen as both a means of creating a critical mass of firms with worker participation, and a way of making sure that once adopted, it would be sustained over time. The IMVP survey evidence of a rapid diffusion of worker participation may indicate any of the following. Either, this is a fad associated with attempts at learning from Japan, which would end with high attrition rates by the next recession. Or, it is the beginning of a secular and steady trend towards the adoption of representative as well as direct participation, which would become sustainable once a majority has such a system in place. Japanese industrial firms have travelled this latter route of voluntary adoption for both their joint consultation committees and their quality control circles.

**Notes**

1. The ordered probit regression result to back up this conclusion is as follows.

$$\text{INFREL} = f(\text{QC}, \text{JC}, \text{QC}*\text{JC})$$

where INFREL = 'Workers sometimes feel reluctant to share their ideas about improved work methods with management' (1=strongly disagree; 5=strongly agree).

QC = QCCs without JCC

JC = JCC without QCCs

Ordered Probit Estimates

Number of obs = 214

chi2(3) = 13.43

Prob > chi2 = 0.0038

Log Likelihood = -296.39045

Pseudo R2 = 0.0222

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INFREL	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
JC	-.3903246	.1749455	-2.231	0.026	-.7332114	-.0474378
QC	-.8006174	.2398099	-3.339	0.001	-1.270636	-.3305987
JC*QC	-.5801903	.2315901	-2.505	0.012	-1.034099	-.126282

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Moreover, there is further evidence of intensive use of information when both direct and representative participation are present. In particular, plants with both QCCs and JCC agree more with the statement 'We always use data regarding sources of defects in part production to modify our processes' than the plants with either QCCs or JCC.

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**Table 1: Important Factors in the Manufacturing Strategy of Auto Parts Suppliers**

% Important and Extremely important

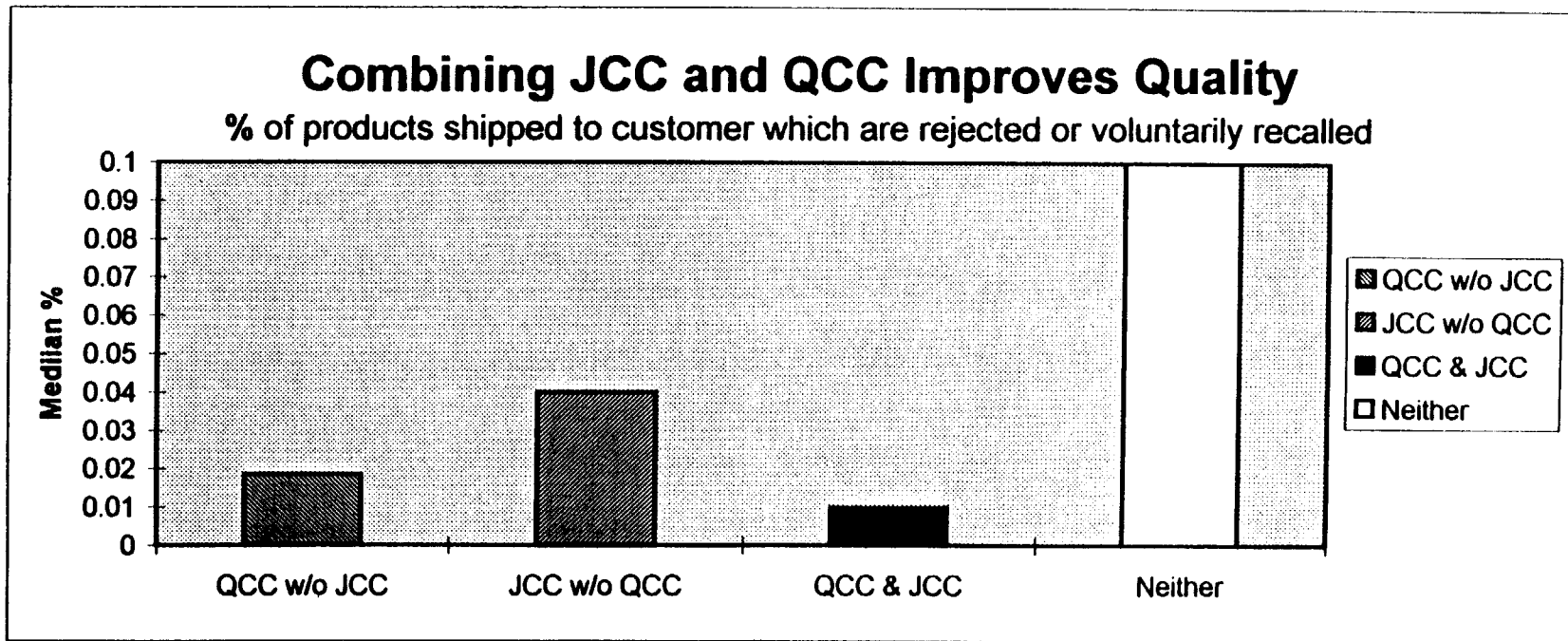
(Ranking in brackets)

