



INT/903
No Green Deal without a social deal

OPINION

European Economic and Social Committee

No Green Deal without a social deal
(Own-initiative opinion)

Rapporteur: **Norbert KLUGE**

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1. Conclusions and recommendations

- 1.1 States, companies and citizens together have to tackle rapidly evolving and fundamental challenges. They have to take joint responsibility for leaving nobody behind. Recovery must be built on "protecting human and social rights, democratic values and the rule of law, unlock[ing] the full potential of the Single Market, achieving the Sustainable Development Goals (SDGs), creating a circular economy and achieving climate neutrality in the EU by 2050 at the latest"¹. The EESC underlines the fact that the European Union must play a leading role in this process, including globally.
- 1.2 The transition towards greener and more sustainable economic paradigms will trigger high economic costs carrying the risk of increasing social inequality and the erosion of social cohesion². There will be no "Green Deal" without an integrated "Social Deal". There are several key policy components necessary to guarantee a close link between the Green Deal and social justice.
- 1.3 The promotion of employment and skills, smooth transitions and dynamic social dialogue are clearly important elements. However, a Social Deal as an essential part of a New Green Deal is certainly not only related to "work". It is about income, social security and fiscal support for all who need it, including those without any access to work at all. The inclusion of all civil society actors has to be a shared endeavour and a common concern, even in company decision-making – i.e., consideration must be given to the inclusion of the most vulnerable groups.
- 1.4 Companies have to contribute to the Green/Social Deal within their particular capacities. They must, of course, retain the goal of being profitable and competitive. At the same time, they can play a more prominent role in managing their specific contributions to make the Green Deal, the Recovery and Resilience Plans and the industrial transformation successful and socially beneficial. This includes the promotion of entrepreneurship and the special role of SMEs, as well as the role of social economy enterprises, which should be regarded as complementary actors in linking regional and local labour markets to industrial change.
- 1.5 One key component of such an approach is a strong and forward-looking social dialogue³. This will also support a more open and participation-oriented corporate governance. While effective decision-making is one of the key prerequisites for the success of companies and while their boards need to retain the flexibility to balance individual stakeholder interests, social dialogue can play a constructive role in order to improve the quality of company decision-making, as many empirical studies have confirmed. The *workers' voice*⁴ seeks to effect a positive long-term change in the company by drawing on internal know-how about its procedures, thereby

¹ [EESC proposals for post-COVID-19 recovery and reconstruction: towards a new societal model.](#)

² [OJ C 47, 11.2.2021, p. 30.](#)

³ [OJ C 10, 11.1.2021, p. 14.](#)

⁴ Interest representation of employees at shop floor and company level by works councils and labour representatives in company boardrooms always interact differently as functional equivalents with social dialogue and collective bargaining systems in particular national contexts. At EU level, we have a definition of information and consultation under the EWC directive. Regarding participation in company boardrooms, EU legislation on the European Company (SE) refers only to pre-existing national provisions. For this reason, we use "*workers' voice*" as a cover/generic term to facilitate a common understanding of the purpose of this opinion.

improving risk management and compliance control. This increases the level of information and the quality of decisions to be taken in boards.

- 1.6 The EESC acknowledges the European Commission's understanding of this issue expressed in the European Pillar of Social Rights Action Plan (of March 2021): As Europe moves from crisis response to recovery, "social dialogue, information, consultation and participation of workers and their representatives at different levels (including company and sectorial level) play an important role in shaping economic transition and fostering workplace innovation, in particular with a view to the ongoing twin transitions and the changes in the world of work"⁵. The Commission recommends that national authorities and the social partners ensure that workers are informed and consulted and promote the participation of workers at company level with a view to fostering workplace innovation.
- 1.7 This systematic understanding of the *workers' voice* in company decision-making regarding restructuring and innovation in the world of work should also be taken into consideration in the reform of the European Semester and the national resilience plans. EU trade policy could make greater use of this in the design of its common trade policy.
- 1.8 Although the existing EU corporate governance framework provides guidance for companies on taking account of diverse stakeholder interests, sustainable corporate governance requires a broader and pluralistic understanding of what a company is supposed to be. Acknowledging the essential importance of shareholders in overseeing companies, the EESC would like to see an incentive to consider more appropriate and stakeholder-oriented company law, within the EU corporate framework, systematically recognising the *workers' voice*. More broadly shared views and a forward-looking approach of this kind should serve to better meet the enormous challenges posed by climate and digital change and recovery from the COVID-19 pandemic.

