

## 6. Power and powerlessness in organizational reduction

### Abstract

During the last decade decisions have been made in quite a number of organizations that had painful consequences for the employees (reallocation, organizational reduction). The announcement of such plans generates a good deal of uncertainty and anxiety among the personnel involved. How do people react to such a situation? In the Netherlands the Works Council, which is made up of elected representatives of the employees, has the legal right to give advice about large reorganizations. In preparing such an advice, works councils can enlist the assistance of outside experts. In addition, in most cases the trade unions bargain with management about the effects of implementation of the proposed measures on the personnel. This article discusses several aspects of power relations in organizational reduction. First of all, a broad characterization of decisions with painful consequences for the personnel is given. Then the parties involved, their problems and their power bases are presented. This is followed by our principal concern: a social psychological analysis of power strategies and tactics used by the various parties. A case is described in illustration. The chief conclusion was that the contents of reorganization plans are seldom changed as a consequence of the reactions of the works council or the trade unions. However, their reactions often bring

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about improvements in the personnel plan in terms of compensation measures and/or continued employment elsewhere in the company.

### Decisions with serious and painful consequences

Several circumstances – we might think of the economic recession and the lowered sales resulting from it, worsened competitive position, automation, government cut-backs and reallocations, etc. – have obliged many companies to make decisions with painful consequences for some of their personnel during the past decade. Decision-making processes leading up to reorganizations, and the consequences they have for the personnel, generally involve a great deal of uncertainty and take a long time. The amount of uncertainty is especially striking in times of recession. Companies often have less insight into market developments than people outside of them generally assume. And if data are available on productivity and sales, they are sometimes announced selectively and in calculated doses to the organization, not in the last place because of the dire conclusions which are often drawn from such figures. Government and semi-government organizations are frequently left in the dark a long time about what policy will be adopted.

Because it is impossible to base the decision-making on irrefutable arguments (no one can really see the future), views and preferences of the various interest groups start to play a prominent role. Each party acts on the base of its own frame of reference (Beach, 1990) and tries to get the others to accept its definition of reality (Hosking and Morley, 1991). Differences of opinion about the proper interpretation of the problems and the context are rife. This is one reason why reorganization decisions often take so very long. The long duration may mean that relevant variables (cost price, market potentials) on which the proposed decision is based change in the meantime.

Acting based on a highly simplified picture of reality and even using some irrational strategies ('bounded rationality'; Simon, 1957) is not the only characteristic of reallocation and reorganization decisions. Janis and Mann (1977)

extensively described another frequent reaction of decision makers to a threatening situation, defensive avoidance. By procrastinating or by grabbing the alternative which looks least unpleasant at first sight, a serious approach to the problem is sometimes long postponed. Below, however, we assume a situation in which management has recognized the necessity of some form of reorganization. The main question then is 'how'.

### **Parties and power bases**

In large reorganization decisions in the Netherlands, company management mostly has to do with two formal consultation partners. The works council is involved on the basis of article 25 of the Works Council Act, which sets down its right to advise in the case of important reorganizations. Management generally negotiates with the trade union organizations on the basis of the collective labour agreement about the way in which consequences of the reorganization can be alleviated for the personnel ('social contract').

This legal framework is the primary power base for the works council. The right of the works council to give advice necessitates some sort of phasing in the decision-making process: at a certain point, management must set down its intentions in black and white, and cannot decide to implement them before extensive consultation has taken place with the works council. Company management may ultimately decide to ignore the advice of the works council, but then the works council has the option to bring the management decision before industrial court for annulment. The industrial court does not assess the contents of the decision, but only reviews how carefully the procedure was followed.

The works council is also entitled by law to enlist other sources of power, the knowledge of independent experts. The works council can strengthen its position by forming coalitions, chiefly with the trade unions. The works council can enforce its arguments by taking action or by threatening to do so. Here we might think of suspending consultation with the firm man-

agement, mobilizing their constituency, taking advantage of publicity by purposely making known certain information and standpoints, etc. These possibilities give the works council great influence on the duration of the decision-making process. This gives them an important card (a medium of exchange) in their hand against the management, which wants to get on with its solution as quickly as possible.

