Ownership, Financialisation, and Employment Relations: The effects of the stock market-listed firm on employment, industrial relations, and HRM

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1. Introduction

In the last fifteen years there has been mounting interest within Industrial Relations in the effects of corporate ownership and governance on employment, industrial relations and human resource management. This reflects a growing recognition that the distributional struggles between firms and workers, the core territory of Industrial Relations, are powerfully influenced by factors outside industrial relations institutions. Equally, the nature and distribution of HRM practices can reflect, at least in part, ownership influence on management decision-making.

The core issue addressed in the paper is how the nature and characteristics of ownership influence and constrain managerial decision-making (and 'non-decisions'), policies, and practices in Industrial Relations (broadly defined) and HRM. The paper primarily discusses ownership by shareholders of large firms listed on stock exchanges because this has been the main focus of the recent ownership, governance, and labour literatures[1]. Reference is also made to other forms of ownership that have come to prominence because of their apparent labour effects, such as private equity (Appelbaum and Batt 2014; Gospel *et al* 2010; Gospel *et al* 2014; Wood and Wright 2009).

The paper considers the evidence for the argument that highly developed stock markets and stock market firms are associated with industrial relations and HRM consequences that are generally unfavourable for labour. The basis of this argument is that stock market firms are characterised by 'low commitment' ownership by fragmented, portfolio investors, with the willingness of these owners to exit ownership pressurising managers to minimise labour costs, restrict the role of workers and unions, and avoid 'good' HR practices (eg. Daguerre 2014). A set of outcomes are often linked to this such as job insecurity, higher labour turnover, greater pay inequality, collective bargaining decentralization, and a narrower scope for collective bargaining.

This approach to industrial relations analysis has been most prominent in comparative analysis of national industrial relations systems. Several accounts, of which the

[1] There are also long-standing literatures in Industrial Relations on the role of foreign ownership, the effects of multinationals, and the nature of 'non-standard' forms of ownership such as employee ownership.

most well-known is 'varieties of capitalism' (Hall and Soskice 2001), have identified complementarities between aspects of ownership and governance and labour/employment at national level, and have grouped countries according to the nature of these. Thus, varieties identifies 'liberal market economies', exemplified by the US and UK, and 'coordinated market economies', of which Germany and Japan are seen as prime examples. Ownership and governance characteristics are seen to be linked with differences in national patterns of industrial relations and HRM.

The evidence for ownership-labour linkages at comparative regime level is found to be mixed. There are also conceptual and methodological problems with this approach. These include 'within category' differences and large numbers of countries that do not readily fit existing regime categories. It is suggested that observed complementarities reflect broader underlying factors: we propose that both stock market and labour developments have been substantially influenced by political developments. First and foremost here, is the neo-liberal 'turn' since the late 1970s, especially marked in the liberal market economies but imitated to varying extents by other countries.

Turning to ownership effects within countries, the paper examines the relationship between stock market listing and industrial relations. It is found that most of the empirical evidence is not consistent with the predictions found in the comparative approach. Stock market-listed firms are more likely to have 'high commitment' labour, employment, and HRM practices than other firms, after controlling for relevant factors such as organizational size. We identify a number of features of stock-market listed firms that help to explain the presence of these. However, the stock market firm appears to be in decline in some economies, and new forms of corporate ownership have emerged with less favourable effects on labour and HRM. Foremost amongst these is private equity.

We commence by outlining the nature of potential links between ownership/governance and labour management. We then consider the national systems approaches, highlighting empirical, conceptual, and methodological shortcomings. Then, the evidence relating to listed firms within countries is considered, followed by a discussion of why stock market firms appear to have more benign effects on labour than is often suggested in the literature. We then consider recent trends in stock market development, suggesting reasons for the decline in the number of listed firms, and identifying new forms of ownership, sometimes referred to as 'new investment funds'. The paper concludes by suggesting some areas for further research. The evidence in the paper is drawn from the USA, UK and, to a lesser extent, mainland Europe.

2. The model: linkages between ownership and labour

A key question concerns the means by which ownership affects employment and industrial relations within firms. In an early contribution, we identified several mechanisms that link the two (Gospel and Pendleton 2003; 2005), based on a model with three actors: owners, management, and labour (Aguilera and Jackson 2003; Pagano and Volpin 2005). For the most part, owner-manager interactions are the primary focus, though management-labour

alliances are also important (see Jackson 2005). The logic is that the impact of ownership on industrial relations is essentially indirect, at least where there is a separation between ownership and control.

One important factor is owner preferences for returns, and specifically the distribution of returns between capital and labour. Different owners may have different preferences for the nature and distribution of returns, with non-financial returns such as social prestige and political power important to some (eg. family owners). As far as stock market companies are concerned, many authors have highlighted shareholder concern to secure higher returns since the late 1970s, often at the expense of other claimants. This is encapsulated in the notion of 'shareholder value': the idea that the primary duty of managers is to maximise returns to shareholders, irrespective of the interests of other stakeholders (see Lazonick and O'Sullivan 2000; Fligstein 2001).

