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## Article

Understanding the effects of works councils on organizational performance: A theoretical model and results from initial case studies from the Netherlands

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## **Understanding the Effects of Works Councils on Organizational Performance. A Theoretical Model and Results from Initial Case Studies from the Netherlands\*\***

In this article, we present a conceptual model to understand the effects of works councils on organizational performance. The model is based on economic and HRM literature on employee participation and organizational performance, as well as on German and Dutch research into the economic and other effects of works councils. The model has been operationalized through a research approach and applied for the first time using in-depth case studies in a large insurance company in the Netherlands. In this paper we present the results of these case studies and the consequences for the model and the research approach.

The findings show that works councils not only affect performance through changing employee attitudes and behavior – in a not dissimilar way to HRM – but also in a direct way by adding asymmetric information to the decision-making process and in an indirect way through influencing management attitudes and behavior. Thus the works council - performance relationship differs substantially from the HRM - performance relationship. The influence of the three potential mechanisms will depend to an extent on the characteristics of the works council and the organizational context. Further research is needed to determine how contextual conditions influence the positive effects of works councils on organizational performance.

**Key words:** works councils, organizational performance, the Netherlands

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## 1. Introduction

The impact of HRM on organizational performance has become a popular field for research over the past few decades (Guest 1997: 263; Delery/Shaw 2001; Boselie/Paauwe 2002). Conceptual models of their relationship can be visualized as an interrelated series of boxes, starting with company strategy and HR strategies and then connecting these through HR practices and employee outcomes with different interpretations of organizational performance: operational, financial, or societal. Employee participation – recognized as a relevant HR practice – has been given little attention in this research and, where present, in most cases the focus is on direct or financial participation (Summers/Hyman 2005; Perotin/Robinson 2002; Kaarsemaker 2006). Representative forms of employee participation are virtually absent. While the performance perspective is an increasingly accepted view of HRM, works councils – an important and sometimes dominant instrument for representative participation in most EU member states (Rogers/Streeck 1995: 11) – are traditionally not associated with economic effects and some even consider it immoral to make a study of the economic effects of works councils.

However, there are good reasons to discuss the economic effects of works councils, including in the Netherlands. First, despite a tradition of over fifty years, some 25-30% of enterprises have yet to establish a works council despite an obligation to do so. This level of default has been steady for many years and is hardly falling (Engelen/Kemper 2006). It would seem that works councils are not seen as potentially making a contribution to organizational performance in those enterprises. Second, works councils have become an institution over the years and, while contributing to stable industrial relations, institutions tend to develop enormous inertia. How vital and relevant are works councils to firm performance? Is management really interested in the contribution of works councils or are they sidelined to dealing only with harmless issues? Perhaps works councils have a positive effect on firm performance without anyone realizing it? Third, the economy is globalizing fast and, as part of an open economy, Dutch enterprises are heavily influenced by international business. This also affects industrial relations. Although national legislation and traditions will not be erased overnight, the Dutch system of workers' participation will be put to the test by managements from other cultures such as the US, Great Britain and Japan. We need better arguments to defend the perceived advantages of our industrial relations system than the phrases that have proved adequate within the country. Evidence of a contribution to firm performance could be a valuable addition to ideologically-oriented reasons for legally enforced workers' participation.

Most studies on the economic effects of works councils are German, including Frick and Möller (2002) and Dilger (2002), and an overview of such studies is presented in Addison (2004). Although there has been a positive evolution in these studies, they all struggle with two crucial limitations. First, most of these studies treat the works council as a dummy variable, only distinguishing between the presence or absence of a works council. Dilger (2002) tried to introduce a works council typology, but this was based on a management view of the works council and therefore reveals little about the real differences among works councils (see also: Lahovary 2000: 4).

The second limitation lies in the quantitative character of these studies. They investigate the correlation between works councils and dependent variables such as profit and productivity, and try to control for a number of intervening variables. The correlations found vary, but in most cases there is a positive correlation with labor productivity and either no or a negative correlation with profit. However, the studies do not give any explanation for the found effects, and the works council - performance relationship remains very much a black box. Therefore, we concur with the statement of Falkum (2003: 1): "*The question to be asked is not whether employee participation contributes to productivity or not. But how will different kinds of participation affect productivity?*"

Our research focuses on the following research question:

- How can works councils affect organizational performance?

Sub-questions are:

- Through which channels can works councils affect organizational performance?
- What conditions foster or hinder the effects of works councils on organizational performance?