It is, however, very much the question how much there is left for the works council to negotiate after announcement by the management of a proposed decision. The severity of the consequences implies that the management will generally first try to reach agreement among themselves. Not infrequently, the various positions within management are directly opposed. This is particularly true when a certain number of jobs must be 'rationalized' but there are not yet clear specifications about how. Only when they have reached agreement internally – often after an arduous process of give and take – is the affair brought out into the open. If the organization is part of a larger whole, this battle may largely take place above the level of local management.

For the course of the process after announcement of a proposed decision, two questions are crucial: (1) the nature of the participation by the local firm management in the preliminary phases; and (2) the nature of the arguments with which the reorganizational proposal is defended towards the works council and the trade unions. We will come back to this later.

The position of the company management in the Netherlands is firmly anchored in corporate law. Furthermore, its place in the hierarchy puts the company management in a position to mobilize all kinds of auxiliary troops (staff departments) to collect knowledge and to propagate its views inside the organization. Management also has a variety of sanctions and rewards at its disposal. For instance, in the presentation of a reorganization plan, management can try to decrease the effective operation of the power base of the works council by threatening with even less attractive alternatives, such as closure. In a later stage, management can refuse to go into alternatives put forward by the works council. Finally, it can choose to ignore a nega-

tive advice of the works council. The decision can be implemented no matter what objections the works council and trade union organizations may have. Of course so little openness on the part of management entails extra risks: it may provoke action. In this case, a longer duration and negative publicity may have to be accepted as part of the bargain. Long-term relations with the works council and trade union organizations may be disturbed as well. In such situations, the company management seldom has complete liberty to act. When the firm is part of a larger whole, the most important decisions are often made higher up, with local management acting more as an implementing body. But even in the case of an 'independent' organization, it is often external bodies (banks, government) which considerably limit the number of degrees of freedom or the alternatives of the company management (Sopers, 1992).

### In search of support

Above we have broadly characterized the problems in reorganization decisions, the parties involved and their power bases. Now we want to go more concretely into the actual use of power bases and strategies during reorganizations which have recently taken place. This is based on the decision-making about six reallocations, involving varying degrees of reduction,

in a large internationally operating organization. The decision-making processes have been analyzed via document analysis and interviews with 30 informants.

The international preparation of the reallocation process has been discussed elsewhere (Koopman 1992). This article concentrates on the consultation and the decision-making at the level of the plants involved. The management of these plants defended the reorganization plans towards their own works councils and the trade union organizations. What approach did management take, and how did the representatives of the personnel react to it? The process described below must be seen as a somewhat stylized retrospective reconstruction.

The more negative are the consequences of reorganization plans for the personnel, the more difficult it is to obtain a positive advice from the works council. And yet achieving a certain support for the bad news is an important step for management on the way to the execution of its plans. Support here means some understanding and acceptance of the arguments presented on the part of the works council, trade union organizations and their constituencies, and at least giving up active resistance to the proposed decision. Important elements in achieving such support are the quality and credibility of the plan itself, the presentation of it by the company management and offering certain compensation measures (see fig. 1).

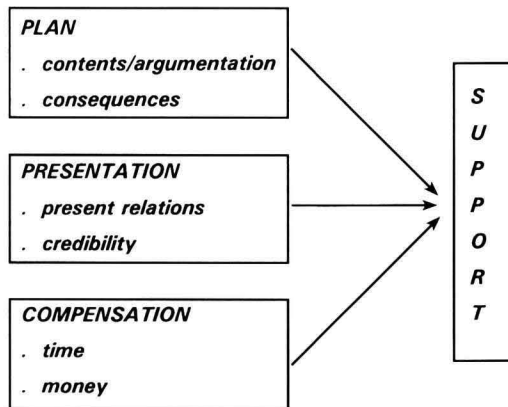


Fig. 1. Important elements in bringing about support

To start with, there is the plan itself. Two main elements in it are the contents of the message (with the consequences for the personnel) and the type of argumentation. Obviously, the worse the 'news' is, the harder it will be to achieve support. The type of argumentation is important as well. A well-founded business-like account with a conclusion inevitable for all parties seems the quickest and most convincing means of achieving sufficient support. It becomes more complicated when the plans are defended with – debatable – considerations of a policy nature. The frame of reference of the works council and trade unions is essential to the credibility of the story. What do they compare the plan to? Did they have reason to expect such bad news?