A second dimension is the time horizons of owners. Are owners prepared to take their returns in the long-term or the short-term? It has been widely argued that institutional investors in stock-market listed firms tend to have short-term preferences because of the nature of the business models they operate. For instance, fund managers for pension funds are judged on short-term investment returns. It has been argued that pressure for short-term returns leads to short-termism in the management of companies (Kay 2012). This is said to feed through to aspects of labour management, such as an unwillingness to invest in longer-term activities with less tangible results such as training and human resource development (Porter 1997).

A third dimension concerns the influence of owners on the objectives and business strategy of the firm. Is the primary strategic objective of the firm to secure financial returns or to achieve market share? This overlaps with time preferences to some extent in that market share tends to be viewed as a longer-term objective. It is argued that some investors in stock market listed firms prioritise short-term financial returns over the achievement of longer-term market share objectives. At a comparative level, it has been argued that an emphasis on market share tends to support product and process innovation, which in turn can be supportive of (and arguably dependent on) 'high commitment' work practices and co-operative industrial relations (e.g. Streeck's 'diversified quality production', 1992). By contrast, where financial returns are prioritized, and where these cannot be obtained by extracting rents, there will be downward pressure on labour costs.

A fourth dimension, once again overlapping to some extent with the other dimensions above, is how success is measured. What types of performance measures are used by owners, and how does this influence performance metrics within the firm? Clearly, with stock market listed firms, financial measures such as stock price and dividends are important metrics. It has been argued that some stock market listed companies attempt to boost stock price by taking anti-labour measures (Daguerre 2014), though most of the evidence suggests that lay-off announcements, for instance, have adverse effects on stock price and market returns (Hallock 1998; Nixon *et al* 2004).

We argue that managers have some degree of strategic choice, but ownership provides a set of constraints. How does ownership constrain managers? Typically, the answer highlights the structure and distribution of ownership. In stock market companies, where ownership is highly dispersed and where owners hold diversified portfolios, incentives to actively monitor and engage with firms are highly muted. Combined with returns preferences that are more or less exclusively financial, these lead to 'low commitment' ownership (Mayer 2013). Rather than engage with company managers, owners pursue their preferences through exit. This renders firms and their managers vulnerable to the market for corporate control, with incumbent managers often immediate victims of a change of ownership and control. Thus, there are strong incentives for managers to keep owners 'on-side' even though dispersed ownership should, in the Berle and Means (1932) schema of things, mean that investors are relatively weak.

How does this affect labour? The core argument is that the power of dispersed owners, realised through low commitment and the market for corporate control, constrains managers to pursue owner objectives, often at the expense of labour. The rise of shareholder power since the 1980s, associated with liberalisation and development of stock markets, is seen as bringing about a major shift in corporate objectives in favour of 'shareholder value'. This is most clearly seen in the US where, as documented by Davis (2009; 2016) the public corporation has shed much of its post-WW2 social welfare function by reducing health insurance cover, replacing defined benefit with defined contribution pensions, and substituting various forms of contingent labour and out-sourcing for full-time career employment.

3. Corporate ownership and labour regimes

An important strand of analysis in Industrial Relations and Political Economy has considered differences between national regimes in terms of the characteristics identified above. It is shown that some countries have more developed stock markets, greater concentrations of listed firms, and dispersed, institutional investor ownership. This is then associated with variations in labour, employment and industrial relations between countries or groups of countries. The most well-known distinction in the literature is between 'varieties of capitalism' (Hall and Soskice 2001). They identify liberal market economies (LMEs), exemplified by the UK and USA, and coordinated market economies (CMEs)such as Germany and Japan. Liberal market economies are characterised by well-developed stock markets with large numbers of listed firms, dispersed ownership (La Porta *et al* 1999), well-developed institutional investment (arising from a greater use of company-provided pensions), and high volumes of share trading. More broadly, coordination of economic transactions takes place through market mechanisms, as compared with CMEs where long-term relationships between key actors are more important (Hall and Soskice 2001; Gourevitch and Shinn 2005).

The varieties approach emphasises complementarities between institutions within regime types, and in particular complementarities between finance, ownership, and labour.

A set of labour predictions can be generated from the stylised features of ownership and governance in the two types of regime.

