

# Works council effectiveness in subsidiaries of MNCs during reorganizations: Case study evidence from the Netherlands

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## Abstract

Internationalization of organizations has been a threat for (national) industrial relations. This study compares three cases to test the influence of works councils on decision-making in multinational companies (MNCs), going through reorganizations. The authors argue it is important to take account of internal factors in the subsidiary, namely the power capabilities and interests of the actors involved. They study these by looking at the network partners of works councils and aligned interests of local management and works council. The findings show that aligned interests form an important prerequisite for positive management attitude, trust and informal relations, positively affecting reorganizations in subsidiaries of MNCs.

## Keywords

Internationalization, reorganization, works councils

## Introduction

Organizations to date are increasingly involved in internationalization, which has been found to cause a large threat to the degree of works council influence on company decision-making (e.g. Gumbrell-McCormick and Hyman, 2010; Looise and Drucker, 2002, 2003; Van het Kaar, 2008). Our article is concerned with this decreasing influence and focuses on employee outcomes (severance pay and prevention of layoffs) of works

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council interventions in reorganizations (downsizing and plant closings). The decreasing influence of worker representatives in host countries of multinational corporations (MNCs) is often described in terms of the transfer of industrial relations practices from the home to the host country. However, former studies have also argued that a full transfer from home to host country practices is unlikely, because of the differences in institutional settings the subsidiaries operate in (e.g. Keune and Marginson, 2013; Streeck, 1998).

Whether or not home country practices fit into the host country organization, thus depends partly on the host country's institutional context (e.g. Falkum et al., 2014). Next to that, plant-level factors should not be neglected, such as the power relations within subsidiaries and between subsidiaries and headquarters. Several studies have therefore called for research to focus on the internal or political factors determining the functioning of subsidiaries of MNCs (e.g. Coller, 1996; Keune and Marginson, 2013; Pulignano, 2006). Thus, instead of focusing on contextual factors alone, we also take into account the behavioural components in the local plant, such as the way in which works councils communicate with the other actors in the organization, the attitude of local management towards the works council and the interference by top (foreign) management regarding local issues.

Ferner et al. (2012) argue that actors' room to influence decision-making in MNCs has been overlooked in the literature so far. They therefore take into account actors' power capabilities and interests. To gain more insights into the processes they identify, the authors argue that there is a need for case study research. For example, the interests of actors are not static, but may vary in different situations. We respond to this need by performing case study research in the specific context of reorganizations.

Recent figures have revealed that 65% of Dutch works councils mention reorganizations as one of their most important topics (Van Houten-Pilkes and Snel, 2013). Additionally, being part of a (foreign) MNC is of increasing importance for industrial relations at the local (organizational) level, in the sense that foreign headquarters can enforce reorganizations without local management having a say in this.

The question of interest in this study is: Which factors influence the effectiveness of works councils in MNC subsidiaries in the context of reorganizations? Works council effectiveness is an ambiguous term, as it depends on the question from whose perspective it is viewed. For example, according to Frege (2002: 240): 'there is a lack in defining and measuring effectiveness. One needs to distinguish between works councils' effectiveness (a) to represent workers' interests and (b) to enhance companies' goals.' The two may be overlapping, but this is not necessarily the case. We take the perspective of employees and define works council effectiveness in terms of representing workers' interests as the employee outcomes of a reorganization. In the current study, we focus on the question of *how* works councils affect (re)organizational outcomes, rather than *whether* they influence (re)organizational outcomes. As Yin (2003) states, case studies provide a good approach to study these types of questions. We focus specifically on the processes *within* the subsidiary and how these affect the outcomes of the reorganization.

Our cases concern three Dutch subsidiaries of larger foreign-based companies, which have gone through reorganizations. In the current study, we aim to advance the ongoing research on works council influence in three ways: (1) We focus on industrial relations in MNCs and add influencing factors; (2) we focus on the context of reorganizations to

be able to distinguish the different interests of actors regarding a specific topic; and (3) we do so in the Dutch context. The Dutch case is of interest because of its own specific legal requirements regarding works councils, including strong advice rights, for example in cases of organizational reforms. These rights are among the strongest in Europe (Van het Kaar, 2008).

In the following section, we describe Dutch works councils, and their potential roles in MNCs and reorganizations. We continue with identifying possible moderators, arising from the literature. Thereafter, we describe our cases and methodology. In the results section, we present our findings, formulating a testable proposition for studying works council effectiveness more in-depth in future research. We conclude by discussing our findings.

## **Dutch works councils and their role in reorganizations**

Works councils in the Netherlands have to be installed in organizations that employ 50 or more employees and have far-reaching legal rights. First, they have the right of information; works councils need to be informed by management on all relevant organizational matters. Second, they can advise management on organizational topics (such as reorganizations), regardless of whether these matters affect employees directly. Management may take the advice of the works council on board in carrying out its decision. However, if management does not agree with the works council's advice, it needs to wait one month, and can then still carry out its (initial) decision. Third, works councils have the right of initiative, i.e. coming up with ideas and proposing them to management. Fourth, they have the right of codetermination, which means management needs their consent in order to implement certain decisions, especially concerning social matters. If the management team does not oblige in informing or consulting the works council according to the law, the works council has the right to go to court. Works councils have a dual task: they have to represent the interests of the employees and the organization as a whole. Local works councils operate at the plant level, central works councils at the (national) concern level, and European works councils at the European level. The current article focuses on local works councils.

Most research on the potential impact of works councils is based on the theoretical insights of Freeman and Lazear (1995), who argue that works councils can have several effects on economic performance through use of their legal rights. These theoretical insights are rooted in institutional arguments, such as diminishing information asymmetry and moral hazard behaviour. When employees receive more information on management's decisions, they may feel more motivated to work in the interest of the company as a whole, instead of pursuing only their self-interest (e.g. Van den Berg, 2004; Wigboldus, 2011). When we apply this to the case of a reorganization, works councils can take up two types of roles.