In this paper, we present a theoretical model on the effects of works councils on organizational performance that takes into account the channels through which these effects are created and that also makes a start in identifying the relevant conditions. The identified channels will not only be described in terms of the relationship, we will also try to explain the mechanisms that might account for the economic effects of a works councils' intervention. Alongside the model, we describe the research method used and the application of the model in three in-depth case studies carried out within a large Dutch insurance company. We conclude the paper with a discussion of our findings.

## **2. Theoretical model of the effects of works councils on organizational performance**

At present, there are no specific theories that explain the effects of works councils on economic performance. The most valuable contribution to conceptualizing the relationship comes from Freeman and Lazear (1995). They developed a number of ideas that can be useful in building a theory or model of the performance effects of works councils. Firstly, they formulate some general ideas about the performance effects of institutions such as works councils. They argue that institutions that give power to workers will have a twofold effect: the institutions will increase the total rent of the firm, and they will affect the distribution of the rent. As a result, management will be inclined to give works councils less power than necessary for maximizing the rent - at least where management is free to decide on whether to establish a works council or not. Workers, conversely, are inclined to seek sufficient power that they can negotiate a larger share of the rent than they have added. This mechanism will come into play when works councils not only discuss business decisions with management, but also negotiate wages and other conditions using their acquired information about the profitability of the firm. Freeman and Lazear reword their challenge: *'If it were possible to decouple the factors that affect the division of the surplus from those that affect the surplus, there would be an obvious way to establish the optimum division of power.'* (Freeman/Lazear 1995: 31). If a

third party, such as the state, determined the rent-sharing division between management and workers, the question of power distribution would become irrelevant since both parties would then have an interest in maximizing profit. Freeman and Lazear acknowledge that this decoupling is very unlikely to occur in practice. They conclude that works councils will contribute to profitability when they have adequate but limited power.

This is the situation with most legally mandated works councils in Europe. The problem linked to the distribution of the surplus does not occur in countries where works councils cannot organize strikes (most European countries except Spain) and in socioeconomic systems with centralized wage-setting (such as Germany and the Netherlands). On the other hand, in countries with highly decentralized wage-setting (US, UK), two risks threaten the equilibrium: works councils with a legal status could develop into aggressive pseudo-unions using their position to claim a larger share of the pie than can be justified, or works councils without legal backing will degenerate into quality circles dominated by management.

It is interesting to note that Freeman and Lazear are quite outspoken on the performance effects of works councils. However, with respect to the ways in which works councils affect organizational performance their theory offers only limited insight. Therefore, we had to develop our own theory and model on this aspect. Before elaborating on the model in detail, we first present some empirical findings that give an impression of the form of the channels that connect works councils to organizational performance. Van het Kaar and Looise (1999) investigated the position of Dutch works councils by comprehensively questioning a representative group of both managing directors and works councillors in the Netherlands on a large number of issues regarding work councils. An element of this related to the effects of works councils on organizational performance. Table 1 gives an overview of the perceptions of both parties.

**Table 1: Works council effects based on perceptions of managing directors and works council members (Van het Kaar/Looise 1999)**

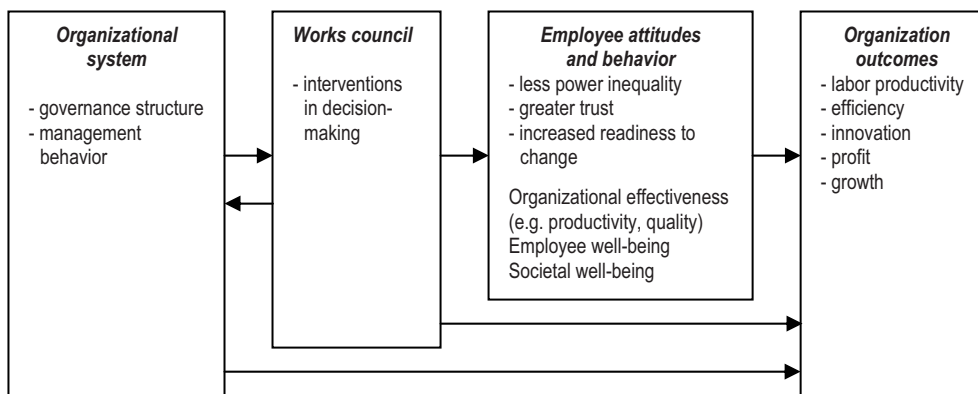
Effects	Management	Works councillors
(Direct)	%	%
Enhance efficiency	9	26
Enhance profitability	4	10
Enhance innovation	12	24
(Indirect 1)		
Improve acceptance among employees	64	43
Improve representation of employees' interests	55	78
Reduce power differences	28	27
(Indirect 2)		
Improve decision-making quality	38	52
More careful decision-making	65	67
Faster decision-making	3	11