1) Job security will be weaker in LMEs because managers find it difficult to commit to employees given the constraints of ownership. This bears comparison with Thompson's 'disconnected capitalism' thesis (2003) and the commitment problem identified by Blair (1995). Inability to commit will be reflected in shorter job tenure.
2) Short-termism and 'financialised' business strategies will discourage long-term investments in employee development, mediated by a concern to avoid complex work organisation. As Gourevitch and Shinn put it, "in CMEs managers invest in worker training to sustain manufacturing that demands high levels of skills, and workers have incentives to engage in that training; in LMEs managers prefer flexibility and hence lack motive to invest in skills development, whilst workers lack incentives to upgrade" (2005: 52). Thus, levels of training are likely to be lower in LME countries.
3) Pay inequality will be higher in LMEs because of a concern to constrain employee wages, whilst managers are rewarded for their ability to meet owner preferences. Greater labour market mobility of top managers in LMEs will also push up executive wages.
4) Firms in LMEs will have a higher propensity to avoid union representation and collective bargaining as this may form a countervailing force to shareholder interests. Where bargaining does take place, it is likely to take a decentralised form (Pendleton 2009).

What's the evidence? The evidence is consistent with most, but not all, of these predictions, though it varies in strength and explanatory power. But whilst complementarities can be shown, it is not at all clear that ownership is the ultimate determinant of cross-national variations in labour and HRM practices.

One, based on national level indicators, various measures of the development of stock markets are correlated with shorter job tenure. Countries with a higher volume of share trading, weighted by the number of listed firms per 1000 head of population, have lower incidence of long tenure (above 5 years) and lower average and median tenure. A high volume of M&A also depresses job tenure (Black *et al* 2007). Similarly, Hall and Gingerich (2009) find that median tenure is highly correlated with corporate governance (a composite of shareholder power, size of stock market, and dispersion of control). Jackson (2005) finds a series of negative correlations between average male tenure and ownership dispersion, investor rights, market capitalisation, and mergers and acquisitions

Two, contrary to the predictions above, there are no clear associations between various measures of equity markets and firm-provided employee training. Indeed, Black *et al* (2007) find a positive association between M&A activity and post-initial training. By contrast, Hall and Gingerich (2009) use a measure of vocational training (proportion of upper secondary pupils in vocational training plus scores of young workers in a literacy test)

and find that this correlates with a composite measure of firm strategy (the measure records the extent to which firms use cooperative practices), which in turn is correlated with corporate ownership and governance.

Three, there is clearer evidence of associations between income inequality and business regime. Using OECD data, Sjoberg (2009) finds that pay inequality (the ratio of the 90th to 10th decile incomes) is generally highest, and has grown the most, in countries that are typically classed as LMEs. In a series of regressions, controlling for a range of industrial relations characteristics such as union density and wage coordination, it is found that minority investor protection and the volume of M&A are significantly related to earnings inequality over a fifteen year period.

Four, there is less evidence on union representation and collective bargaining, and it is less compelling given the range of alternative explanations for industrial relations change found in the literature. Nevertheless, Black *et al* (2007) find a correlation between well-developed stock markets and bargaining decentralization. Hall and Gingerich (2009) find a strong correlation between their labour measure, primarily composed of the level and degree of wage coordination, and their corporate ownership and governance measure. There is also a strong correlation between their measure of cooperative firm practices and wage coordination.

There are various methodological criticisms that can be made, to varying extents, of these studies. Very limited data availability means that some results are based on a single year (especially some labour 'outcome' measures), with the result that the *n* is not large. There is also the issue of the representativeness of the data in the chosen year. The suitability of the measures used to proxy the underlying phenomena is also open to question.

To these methodological problems may be added some well-known criticisms of the varieties approach. These include diversity within categories and the possibility that countries that are grouped together in regime types are more different than similar. Industrial relations in Japan, for instance, is quite different in several key respects from those in Germany. A further issue is what to do with countries that do not fit the categories? Other models of business systems have attempted to broaden the range of categories to include other types (eg. Southern Europe, Asian firms etc.) (Amable 2001). In so doing, it becomes more difficult to find readily comparable complementarities between ownership and industrial relations.

Finally, a fundamental issue is what to make of the correlations that are observed in the various empirical studies? Can an ownership characteristic be said to lead to an industrial relations 'outcome'? Leaving aside statistical limitations, it seems conceptually unlikely in many instances. Is it realistic that stock market size affects employment protection rights, or vice versa, in a meaningful and direct way? The answer would appear to be no, though in a long-run timescale there may be complex causal connections. Far more likely is that observed correlations are highly endogenous, with both ownership and labour variables reflecting unobserved underlying factors. This possibility is highlighted by

Jackson (2005) who, whilst finding a range of correlations between the variables of interest, shows that none of the ownership and governance variables he uses (ownership dispersion, investor protection, market capitalisation, M&A activity etc.) are individually either necessary or sufficient in QCA analysis for labour 'outcomes' such as employee board representation, unionization, downsizing, or collective bargaining centralization.

