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# How to combine social and economic impact of works councils?

*Contribution to the WZB/HBS conference*
*'What does co-determination do?*
*What can we learn from research? '*
*Berlin, 11 June 2018*

# Focus of this presentation

A case study how the Dutch advisory right facilitates works councils to create economic impact.

Based om PhD-research (Source of Added Value, 2011) and consultancy work for works councils.

# What are works councils for?

Three rationales behind worker participation:

- Ethical-psychological: human dignity
- Political-sociological: power balance
- Economic: efficiency, problem solving

(Strauss et al, 2004, Organisational Participation)

# Economic dimensions relevant?

Most works councillors are motivated by interest representation on short term: employment, health and safety, HR-policies.
Economic decisions are considered to be uninteresting as long as they do not threaten employment or employment conditions.
But how about the long term effect?

# Management perception

Works council's role on social level is widely accepted, while the economic area is claimed as management's prerogative.
Works councils are often perceived as not competent, nor value adding in economic issues.
This translates into an attitude to confine the works council to the social domain.

# Dutch advisory right in perspective

In most European countries works council's competences are restricted to social impact of business plans. Information on finance and business is generally restricted.
Dutch Works Councils Act opens up influence on both the plan and its social impact by the design of the advisory right and supporting information rights.

# Works Councils Act

WCA, art 25
Advice requested for decisions like M&A, restructuring, outsourcing, major investments
Timely involvement, presence of SB, motivation of the decision
WCA, art 26
Court procedure in case no required advice was given, procedures were not observed or new information appeared after the decision

# Scope of a Request for Advice

Required elements of an RFA

- Planned decision
- Rationale behind the plan
- Overview of all social impact
- Planned measures to compensate

As long as the RfA is not complete, the advisory process can not take place.

# Economic-Social mix

What do works councils do?
E: improving plans, testing the rationale, increasing employee acceptance, improving implementation
S: reducing social impact, offering alternatives, monitoring legal procedures, improving severance package

# Recent examples

IT: how a WC helped to professionalise a sloppy restructuring plan
Retail: how a WC forced to reduce ineffective marketing budget
Pharma: how a WC managed to reduce outsourcing and secure investments

# Economic impact - theory

German studies: focus was ‘does the WC have economic impact’;  outcome:no or small positive correlation between WC and economic outcomes (Addison, Jirjahn, Dilger etc)
Source of Added Value: focus was ‘how can a WC have economic impact’; outcome: empirically based model of channels and conditions (Wigboldus)

# How to create economic impact?

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)

# Some case studies

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 (technical): how a terrorising, nepotistic and overspending interim director was stopped by a brave intervention

# Influence strategy

Many WC's follow ineffective strategies: only dragging and rejecting, or naively giving away their trump card.

What is the trump card?
Rendering advice is the end of influence, thus negotiation has to preceed the advice!

# Phases in the advisory process

1. Clarification and completing the RfA
2. Opinion development by discussion, experts and consulting employees
3. Determining necessary changes in the plan
4. Invitation to negotiate and reach agreement
5. Formalising the advice, followed by the decision

# Negotiation mix

What helps to create a negotiation?

- Good ideas to improve plans and support for them
- The perspective of reaching agreement and positive/neutral PR from the WC
- Preventing delayment or chances of court procedures

# What does it take?

Works Council conditions

- Power – ready and able to use it, subtle or brutal
- Legitimacy – being the rightful representative
- Urgency – use of time pressure, critical interest
- Complementarity – taking a vacant role, not copying what management or HR already does

(Wigboldus 2011, after Mitchell et al 1997, Stakeholder salience)

# Effective approach

Be clear about social and economic changes the WC wants.
Present economic improvements as leverage to yield social plusses.
Introduce an incentive for management to negotiate.
Be ready to accept an 80% outcome.

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