(Percentages of managing directors (N=450) and works council members (N= 380) who believe in the such an effect)

In analyzing the table, we conclude that three categories were distinguished: direct performance effects, indirect effects related to the social climate, and indirect effects linked to the decision-making process. Although effects in all three categories have been recognized, they vary in recognition. The existence of a direct contribution to organizational performance received only limited support, especially from the managing directors. However, one should not forget that these figures are only perceptions - in reality the effects of works councils may be very different.

Based on these findings and other literature on works councils, combined with our own extensive practical experience with works councils, we have constructed a three-channel model of the possible contributions of works councils to performance (see Figure 1).

**Figure 1: Three-channel model of works council effects on organizational performance**



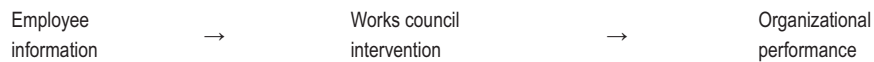
The direct channel represents the direct effect of works council interventions on organizational performance, in terms of improving efficiency, profitability, innovation, etc. The first indirect channel refers to the effect that works councils have on organizational performance through modifying employee attitudes and behavior, such as leading to a better acceptance of decisions, better representation of employee interests, or the reduction of power differences. The second indirect channel is a little more complicated to explain and refers to the effect that works councils have on performance through influencing the governance system - including the process of decision-making - and management behavior. An effect exists because the influenced organizational system will affect organizational performance. Examples of outcomes of this indirect channel are more effective and more careful decision-making, leading to higher performance.

In the next section each of these channels will be described in more detail.

#### *Channel 1. Direct effects through new information or new solutions*

Unlike HRM, which can only affect organizational performance indirectly, institutions such as works councils are in a position to have direct impact on organizational performance. This can be achieved through interventions in decision-making, such as bringing new ideas or by advising or negotiating on plans and policies in their meet-

ings with senior management. In such ways, by bringing forward new information, the works council adds to the decision-making process. The asymmetric information flow may improve management decisions and thereby lead to better performance. The specific position of the works council, as the elected representative of all the workers, enables it to find or receive information that will not otherwise reach senior management, or will only reach them after considerable delay or in an incomplete form.



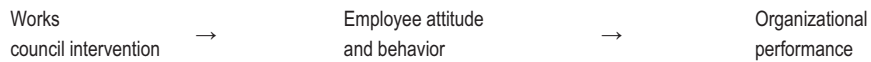
Such asymmetric information flow is recognized by Freeman and Lazear (1995) who state that works councils can have economic effects by conveying unknown information from the shop-floor to management. Given the information asymmetry between management and works councils, the latter can deliver new views and new solutions for problems management is confronted with. Lahovary (2000) supports this, and concludes that works councils intensify the communication flow between management and employees. She quotes Rogers and Streeck who are of the opinion that “*a guaranteed voice for workers is also more effective than even enlightened managerial unilateralism*” (Lahovary 2000: 6). Improved communication is said to contribute to productivity. Lahovary further states that works councils’ involvement will improve the quality of decisions to the extent that they provide new solutions to management. Dilger (2002) has shown with his ‘voice approach’ that the asymmetry effect goes beyond ideas for organizational and work procedure improvements. Works councils may also express complaints and problems present among employees and, in so doing, reduce unnecessary employee turnover and so-called mental resignation (“innere Kündigung”). This effect will only occur if management is open to this information and uses it in making improvements, rather than putting it aside as irrelevant or unjustified. Further support for the asymmetry approach is found in Addison (2005) who considers the channeling of employee preferences to be an important function of works councils. Although this does not provide management with entirely new information, it helps them deal with the different preferences of employees, for instance about working hours or employee benefits.

#### *Channel 2. Indirect effect through employees’ attitudes and behaviors*

The relationship between HRM and performance has increasingly been seen as a chain of factors that connects company strategy, through HRM, to firm performance. Guest *et al.* (2000) emphasize the intermediate function of the commitment and satisfaction of employees in the HRM - performance relationship. Boselie and Paauwe (2002) also are of the opinion that the effects of HRM activities on performance will be realized through HR outcomes. They distinguish between outcomes on the level of attitude such as motivation and trust (so-called subjective data) and behavioral outcomes such as employee turnover and absenteeism (so-called objective data).