In my view, the factor underlying both stock market development and weak employment protection is politics (cf. Roe 2003). In liberal market economies, governments have taken a series of measures since the late 1970s to encourage stock market development and weaken employment and union rights, as part of a broader neo-liberal agenda. Thus, a complementarity can be observed between elements of ownership and labour but both elements reflect a deeper political economy philosophy and agenda. Whilst most highly-developed in the liberal market economies, aspects of neo-liberalism can also be found in countries that are typically seen as coordinated market economies, especially in relation to stock market development.

4. The effects of ownership at firm-level within countries

Models of national business systems and 'varieties of capitalism' have viewed stock market-listed firms and stock market development as key indicators of national regimes. This raises the question of the typicality of listed companies within economies. The implication of the comparative regime perspectives appears to be that listed firms might have lower tenure, less training, more inequality, and less involvement of workers and their representatives than other firms.

A range of studies have compared industrial relations and HRM practices of listed firms with those of non-listed firms, typically controlling for size, sector, and other relevant factors. A key implication is that, should listed firms have 'better' practices than non-listed firms, the key transmission mechanism identified in the literature (the market for corporate control) may not be as malign as is often thought.

Contrary to the implications of the comparative literature, stock market firms seem to be better employers from an Industrial Relations perspective, at least in some respects. In others they do not seem to be worse than other employers. Most of the evidence is drawn from the UK and France because of well-developed nationally representative workplace surveys (WERS and REPONSE respectively)[2]. In terms of job security and employment, Pendleton and Gospel (2006) found no significant differences between listed firms and others in relation to various dimensions of contingent employment (job security guarantees, contracting-out, redundancies, use of fixed term contracts etc. Similarly, Pendleton and Deakin (2007) found that listed firms are not less likely to offer long-term employment.

[2] The German IAB panel does not include information on ownership in most years

As regards training, there is now a body of evidence suggesting that stock market listed firms do more of it. In France, listed firms incur higher expenditure on training (Perraudin *et al* 2008: Conway *et al* 2008)). Evidence from the UK is more mixed: whilst Conway *et al* find that British listed workplaces are not more likely to provide training, Pendleton and Deakin (2007) find that listed workplaces have a higher probability of training larger proportions of workers, though the amount of training did not differ. Workplaces belonging to listed companies are also more likely to have the Investors in People badge (*ibid.*). Perhaps the most compelling evidence for the UK at least is that offered by Felstead (2016) using a large data set derived from the National Employer Skills Survey 2009: his analysis shows that listed workplaces are more likely to train their staff and to offer longer periods of training. Listing makes no difference to employer willingness to cut or increase training activity due to the recession.

Evidence on pay is a little more fragmented. Evidence from workplace surveys in Britain and France find that contingent pay (individual and collective PBR) and employee stock ownership plans are more likely to be found in listed firms (Amosse *et al* 2016). The former could be consistent with listed firms transferring risk to or with rent-sharing with workers. These surveys also show that target-setting is more likely to be found in listed workplaces.

Pay inequality has clearly grown in listed firms, and has attracted a great deal of public attention, though it is not clear whether it is greater than in other types of firm once size is controlled for.

Evidence from WERS in Britain also suggests that stock market firms are more consultative. Konzelmann *et al* (2006) find that PLCs (a broader group of typically dispersed ownership firms than listed companies) are more likely to consult with employees over job prospects, training, and pay. Pendleton and Gospel (2006) find that union recognition is more likely in listed companies, alongside more employee involvement (quality teams and briefing groups) and greater disclosure of information (on company finances). More recent comparative evidence finds that workplaces belonging to listed workplaces are more likely to have autonomous work teams and problem-solving groups in Britain, though not in France (Amosse *et al* 2016). Overall, it may be concluded that listed companies are more likely to be involved in using high commitment HRM practices (Conway *et al* 2008).

All this is not to argue that stock market listed companies are invariably paragons of virtue in labour, employment, and HRM. There are companies that do not actively pursue good HRM policies, and have a reputation for poor labour practices. And the listed company in countries such as the US and UK has evolved in a direction that is less favourable to labour than in the past. In the USA in particular the public corporation appears to have discarded the 'welfare capitalism' model found in the 1950s and 1960s (Davis 2016; Jacoby 1997). Developments include the near universal shift from defined benefit to defined contribution pension arrangements, as well as the steep growth in executive pay and a widening of pay differentials. Contingent forms of employment have

also grown[3]. Nevertheless, stock market listed companies appear to have some aspects of HRM which are generally better than in other firms, and it is pertinent to consider why this is so.

Reasons for the approach to HRM and IR in stock market-listed firms?

The set of findings that suggest that stock market listed companies tend to be more likely to use high commitment HRM practices is at odds with the prediction that listed firms will make more use of short-termist and anti-labour practices because of pressures, real or perceived, from the stock market and the market for corporate control. Why is this? Several reasons can be advanced.