First, the works council can take up an information and communication role. Management often cannot give all information to employees, just when it is needed most. However, even though not all details can be communicated, it is important to inform employees of possible events and consequences, to reduce uncertainty. Cascio and Wynn (2004) emphasize the importance of communication and having employees

participate in reorganization processes. Works councils can take up this role by communicating management decisions to the shop floor.

Second, the works council can try to influence the reorganization outcomes by coming up with alternatives and in that way reducing layoffs or negotiating a more beneficial social plan for the employees who are being laid off. Freeman and Lazear (1995) argue that the advice rights of works councils may generate new solutions to managerial problems. In reorganizations, these suggestions may lead to less detrimental outcomes for personnel.

In the current article we focus on downsizing and closing plants as specific forms of reorganization. We have chosen these types of reorganization because these have the most clear outcomes for employees (layoffs and employee benefits), facilitating a more sound comparison between the cases. In these specific types of reorganizations, works councils have the right to give advice. As we perceive works council effectiveness from an employee outcomes perspective, we focus on the second role of works councils, namely the negotiating role instead of the information and communication role. Furthermore, we take into account that in MNCs, the role of works councils may be different, because the decision of the reorganization may have been made at a higher level.

## Dutch works councils and their role in MNCs

Dutch works councils operating in MNCs with foreign headquarters have the same advice rights as 'regular' works councils, with regard to decisions of top management that affect their organization directly (Albers and Hofstee, 2011). However, in practice, compared to works councils in national companies and in subsidiaries of domestic MNCs, works councils in subsidiaries of foreign MNCs are worse off in terms of influence on decision-making (Looise and Drucker, 2002). The latter authors go as far as to state that works councils in foreign MNCs cannot debate the decision made by the headquarters, but only discuss the consequences of these decisions. Gumbrell-McCormick and Hyman (2010) share this view and state that due to internationalization, the only task left for works councils is that of avoiding plant closures and minimizing job losses.

The actual influence of works councils, however, depends on a number of factors. Two of those that are considered of great importance for influence of subsidiaries of MNCs are the *power capabilities* of the actors in the MNC (top management and local management) and the *interests* of the actors at both levels (Ferner et al., 2012).

In terms of power, subsidiaries have a more powerful position when they have more resources; if subsidiaries make substantial profit, they have more room for negotiation (e.g. Morgan and Kristensen, 2006). Subsidiaries can obtain power furthermore through local embeddedness, because they know the local environment best (e.g. Coller, 1996). Third, power can be obtained through the institutional context, such as the existing legal system in a country, in our context the industrial relations system with works councils at the establishment level.

In the context of reorganizations, top management presumably has a more powerful position than its subsidiaries. First, it can allocate resources over the subsidiaries and can decide to close plants. Second, top management can also decide unilaterally on work processes in foreign plants. Third, top management may exert power also through

recruiting local management or employees who have a so-called 'home country mindset' (Coller, 1996; Ferner et al., 2012; Morgan and Kristensen, 2006). This may decrease the likelihood of local management forming a coalition with the workforce, one of the possible tactics for subsidiaries to exert upward power.

Next to the ways in which subsidiaries are able to use power, the interests of the different parties (top management, local management, works council and employees) are of importance as well. The interests of local management and works council may well be aligned, for example, when top management decides the subsidiary needs to downsize while local management does not support this decision. An important factor is whether the local manager's ambition lies within the host country organization or not (Morgan and Kristensen, 2006). Managers with local ambitions tend to focus on strengthening local embeddedness, while managers with global ambitions will focus on obeying HQ orders and showing them their ability to run the subsidiary, even if it entails substantial reorganizations.

We can translate the concepts of power capabilities and interests to *local* works councils in *foreign* MNCs' subsidiaries and argue that the effect of these works councils on decision-making is influenced by two moderators in particular. Combined with insights on influence of (Dutch) works councils that are not necessarily part of MNCs, we identify the power capabilities and interests that we consider of importance for works council functioning in MNCs, namely *Works council's network* and *Interests alignment* (between local management and works council).

### *Works council's network*

The network partners of works councils have been shown to be of importance for their functioning. These partners can be found both inside and outside the own organization. Research by Karel et al. (2010) shows that internally, influential works councils in the Netherlands are the ones that have broad support among the employees, consult frequently with experts in staff and line, and maintain informal contacts with top management. Externally, Dutch works councils with stronger ties to the union(s) are more influential. In addition, ever more works councils maintain good relationships with external advisors, which could improve their performance. The same reasoning applies to the relationship between works councils and supervisory board members. According to Baarsma and Lückcrath-Rovers (2012), there are indications that in cases where members of the supervisory board have been nominated by the works council, the supervisory board actually functions better; this could also imply that in these cases the works council functions better too. In a book edited by Heijink (2014), both academics and practitioners make a fervent plea for closer cooperation between works council and supervisory board as this contributes to the success of the organization.

Next to that, and specific for works councils operating in MNCs, Looise and Drucker (2002: 45) describe several ways in which works councils can use their network to 'fight back' and use power towards (top) management. The first way is for the works council to use its legal rights at higher levels – that is, at the level of the European works council (EWC). However, the authors conclude that this is not very successful in giving local works councils more influence (see also Van het Kaar, 2008). Furthermore, members of

EWCs have been shown to act as extensions of the local councils, and differ largely with respect to the MNC's country of origin (Streeck, 1998). The second way is networking, hence staying in touch with members of the top management team, for example with the Dutch members. Overall, these findings from earlier research lead us to expect that works councils' network partners affect the influence works councils in MNCs have during reorganizations.

### *Interests alignment*

A good relationship between management and works council is important to establish satisfactory bargaining outcomes for both parties. For example, trust in bargaining relations can lead to joint gains and cooperative working relations. As Kerkhof et al. (2003: 624) state: 'in a bargaining situation, trust appears to be vital'. Van der Brempt et al. (forthcoming) also point out the importance of trust. In their case studies, trust was a prerequisite for cooperation.

