

How works councils may affect economic performance

*Contribution to the WZB conference
'What doe co-determination do? What can
we learn from research?'
Berlin, May 12, 2016*



Background

Rooted in works council practice in NL and EU (+25y); many non-academic publications and presentations on labour relations. Work as independent consultant and trainer for works councils of larger companies.

PhD-research completed in 2011 – Source of Added Value , The Economic Effects of the Works Council. Follow up publication 2014 with Van den Berg, Grift and Looise.



The issue: works council & firm performance

Are works councils good or bad for firm performance?
Some will argue that works councils are a competitive disadvantage.

Is that a relevant or rather an insulting question?
Can a democratic institution be assessed for its economic contribution?

How does the institutional context of works councils play a role?

Are all works councils alike in this respect, or not?



Theoretical foundation

Employee participation effects – Strauss, Bartölke et al, Hirschman (and more)

HRM & Performance – Resource-Based View - chain of boxes (Delery & Doty 1996, Guest et al 2000, Paauwe 2004)

Works councils & Firm Performance – overviews of German studies Addison et al 2004, Thannish 2005, Jirjahn 2006; Dutch study of Looise & Van het Kaar 1999



Key paper of Freeman & Lazear

F&L's paper 'An Economic Analysis of Works Councils' in Rogers and Streeck (1995).

Key of their theory: distinguish production and distribution of (added) rents – i.e. the improvement of performance and the negotiation about the employees' share of that.

German (and Dutch) system of separate works councils and trade unions enables this.



From 'if' works councils affect firm performance ...

Vast body of research on German context from 90's to early 10's.

Large scale surveys, different dependent variables, in most cases with only one explanatory variable - presence of a works council - and many control variables.

Outcomes: modest +significance for productivity, no or modest +significance for profit



... to 'how' works councils affect firm performance

Treating works council as dummy variable denies the rich variety of how works councils perform their role. Therefore my research question was: how can works councils affect firm performance? What should they do for this contribution?

This requires in depth case study research rather than surveys.



Dutch works council system

Second channel of employee representation. WC concentrates on company policies, TU's on collective bargaining (sectoral mainly). WC operate rather independent, also including non-TU members. Relations with TU's are absent of friendly. Supervisory board should operate independently. WC may nominate, not appoint up to a third of SB.



Dutch works council powers

Strong advisory right with court appeal. Subjects: restructuring, take over, outsourcing, investment etc. Required consent on HR and OHS policies (exceeding the CLA-regulations). Range of policies included. Extensive information rights, right of proposal and supervising duties. Dutch Works Council Act is rather principle based than procedural.



Constructed model: channels

Three different channels to achieve economic effects:

1) innovative – adding workfloor input to improve decisions (Dilger voice approach; information asymmetry)

2) social – creating acceptance in order to make debated plans implementable (Boselie & Paauwe, Guest et al; attitude as intermediate)

3) political – being countervailing power to prevent opportunistic management behaviour (Van den Berg; WC in principal's role)