In a similar way, works councils may also enhance organizational performance through changing the attitudes of employees. Works councils represent all employees and their communications will, in some cases, be seen as more trustworthy than

communications directly from management. If the interventions of works councils influence employee attitudes towards the organization and its management in a positive direction, the changed attitude will contribute to new behavior and ultimately to improved organizational performance.



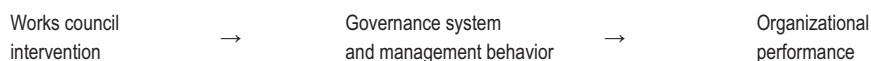
The channel through employees' attitudes and behaviors is also recognized by Freeman and Lazear (1995) who offer explanatory mechanisms for the positive economic effects of works councils. For instance, works councils can moderate employee demands during difficult times and they can also increase the willingness of employees to provide shop-floor information to management. Furthermore, by increasing job security, works councils effectively encourage employees to take a long-term perspective when assessing management decisions. Dundon *et al.* (2004) similarly conclude from their study that 'voice' – an umbrella concept for various forms of employee participation – has no direct effect on performance, and that it needs an intermediary. In their interviews, factors such as loyalty and willingness to change were mentioned as intermediaries.

Summers and Hyman (2005) also believe that for participation to effect performance there has to be a change in attitude and a subsequent behavioral change. They consider so-called ownership to be an important part of employee attitude that leads to greater organizational commitment and greater work satisfaction. Dilger (2002) presented what he termed an 'ear approach', in which he argued that a works council checks the credibility of management information on behalf of the workforce, and that this increases the acceptance of efficiency measures and redundancies by the employees.

### *Channel 3. Indirect effect through the governance system and management behavior*

In many, and especially in large, organizations, the works council has developed into a player in the corporate governance structure that cannot be ignored. A works council's relatively clear view of what management does, and also fails to do, and its communication line with the supervisory board have proven crucial, and have even enabled it to get poorly functioning CEOs dismissed.

Works council interventions may correct and prevent opportunistic management behavior and, through this, contribute to improved organizational performance. Opportunism has a negative connotation: it may be seen as management taking the easy option rather than the right one, or favoring its own interests over those of the company and its stakeholders.



This approach finds support in existing studies. Falkum (2003) notes that performance is not only positively affected by employee participation, but also by their resistance, such as when employees or their representatives oppose poor management strategies



and decisions. Van den Berg (2004) is even more specific and states that works councils limit or even prevent management putting their own interests above those of the company. This is possible because of their information and consultation rights, and also through their relationship with the supervisory board. Van den Berg considers this mechanism as an extension – albeit an unorthodox one – of the principal-agent approach and, although it is not meant to foster shareholder interests, it does put the general interests of the company above management's tendency to act opportunistically. A comparable line of thinking is found in Addison (2005) when referring to a study of Jirjahn. Here, works councils are seen as being able to contribute to company performance by curtailing rent-seeking management behavior, especially when they discuss executive profit-sharing schemes. A manager working at the German company Bayer expressed the opportunism-preventing function of the works council very succinctly: "*The works council requires of us that we manage well.*" (Wever, 1994: 475)

### *Conditions*

What conditions are necessary for works council interventions to have a positive effect on organizational performance? What works council characteristics and which organizational contexts are relevant? At present there is no specific theory that provides answers to these questions.

There are several studies on Dutch works councils containing pointers to these conditions and hinting at factors such as management attitudes towards the works council, organization size, composition and expertise of the works council, inclination to use power, relationship with the workforce and with trade unions (Hövels/Nas 1976; Teulings 1981; Looise/De Lange 1987; Van het Kaar/Looise 1999; Van den Tillaart/Cremers 2002; Huijgen et al. 2007). However, a theoretical underpinning for these conditions being linked to effectiveness does not exist.