Furthermore, informal communication and building personal relations are indicated to be important ways in which a good relationship can be developed, for example being involved early on in the decision-making processes of management (Vermaak, 2011). Conversely, Van den Berg et al. (2011a) show that a formal management style (operationalized as strictly following the rules) leads to a negative impact of works councils on effectiveness. In the context of a reorganization, the legal advice procedure should be followed: management must ask the works council for advice, at a point at which there is still room for the works council to influence the proposed decision. The council has to reply with such advice within a 'reasonable term'. This procedure leaves room for interpretation. Approaching this procedure in a more cooperative, informal way, and involving the works council for example before the official request for advice has been formulated, may have positive effects on the role works councils can play and accordingly affect the outcomes of the reorganization.

Furthermore, management attitude has been identified by many studies as crucial to works council influence (e.g. Bryson et al., 2006; Poutsma et al., 2003; Van den Berg, 2011a; Wigboldus, 2011). If management adopts a positive stance towards employee participation, works councils can exert their influence more effectively, which in turn may improve performance.

Van den Berg et al. (2011b) reveal however that in harder economic times management attitude towards works councils changes; when management experiences increased competitive pressures, works councils are perceived to be less efficient. This suggests that managers appreciate works councils' input less in these circumstances. The interests of management and works council may diverge more in difficult economic times than in flourishing times. For example, reorganizations may have consequences for the works councillors themselves or their direct colleagues, making it harder for the works council to agree with the reorganization plans of management. We thus argue that it is important to take into account the extent to which interests are aligned between local management and works council.

When employee goals are aligned with those of management, employees may be more likely to act in the interest of the organization, and accordingly productivity may

increase (Kato and Morishima, 2002; Peccei et al., 2010). This also holds in the works council context; the quality of participation is believed to increase when management and works councillors have shared interests (Looise et al., 2011).

In our study, goal alignment entails a shared focus of management and works council on local organizational interests instead of those of headquarters. Forming a coalition with local management was also described by Looise and Drucker (2002: 45) to be another, third way of exerting influence as a works council operating in an MNC. Streeck (1998: 453) referred to this as a ‘peace formula’, in which capital and labour emphasize joint interests for company competitiveness. We expect interests alignment between local management and works council to affect the important prerequisites for a good bargaining relationship: trust, informality and management attitude.

## **Reorganization outcomes**

We take into account two outcomes of reorganizations with clear consequences for the employees, on which works councils can influence decision-making, namely prevention of layoffs and employee benefits.

### *Prevention of layoffs*

Works councils can affect labour turnover within organizations. Earlier research mostly reports subduing effects of works council presence on both voluntary and involuntary quits (e.g. Backes-Gellner et al., 1997; Croucher et al., 2012). The argument here is that works councils protect workers from employer opportunism. We expect these effects to occur during reorganizations as well, because in these instances, preventing layoffs is an important objective for works councils.

### *Employee benefits*

Works councils may not be able to prevent layoffs, partly because they have to represent the interests of the organization as a whole. In this case, a good social plan may be a condition to agree on the layoffs (e.g. Backes-Gellner et al., 1997). In this case the role of the works council becomes discussing the terms under which these layoffs will be executed. The formal role of bargaining about the social plan lies with the union, and the union has to be consulted when more than 20 layoffs are being planned. Works councils thus often coordinate with the union about the steps to take. In practice this means that works councils often formulate their advice dependent on the conditions of the social plan.

A social plan includes agreements on the rights of the people who are to be fired. It is often negotiated in case a larger number of layoffs occur simultaneously. The agreements concern, for example, the facilities that are offered to find a new job (such as training and work to work services). Next to that, the so-called *kantonrechttersformule* is negotiated, which is the legal formula indicating the amount of money dismissed people receive as severance pay. The formula consists of the (monthly) wage multiplied by a factor for the years of employment, and by the so-called correction factor.

A correction factor of 1 is perceived as a neutral factor. The factor is based on the degree to which the organization is to blame for the layoffs. Usually, the factor lies between 0 and 2. The labour market position of dismissed employees is also taken into account in deciding on the correction factor. The average correction factor (as measured in 2007) in the Netherlands is 0.9 (Knegt and Tros, 2007).

## Case description and methods

### Case selection

We selected three subsidiaries of foreign MNCs to answer our research question, on the criterion of going through or having been through a reorganization. As described in the introduction, we assume that works councils of subsidiaries of MNCs have less influence over strategic decisions than other types of works councils. We do not directly compare works councils of foreign-owned versus domestically-owned subsidiaries, but by basing ourselves on the findings of Looise and Drucker (2002), who find that works councils of foreign-owned organizations are usually worst off in terms of influence, we argue that our inferences about works councils in MNCs are justified. Furthermore, indeed, case study evidence on Dutch works councils (not part of a foreign-owned subsidiary) indicates that those works councils are involved earlier on in decision-making processes, and can have substantial influence on management's decisions (Drucker, 2003; Wigboldus, 2011).

In an earlier stage, all works councils under study had asked a professor in our research team for external advice, which is one of the legal rights of works councils in the Netherlands.<sup>1</sup> The fact that these organizations requested advice from members of our research team might indicate that we are describing works councils that function relatively well, because they called in external advice, which indicates they are aware of their legal rights, and use them. Also, the respondents might be biased in replying to the questions, because of the interviewer's (direct and indirect) involvement with the organizations. However, because the cases have all been selected on the same criterion, the differences between them should still become clear.

The organizations are similar regarding a number of characteristics. All three subsidiaries are part of larger European or global manufacturing companies. All of them operate in more than five European or world countries, and employ more than 10,000 people, of which the main part of the workforce is working in production.

Because of the sensitivity of the information provided, interviewees were guaranteed anonymity. We do not provide details that could reveal the identity of the organization and respondents, such as the exact dates when the reorganizations took place or the gender of the interviewees. We use an alias for each organization (i.e. FOOD, PAPER and METAL), and refer to all interviewees as male.