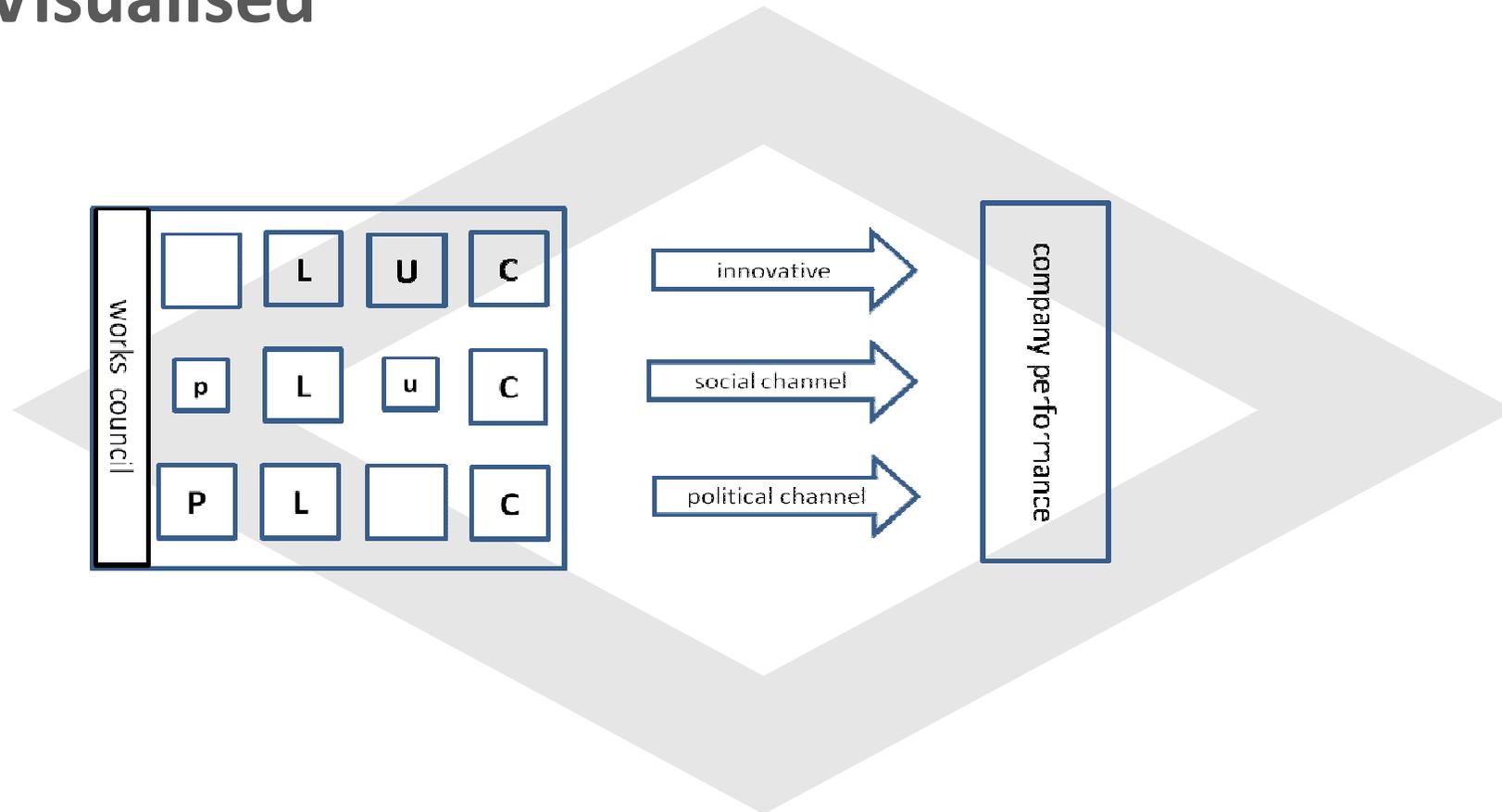
Constructed model: conditions

Within each channel the works council plays with 4 conditions, taken from stakeholder studies (Mitchell/Agle/Wood): **power, legitimacy, urgency** and (added) **complementarity**.

Each channel has its own configuration of conditions, e.g. the political channel requires more power, the innovative channel requires more urgency.



Visualised



Cases for illustration

Achmea (insurance): how employees were given a choice in being relocated and the company prevented costs

Heijmans (construction): how an economic necessity of annual hours registration was saved by ensuring employee buy in

Consultancy X: how a terrorising, nepotistic and overspending interim director was stopped by a brave intervention



Analysis of case studies

Conditions: Legitimacy and Complementarity proved general conditions for economic effects; Level of Power and Urgency varied across the channels.

Works councils were active and committed to the company but not exceptionally skilled.

Dynamics in brief: 'social intention was wrapped in economic benefits'.



Further findings

Works councils and management are not conscious about the economic potential.

Economic contribution is a complement – not a replacement – to promotion of employee interests.

Number of candidates at the election is a valuable predictor of influence and economic contribution.

Complementarity is a key issue – the works council has to add what is not yet there.



Practical application

Four conditions offer a works council a mirror: what kind of works council do we want to be?

Three channels may help to identify the kind of strategies that are relevant: do board room plans lack knowledge from the workforce, is acceptance of plans becoming a problem, is management really acting in the benefit of the company at large?



Limitations in application

Most works councils are under a lot of stress and act day-by-day, while training facilities have been limited. Serious re-consideration of their role and their abilities to add to firm performance receives little attention. Management does not really encourage works councils to fulfill this role.



Outlook and discussion

Works councils fulfill roles that can not be played by HR. Interaction between WC and TU is more complicated than Freeman & Lazear's model suggests.

Stakeholder approach will shed new light on the roles and interaction of works councils.

Economic contribution in addition to social impact will help to revitalise the works council; research may inspire and enable works councils .

Works councils are a rich social phenomenon, worth receiving more attention than being a dummy variable.



Details

Jan Ekke Wigboldus PhD; wigboldus@consultraining.nl
www.consultraining.nl (under construction)

Dissertation: Bron van Meerwaarde, De economische effecten van de ondernemingsraad. (in Dutch with English summary, 2011)

Paper: The economic effects of works councils: channels and conditions. A secondary analysis of a theoretical model. Co-authors Van den Berg, Grift & Looise. In Economic and Industrial Democracy, December 2014



Thank you for your attention