The conviction with which the plans are presented by the local management has a large influence on achieving support for the plans in the plant. Whether local management will stand behind the reorganization will depend on the extent to which they themselves are convinced of its necessity. Involvement in the decision-making can promote this personal conviction. Another important factor is whether there is certain amount of trust between local management and the works council and trade union officials. Do they see the local manager as a person who keeps the interests of the plant and the personnel well in mind and defends them energetically towards the top of the organization?

A third road to some acceptance is the use of compensation measures. They might lie in the field of guarantees for the future of the slimmed-down plant and/or for the personnel members who become redundant. In the case studied, although management endeavoured to complete the reorganizations without forced dismissals, this was only firmly guaranteed in situations in which a combination of the first two manners did not lead to a satisfactory result, at least not quickly enough. In a certain sense, the lack of support is bought off like this.

The preparation of the reorganization plans by a small and isolated group of top managers and experts has been extensively discussed elsewhere (Koopman, 1992). The management of the plants involved was informed and con-

sulted on a confidential basis. Only after management had reached internal consensus were the plans, backed by economic arguments, made public. At this point there was not much leeway left for alterations.

### Action and reaction

How did the works councils and trade unions react to the announcement of the reorganization plans? Although the reactions differed somewhat per plant, it is possible to distinguish a fairly general underlying behaviour pattern (see fig. 2).

However the reorganization plans may be announced, at an official presentation or by premature leaks of information, the first reaction of the works council is usually one of shock. They demand time to be able to study the matter well and perhaps to prepare alternatives. Their next reaction will depend primarily on the contents of the plan (the severity of the consequences), the credibility of the argumentation and the inevitability of the conclusions. Their frame of reference will be greatly affected by the question whether they believe there is leeway for alternatives. Sometimes this way out is virtually cut off by the presentation of the plan.

In practice, trade union officials and works council members act as representatives of the personnel. Because of the consequences for the personnel of reorganization plans, they know their constituencies keep an extra eye on them. What attitude the works council and trade unions will adopt depends on (1) the – estimated – willingness to action among the constituency and (2) the estimate what attitude (action) will make the best contribution to the desired result. Possible forms of action are: suspending the talks, a short work stoppage, occupying the plant, making public certain information, enlisting additional experts, taking the matter to court or threatening to do so. Whether such action will have good results (in the sense of adjustment of the plans in a way favoured by the works council) will depend on the quality of the argumentation and the defence of the plans by the local management and

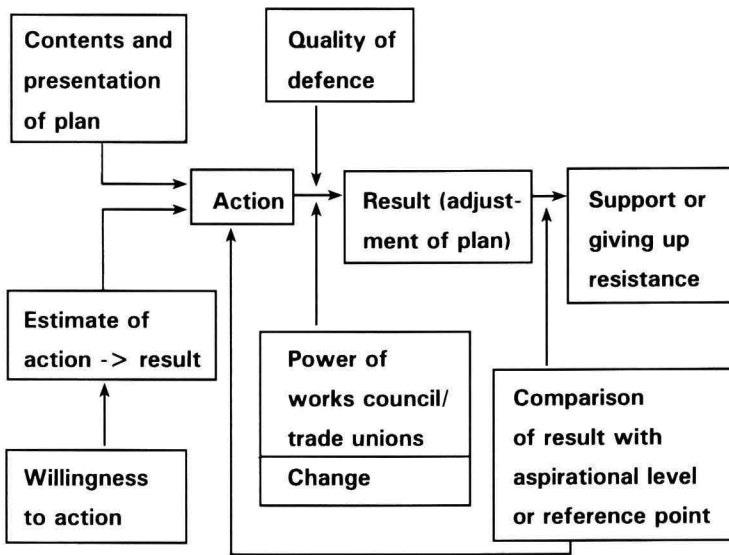


Fig. 2. Reaction of works council and trade unions to reorganization plans

on the counterforces generated in the ‘natural’ coalition of works council and trade unions, perhaps strengthened by outside experts.