Good corporate governance should be understood from the perspective of society, combining the "costs" that sustainability entails for a company with the benefits that society reaps from more sustainable corporate governance. Alongside environmental benefits, these would include advances in a more inclusive society, namely through the hiring of a more diverse workforce.
- 1.9 The voice of all stakeholders, especially of workers as constituent elements of the company, must be an integral part of efforts to foster the sustainable and competitive companies of tomorrow in a healthy environment. SMEs, cooperatives and the operations of the social economy play an important role in this concept.
- 1.10 The EESC wants to see more open and inclusive thinking about the EU framework in the area of the economy in order to empower proactive citizens as entrepreneurs, workers and consumers/prosumers and enable its democratic and representative organisations to anticipate and shape the change⁶. In addition, companies should be guided in making their contribution to

⁵ https://ec.europa.eu/info/files/european-pillar-social-rights-action-plan_en.

⁶ The European Commission is preparing an initiative on the Green empowerment of consumers that will also cover certain social elements. In addition, there will be a sustainable product initiative that will require information to be provided about the sustainability criteria of certain categories of products and will also cover social aspects.

a more inclusive society. This is the most effective way to meet the EU's objective of "leaving nobody behind".

- 1.11 The EESC considers that creation of long-term value as a duty of executive directors by pursuing long-term interests and, therefore, improving directors' accountability towards company sustainability should be encouraged. The contribution of workers through appropriate channels can also have a positive impact on long-term corporate strategies and investments. Methods such as board-level representation of workers have on many occasions proved their positive contribution to long-term corporate strategies and investments⁷.
- 1.12 The social dimension needs to be recognised in the future updated industrial strategy and social as well as economic and ecological aspects have to be considered when developing Key Performance Indicators (KPIs) to better measure the transformation of European industry and its resilience in the post-pandemic period, to be included in the update of the EU industrial strategy which has been published by the Commission on 5 May 2021. Social (including labour) as well as economic and ecological aspects have to be considered on an equal footing. In addition to industrial policy and financial markets, the environmental and social dimension of KPIs should also be considered in corporate management accounting systems and decision-making and should measure natural⁸, social and human capital beside financial capital. European legislation should support accounting standards in Europe which appropriately reflect the true social and economic costs.
- 1.13 Taking these considerations into account, the EESC wants to open up the political discussion at all levels on how to create a new EU Stakeholder Framework. The European Parliament and the upcoming EU Council presidencies need to lead this debate on how the interaction of all interest groups can be mapped out politically and also, eventually, in an improved legal EU Stakeholder Framework as one of the key prerequisites for climate-friendly and resilient, economically successful, long-term sustainable – and at the same time socially responsible – companies. This should include consideration of the behaviour of investors and capital markets.
- 1.14 In order to enable participation at European level and to ensure direct information, the EESC calls on the EU Commission and the EU Parliament to follow up with the discussion on an EU framework directive for minimum standards on information, consultation and worker board-level participation in cases where companies adopt EU company law.
- 1.15 High quality in company decision-making is in the utmost interest of all stakeholders, including shareholders. In this spirit, and driven by the EU's objectives under the Green Deal and the Recovery-Next Generation programme, the EESC calls on EU policy-makers to rethink the EU framework on corporate governance including the shareholder directive, with a view to further

⁷ These aspects will be covered in the Commission's forthcoming legislative proposal on Sustainable corporate governance and in particular in the part covering the duties of directors. According to the Commission, trade unions and stakeholders must be involved in the conceptual discussion at an early stage.

⁸ The European Commission is already working with business on natural accounting. As various methods exist, the work under way is trying to streamline these and develop common standards for this purpose. Trade unions and stakeholders should be involved in the development of such standards.

improvement. However, the EESC stresses the importance of impact assessment and adherence to the better regulation principles in any possible regulatory action in this regard.