**Food.** FOOD had been going through a reorganization in the past, and at the moment of study was still facing constant threats due to the characteristics of the market. This organization employed around 11,000 people in several European countries, of which about 550 in the Netherlands. The workforce consisted mainly of production workers, approximately 75%. Around one-third of the workforce was unionized,<sup>2</sup> which was perceived as high by management, but as quite low according to works council respondents. The works council



**Table 1.** Case overview.

	FOOD	PAPER	METAL
Size of the MNC	11,000	30,000	30,000
Size of the plant	550	350	180
Headquarters MNC	Spain	Finland	Ireland
EU or worldwide	EU	Worldwide	Worldwide
Collective labour agreement	Sector agreement	Firm agreement	Sector agreement
Unionization at plant	33%	46%	88%
Economic pressures	<ul style="list-style-type: none"> <li>• Market overcapacity</li> <li>• Price competition</li> <li>• Lost contracts</li> </ul>	<ul style="list-style-type: none"> <li>• Market overcapacity</li> <li>• No long-term profit</li> <li>• Costs are too high</li> </ul>	<ul style="list-style-type: none"> <li>• Lower volumes</li> <li>• Price competition</li> <li>• Costs are too high</li> </ul>

had 11 members. Next to the works council, there was an EWC at the corporate level, and there were subcommittees at the plant level. Table 1 presents a schematic comparison of our cases.

*Paper.* PAPER had gone through reorganizations ending in a closure of the plant, as a solution to overcapacity in the market. At the moment of study, the plant had been closed for some years. This organization employed around 30,000 employees over more than 30 countries worldwide. In PAPER approximately 350 employees were employed. The works council consisted of nine persons with one member in the EWC. Some members had recently joined; before that, turnover in the council was low. Relatively few white-collar employees participated in the works council; the largest share of works council members was working in production. The chair of the works council was relatively inexperienced. Soon after his appointment, he was confronted with the plans for the plant closure.

*Metal.* METAL was going through a reorganization at the time of research. This organization employed about 30,000 employees over around 30 countries worldwide. In the plant under study, there were 180 employees. The organization had been under new ownership for the last one and a half years, shifting decision-making more and more to the top management levels. Therefore, the plant was becoming more of a production location. The works council had nine members and consisted of a good mix of people, from all layers in the organization, with different expertise, and with varying works council tenure. Members of the local works council were also represented in the central works council and in the EWC. Almost 90% of the workforce were union members, and this was reflected in the works council. The works council had regular contact with the unions, but the latter did not play a big role in the council's discussions.

### Data sources

We used two sources to gather data. A first source is the documentation concerning the reorganization. This includes the advice asked by management about its reorganization decision, the advice of the works council, and the social plan. Second, we obtained

**Table 2.** Interviewees.

Respondents	FOOD	PAPER <sup>a</sup>	METAL
<i>Works council</i>	Chair	Chair	Chair
	Former chair	Secretary	Member and former chair
	Secretary Member	Administrative secretary <sup>b</sup>	Member and central works council chair Member
<i>Management</i>	Director	Director	Director
	Former director	Human resource manager	
<i>Employees</i>	Employee	Employee Employee, still working for MNC	Employee

<sup>a</sup>The respondents in PAPER all concern former members of the organization.

<sup>b</sup>The administrative secretary function is a supportive function for the works council, and does not have a function in the organization. Not all works councils have an administrative secretary.

information from interviews. By using several sources of information, we meet the principle of data triangulation (Yin, 2003). Before we conducted the interviews, we had two pilot interviews with external respondents to test the interview protocol. The interview protocol used is available on request.

In every subsidiary, we selected at least two works councillors, the director who consulted with the works council, and an employee. During the interviews, we were repeatedly referred to other important people to speak to. For example, in FOOD, during the interviews we were referred to the former director, who had left to lead a different organization. In Table 2, the interviewees per case are presented. In total, we held 19 interviews with 20 respondents. Two of the respondents preferred to be interviewed together. We held semi-structured interviews, conducted by the first author. The interviews lasted 1 hour and 25 minutes on average and were audio-recorded with approval of the interviewees.

### Data analysis

The data analysis involved two steps. First, after transcription of the interviews, the data were coded. In this process, we made use of provisional coding and pattern coding (Saldaña, 2009). Researchers often use different cycles of coding. Provisional coding is a method used typically in the first cycle, and makes use of a predetermined set of codes. These codes can be based on literature reviews, research questions, previous knowledge and so forth. We started with a list of provisional codes, based on the questions asked in the interview protocol, and based on our research questions. During the process, we encountered several new topics, which led us to the second cycle of pattern coding. By means of pattern coding, the researcher looks for certain themes in the data. In this way, certain processes can be clarified from the data. We ended up with seven main categories,

among which 'Reorganization process' and 'Communication', each containing several subcategories. The list of codes is available on request. To ensure the correct interpretation of the transcripts, two researchers were involved in the coding. By having both authors interpreting the data, we made sure we have investigator triangulation (Yin, 2003). We independently coded the data, and compared our coding. We discussed our discrepancies until we reached agreement on the codes. We used the free software WeftQDA (2006) to categorize the interviews, to ease interpretation.

In the second step, we compared the three cases, to find out whether different characteristics led to different results regarding reorganizational outcomes. We grouped the responses to these answers in the categories mentioned above. Furthermore, if interviewees referred to the categories in answers to other questions, we classified these under the categories of interest. For example if respondents stated something about the attitude of management while answering questions on the cooperation with management, we would group this under the 'Attitude' category.

After categorizing the interviews, we coded the responses on whether they were positive, neutral or negative. Taking again the example of management attitude, we coded the different answers as positive when respondents used terms such as 'positive', 'useful', 'serious partner', and negative when respondents used terms such as 'necessary evil', 'legal obligation', 'obstacle'. We then counted the responses and interpreted them along with the function of the respondent (e.g. former manager, works council chairman).

## Results

This section first describes the results of the separate cases, and compares them in the last subsection, leading to a testable proposition. In Tables 3 and 4 we present a comparison of the cases regarding the different outcomes and determinants.

### *Food*

FOOD faced a difficult period, because the financial results had been deteriorating, and there was no indication of improvement in the (near) future. Competition on price was tough, and the Dutch subsidiary was dependent on one large customer. Also, the competition with organizations abroad was high, and the product was not in demand in other countries. Therefore, the plant needed to save costs to survive on the Dutch market.