What is ‘sufficient result’ to bring about at least a modicum of support among the representatives of the personnel? A basic condition is that the result can be defended towards their own constituencies. Visible improvements compared to the original management proposals are attractive to the works council in this connection. Its own aspirational level is a parameter which appears to fluctuate in time with its estimate of what is attainable. Repeated confrontations with a strong-willed management lead to adjustment. Fear and uncertainty over an extended length of time makes the constituency lose heart: their belief in alternatives and in their own power ebbs away as the negotiations fail to produce results. During this period, a negative decision by the industrial court about a procedure appealed by the works council sometimes breaks the resistance of the personnel. In other cases, the sudden offer of compensation proposals by management in this phase – e.g. the guarantee that there will be no forced dismissals – causes the works council and trade unions to give way. An independent

expert can play an important role here by giving a third party’s legitimation to a more flexible standpoint of the works council.

It can take a long time before the discrepancy between the result to be obtained and the repeatedly adjusted aspirational level becomes so small that resistance is given up. In a few of the cases, we studied the length of time between announcement of the plans and giving up resistance was over one year. One of these cases will now be described in more detail.

### Reduction of a factory for semi-manufactures

In the summer of a certain year, the works council was told that the production volume of the factory could not be maintained at the current level because of structural overcapacity on the market. At that moment the factory employed around 900 people. They worked in three shifts. The factory was part of a plant where over 1800 people were employed. Other large departments were product development and development of production means (both ± 400 employees). Towards the end of the summer the trade unions, too, were given ‘piece-



meal' information about the problems. There were no concrete plans at that point. In October of that year a task group was formed to prepare a plan for the factory. The works council was asked to appoint two of its members as observers.

The report of the task group, which was discussed in January of the following year by the company management with the works council, contained two alternatives: immediate transition from three shifts to a single day shift, or phased transition by first working two shifts. The task group recommended the latter alternative. The company management adopted the advice and brought this plan before the works council. A week later management announced to the personnel that they would temporarily be working in two shifts; there were no objections from the works council. The personnel department immediately started reducing the number of employees by seeking other openings for people within the company.

The trade unions were informed of the transition to two shifts. The local union official reacted sharply to the works council. In anticipating on the formal request for advice and the subsequent decision, it had acted out of turn. Two weeks later the works council suspended its consultation with the official. Reason: 'dissatisfaction with the rapid tempo in which people are being transferred'. At the end of February the largest trade union called a personnel meeting about an enquiry organized together with the works council. Works council and trade union organizations were disappointed at the slight turnout.

Talks between the company management and the works council had meanwhile been reopened, and management's reorganization plan was discussed at the end of March. The ultimate transition to a single day shift was announced, which implied a personnel reduction of 270 employees in the factory. The works council was not very happy with the arguments and the conclusions of the company management and announced it would work on a plan of its own.

Initially, the trade unions seemed to press for a social plan (in which agreements would be set down about the consequences for the person-

nel); they were very disappointed at the slight willingness to action among the members. A few weeks later, however, the trade unions stood behind the initiative of the works council to formulate a plan of its own. During this period, the company management formally announced it wanted to start working in two shifts – with correspondingly lower bonuses – around August 1st.

On June 16th the Works Council submitted its alternative plan. This plan entailed a switch to mass production of a smaller type of the same product in three shifts. In the opinion of the works council, there was a market for it. At the presentation of this plan, the works council threatened to file a complaint in court if its plan was not taken seriously.

Two months later (in August) came management's reaction to the works council's plan. Management personally notified the works council: the reaction amounted to a rejection. The works council held fast to its own plans. The discussion concentrated on the argumentation of the plans. The company management disagreed with the calculations used by the works council, which were based on marginal cost prices. The standpoints of the parties escalated further. The works council decided to consult independent experts. At informative meetings held by the trade unions for the personnel, twice as many employees turned out as half a year before.

On October 14th the works council reported that it had found two experts who were willing to compare the plans of management and of the works council. The management agreed – if it was kept strictly secret – to provide ample information. Six weeks later the outside advisors reported. They concluded that a reduction of production volume would not be necessary if a better marketing policy were to be adopted. On the basis of this study, the trade union organizations wanted the company to return quickly to three shifts. A talk between management, the works council and the advisors did not bring the parties any closer together. Management stated that the information phase was finished and asked the works council for its formal advice.

Early in January, the works council rejected

the reduction plans of the company in its advice. The trade unions supported the advice of the works council. The works council suggested arbitration if the company management were to react negatively.