In response to this, we have used stakeholder theory as our inspiration in seeking the relevant works council characteristics. Mitchell *et al.* (1997) have identified three pillars of stakeholder salience: power, legitimacy, and urgency. This more-general theory can be applied to works councils because they are widely seen as an important stakeholder of organizations. Stakeholder salience is defined as "the degree to which managers give priority to competing stakeholder claims" (Mitchell *et al.* 1997: 854). Their model does not view stakeholder salience as a static total of these three factors; rather it takes management perceptions as the point of departure. In this way, the approach aligns with studies that found that management attitudes towards works councils, and the interactions between the two, are vital in determining the impact of a works council (see, for example, Van den Tillaart/Cremers 2002; Huijgen et al. 2007). The addition of urgency – defined as "the degree to which stakeholder claims call for immediate attention" (Mitchell et al. 1997: 867) – transforms the model from a static one into a dynamic one. In our judgement, it is this dimension that accounts for the fact that a works council can have influence in one situation and not in another.

Power is relevant because a works council can use whatever power it has in order to be taken seriously. Legitimacy is fundamental for the credibility of a works council in the perceptions of important organizational players, especially in the eyes of employees and management. Urgency relates to convincing other players of the crucial

nature of the interests and ideas that the works council stands for, and the pressure this will put on the decision-making process.

Having a power base helps the works council to be taken seriously by senior management, even when its opinions conflict with management plans or with management interests. This dimension seems to be especially crucial for the indirect channel of influence through the governance system, but it is also relevant for the other channels.

The legitimacy dimension is necessary for the works council to be seen as the supported and well-informed representative of all employees. Legitimacy is essential for the direct channel of influence and also for the indirect channel through employees' attitudes to be effective, and it also supports the other indirect channel through the governance system.

The ability of a works council to convince management of the urgency of the matters it puts on the agenda will determine whether management gives the desired attention to these matters. Urgency is especially important for the direct channel because the input of new information and solutions will only have impact if the works council is successful in communicating why this input is urgent for the company and for its workforce.

Conditions linked to the organizational context are not as easily derived from existing models and theory. One reason might be that these conditions seem to be tightly related to each of the channels. Therefore we have to confine ourselves to some tentative indications.

In general, it seems that performance is affected by organizational or management imperfections. In large, complex and/or formal organizations, senior management have an imperfect view on what goes on far away from the boardroom. The input of new information and alternative solutions by the works council provides a solution. The existence of collective arrangements for determining performance pay will increase the likelihood of the direct channel being effective. This channel can be seen as an example of joint problem-solving, something that is more likely in service organizations than in production organizations (Van Klaveren/Sprenger 2005: 18).

The indirect channel through employees' attitudes might be more apparent in organizations where the employees have relatively low levels of education since such workers are more inclined to follow the works council in forming opinions, especially on complex and controversial matters.

The indirect channel through the governance system is more likely to be witnessed where polarized industrial relations exist, possibly linked to an Anglo-Saxon management style and a control-oriented HRM. Another organizational condition which may make this channel relevant is a remuneration policy for management that is based on short-term performance criteria since this will tempt management to act contrary to the general interests of the company.

### **3. Research design**

We have opted for a theory-building approach based on existing theories, and further refined from the findings of case studies. Case studies such as Wever's (1994) and per-

sonal experience with works councils suggest that positive effects on performance do exist in reality, but it is unclear how these effects are achieved and which conditions foster or hinder them. To answer research questions of a *how* and *why* nature, a research approach built on case studies is considered effective (Eisenhardt/Graebner 2007: 26). It is also important to note that cases should not be selected at random: “*In fact, it is often desirable to choose a particular organization precisely because it is very special in the sense of allowing one to gain certain insights that other organizations would not be able to provide*” (Siggelkow 2007; 20). For our study, it would obviously make no sense to look at organizations without works councils or with ‘dormant’ works councils because we would not learn anything that would help us answer our research questions. Therefore we decided to select only organizations where it was clear that the works council did have a positive effect on its financial performance. We wanted to find out more about the channels used in generating these effects and the relevant conditions for there to be a positive effect. Further, by focusing on specific interventions in the decision-making process, we expected the assessment of performance effects to be more concrete and more reliable than the alternative of assessing performance effects of the works council in general.

The overall research project included several case studies, but this paper focuses on the outcomes of three case studies completed within one large company. We have defined a case study in terms of ‘the effects on organizational performance of a specific works council intervention’.

In selecting suitable cases, a short initial assessment established whether well documented works council interventions would be available that could offer valuable insights in terms of the research question. Secondly, we checked whether the respondents, and also ourselves, had the impression that the intervention had produced a positive effect on performance. Thirdly, we wanted the contextual characteristics involved to vary across the studies in terms of aspects that seemed relevant from the existing literature such as ownership, sector, and size. In the case study organization discussed in this paper, three decision-making processes were studied, and we ensured that the subjects of these processes differed across all the case studies in order to encompass the range of interventions that could be made by works councils.