Factors	UK	Rest of Europe	USA	Japan
Increase employee involvement	96.64 (1)	79.86 (4)	90.12 (2)	47.80 (8)
Improve quality	90.83 (2)	86.53 (1)	91.35 (1)	95.70 (1)
Reduce overhead	83.34 (3)	80.34 (3)	81.74 (3)	89.09 (2)
Reduce inventory	81.35 (4)	78.42 (5)	80.60 (4)	83.33 (6)
Develop new products	78.82 (5)	85.62 (2)	69.64 (5)	88.63 (3)
Product simplification/ standardization	59.13 (6)	61.70 (6)	62.21 (6)	78.78 (7)
Increase automation	38.99 (7)	51.80 (8)	57.43 (7)	84.52 (5)
Reduce wage growth	36.75 (8)	61.43 (7)	52.52 (8)	86.43 (4)

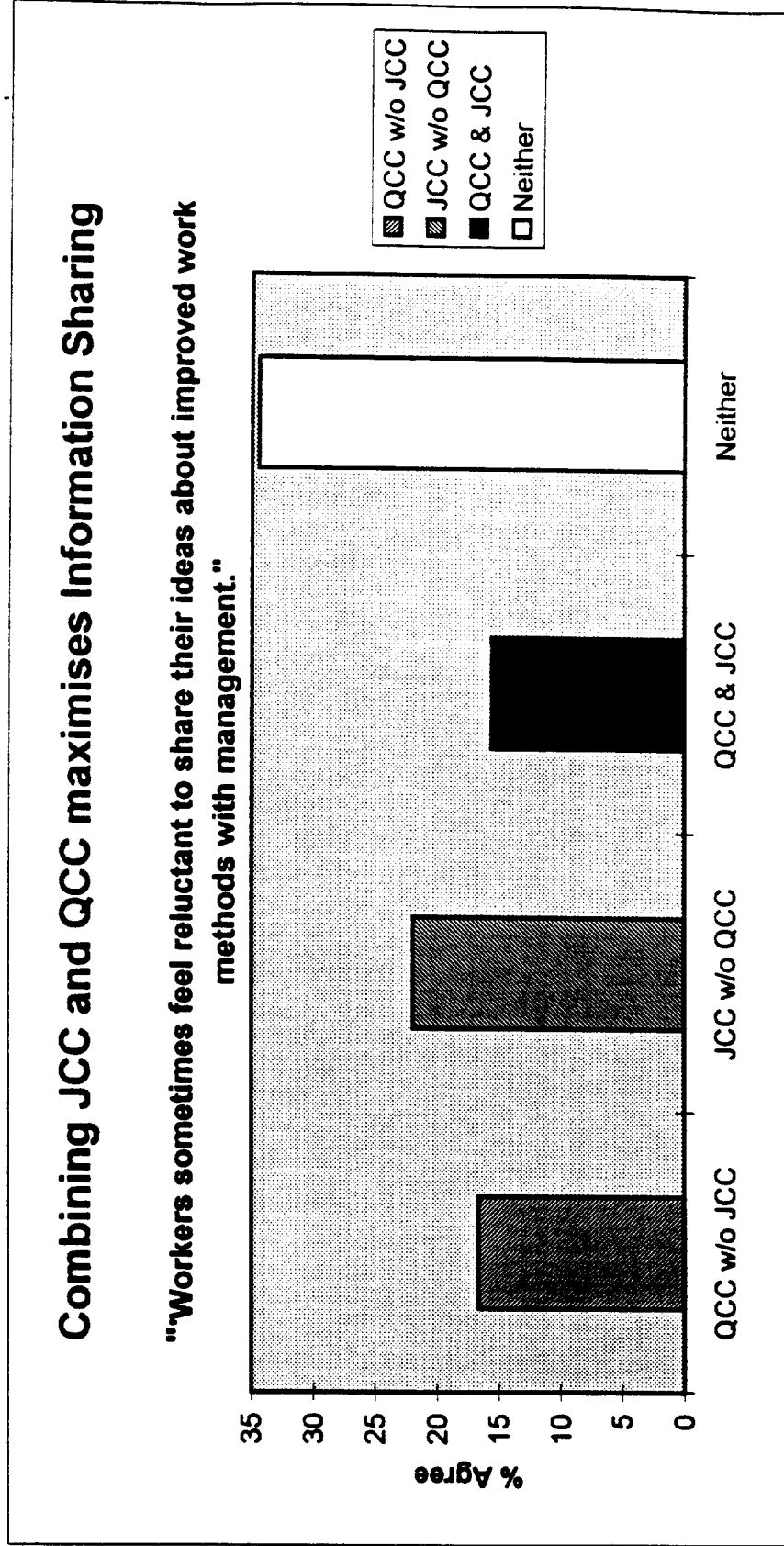
Source: IMVP Supplier Surveys

N.B. The questionnaire asked: 'In your business unit's manufacturing strategy, what has been the importance of the following factors?' Respondents were asked to indicate the degree of importance on a 5-point scale for each of the eight items listed.

