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Ownership, financialisation, and employment relations

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BETTER BUSINESS THINKING

The key question

How does ownership affect employment and industrial relations?

More specifically

- What are the employment, IR, & HRM characteristics of stock-market listed firms?
- What are the employment, IR, & HRM characteristics of new forms of corporate ownership?

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The answer

- Ownership can affect IR/HRM in a variety of ways and by a variety of means
- At regime level, politics more important (legal regimes?). Shapes IR/HRM and ownership patterns
- Within regimes (focus on LMEs), ownership does not quite work in the way usually predicted
- This has encouraged alternative ownership forms

How corporate ownership affects IR/HRM at firm level

- Influence on managers relating to distribution of returns. (shareholder value etc.)
- Time horizons of owners
- Objectives of firm. Financial returns vs market share. Influence of owners on business strategies, which in turn affects labour
- How measure success. What are the criteria for success, and how measured. What do owners value?
- Involvement of owners. Markets or relationships? Use of market means to secure commitment

(Gospel and Pendleton 2003)

Ownership also influences context of firm behaviour via articulation of ownership interests in the policy sphere and macro-economy

Two systems model

	System 1	System 2
Distribution	High returns to capital (dividends, capital gains, share buy-backs)	Wider distribution of returns + other types of returns (social prestige etc)
Time horizons	Short-term	Longer-term
Business objectives	Financial Discontinuous innovation	Market share Incremental innovation
Measurement	Financial metrics	Financial +other metrics
Involvement	Arms-length Markets	Direct involvement Relationships
	Dispersed institutional ownership of large stock market sector	**Concentrated ownership with smaller stock market sector**

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IR/HR 'outcomes'

	Prediction	Evidence?
Job security and tenure	Weaker job security and shorter job tenure in LMEs	Yes. Countries with bigger stock markets have shorter job tenure
Training	Extent and depth of training lower in LMEs	Mixed.
Pay	Pay inequality higher in LMEs	Yes. Pay inequality highest and grown most in LMEs
Industrial relations	Less CB, and more decentralized	Stock market measures correlate with bargaining decentralisation

Critique of two-systems model

- Variety within systems as great as between them
  - LMEs: Australia has concentrated ownership
  - CME: Japan has large stock market sector
- What about the rest? Scandinavia, Southern Europe, Central/Eastern Europe, BRICs, Asia etc etc etc etc.
- Methodological limitations (weak data etc.)
- Severe endogeneity.
- Do the particular institutions which are seen as paradigmatic of certain regimes have the outcomes within regimes that are identified as characteristic of those regimes? NO.

Stock market firms: predictions

Pressures on stock-market-listed firms will lead to adverse outcomes because of

- Owners’ returns
- Short-termism
- Low-skill-based business strategies
- Financial metrics
- Uncommitted owners

Functions through market for corporate control. Managers serve owners not labour to protect themselves from takeovers

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What's the evidence?

• No evidence of lower job security, greater use of temporary contracts, contracting out etc.
• Higher expenditure on training, train larger proportions of workers, more likely to train and to offer longer periods of training
• Greater use of contingent pay: individual and group PBR, profit sharing, ESO
• Pay inequality. Much evidence of growing inequality but not clear that greater than in other firms, once size controlled for
• Higher pay in dispersed ownership (including stock market) workplaces
• More consultative. More employee involvement. More problem-solving groups. More use of high commitment HRM
• Union recognition more likely, even controlling for size