For research based on case studies, the validity and reliability of the research results are an important consideration, although these criteria can be satisfied in different ways than in surveys (Yin 1994; Eisenhardt 1989). The study focused on the analysis of documents and interviews with relevant people. To increase the reliability of our conclusions based on interviews, we made three methodological choices. First, for every decision-making process, we held individual interviews with several respondents in order to reveal as many details and refinements as possible. Second, we interviewed both works council representatives and managers or HR representatives involved in the processes studied. Third, the strength of the conclusions were increased by interviewing company respondents who were not involved in the process, but still able to assess the effects of the works council, and by rounding off the case study with a group discussion where the respondents could comment on the draft report.

The measuring of performance deserves special attention. Existing studies indicate that organizational performance may be operationalised in many ways (Van het

Kaar/Looise 1999; Van den Tillaart/Cremers 2002). We have chosen some of the most common measures for our study, including productivity, innovation, quality of product or service, and profits. Respondents were asked to assess whether any performance effects in these areas were plausibly the results of specific works council interventions. The assessment of performance effects started with an open question, followed by us specifying various measures of organizational performance. Their chain of reasoning was tested during the interview and later cross-checked with the available documents. Our data collection strategy thus included getting the respondents to estimate performance effects (an approach also applied in British WERS studies), followed by an attempt to substantiate this estimation as far possible. Although hard figures based on economic performance might be seen as preferable, these also have limitations when it comes to 'telling the truth' (Falkum 2003: 8). Respondents were also invited to assess whether there were indirect performance effects through employee outcomes such as trust, job satisfaction, acceptance of management decisions or increased commitment.

Three case studies have been carried out at Achmea, a large insurance company based in the Netherlands and a product of many mergers between cooperative and competing insurance companies. Apart from this cooperative heritage and the associated stakeholder vision of the company, it has certain other characteristics. Firstly, not only is the company large in terms of the number of employees (approximately 22,000), it also has a very complex structure as a result of retaining several brands and being based at even more locations. Staff wages and primary benefits are laid down in a collective agreement between the company and relevant trade unions. HR policies primarily focus on ensuring employee commitment, although they also have an element of control which is visible in the many formats and central instructions. Achmea operates in a very competitive market in which price competition dominates. Nevertheless, due to the service nature of the activities, employees may well have a crucial value in competing successfully. In 2002 and 2003, Achmea – as did their competitors – experienced tough economic times and, in the following years, the organization had to be reshaped and costs had to be cut in order to remain competitive.

The works council system at Achmea had always had various layers of representation. Prior to 2006, there were works councils for more than ten business units such as Pensions, Real Estate, and Banking, but also for central functions such as ICT. Each individual works council appointed one member to the central works council that dealt with corporate issues (the subject of the Trial Period case study). In addition there were some local committees that covered smaller support units (such as the one that covered Studio03, another of our case studies).

Following a merger in 2006, the central works councils of Achmea and Interpolis (another insurance cooperative) came together, and the various works councils adapted to the new works council structure by working closely together (as described in our third case study - Re-insurance - below). The new structure of integrated works councils was operational from 2007.

#### 4. Case study findings

##### *Decision-making processes and works council interventions*

The first case study (Studio03) concerns Studio03 which designed and produced communication projects for various brands within Achmea, and employed around 20 staff. In a very stressful period, during which many of the local staff departments were centralized, management wanted to decrease the number of employees at this small entity drastically, or even to fully outsource its activities. Its current financial performance seemed to justify this conclusion. The central works council and its local committee became involved and criticized both the content and the general sloppiness of the plans presented. During a meeting with the CEO, the local committee convinced him to make a business case showing whether the studio was economically beneficial to the company or not. This business case proved that continuing with the studio was financially superior to outsourcing the work. The studio was given a new position in the organization and has benefited from greater management attention, and has flourished ever since.