One, the operation of the market for control does not impose the generalised pressures that are attributed to it, at least for most of the time. Takeover activity is cyclical, most takeovers are friendly rather than hostile, and most are arranged by managers. Most takeovers are aimed at achieving synergies, market expansion, or integration of supply chains rather than disciplining managers of poor performing firms. The disciplinary perspective on takeovers arises from two sources. One is an ideological view on the role of the market for corporate control, based on the efficient markets hypothesis, by Manne in the 1960s (Manne 1965). The other is the temporary experience of the US in the 1980s when a lifting of controls on takeovers, coupled with a critique of the conglomerate firm, led to an intensive, but short-lived feverish restructuring boom often characterised by a shift of wealth from workers to shareholders (Shleifer and Summers 1988). Subsequently, managers achieved some protection against unwelcome takeovers through re-regulation (Useem 1993)

Two, with stock market listing comes a degree of transparency and information disclosure that is not required of other corporate forms. Information on performance and key events has to be provided regularly to stock exchanges. There is also 'soft regulation' by investor trade associations which encourages firms to behave within certain limits, though the capacity of listed firms to withstand shareholder revolts against executive pay may belie this. The requirements for disclosure mean that listed companies are more obviously public entities than other types of company, and this imposes a degree of responsibility on firms especially those that are larger and well-known. Reputation is very important, as it can impact stock price. This not only provides limits on 'bad' HR practices (witness highly effective public campaigns on supply chain issues) but may also encourage more 'high commitment' HRM (eg. The development of well-trained staff). Note the finding mentioned earlier that listed workplaces are significantly more likely to have the UK Investors in People badge than workplaces belonging to other corporate forms. Also, Us evidence shows that lay-off announcements have adverse effects on corporate reputation (Flanagan and O'Shaughnessy 2005).

[3] The scale of this will not be apparent from research that focuses solely on employment *within* corporations.

Three, the dispersed ownership by portfolio institutional investors viewed as leading to short-termism and instability, leads to a power imbalance between owners and managers in which managers have the upper hand most of the time. This is the orthodox corporate governance view, originally derived from Berle and Means (1932), which highlights agency costs in the shareholder-manager relationship in Anglo-American listed firms. Diversified portfolio investors with small minority stakes limit their monitoring activity because the costs of active monitoring outweigh the benefits (which are shared with all other investors). Nevertheless, there are some face-to-face interactions between major institutional investors and managers. In these, a key consideration is the evaluation of managerial capability and trustworthiness (Holland 1995). Investors also appear to look for appropriate approaches to 'people management', given the nature of business strategies, though without a very clear idea of what this involves. In these interactions a key principle, accepted by all parties, is that investors do not 'micro-manage', and that managers generally have more expertise in people management (Hendry *et al* 1997).

The area of management that managers have been most able to exploit the weakness of diversified, minority investors is their own pay. The pay and rewards of top managers in listed companies in the USA and UK, the former especially, have been steadily rising in recent years and the pay gap with other workers has been widening. Similar developments can be observed in listed European companies though this is much less marked and income inequality has grown more slowly and from a lower base. In the USA, top managers have been able to exploit a range of 'loopholes' in the regulatory regime to secure contingent pay that is largely quasi-fixed in practice (see Bebchuk and Fried 2004). Managers have increasingly adopted the language of 'shareholder value' but it is arguable that in part this is a cover for self-aggrandisement (Westphal and Zajac 1998).

Some recent studies have highlighted the key role of ownership dispersion in facilitating labour management practices that are more favourable to labour. A Swedish study, based on the entire working population, finds that average worker pay is around 7 per cent higher when ownership is dispersed (Cronqvist *et al* 2009). The authors attribute this to a managerial desire for a quiet life – paying workers more minimises pay conflicts and probably reduces turnover (though this is not directly observed). They reinforce this by finding a moderating effect of strong and aggressive unions. They also find that managers tend to benefit more than other workers from higher pay.

A recent British study using WERS conducted by Pendleton *et al* (2015) has similar findings. Where ownership is dispersed, measured by the absence of an owner with 25 per cent or more ownership, average worker pay is 7 per cent higher. Quantile analysis shows that this effect is more or less constant across the pay distribution, apart from at the 95th percentile where the effect becomes insignificant. Around three-quarters of the pay gap can be attributed to compositional factors. Workers in dispersed ownership firms are higher quality and have lower turnover, but the remainder cannot be explained by the variables in the study. The unexplained component is presumed to be the result of managerial indulgence. Unlike the Swedish study, however, union membership and collective bargaining have no impact on the dispersed ownership premium.

Other recent work has examined the role of ownership dispersion/concentration on a wider range of HR and industrial relations characteristics. Liu *et al*'s study (2012) of call centres belonging to US and Canadian listed firms finds that shareholder concentration is associated with lower levels of firm-specific training and lower long-term commitment (pay, ILMs, and employment security). In a similar vein, Mullins *et al* in their study of S&P 500 firms (2014) find that the number of larger institutional investors (though not their combined share) is associated with lower use of high commitment HR practices, defined as incentive pay, participative decision-making, and information sharing.