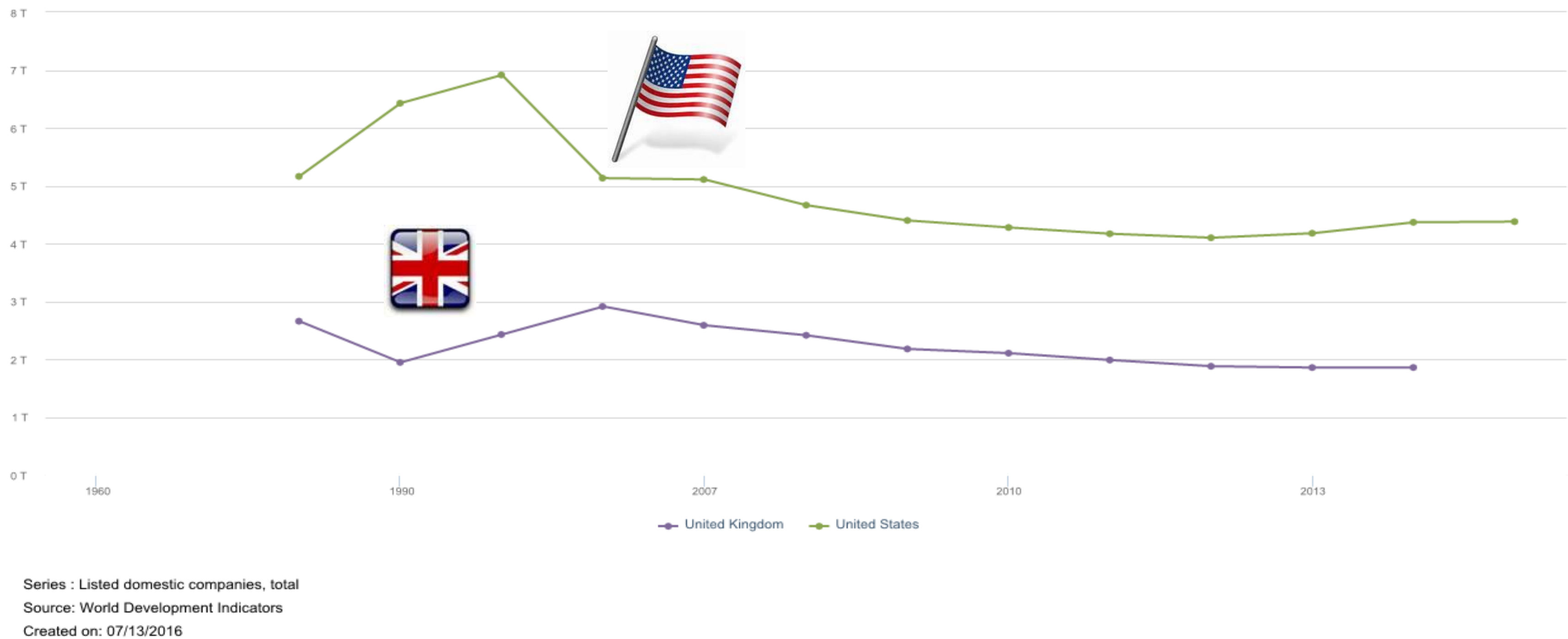
Evidence base: WERS and REPONSE surveys, various studies

Why are stock-market companies better employers?

• Market for corporate control not as pernicious as claimed (most of the time)
• Dispersed ownership gives power to insiders
• Transparency and disclosure
• Employer branding
• Regulation

But not all good: shift from DB to DC pensions, retreat from ‘welfare capitalism’ model in the US

What is happening to the listed sector?



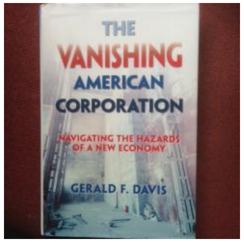
Decline in Germany, France since 2000; Italy constant after big rise 1980-2000
Increase in Australia, Canada, Japan, China since 2000

Source: World Bank Database

Why the decline in UK/US

We don't really know for sure but the following seem like factors.

- Growth in share trading, much of it electronic, makes for unstable environment
- New forms of economic organisation.



- Lack of IPOs coming through to replace retiring firms
- Growing regulation and reporting requirements.
- Shareholder activism
- Emergence of 'new' company forms, which provide for stronger rights and returns to capital. Eg. Private equity.

The private equity model

Concentrated ownership by investment funds offering ‘alpha’ returns to investors (and high fees to fund managers)

- High returns from investee firms, secured by activist management, high leverage (tax advantages), and sell and leaseback
- Medium-term time horizons though sometimes pressure for quick returns to fund
- Generate dividends and capital gains through strong pressure on managers (debt + incentives), efficiency initiatives, reform of supply chains etc. Product not company branding.
- Less transparency and regulation than stock-market listed firms
- Deep involvement of fund managers in investee companies

The impact on labour?

- Value creation or value transfer? Critics say the latter: from taxpayers, workers, investors
- Breach of implicit contracts
- Lower employment growth, more down-sizing
- High commitment work practices
- But also work intensification and performance management

Conclusions

- Private equity especially a LME phenomenon. Many of the funds are US or UK-based, though PE important elsewhere (Netherlands, Sweden, Italy etc.)
- Operation of these and other ‘new investment funds’ helps to define LMEs (more than stock markets), taking advantage of liberalised and financialised regimes in these countries.
- In general, pose greater threat to labour than stock market firms

Thank you for listening