The second case study (Trial Period) dealt with company regulations on the treatment of surplus employees following the rationalization activities. The standard procedure was that employees were expected to move with their relocated job, and that the company would facilitate and offer compensation for this 'forced' transfer. However, if the new job location was more than 90 minutes travel time from their home, employees were not expected to follow the job and could register with the Achmea Transfer Centre in order to be placed in another job within or outside Achmea. In this situation, although employees were free to follow their job, if they did so, they would lose their right to the new placement scheme and associated compensation. The central works council formally suggested to the management that they introduce a so-called trial period (*snuffelperiode* in Dutch) in which these employees could try following their job while retaining their rights to the alternative options if it was not a success. In this situation, the works council argued, more employees would consider following their job, and this would be a benefit to the company. This suggestion was gradually accepted by management from 2003 on, and was further refined until it became part of the Social Plan between Achmea and the trade unions in 2006.

The third case study (Re-insurance) concerned an internal merger in 2006 of two reinsurance departments located in Apeldoorn and Tilburg. Company policy, as presented to the works councils, was that Tilburg would become the only office dealing with reinsurance activities and that the Apeldoorn employees would have to agree to follow their job to Tilburg within eighteen months. However, they would only be obliged to work three days a week in Tilburg, with the remaining hours spent in their original office or in working from home. The two works councils involved established a joint working group to prepare advice for the central works council. This working group consulted the employees and had meetings with the responsible manager. Both the employee representatives and the manager feared that this relocation plan could lead to a high level of resignations among the Apeldoorn employees creating problems for the business itself. The working group agreed with the Apeldoorn employees not to go for the two-location solution - although this was the initial preference of both

the employees and works councils – but instead to aim for a solution in which the number of ‘Tilburg’ days would be reduced. In the concluding round of discussions between the central works council and the CEO, the management agreed to extend the initial period to three years and – albeit only orally - to allow the operational reinsurance manager to set the minimum number of days spent in Tilburg to two.

### *Performance effects*

According to both works council and management respondents, and to the documents studied, the following positive performance effects are plausible outcomes of the works councils’ involvement.

In the Studio03 situation, the works council intervention is seen as directly contributing to a financial profit by preventing outsourcing or the gradual dismantlement of the studio. Compared to outsourcing and hiring external studio facilities, using the internal department resulted in lower tariffs and also saved value-added tax. Further, potential redundancy payments were avoided. It also contributed to increased commitment and labor satisfaction among the studio employees, leading to higher productivity and lower absenteeism. Three out of the four respondents supported the view that the intervention had strong positive effects on efficiency, while three respondents also confirmed that there were strong positive effects on profitability and costs.

In the Trial Period case, the works council’s intervention created greater acceptance among the employees of the need to relocate and so reduced labor unrest. It also enhanced the image of Achmea as a caring employer. Indirectly, the increased acceptance contributed to labor productivity and the quality of service. The intervention also had direct economic benefits. These effects are clearest where an employee elects for a trial period and then agrees to move with the job, but there are also benefits if someone decides not to follow the job after the trial period, or even if the trial period option is not taken up. The economic benefits include saving the costs involved in replacing staff, namely the costs of terminating labor contracts, the cost of temporary replacements, and the costs of recruiting and coaching new recruits.

Three out of five respondents supported the view that there had been strong positive effects on profitability and another reported modest positive effects linked to the intervention.

In the Re-insurance situation, the works council intervention helped create acceptance among the Apeldoorn employees of the inevitability of Tilburg becoming the only office for reinsurance activities. The solution of a three-year transfer period and the reduction to a minimum of two days to be spent each week in Tilburg eased the pressure on the employees, which in turn decreased their desire to look for alternative employment close to Apeldoorn. The social effects mentioned above contributed significantly to operational continuity, first because the employees simply carried on doing their jobs and, second, because the intervention reduced the real risk of an explosion in employee turnover. Other instances within the company showed that such turnover explosions and the linked continuity problems were not just a theoretical risk.

All the seven respondents agreed that the intervention had strong positive effects on employee-acceptance of the change; four of them also saw strong positive effects, and one a modest positive effect, on profitability.

## 5. Discussion

The Achmea case studies provide the following support for the theoretical model presented above.

### *Empirical support for the channels*

From the case study findings, it is clear that works councils have directly contributed to organizational performance through the input of new or neglected information and views. In the Trial Period study, the works council took the initiative and suggested an additional facility that could lower the threshold for some of the employees in being willing to see whether following their job would be acceptable. This suggestion provided an additional insight to the views of management and HR. The Studio03 case is an even better illustration of a works council having a direct effect: by arguing that retaining the studio as an Achmea department would be economically superior to outsourcing the activities, the works council caused a change of mind which led to the studio remaining open. In both these processes, it is clearly plausible that a works council intervention has positively affected the financial performance of the organization.