- 1.16 While the responsibilities of all players (companies, authorities and civil society) must be clear, the EESC advocates placing a strong emphasis in such a debate towards a better EU framework for good corporate governance on the link to active labour market policies and their regional impacts, on effective public employment services, social security systems adapted to changing patterns of labour markets and on setting appropriate safety nets in terms of minimum income and social services for the most vulnerable groups.
- 1.17 Following the concept of good corporate governance for a successful Green Deal with an inclusive Social Deal, the EESC encourages the European Commission to incorporate into its Work Programme a broader stakeholder model as a benchmark for sustainable corporate governance. The debate on this could draw on resolutions, opinions and reports already adopted by both the EESC and the EP.

2. **The Green Deal and recovery from COVID-19 as a subject of Just Transition of Europe**

- 2.1 The European regulatory framework still does not fully equate the social, ecological and economic goals. While the "Action plan for financing sustainable growth"⁹, which seeks to redirect capital flows towards a more sustainable economy, mainstreaming sustainability into risk management and fostering transparency and long-termism, refers to environmental, economic and social dimensions of sustainability, the unified classification system (or taxonomy) for sustainable activities so far only defines criteria for environmentally sustainable economic activities, postponing a definition of social criteria¹⁰. In this context, the European Commission sees investors (and workers do invest in their company too) as one of the driving forces for sustainable development and is also exploring ways how to empower consumers and other stakeholders in the sustainability transition.
- 2.2 The effects of the COVID-19 pandemic on jobs and companies are unprecedented, affecting health and safety, work organisation and companies' economic and financial conditions and accelerating corporate restructuring and digitalisation trends, as well as the polarisation within our labour markets.
- 2.3 Against these uncertainties, European policies have to bring real improvements to people's lives¹¹. The social model of inclusive, plural and democratic societies needs a resilient civil society and a sound and sustainable social environment based on national policies and integration related to work. Otherwise, nationalism and populism increasingly threatens to overturn democratic values and undermine social and political stability.

⁹ [COM\(2018\) 97 final.](#)

¹⁰ [Regulation \(EU\) 2020/852.](#)

¹¹ [OJ C 228, 5.7.2019, p. 24.](#)

- 2.4 There is a genuine need to develop a broad concept of the social dimension to support the Green Deal including all relevant stakeholders. This approach should cover relevant EU as well as Member State policies, such as employment, social protection and welfare, health and education and training, with a focus on the most vulnerable groups in society.
- 2.5 EU Member States should promote structural reforms especially in social protection, employment and education and training policies with a view to being better equipped to face the challenges of a fair transition. This means active labour market policies, effective public employment services, social security systems adapted to changing labour market patterns and setting appropriate safety nets in terms of minimum income and social services for the most vulnerable groups.
- 2.6 Sustainable companies need to create competitiveness, prospects for decent work and income in resilient locations and healthy environments. This is one of the key prerequisites for European objectives and values in making the change to a beneficial Just Transition for the whole civil society. In times of transition and crisis, the involvement of employees and stakeholders is important and can build a firm foundation for the support of employees within companies and societies and thereby foster security and stability. This is key for a company's competitive advantage in a global society.

3. **Towards an ecologically, socially and economically sustainable corporate governance**

- 3.1 While respecting national and enterprise differences, information, consultation and board-level participation is a key policy issue for sustainable companies, underpinning more long-termism and improving the quality of decision-making in an economic reform agenda¹². In this context, a company's "good reputation" becomes a competitive advantage. Sustainable corporate governance must foster a long-term and pluralistic focus in companies' decisions, while maintaining the accuracy, quality and effectiveness of the decision-making. The legal interest of companies to which directors' duties are bound should be distinguished from the shareholder interest which sometimes tends to focus on short-term profit. A pluralistic, long-term, sustainable approach should also include employees' interests and other stakeholder interests.
- 3.2 To this end, the European Commission has undertaken some preliminary steps towards a possible legislative initiative on mandatory due diligence. The EESC strongly supports these initiatives¹³.
- 3.3 Furthermore, a new paradigm of anticipating and managing change as an element of "good" corporate governance that also takes into account the social costs of restructuring and change and the contribution of a company to a more inclusive society should be discussed and developed, in addition to costs and productivity indicators. The impacts on income distribution,

¹² [OJ C 161, 6.6.2013, p. 35.](#)

¹³ [OJ C 429, 11.12.2020, p. 136.](#)

age and gender equality, workplaces, environmental and employment quality and sustainability and social inclusion also have to be taken into account¹⁴.

