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Workshop Corporate Governance

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Corporate Governance – ”Worker Aspects”

Mostly the discussions on corporate governance emphasizes on company’s responsibilities towards its shareholders and other financial stakeholders. The purpose of this presentation is to bring some worker aspects to the discussion.

From the employee’s point of view generally speaking there is of course a need to successful companies. But there is more to it than this general interest. This presentation consists of some ideas on three topics: company decision making, disclosure of information and company reputation. Some of them may not fall under the term corporate governance in its strict and narrow sense, but are close to corporate social responsibility.

1. Company decision making

Company decision making has of course direct and indirect consequences to company workers. In order to ensure that their point of view is taken into account *before* company decisions are made, we have certain rules on worker representation and information, consultation and negotiation procedures both in the European and national legislations. The objective of these rules is a *true possibility* for the workers to influence on company decision making. Unfortunately, these rules do not always function the way they were meant and company decisions are very often already made before the consultation and negotiation procedures begin. In Finland these procedures are sometimes from the employee side called as ”dismissal notice procedures” because they often in practise lack the possibility for true negotiation and are used mainly in case of possible collective dismissals. We have a need for strengthening of these rules.

One reason for the non-functioning of the principle of taking the employee point of view into consideration in company decision making, is the *separateness of company and labour law*. The consultation etc. rules and procedures are part of labour law. Company decisions however are mostly done in the company law covered area, which leaves the labour law issues aside. Once the decisions are already done, the company starts to think about its responsibilities as an employer and starts checking out what labour law says, sometimes not even then. Labour law issues are often not part of the business process. The same goes to lawyers, company lawyers are usually not very familiar with labour law, nor are labour lawyers familiar with company law.

The question which arises is that *should some basic worker rights be visible and ensured also in company law?* Would this give more weight on worker aspects in company decision making?

2. Disclosure of information

Knowledge and innovation are key factors for competitiveness and success nowadays. As we have moved along more and more to knowledge-intensive jobs, the whole picture of evaluating a company's value has changed. We cannot evaluate a company on the basis of its physical property and investments made on floating capital. Knowledge and company's potential to create innovations build up the company's *human capital* which in many cases is its *most valuable property*.

In financial statements, however, what is measured is traditional capital. The imperfections of this system come evident when we compare the *book value* of the company to the *market value* of the same company. The differences can be huge, especially when markets believe that the company in question is capable of using its human capital well and create innovations. This means that financial statements only give a narrow part of the picture.

Human capital is in fact employees. The question is, how is it used? This information is needed by many groups. Company stakeholders ask for *information going beyond traditional financial reporting* to allow them to better identify the success and risk factors of a company. They need this information in order to make their own decisions, for example whether or not to invest on a company.

High education of the personnel in itself is not enough to build knowledge and create innovations. They must be built by *sustainable human resources management*. In order for the employees to be motivated and committed, basic issues such as working conditions, leadership issues, working time, use of fixed-term contracts etc. must be in good condition. For example, if a company makes short term profits by continuous overtime work by its employees, can it be profitable in the long run, when the employees get exhausted?

This information is in addition to financial stakeholders needed by company management, by customers or consumers to be able to identify socially sustainably operating companies and by future employees. *Despite of the relevance of this kind of information, only little and mostly vague information is available.* Some companies already publish personnel reports with this information.

What is needed is systematic monitoring of the use of company human resources and published information in company's financial statements. Research on models on this field is being done. *The information should include at least the contents of company's human resources (education, forms of employment etc.), how human resources are used (working time, overtime, working conditions, remuneration systems etc.), information on well being of employees and equality situation (possibilities to combine work and family*

life, equal pay, possibilities to career development etc.). Equality is important because full use of women's resources is necessary for the company to be effective. Discrimination is waste of potential. Can companies really afford it?

Publishing this kind of information is voluntary. It is based mostly on the need of markets to get information. In the future we have to discuss and consider to what extent we only operate under voluntary basis and to what extent binding rules are necessary in order to ensure sustainable and transparent use of human resources.

3. Company reputation

Employees are one of the major factors influencing company reputation. Hill&Knowlton, which is one of the biggest international communications firms, recently published a corporate reputation survey (H&K Corporate Reputation Watch 2002). The survey covered over 800 CEOs in North-America and Europe. According to the survey the CEOs strongly believe that better corporate reputation can directly increase sales. The survey states among others that

- customers and employees are the top shapers of company reputation,
- treatment of employees is one of the most important aspects of social responsibility.

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