Indirect effects through changing employee attitudes can be found in both the Studio03 and the Re-insurance case studies. The increase in the employees' acceptance of certain plans and the creation of a feeling that their voices were being heard, are convincing examples of the intermediate role that employees' attitudes can play in improving performance. The radical change of perspective for Studio03 as a result of the works council's intervention created a basis among employees for necessary changes in working procedures. The interaction between works councillors and employees based in Apeldoorn led to a realistic expectation among the latter about the feasible changes in the company policy.

Indirect effects through affecting corporate governance and/or management behavior can to an extent be seen in the Studio03 study. The local committee and the central works council prevented management taking the easy option of outsourcing a department that was only underperforming due to a lack of appropriate management attention. However, we would comment that, in the context of cooperative labor relations within Achmea, this was a somewhat atypical situation. An overview of the channels found in these case studies is given in Table 2.

**Table 2: Summary of case study findings on effectiveness of channels**

	Studio 03	Trial Period	Re-insurance
Direct effect through new information and solutions	Strong positive result	Positive result	Strong positive result
Indirect effect through employee attitudes	Positive result	Strong positive result	Strong positive result
Indirect effect through governance system	Implicit positive result	Not present	Not present

### *Empirical support for the conditions*

The case studies offer a picture of how the three pillars of stakeholder salience interact and contribute to the effects that works councils have on performance.

In the Studio03 study, the local committee derived legitimacy from its position as the elected representative of the relevant employees, but also from its knowledge of the day-to-day business of Studio03. Its sources of power were the effective use of legal rights and its ability to block the decision process, as well as its potential to mobilize worried employees. The local committee confronted the CEO with the urgency of the matter and, in a well-timed and frank discussion, convinced the CEO to reconsider plans to close Studio03 if a business review could show a sound financial basis for continuing with this department.

In the Trial Period study, the central works council's legitimacy was based on its track record as a constructive player, as well as its close connections with all the other works councils. The power of its arguments was important, but required the connection between the idea of the trial period and the advice about specific restructuring plans. The CEO could have ignored this idea but wanted to reach full consensus with the central works council in order to create maximum support for the restructuring, and therefore agreed on the trial period. This created an urgency to come to terms with the central works council about the trial period. The central works council continued to take advantage of this opportunity and added the idea of a trial period whenever offering advice. In this way, they created precedents that developed into a structural policy.

In the Re-insurance case study, the two works councils and their joint working group gained legitimacy from their intensive communication with the employees, on top of their elected position. Their authority grew from the way they convinced their colleagues to take a more productive position rather than sticking to their zero-change preferences. The knowledge of the problems the business would face if the Apeldoorn colleagues refused to go to Tilburg, the open relationship with the local manager, and legal advisory rights were the works councils' main sources of power. When it came to the crunch, the central works council offered a way out of the deadlock to the CEO: while we would prefer to maintain the two locations, we do not present this as a binding condition for our support of moving work to Tilburg. With this subtle approach, the CEO felt an obligation to give something in return: he gave the local manager the necessary leeway to find solutions that would be acceptable to the Apeldoorn employees.

In the three Achmea case studies, we have seen some factors that might well play a role as organizational conditions for works council interventions to have an impact. These include the size and complexity of the organization, whether employment relations are oriented towards reaching consensus, and the inherent attitude of management towards works councils. However, at this stage, we are unable to make inter-organizational comparisons. This part of the model will therefore be developed later when we can include new case studies from other organizations.

#### *Management implications*

The objective of our research was to reveal how organizational performance is affected by works councils. In this paper we have presented and applied a theoretical model on how a works council may affect organizational performance. The Achmea case studies demonstrate that works councils can have an influence both directly, by



adding new information, and indirectly through influencing intermediate factors such as employee attitudes and management behavior. The case studies also contain clear illustrations of conditions that may make it easier for works councils to have a positive effect on performance.

Our study emphasizes that works councils can have an impact on performance that goes beyond the HRM effects that largely depend on influencing employee attitude and employee behavior as intermediate factors. It might even be that a democracy-based institution like a works council has a larger potential to contribute to organizational performance than HRM which is essentially management-led.

The feasible correlation between works council interventions and organizational performance suggests that representative forms of employee participation should possibly be approached by management as much more of a strategic issue. In particular, HRM representatives might consider these forms of representation as having an integral and important part in relating employee behavior to organizational success. Further research is necessary to clarify how specific conditions influence the positive effects of works councils on organizational performance.

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