The former director did not support the view of top management about the state the organization was in: 'I received an assignment [to keep the main customer on board], and once I entered, it appeared that headquarters had no idea what was going on in that organization.'<sup>3</sup> He therefore perceived a larger challenge, namely a successful reorganization of the plant. Decisions concerning the reorganization were made autonomously by the former director and (part of) his management team.

Local management proposed to lose around 90 jobs, in production as well as in management. The works council advised negatively on this proposal. They formulated certain conditions that had to be met by management for them to give positive advice. The works council stated that it was not convinced that the proposed plan would lead to a long-term sustainable position in which the continuity

of and employment in the organization would be guaranteed. After three months of discussing back and forth, the works council turned their negative advice into positive, provided that their conditions would be met. Management at that time had made clear that they would carry through their decision anyway, because they did not see serious objections to the reorganization.

The works council did not have an effect on the outcome of the reorganization, but was involved in the negotiation of the social plan. According to the former chairman, the role of the council during the reorganization was mainly trying to ease the pain of the employees by negotiating a good social plan, with the help of the unions. No layoffs were prevented. Despite the union's part in negotiating the social plan, its role was disappointing to both works council and management respondents. The former director mentioned that for the unions, the goal was to get a good social plan and to recruit new members, instead of helping people to find a new job. The agreed social plan was valid for a period of two years and had a (neutral) correction factor of 1.0.

### *Moderators*

*Works council's network.* In FOOD, the works council mainly had contact with the unions and the external advisor during the reorganization. The EWC did not play a role in the reorganization; the works council chairman explains that there was contact between the EWC and works council, but that in Spain (location of headquarters) workers have far fewer rights, which affected the influence of the EWC within the organization.

The unions were perceived as being there mainly in the interest of recruiting new members. The unions clearly had their own agenda, and as the former director puts it: 'They [the unions] said: if you want to close this plant, go ahead. We will negotiate a social plan, and on top of that, we will recruit new members. Then we have organized it well.' Within the works council, there were differences of opinion regarding the role of the unions. The unions encouraged employees to sign a petition accusing management of mismanagement. A few works council members perceived this as a good thing, while the former chairman of the works council indicated that the union influence sometimes overshadowed the role of the works council.

The role of the external advisor was perceived with mixed feelings as well. The works council hired the external advisor to help them out, but also to 'get back at management' (works council chairman). Management agreed in the end to the appointment of an external advisor, 'to get out of the impasse'. However, both parties describe that the report strengthened their position against the other: the works council chairman states that the report gave the works council indications that they were indeed correct in their perceptions that the reorganization should be handled differently, while the former director declares that the report indicated that the reorganization should even be more thorough than proposed, and that the works council was disappointed, because ultimately it did not give them the ammunition they had hoped for. Both parties blame each other in not having used the report of the external advisor in the end.

*Interests alignment.* The works council respondents indicated that during the reorganization the director in place (the former director) perceived the works council as an obstacle

in managing the organization. According to the works council respondents, he preferred them not to ask questions or dig deeper into topics. Also, it was said that the former director approached people in higher positions to join the works council, because, as stated by a works councillor, he 'would not deign to talk to the production employees'. Interestingly, the former director himself indicated that he is very supportive to the existence of works councils and that he takes them very seriously.

During the reorganization, the relationship with the (former) director was perceived as distrustful; he was stubborn in his decisions, and did not want to discuss or hear others' opinions. The relationship was characterized by conflict, in which the works council played a role of threatening with lawsuits, negotiating about everything and paying attention to all minor details. The current director had a different managerial role during the reorganization and was well aware of the discordant relationship between the council and his predecessor. According to him, the works council actively delayed decision-making and former management did not talk *with* the works council, but rather *about* the works council.

The reorganization process was hard in terms of management–works council communication. The documentation shows that the communication was very formal; a request for advice was followed by negative advice, which in turn led to a reaction on the advice, followed by the final positive advice. Because the former director had already expected to receive negative advice, he made sure to exactly follow the procedures, so that he could not be opposed on that issue.

The negative attitude of the former director towards the works council, as well as the difficult relationship between them, and the formal way of handling things, may well have been influenced by the different interests of the two parties. The interests of the former director were to reorganize the plant as well as possible to make it viable for the years to come. The former director was appointed by the organization specifically to lead the reorganization. In that respect, he can be regarded a relative outsider. As he stated: 'I am here for the organization ... First for the organization, second for the plants, and then for the individuals.' The interests of the works council were to represent the interests of the workforce, in saving jobs and obtaining the most beneficial social plan. The former director made clear that the works council was not operating in the interest of the organization, and that therefore both parties were not working towards a common goal.

## *Paper*

Although the industry was facing competitive pressure, PAPER was still doing quite well as a factory. One year before the reorganization, top management proposed a profit improvement plan, which needed to advance PAPER's performance. PAPER made the right choices, and developed into an example factory for others within the MNC. Nevertheless, top management decided to close the factory due to overcapacity in the market and due to high costs, which were expected to lead to losses in the long run.

The MNC's top management gave the local director the assignment to close the factory. Alternatives were not investigated by top management, because they saw no future for the factory. Top management indicated the works council was free to investigate

alternatives, but that the chances were very small that these alternatives would turn out viable. The council appointed an external advisor to investigate possible alternatives to the plant closure.

The works council gave negative advice regarding closure, because several viable alternatives had emerged from their investigation. The results thereof were presented at the level of the MNC's top management, who listened to their alternatives, but proceeded with their decision to close the factory. The works council contemplated going to court, but decided not to after consulting with the employees; around 85% of the employees did not agree on fighting on for a future for the factory. The works council changed its role and focused on the social plan, and redeployment of employees. In PAPER, the works council did not affect the closure of the plant, but they played a substantial role in the process afterwards. One of the employee respondents argued that, 'if the works council had not been there, it would all have looked much gloomier'.

Several of the respondents indicated that the social plan had 'a golden frame' and that it was 'an offer you can't refuse'. The social plan had a correction factor of 1.4 and was valid for one year. This high correction factor was due to the fact that the factory did not have to close down because of financial reasons; it did not face losses at the time.