On February 2nd the works council and the trade unions were told that the firm would nevertheless carry out the reorganization plans. The arbitration proposal was rejected. The reduction would take place in phases: the employees would work a little longer in two shifts before changing to a day shift. The works council took a lawyer and on March 1st filed a request in industrial court for annulment of the decision of the company management. The trade union organizations stated that, no matter what the court might decide, they would reject the company's decision. The trade unions tried appealing the question to Provincial States in order to bring the matter to the attention of the Minister of Economic Affairs.

On April 15th the question was heard in industrial court. The lawyers of the works council stressed the company management's incredibility in handling the matter. The decision of the court followed six weeks later: the objections of the works council were dismissed. Shortly afterwards the trade unions announced that they would no longer put up resistance; they wanted to discuss a social plan. Three weeks later there was an agreement between the management and the trade unions about the contents of the social plan. Shortly after that the constituency agreed to it as well. The reorganization plan could be carried out.

## Conclusions about power relations

On the basis of the section 'Parties and their power bases' one might conclude that the works council, directly or indirectly, has a whole arsenal of weapons at its disposal. And yet anyone who reads the newspaper regularly will know that its effectiveness in the reality of cut-back situations is generally disappointing. The cases in our study formed no exception. How is this to be explained?

In order to answer this question we must go back to the phasing of the decision-making process. Art. 25 of the Dutch Works Council Act requires the company management to ask the works council for advice on important reorganization plans. This brings about two clearly discernible breaks which mark the borders of the various phases: first, the announcement of the plan and second, winding up consultation in the form of a decision (fig. 3). The phases thus exacted by law are supposed to provide the works council with the necessary leeway. An interesting question is where in the decision-making process these breaks lie. How far has the decision-making progressed at the moment that a proposed decision is announced to the works council? How much leeway remains to influence it at that point?

The literature on decision-making generally distinguishes several phases. On the basis of empirical research of 25 strategic decisions, Mintzberg et al. (1976) distinguished three phases: 'identification-development-selection'. In research by Heller et al. (1988) similar phases

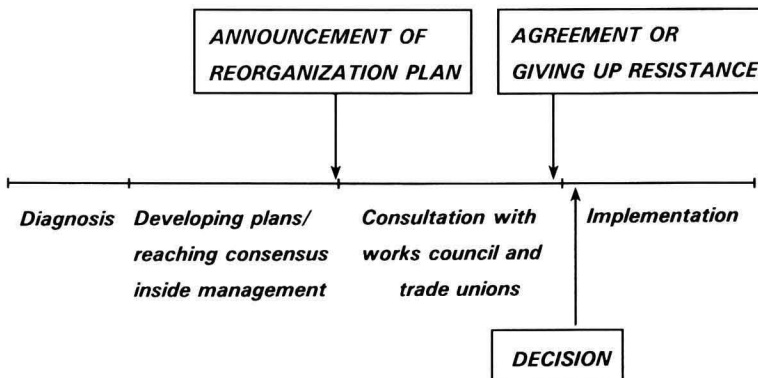


Fig. 3. Phasing of the reorganization process

were found: start, development, finalization and implementation. Aside from differences in the names of the same phases, the literature also shows differences of insight as to their contents. Not all authors ascribe the same meaning to the various phases. To clarify this, two views are contrasted below.

The first view is that of Sfez (1978). He regarded decision-making processes as an integration of 'pouvoir et savoir', where the first and the third steps are seen as power phases, the second and the fourth as information phases. To clarify: during the first step the problem definition is central, the second step is for looking for alternatives, during the third step the decisions are made, while the fourth step is to resolve the problems of implementation.

In contrast to this is the view of Enderud (1980). There is little difference of opinion on the first phase: in it agreement must be reached on a problem definition. According to Enderud, the second phase is primarily used for negotiating about solutions, especially behind closed doors. The third phase serves for the public legitimation of decisions which can still be adjusted here and there on parts in the fourth phase.

The interesting difference is primarily in the interpretation of the second and third phases. Enderud locates the central power game in phase two. After that it is primarily a question of selling the message. According to Sfez, the real battle does not take place until the third phase. In the cases studied here, the works council and trade unions were informed of the reorganization plans after the top management had reached agreement among themselves on the main points. By that time, there was hardly any leeway left for alterations, because the internal agreement had come about on the explicit condition that no one would change anything about the plans. Later alteration of one of the parts of the reorganization plan would endanger the implementation of other parts of the plan (domino effect). This was the reason for the agreement that no one would back out.