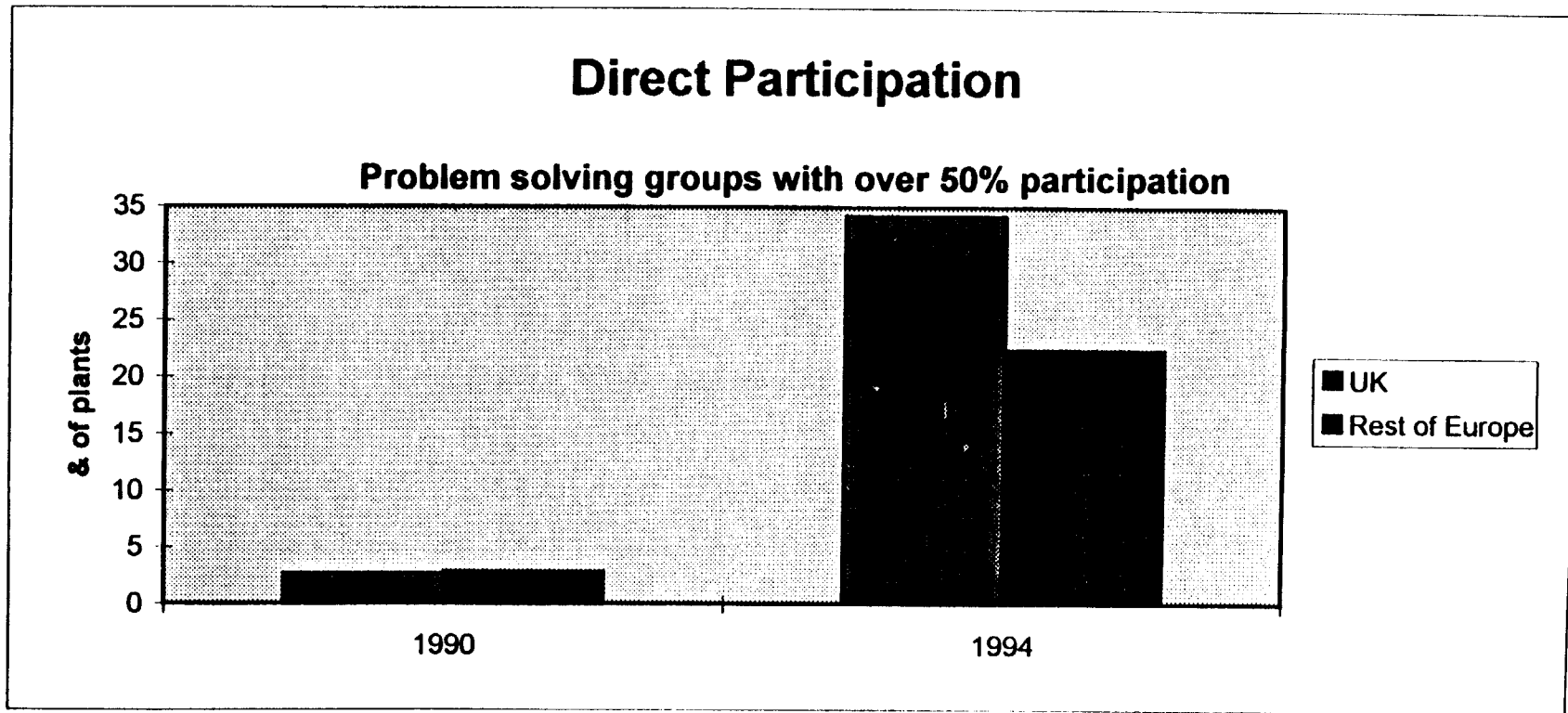
Figure 1



**Figure 2**

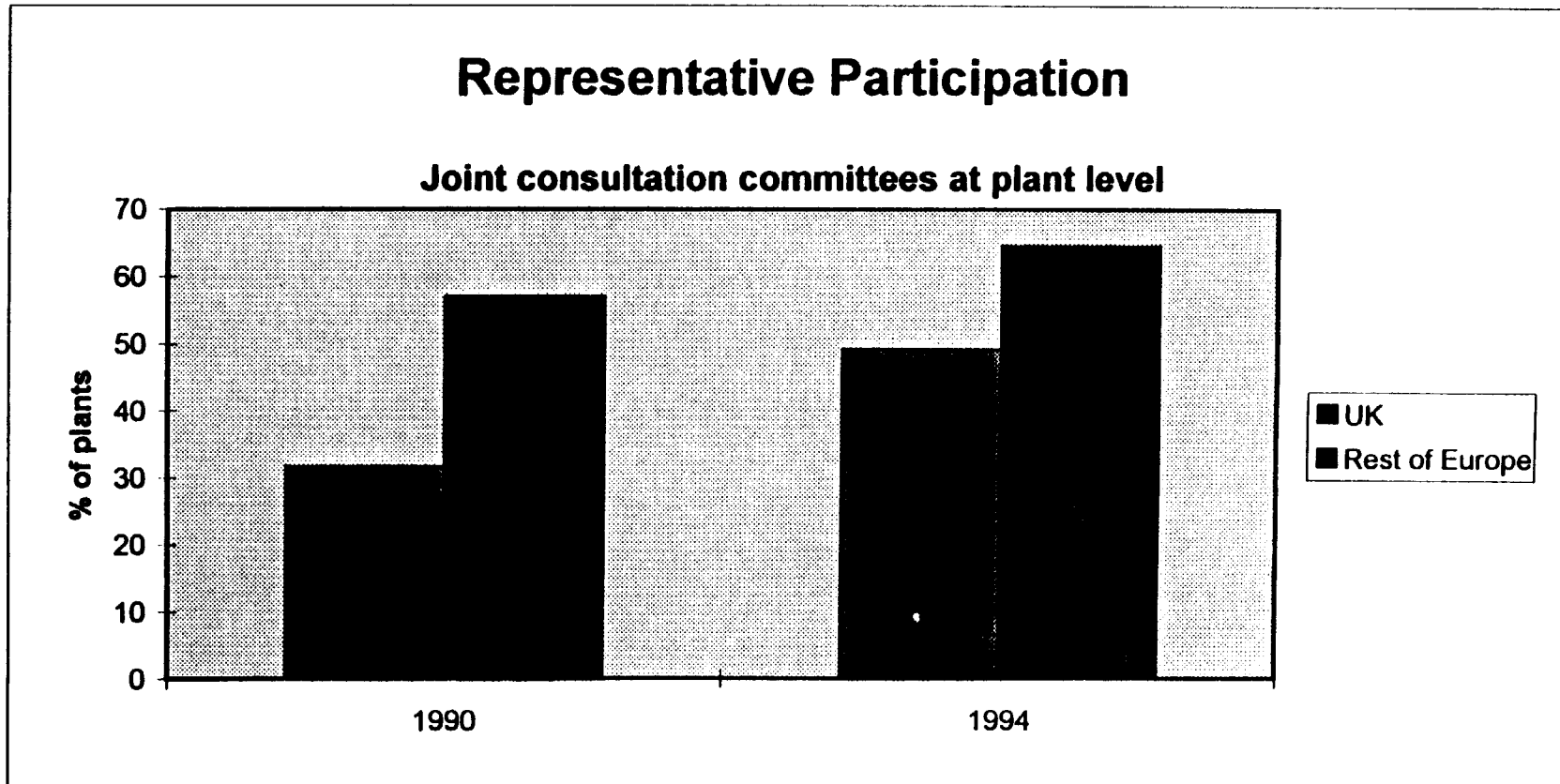


**Figure 3**



Source: IMVP Plant Survey in Europe 1994

**Figure 4**



Source: IMVP Plant Survey in Europe 1994

**Figure 5**