### *Moderators*

*Works council's network.* In PAPER, the works council mainly consulted with the unions and external advisors. The works council tried to involve the supervisory board and EWC, as well as politicians, but this did not have the anticipated effects. As the chairman of the works council describes, they contacted the EWC, but the EWC overall had little influence and consisted mostly of individualists, who were there to represent the interests of their country plants; if their plant had a higher chance of surviving due to a plant closing elsewhere, they were not going to actively oppose that. The works council also approached politicians, and made clear that it was a national matter of employment for a foreign company to close a Dutch plant. However, because of the foreign ownership, the politicians claimed that they could not do anything to save the plant.

There was regular contact with the unions, and they played an important part in negotiating the social plan. The administrative secretary claimed that the union played a positive role. The works council chairman however described a conflict that arose, because the union did not see the need for the works council to consult all employees. The union argued that the works council had a mandate, and that therefore there was no need for the referendum to be held.

The works council hired several external advisors, to test the viability of management's plans, to get support on the legal issues and to get support in the process. Management was not fully involved, but they agreed on the hiring of the external advisors, because this was a legal obligation, and important for the process. However, both the HR manager and the director were of the opinion that the report on alternatives for the plant closure gave the works council (and employees) false hope, because it was clear that nothing would happen with the report.

*Interest alignment.* In PAPER, management tried to work constructively with the works council. Management perceived the works council as more than just a legal obligation, but both director and HR manager were not particularly positive about how a works council can contribute to the organization. The director stated that a works council is very important to have. However, he did not believe a works council can (positively) affect organizational decision-making; if a works council has influence, this usually means 'bad news for the organization'. More than that, in the situation where a works council would be able to change a big decision such as a plant closure, he stated: 'I would be surprised, but if it were the case, it means that the management team is not worth its name. Then I would take the chairman of the works council, and make him the director.'

Trust is seen as an important condition for a good relationship, as described by the HR manager. However, the relationship between management and works council was not characterized by trust. If the HR manager suggested something to the works council, a suspicious reaction would follow: because it came from him, they would opt not to do it. The relationship between management and council deteriorated during the reorganization. According to the HR manager, under these circumstances, cooperation was impossible. Also, the works council officially declared it did not trust management anymore.

The works council was presented with the closing plan at the same time as it was officially asked for advice by management. The decision had already been made, but because of formal rules, the works council had to be asked for advice. The council fought for keeping the factory open. However, most respondents agreed that there was no way they could have won this fight. The chairman and secretary of the council had a leading role in the reorganization process; they were convinced that there was a future for PAPER. However, looking back, the secretary explained that he now has the feeling that they had been presented with unjust information – that, in the end, the decision was already made, and (top) management was not willing to listen to alternatives anymore.

Top management gave local management the assignment to close the plant, and local management had to carry out this decision. The director of PAPER was a foreigner, and consequently less familiar with Dutch works council regulations. This affected his attitude towards the works council as well as the relationship between works council and management. The HR manager therefore took on a big role in the reorganization, and engaged in all negotiations with the works council, from which the director was then excluded. The director was perceived by many as the 'closing director', who had known from the moment he entered that the plant was going to be closed, and who did not feel any emotion or urge to fight for its future. However, the director himself stated that it was a very difficult process for him, and that he was initially not sent to close down the factory, although he was aware of the perceptions of him being sent there exactly for that reason. There was a clear conflict of interests for the director, because he was loyal to the organization as a whole, not just to the PAPER factory. Also, it became quickly known that he would get a new job as director of one of the other subsidiaries. People thus perceived his role as loyal only to the MNC's top management. His ambitions can thus be regarded as focused more globally than locally (cf. Morgan and Kristensen, 2006).

## *Metal*

METAL faced a difficult time because of less demand for their product, partly due to the economic crisis. Also, the quality of competition had increased, making it harder to sell their product, leading to fierce price competition. To be able to compete, costs needed to be reduced.

Being part of an MNC is a threat to the rights of the works council, according to one of the works councillors. He also mentioned that the policies and decisions made by top management are not always easy to grasp for the works council at the local level. From top management's perspective, the Dutch works council system is frustrating, because the process takes long. One of the advantages of operating in an MNC is the intercompany work that can be done; if METAL did not get assignments from the other plants, they would have a much higher decrease in production volume.

One of the works council respondents stated that the reorganization was clearly instructed by top management, and management at the local level just tried to figure out how best to approach it. The director, however, indicated that they were not instructed by top management; there was consultation with top management, but if local management had not seen that something needed to happen, that would be a bad sign. Local management proposed to cut 48 jobs, mostly in the lower levels of the workforce.

After three and a half months, in which the works council consulted with external advisors, it advised positively on part of management's plan. This advice was a joint product of management and works council, and was established following several meetings and draft versions. The council stated that the original plan was not well thought through, and would not lead to improvements, and accordingly the council advised positively on reducing 25 jobs, and eight more conditionally on investments that still had to be decided on at the time of study. A social plan was negotiated, and the dismissed people were given the opportunity to apply for one of the 13 jobs that were made available in one of the other Dutch plants of the MNC.

The social plan was beneficial for the employees. It was valid for a year, and included a (neutral) correction factor of 1.0. However, the works council respondents indicated that they in fact internally agreed on a factor of 1.3. Only because the other plants are also facing reorganizations in the near future, and top management did not want to negotiate a 1.3 factor in all reorganizing plants, did the formal document state otherwise.

## *Moderators*

*Works council's network.* In METAL, the works council was regularly supported by an external consultant in advice procedures. In the reorganization process, they hired an extra advisor, to investigate the economic necessity of the reorganization. Furthermore, there was contact with the central and European works council. This however did not improve the outcomes of the reorganization, because both institutions had no advice rights regarding the local reorganization.

The role of the unions during the reorganization was not satisfactory, according to the chairman of the works council and a works council member (who was also chairman of



the central works council). The unions had to approve the economic necessity of the reorganization. While the works council acknowledged this necessity, the union did not want to approve it. According to the central works council's chairman, during the negotiations the union was not willing to give up anything, while management was the only party willing to move.

