

# Works councils and bonus payments

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## Abstract

Using data from the German Socio-Economic Panel, we examine the relationship between workplace co-determination in the form of works councils and bonus payments. Although works councils do not directly negotiate wages, they possess substantial information and monitoring rights that may influence compensation structures, including variable pay components. Despite the growing importance of bonuses, little is known about how employee representation is associated with their incidence and magnitude. Using pooled OLS and individual fixed effects estimations with a rich set of individual, job-related, and establishment controls, we find a robust positive association between works council presence and bonus payments. Employees in establishments with a works council have an 8.7 percentage points higher probability of receiving at least one bonus payment, corresponding to a 13.8 percent increase relative to the sample mean. Conditional on receiving a bonus, the amount paid is also significantly higher in co-determined firms. These results are robust to alternative specifications and sample restrictions. By focusing on bonuses as a distinct component of earnings, the study contributes to a better understanding of how employee representation is related to firm-level compensation practices.

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