Based on this evidence, we propose that, contrary to the implications of earlier comparative studies, dispersed ownership permits high commitment work practices where managers choose to use these practices. In other words, the constraints on managers are less. Where ownership is concentrated, owners are in a stronger position to force managers to pursue owners' objectives.

5. What is happening to the stock market company?

What has been happening to the listed company sector in the major economies? The implication of the findings presented above, is that increases in the diffusion of listed companies could be beneficial for workers, at least in some circumstances, whilst a reduction may have the opposite effect.

Table 1 provides the numbers of listed companies in a selection of countries at various points since 1980s, drawing on data supplied by the World Federation of Exchanges to the World Bank. By and large, there are increases in the number of stock market firms from 1990 to 2000, and from 1980 in some instances. But, focusing on the UK and US (the paradigmatic LME countries), the number of domestic (and soled listed overseas) listed firms has been declining in recent years. In the case of the US, the number has declined by more than one-third since 2000. In the UK the decline has been of a similar scale from a high water mark in 2005. In other countries typically classified as LMEs, Australia and Canada, the number has steadily increased since 1980, with a big jump in Canada between 2000 and 2005 primarily due to a restructuring of Canadian exchanges.

As for the larger European economies, there was a steep rise in the number of listed companies in the 1990s to 2000, reflecting government policies to develop stock markets and corporate imitation of their LME counterparts, but this subsequently declined (apart from Italy where numbers have stayed approximately constant since 2000. Japan, meanwhile, displays a fairly steady growth in the number of listed firms over the period 1980-2015.

Statistics for market capitalization relative to GDP are shown in Table 2. Here we observe significant growth in total market capitalization (as a proportion of GDP) from 1980 – approximately the onset of neo-liberalism - through to 2000. From then (ie. before the onset of the global financial crisis) market capitalization declines in the US and UK, though it subsequently rises from 2010 in the case of the US. Meanwhile, those LMEs which were less

affected by the GFC continued to observe increases in total market capitalization up until 2010. The European countries shown show similar trends to the US – declines from 2000 but a recovery from 2010.

Table 1 Numbers of listed companies

Domestic firms (excluding investment trusts) and sole-listed foreign firms

	1980	**1990**	**2000**	**2005**	**2010**	**2015**
USA	5164	6429	6917	5145	4279	4381
UK	2659	1946	2428	2757	2105	1858 (2014)
Australia	1007	1089	1333	1643	1913	1989
Canada	1124	1763	1507	3719[b]	3771	3799
France	586	443	1185	749	617	490
Germany	459	413	744	648	690	555
Italy	134	220	297	275	290	290 (2014)
Sweden	103	121	292[a]	-	-	-
Japan	1402	1627	2055	2323	2281	3504
China			1086	1377	2063	2827

[a] The Stockholm exchange became part of NASDAQ Nordic in 2005, created from a merger of Scandinavian exchanges

[b] A major restructuring of Canadian exchanges took place in the early 2000s

Source: World Bank Database

Table 2 Market capitalization as percentage of GDP

	1980	**1990**	**2000**	**2005**	**2010**	**2015**
USA	47.5	51.7	146.9	129.8	115.5	139.7
UK	6.4	77.7	165.7	126.4		
Australia	39.9	34.7	89.8	116	127.3	88.6
Canada	104.3	77.2	103.8	126.8	134.6	102.8
France	7.8	24.4	105.7	79.8	72.2	86.2
Germany	7.6	20.1	65.1	42	41.8	51.1
Italy			67.3	43.1	25.2	
Sweden	9.2	35.6	126.4			
Japan	34.9	94.4	66.7	100	69.6	118.7
China				17.7	66.7	75.4

Source: World Bank Database

Overall, the listed company sector appears to be contracting in the US and UK, the paradigmatic LMEs. In the case of the USA, Davis refers to this as the 'vanishing corporation', and suggests this has come about partly because of the growth of shareholder value, leading to the break-up of conglomerate firms in the 1980s, and partly because of technological change (encouraging 'Uberisation' and the 'platform economy') (2016). He argues that modern, technology-based firms do not have the high capital requirements typically found in erstwhile manufacturing companies, and hence do not require stock markets to raise (or realise) capital. Furthermore, the steep reduction in information costs arising from technological change reduces the costs of market transactions, meaning that the 'make-buy' decision is tilted towards the latter. This reverses the long-term trend, associated with the growth of the modern corporation, towards greater internalisation (cf. Gospel 1992). Davis also highlights a fall in the number of IPOs since 2000, meaning that retirements (through M&A) and deaths (less frequent) of listed companies are not replenished. He argues that IPOs have fallen out of favour because emerging firms in the 'platform economy' don't need the money.