The necessity of hiring an external advisor was not immediately acknowledged by management. The works council discussed with management at the national level, because they had to give consent on hiring the external advisor. In the end, the report of the external advisor strengthened the works council in its presumptions that the reorganization plans were not well thought through. The report was used to draft the advice, leading to fewer layoffs in the end.

*Interests alignment.* The director at METAL had a positive attitude towards the works council. He wanted the council to think of him as a serious partner, and they were invited to be critical. A works councillor mentioned that the director as well as management at the corporate level in the Netherlands acknowledged the importance of having a works council.

The works council was informed about the reorganization plan quite late. The members indicated that this had led to a longer process, which could have gone much faster had they been involved earlier. This caused a discussion on whether the works council would declare to not trust management anymore. However, management and council resolved this issue, after which they faced the reorganization together. The director indicates that indeed the management team could have involved the works council earlier. However, he states that you 'almost automatically get the critique that you do not involve them early enough. Well, you can never totally resolve that.'

Cooperation between management and works council was good, based on mutual respect. Informal communication was very important. Still, when decisions were made, they were always formally documented, so that the rules and procedures were followed correctly, a point that both works council and director emphasized.

Management provided the works council with ample information, and took the time to explain its plans several times. After the request for advice, a meeting was planned, because both parties did not want to end up sending official documents back and forth. In the end, the advice was the product of joint meetings between management and works council. The advice was positive, not for all 48 planned layoffs, but proposing 25 layoffs.

The change of owner meant a change for the parties in METAL in that they received less autonomy over the operations in their plant. The threats imposed by the market conditions made the plant's continuity the main priority for both local management and the workforce. Due to the constructive attitude of management as well as the works council in the process of the reorganization, their interests were largely aligned. In order to safeguard the continuity of the plant, costs had to be saved. The director stated: 'I have to reduce high costs. And I do not care about how to achieve that; I think we should do it in this way, but if you know a different way, please tell me.' Furthermore, the director had already been working at the plant for 10 years before he became the director, indicating he knew the organization well, and was not attracted from outside to lead the (re)organization.

**Table 3.** Reorganizational outcomes.

	FOOD	PAPER	METAL
Prevention of layoffs	No influence	No influence	Prevented layoffs
Employee benefits factor	1.0	1.4	1.3

## Case comparison

In this section, we compare the three cases on the aspects of interest presented above. In comparing the cases, we first focus on the outcomes, and afterwards try to find a relation with the determinants that may have led to these outcomes.

In the reorganization, the works council of *FOOD* did not influence the number of layoffs. This also holds for *PAPER*, where all employees were dismissed due to the closure of the factory. In *METAL*, the works council was successful in reducing the number of necessary layoffs. The differences between the cases are schematically presented in Table 3.

In terms of employee benefits, *FOOD* received the lowest compensation in the social plan, namely a correction factor of 1.0, which can be regarded as neutral. *PAPER* received the highest factor (1.4) and *METAL* only slightly lower (1.3). The social plan of *FOOD* had the longest validity, as it covered dismissed people up until two years after the reorganization start.

If we rank the organizations in terms of outcomes, we can see that *FOOD* scores lower than the other two cases in terms of employee benefits and prevention of layoffs. *METAL* scores best, because the employee benefits in terms of the social plan were relatively high, and a number of layoffs could be prevented. *PAPER* scores well in terms of employee benefits; the employees received a beneficial social plan.

Regarding operating in an MNC, *FOOD* was indicated to be the least dependent on top management, and to have made the choice for the reorganization independently. In *PAPER*, the influence of management at the corporate level was high; they made the closure decision, and local management had to execute it. In *METAL*, the reorganization was not assigned directly by top management, but top management played a large role, because they demanded cost savings.

These results make clear that operating in an MNC can affect the internal relations in organizations, and the influence works councils may have in reorganizations. This confirms the findings of Looise and Drucker (2002), describing the threat to works council effectiveness of operating in an MNC. However, Looise and Drucker state that the influence of works councils in MNCs could only be explained by the autonomy of the local parts of the MNCs. In our cases we do not find confirmation for this; we do not observe that the cases with the highest levels of autonomy also had the most influential works council. Local management in *FOOD* made the decisions, but the works council did not seem to influence them. In *PAPER*, there was hardly any autonomy, and the works council did not have much influence. In *METAL*, there was autonomy, and the works council influenced the decision of local management. These results suggest that other factors may influence the impact of operating in an MNC, leading us to formulate the proposition below, based on our findings with respect to the influencing factors, which are summarized in Table 4.

**Table 4.** Moderators.

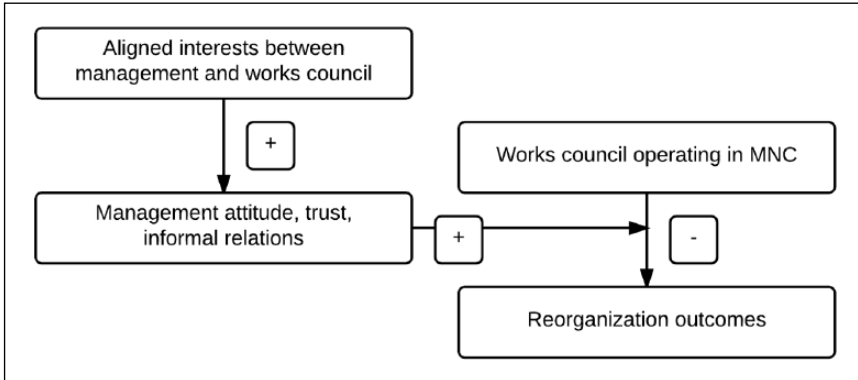
	FOOD	PAPER	METAL
Works council's network	No influence	Influence of union	Influence of advisor
Aligned interests	No	Partly	Yes

### *Moderators*

*Works council's network.* In FOOD, the network partners of the works council did not affect the works council's influence on the reorganization outcomes. The EWC was not able to play a substantial role, and the external advisor was not able to generate consensus between works council and management on what had to happen in the organization. Furthermore, according to the interviewees, the union had as a main goal recruiting new members, and was less concerned with the reorganization outcomes as such. In PAPER, efforts to involve external parties, such as politicians and higher-level works councils, did not pay off, because these parties were more concerned with their own individual interests or claimed that their hands were tied, too. The union played a role in negotiating a favourable social plan, in which the works council itself also had a large role. In METAL, the role of the external advisor was important in the sense that his report gave the works council new insights on alternative implementations of the proposed reorganization. In the view of the works council, the union mainly opposed management, and this stalled the negotiations, against the will of the works council. Reviewing all three cases, the network partners of the works council did not seem to have an outspoken effect on the influence of works councils in MNC reorganizations.