Enderud's interpretation agrees better with the findings of the present study than the view of Sfez. According to Enderud's classification, the breaks incurred by the Works Council Act

occur (1) after phase two of the central power game (when the plan is announced) and (2) after phase three (the consultation is completed; implementation can begin).

An intriguing question remains: is the works council not in a position to wield its power more effectively? When the works council used its weapons, it did not turn out to lead to fundamental changes in the reorganization plans in practice; at the most, it led to delay of the decision-making or postponement of executive measures. The legal power bases provide the works council a position of potential power: it can be turned into truly effective power only by mobilization of the constituency, for which it has several weapons. Several studies (see Koopman, 1983) and the present study as well, however, showed that the willingness to action of the employees in reduction processes is often very moderate or short-lived. In part, this will be due to the estimated risks a person runs in such uncertain situations, and in part to the feelings of powerlessness and apathy people sometimes have.

A dilemma with which the works council is often faced in reorganizations is the question whether it should aim primarily at saving all jobs or at obtaining special measures for the 'leavers'. In the case described here we saw how the works council initially stuck its neck out to help the personnel department look for good alternative employment for the threatened personnel. It appointed observers in a task group and raised no objection to the proposal to work temporarily in two shifts. But in doing this, the works council anticipated on the official request for advice. The trade unions criticized this, after which the works council changed its strategy and started aiming at securing employment opportunity.

When the works council and trade unions did not succeed in getting the company management to come back on the proposed decision – not even with the help of independent experts – and the chances of mobilizing the constituency turned out to be slim, they seemed to adapt themselves to the altered circumstances: the strategy was aimed at obtaining compensation. Because management has a clear interest in obtaining a certain legitimation



for its difficult plans, even if it is only to avoid unnecessary negative publicity and too much frustration among the parties and inside the company, it sometimes tends to try to barter. Naturally management is aware that it is very important to the works council and trade unions that they can make it clear to their constituency that they have done everything they could to alter the plans and their consequences in a direction favourable for the personnel. In the above described case it took one to two years' time to solve the personnel problems (primarily by transfer to other parts of the company).

Hard to prove but surely important is the preventive effect of the weapons of the works council. It is quite likely that, in the argumentation and the presentation of the plans, the company management counts on delaying actions by the works council. This preventive effect is perhaps the most important means by which the works council exerts influence on the plans – however, without its own constituency being aware of it.

### In conclusion

As the seventies progressed, the ideal of company democratization was upset and the limits of participation in the organization became more and more clearly visible (Andriessen and Koopman, 1985). This is the more true of reorganization decisions. Since in the eighties the economic situation started to take a turn upward for many companies, a question of current interest is what implications this will have for the power relations in the organization. In an attempt to make a few remarks on this, we will necessarily go past the fact that there are great differences between organizations and countries in this respect (Hickson et al., 1986; Mintzberg, 1989; IDE, 1992).

First of all, we need to be aware of a difference in emphasis in the meaning of participation in a reorganization situation as compared to a situation of expansion. In a period of reduction, the accent primarily lies on selling 'bad news': participation serves to legitimate, naturally with the underlying intention to avoid

demotivation. In a period of expansion and innovation, a variety of forms of consultation are chiefly applied to increase motivation and commitment (see also Hurley in this special issue). That was true during the seventies of work consultation, it is true today of 'new' management philosophies comprising client-centred working and quality circles. If the introduction of technological innovations is to succeed, management is largely dependent on the cooperation and efforts of the employees. Veen and Emans' (1983) observation that moderate power differences lead to a more effective implementation of innovations than do large or small power differences is interesting in this connection.

If this is true, then a straightforward 'no nonsense' approach will rapidly become dysfunctional in the coming years. Surely in a period of revival, management will have to use a 'new style' to find balanced solutions to two chief problems with which every organization is faced: control and commitment (Lammers, 1983; Koopman, 1991). This is not to say that we expect the climate of the seventies to return. What seems more probable is the onset of a business-oriented style of management in which there is room for participation in matters where there is something to be gained for both parties.

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