There are several other factors which have some bearing on the reduction in the stock market listed company sector. Some commentators draw attention to the imposition of growing regulation, hard and soft, that makes being a listed company increasingly onerous for its managers. For instance, many countries now require that executive remuneration is voted by shareholders even if the vote is only advisory. In some cases, remuneration votes are binding, as in the case of remuneration policy in the UK. The new UK government has threatened to make annual executive pay arrangements binding as well. Takeover regulation of listed companies in Europe is also potentially onerous. For instance, the implementation of the EU Takeover Directive requires that worker representatives in both acquirer and acquire company be consulted on the takeover – an advance in worker consultation rights in countries like the UK (though many would argue that the Directive, and its implementation, do not go far enough in protecting workers' interests – see Cremers and Vitols, forthcoming). In the US, the Sarbanes-Oxley legislation in 2002 is widely seen as making the management and governance of listed companies considerably more onerous, with 'going private' decisions increasing after the Act was passed (Engel *et al*. 2007).

Changes in share trading have also contributed to a widespread view that being listed has onerous consequences. In particular, the growth of automated trading, whereby sell/buy decisions are triggered automatically, intensifies stock market reactions to company news releases. This potentially generates instability for listed companies, and means that companies may have to devote considerable attention to managing their stock price. A further problem is directional trading activity, exploiting or even causing market movements, by hedge funds. This has grown substantially in the last twenty years or so. The most well-known instance and controversial example is 'short-selling', whereby hedge funds sell borrowed shares and then repurchase them at a lower price (see Gospel and Pendleton 2014). Other forms of hedge fund activity include event-driven strategies, where funds exploit mergers and acquisition activity, and activism, whereby activist hedge funds

intervene in companies to secure changes in board composition and distribution of funds to shareholders. Taken together, these developments have destabilized the context in which listed companies operate. On occasions these have led listed companies to take measures which have harmed labour's interests or have otherwise had adverse consequences for labour (eg. Hedge fund activity during Kraft's takeover of Cadbury) but a wider development appears to be exit from the listed sector.

A further factor in the decline of stock market firms is the emergence of new company forms that appear to offer higher returns to investors. Foremost here is private equity, with substantial growth in this company form in many mainland European countries (especially France, Sweden, Poland, Netherlands[4]) as well as in the USA and UK over the last twenty years (see Gospel *et al* 2010; Gospel *et al* 2014). In some instances private equity has prospered in the small family business sector (as in Italy, Germany, and Belgium for instance) but it has also benefited from the restructuring of stock market listed firms and public to private transactions (PTPs). In the US there was a big rise in the latter activity during the 1980s and then from the late 1990s, whilst in the UK there was a big rise in PTPs from the late 1990s (Renneborg *et al*. 2007). In part these transactions are divestments of subsidiaries and divisions from restructuring of stock market firms, in part they are public firms (generally smaller ones) going private in their entirety[5]. In some cases large public firms have gone private with the assistance of private equity: for instance, the Boots chemist chain in the UK (but now wholly owned by US listed firm Walgreen). Ironically, perhaps, the liberalisation of stock markets (eg. Relaxation of takeover regulation) in countries that are often viewed as CMEs has assisted the development of private equity by facilitating restructuring of large firms (Vitols 2014).

The attraction of PE funds to investors (typically institutional investors, banks, foundations, and wealthy individuals) is that they promise a higher rate of return than other asset types (eg. investments in listed companies). High returns are premised on activist management of investee firms. Firms are acquired using high levels of leverage, thereby securing corporation tax benefits. High levels of company debt restrict managers' freedom of manoeuvre ('free cash flow'). As debt is cleared, valuations of companies increase, thereby helping to generate a capital gain when the company is sold (typically 5-10 years after acquisition). PE has a preference for firms with positive and assured cash-flows, and also with property portfolios. The latter are often sold to generate quick cash inflows into the PE fund.

PE differs from typical stock market firms in several important ways. One, unlike many stock market firms, PE funds take large, often majority, stakes in investee companies. Concentrated ownership facilitates active control of the management of investee firms. Two, managers of investee funds can be under intense pressure because of ownership concentration and close monitoring along with the nature of the PE business model. The latter is notable for high levels of debt arising from the acquisition process coupled with the

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[4] See the chapters on Germany, Italy, Netherlands, Poland, and Sweden in Gospel *et al* 2014

[5] Stock markets can be of limited value to smaller firms because their stock is viewed as costly by institutional investors, and hence the cost of raising capital via equity tends to be high)

requirement for high returns. Compared to typical stock market companies, managers of PE-backed companies have little 'free cashflow' to play with. Critics of PE argue that these companies are forced to transfer value from other stakeholders, such as labour (Watt 2008)[6]. Certainly, the pressure that PE-backed firms can be under means that economic shocks can entail rupture of 'implicit contracts' with labour (Appelbaum *et al* 2014). In its defence, the PE industry argues that PE generates value by supplying capital and managerial expertise to under-valued or badly-managed firms, and that it turns around companies that would otherwise have failed (ref.).