*Interests alignment.* The works council of FOOD did not have a cooperative relationship with the director during the reorganization. There was distrust over the whole course of the reorganization procedure. In PAPER, the relationship between management and works council was characterized by little trust, decreasing over the course of the reorganization. The works council and management did not cooperate anymore, because that was impossible according to the respondents. In METAL, the relationship between management and works council was good, although during the reorganization they had a small set-back. After this, trust gradually increased again.

The reorganization procedure was formal in FOOD. There was an extensive exchange of formal documents. The first advice of the works council was negative, but after having received a reaction from management agreeing on the conditions that the works council asked for, they turned it into positive advice. Because the former director expected negative advice, he decided to stick to the procedures as closely as possible, to not be judged badly on that. In PAPER, the procedures were also formal, but mostly because they had to be followed owing to legal requirements. The decision for closure had already been made, and the works council could not influence that decision anymore. In METAL, the procedure was quite informal, however the works council was not immediately involved in the process. After becoming involved, the communication was informal, and the



**Figure 1.** Prerequisites for works council influence on reorganization outcomes in MNCs.

positive advice of the works council was based on mutual agreements between the council and management.

In *FOOD*, the management attitude was positive towards works councils in general, however negative to the one in this organization. The reason was that the former director did not perceive the works council as a constructive partner in the reorganization. In *PAPER*, both the director and HR manager spoke positively about the institution of a works council, but in terms of influence they did not expect much of its abilities. They mainly perceived the works council as a means of communication with the workforce. In *METAL*, the director was positive, and perceived the works council as a mature discussion partner.

These findings indicate that trust, informal relations and management attitude are important in gaining more influence as a works council. These insights are in line with earlier literature on works councils in general. What we have learned additionally is that in the context of MNCs, management trust, informality and attitude are highly affected by the interests of local management and works council. This is illustrated in Figure 1.

In *FOOD*, the works council opposed local management more explicitly than in the other two cases. In *FOOD*, the decision to reorganize had been made by local management, and local management thus needed to be blamed. Management and works councillors did not work towards a common goal. In *PAPER*, the plant closure decision was perceived to have come from top management, and the local director was seen as serving these interests and thus to support this decision, even though he himself stated that closing the factory was not his preferred option and was a very difficult process for him. The interests of the works council were to keep the factory open. In *METAL* the works council cooperated with management to come up with a plan for the reorganization. The interests were aligned in the sense that the continuity of the organization was top priority for both parties. This leads us to the following proposition:

*Proposition:* Having aligned interests between works council and local management is a prerequisite for the effect of management trust, informal relations and attitude on works council influence in an MNC; aligned interests lead to higher levels of trust, more

possibilities for informal communication and a more positive management attitude, in turn reinforcing the modest influence of local works councils in MNCs.

## Discussion

The current study aimed to identify moderators in the relation between works council influence and reorganization outcomes in the context of MNCs. The three selected cases, all part of a foreign MNC and all having been through reorganizations, underwent an extensive analysis, generating a testable proposition presented in Figure 1.

Earlier research has argued that internationalization poses a large threat to works council influence (e.g. Looise and Drucker, 2003). The results in our study indicate that not all organizations deal with this in the same way and that it is important to take into account internal factors at the local level when looking at the role of industrial relations in MNCs, as suggested by several studies (e.g. Keune and Marginson, 2013; Pulignano, 2006). Following Ferner et al. (2012), we focused on power capabilities (conceptualized as the network partners of works councils) and aligned interests between local management and works councils, and argued that aligned interests affect the degree to which important prerequisites for works council influence can arise in MNCs.

Looise and Drucker (2002) came up with three ways for works councils to gain influence in subsidiaries of MNCs, namely by involving the EWC, networking with (top) management and forming a local coalition. This third way of gaining influence, based on aligned interests, has shown to be of great importance for works councils in MNCs. Management attitude has been found to be crucial for works council functioning (Bryson et al., 2006; Van den Berg et al., 2011a), as well as trust between management and works councils (Van der Brempt et al., forthcoming) and informal relations (Van den Berg et al., 2011a; Vermaak, 2011). Whereas these insights are based on works councils in general, this study has additionally demonstrated that the alignment of interests is an important prerequisite for these moderators to play a role.

We also investigated the first two ways of gaining more influence as suggested by Looise and Drucker (2002), by taking into account the different network partners of works councils, and identified only minor influence of these partners (external advisors, the labour unions). In this study we have interviewed actors inside the organization. The viewpoints of the external advisor and union representatives may have given us a different understanding of the matter. Future research would thus benefit from also taking these viewpoints into account in studying network effects.

Another suggestion for future research is to look deeper into the negotiating process of works councils and management. In *METAL*, instead of reducing 48 jobs, 23 planned job cuts were cancelled. However, one could also argue that management had already decided before that they could 'give way' up until 25 jobs, so that they ended up with their desired result, while at the same time giving the works council the feeling that it had had influence on the outcomes of the reorganization. Whether this would be a good or bad thing, is an interesting question in itself.

All in all, this research contributes to the extant literature on the effects of internal factors that affect the performance of MNC subsidiaries, and identifies some important

moderators in the relation between works council functioning in MNCs and reorganizational outcomes.

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### Notes

1. In one of the cases, the first author was also involved in advising the works council on the reorganization.
2. These figures are based on the average of the percentages named by respondents. The percentages are quite high as compared to the average unionization rates in the Netherlands (around 20%), but we are studying industries characterized by higher than average unionization. Furthermore, in times of reorganization, employees tend to become union members, because the unions may represent their rights during the reorganization.
3. All quotes have been translated by the authors from Dutch to English.

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