- 3.4 Social issues do not yet appear in the same way in KPIs for financial analysis and company valuation. While the European Commission tasked the European Financial Reporting Advisory Group (EFRAG) to develop a European reporting standard, a global impact measurement and valuation standard for monetising and disclosing impacts of corporate activity does not yet exist. Measuring, pricing and reporting the impact of corporations would make it easier for companies to become climate neutral.
- 3.5 In this regard, the EESC wants to see clear progress in the upcoming review of the directive on non-financial reporting in the area of reporting standards on social and labour aspects of governance, including working conditions, equality in boards and employment of disadvantaged workers or workers with disabilities. The all-round sustainability of companies should be measured and accurately assessed.
- 3.6 In line with the Green Deal and Recovery objectives, the goal of corporate management up to this point of generating returns for shareholders now has to be supplemented equally by the perception of social and ecological responsibility¹⁵. Ensuring systematic channels for the *workers' voice* in company decision-making is therefore essential.
- 3.7 As already stated in the EESC opinion on Industrial transition towards a green and digital European economy¹⁶, the EESC urges the Commission to strengthen and develop the social dimension in the adjusted and updated industrial strategy. This should also have an impact on the KPIs to be developed, such as also addressing the inclusion of social indicators. There has to be a say for employees and civil society representatives in the consultations on appropriate KPIs to measure success of the Green Deal, at both industry and company level.
- 3.8 It is worth considering whether the EU legal framework should help define a minimum standard of obligatory information, consultation and workers' participation via appropriate channels e.g. in company boardrooms for the *workers' voice*¹⁷, guaranteeing early information for and consultation of workers, as well as the anticipation of change. Although there is a positive track record here, there is a need to improve the implementation and enforcement.
- 3.9 At the same time, gender equality in company boardrooms and executive management positions has to be increased. Circumvention or reduction of workers' board-level participation, corporate legal engineering and artificial constructions such as letterbox companies, created with the purpose of avoiding worker participation, have to be prevented. For workers' board-level participation as foreseen in the national law of at least twelve Member States, and usually

¹⁴ For example, the considerations of the "Value Balancing Alliance" could help to weight investments in qualified personnel more heavily in the balance sheets. In this alliance, the boards of several large – German – companies are currently working together. <https://www.value-balancing.com/>.

¹⁵ [OJ C 106, 31.3.2020, p. 1.](#)

¹⁶ [OJ C 56, 16.2.2021, p. 10.](#)

¹⁷ [OJ C 10, 11.1.2021, p. 14.](#)

understood as co-determination, this means an approach that actively develops and promotes a mandatory minimum floor of participation rights based on common European minimum standards of representation. One example is the EWC Directive, which has to better match current realities and the future needs of transnational restructuring, the implementation of providing the EWCs with the necessary resources and competences and providing for sanctions for companies disobeying the rules. Sectoral consultation should also play a more active role.

3.10 A social Europe has to be guided by common rules that ensure corporations and their owners adhere to "good corporate governance". This serves as an essential element in an effective social dialogue¹⁸. In this regard, a binding EU legal framework on due diligence and responsible business conduct with a workers' involvement component will play an important role.

3.11 "Mainstreaming of participation" should become a cross-cutting structural element in all European legislation and initiatives that have an impact on working and living conditions, in order to promote social security and growth.

Brussels, 9 June 2021

Christa SCHWENG
The President of the European Economic and Social Committee

¹⁸ [OJ C 10, 11.1.2021, p. 14.](#)