A third difference with the listed sector claimed by PE relates to timescales. The typical PE investment in a company is around five years, and this is often contrasted with the 'short-termism' of share ownership in stock markets. However, the taking of 'special dividends' from investee companies and 'sale and lease back' of property assets, often early in the PE investment, suggests that short-term orientations are not absent (Gospel and Pendleton 2014: 27). Four, PE has also benefited from a much lighter touch disclosure regime than stock market listed companies. This has attracted considerable controversy in several EU countries, and led to the EU passing the Alternative Fund Management Directive to enhance transparency of PE and other new investment funds.

There has been a great deal of interest in the labour, employment, and HRM effects of PE but the evidence has been mixed. Case studies have highlighted reductions in employment and wages, and attacks on union representation (Appelbaum and Batt 2014; Clark 2009; Gospel *et al* 2011) though there is also counter-evidence of PE-backed businesses working closely with union representatives (Beeferman 2009; Westcott 2009). Econometric evidence suggests that PE-backed firms have lower employment growth or greater employment reductions than otherwise similar firms (Davis *et al* 2014) or a higher likelihood of downsizing post-acquisition (Goergen *et al* 2014). There is counter-evidence, however, of either nil effects on employment compared with comparator firms (Guery *et al* 2014) and even employment growth (Neckebrouck 2016). As for work practices, Bacon *et al* (2010) find that PE-backed firms use a variety of 'high commitment' work practices but there is also evidence that PE-backed firms tend to make greater use of performance management and targets (Bloom *et al* 2009).

Conclusion

This paper has explored connections between ownership and industrial relations/HRM mainly via the prism of stock market listed companies. Two bodies of literature have been considered: that concerned with national differences between ownership and labour regimes, and that concerned with employment and HR practices of listed companies within countries (drawing mainly on evidence from the UK and France). With regard to the first, it has been shown that there is some evidence of consistency between ownership and labour characteristics but that the conceptual and methodological basis is flawed. It has been suggested, though shortage of space has precluded full development, that apparently

[6] It has been argued that, in good times, PE was levered on capital rather than labour (Folkman *et al* 2009)

complementary ownership and labour institutions reflect deeper, underlying national characteristics. Politics is suggested as this underlying factor, with an emphasis on the adoption of neo-liberal policies since the late 1970s.

With regard to the second, it has been shown that stock market listed firms tend to have 'better' labour and HR policies than otherwise comparable firms. This contrasts with the implication of the first body of literature that stock markets have adverse effects for labour. A range of explanations are proposed of which the key one is ownership dispersion. In contrast to the view that ownership dispersion pressurizes managers through the market for corporate control, we argue that dispersion tends to give managers greater discretion, at least most of the time. Why managers with discretion might choose 'better' practices is an interesting question but one that has to remain unexplained in this paper. The answer may be self-interest, or altruism, or a combination of the two.

In terms of a bigger long-run picture, stock market development has been encouraged since the late 1970s across many economies. This has coincided with the widespread espousal of 'shareholder value' philosophies. In the last twenty years of the twentieth century this led to increases in the number of stock market firms in many countries. From around the turn of the twenty-first century, however, decreases in the number of stock market firms are observed, especially in the archetypal liberal market economies. A range of factors are relevant but notable ones here seem to be the regulatory and disclosure requirements for stock market firms, the effervescence of segments of stock market trading, and pressure for higher returns. Accordingly, in liberal market economies especially, investments have been redirected to new corporate forms which *de facto* have lower levels of regulation and greater capacity than most listed companies to transfer value from employees. The key point here is that the size of the listed sector in the UK and US has been getting smaller at the very same time that adverse labour outcomes have been worsening in terms of contingent work, pay inequality, and job insecurity.

Finally, how can research in these areas taken forward? There are several potentially fruitful avenues for further work. One, workplace and company-level industrial relations surveys could enhance their ownership information so that potential relationships between dimensions of ownership and industrial relations can be explored in a wider range of countries. This would enable assessment of the industrial relations/HRM correlates of listed ownership in a wider range of countries. Two, industrial relations in corporate forms such as private equity require further large-scale research on HRM and industrial relations practices to supplement the research that has been done on employment levels. Given the diversity of evidence so far, it is clear that moderating factors need to be identified more precisely. Explicit comparisons with listed firms would also be interesting. Three, comparative comparisons of regimes would benefit from a wider choice of variables. Since the politics of neo-liberalism and financialisation have affected a wide range of societal phenomena besides stock market liberalisation and employment protection, it could be instructive to add measures for types of pension coverage, levels of private equity coverage etc. This would generate a more nuanced picture of national business systems.

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