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Partnership, Ownership and Control: The Impact of Corporate Governance on Employment Relations

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Abstract

Prevailing patterns of dispersed share ownership and rules of corporate governance for UK listed companies appear to constrain the ability of managers to make credible, long-term commitments to employees of the kind needed to foster effective labour-management partnerships. We present case study evidence which suggests that such partnerships can nevertheless emerge where product market conditions and the regulatory environment favour a stakeholder orientation. Proactive and mature partnerships may also be sustained where the board takes a strategic approach to mediating between the claims of different stakeholder groups, institutional investors are prepared to take a long-term view of their holdings, and strong and independent trade unions are in a position to facilitate organisational change.

Key words: labour-management partnerships, corporate governance, takeovers, human resource management

JEL codes: G34, J53, K22, K23.

Introduction

Most large British private-sector organisations are listed companies that are subject to intense pressures to prioritise shareholder value. The question arises of whether this constrains the ability of managers to pursue genuine partnership arrangements with long-term stakeholders, including employees. We present empirical evidence addressing this question in the form of qualitative case studies of labour-management partnerships in companies operating within different corporate governance structures. Building the trust required for partnership is indeed problematic in some companies with the ‘dispersed shareholder ownership’ which is typical of the UK. Companies with continental-European forms of ‘concentrated ownership’ are often better able to
make credible commitments to their employees. However, ownership is not decisive on its own. Regulatory factors, in particular relating to product markets, are also important, as is the strategic role of the boards of particular companies in shaping their approach to corporate governance. We review cases of companies which have developed enduring labour-management partnerships while continuing to be active in the market for corporate control and maintaining a wide share ownership base. We suggest that where the corporate governance system can be seen to support partnership in this way, it operates in conjunction with regulation underpinning quality standards, relative stability in product markets, and, above all, a willingness on the part of senior management to mediate between the claims of different stakeholder groups, rather than seeing themselves simply as agents of the shareholders.

The significance of corporate governance for labour-management partnerships

The benefits of labour-management partnerships are, in principle, well understood. Partnership allows for the full exploitation of technical complementarities in production, it facilitates the sharing of knowledge, and, above all, it fuels the organizational learning processes by which new information and knowledge are created and diffused, and by which new products, processes and organizational forms are developed (Wilkinson, 2000). The hallmark of partnership is that the parties give open-ended commitments to cooperate, in the expectation that these benefits will follow. This necessarily entails an extended time horizon. It also involves an acknowledgement on both sides of their mutual exposure to risk. In this sense, to qualify as an ‘influential stakeholder group’ within an enterprise, employees ‘must bear significant residual risks, contribute valued resources, and have sufficient power
to affect organizational outcomes’ (Kochan and Rubinstein, 2000: 370). In other words, employees must not only put valued resources at risk, in the sense of incurring costs if the enterprise fails or their relationship with it terminates; management must in return accept that employees should be able to exercise a degree of power in the context of corporate decision making. At the very least, this implies that they should be meaningfully informed and consulted when decisions over the shape and structure of the enterprise are made.

The corporate governance literature increasingly recognizes that fairness of treatment, job satisfaction, high quality of work environment and, particularly, income and job security are important factors in generating investments in firm-specific capital by employees (Blair, 1995; Kelly and Parkinson, 1998; Slinger and Deakin, 2000). Equally, a growing body of work in the theory and practice of human resource management points to a link between effective HRM and improved corporate performance (see Guest, 2001, for an overview). However, it is also clear that the possibility of these gains will not necessarily induce management to adopt a pro-stakeholder stance. A low-commitment, low-cost alternative may be to pursue increased market share through a strategy of cost reduction, involving minimal commitments of job security and a marginal role for employee voice. The product market has been identified as a factor shaping this aspect of corporate strategy; cost-reduction approaches are thought to be more likely in sectors where product or services are relatively undifferentiated and managers perceive little scope for competing on quality (Schuler and Jackson, 1987).
While this focus on the product market has been useful, the impact of corporate governance mechanisms on corporate strategy in general and on human resource management in particular has until recently been neglected. One of the very few studies to make the link explicit is Kochan and Rubinstein’s study of Saturn, the US vehicle manufacturer which was set up as an experiment in partnership between General Motors and the United Auto Workers union (Kochan and Rubinstein, 2000; Rubinstein and Kochan, 2001). One of the messages of the Saturn experiment is that there is a still unresolved tension between the priority granted to shareholder interests by the US corporate governance system, and efforts to build labour-management partnerships which will endure over time.

One reason for this is that the particular form taken by shareholder ownership in large American and British corporations may shorten the time horizon over which managerial strategies are conceived and implemented. Publicly-listed companies in both systems are characterized by dispersed-shareholder ownership. The principal shareholders are institutions – insurance companies and pension funds – who invest on behalf of their policy-holders and beneficiaries. They place the day-to-day control and management of their shareholdings in fund managers and other specialist investors who act as their agents. Typically, the share structure of a listed company will consist of several blocks, each consisting of up to 5-10 per cent of the total share capital, that are controlled by fund managers on behalf of a number of clients. By contrast, the dominant block-holding or concentrated ownership model, in which one shareholder (normally another company, a family holding, or a bank) holds a majority or near-majority stake, while common in continental Europe, is rare for UK listed companies.
Differences in ownership structure have direct implications for corporate governance. Concentration allows dominant shareholders to intervene directly if management underperforms or neglects shareholder value. Dispersion makes internal control of this kind problematic, thanks to the substantial collective action costs of mobilizing large numbers of individual shareholders. As a result of this separation of ownership and control, management may enjoy a considerable degree of autonomy. The problem is reduced but not eliminated by the growing assertiveness of institutional investors in the UK and US (Hawley and Williams, 2000). One response, which has been increasingly characteristic of UK corporate governance since the 1960s, is to permit and encourage an active market for corporate control in the form of hostile takeover bids (see Deakin and Slinger, 1997). The threat of a hostile bid is said to discipline management to align its interests with those of the shareholders. However, hostile bids also tend to induce asset disposals and job losses in the companies targeted, leading some to suggest that any surplus they generate for shareholders is achieved at the expense of breach of long-term ‘implicit contracts’ with the other stakeholders, in particular employees (Shleifer and Summers, 1988).

Ownership also affects stakeholder relations more generally. With dispersed share ownership, shareholders benefit from the possibility of low-cost exit. The resulting liquidity in capital markets enables them to take advantage of alternative investment opportunities, and in principle permits more efficient resource allocation. The disadvantage is that other stakeholders, such as employees, suppliers and customers contributing firm-specific inputs, knowing that the shareholders may switch their
investments at short notice, may be dissuaded from making long-term investments of their own in the firm (Franks and Mayer, 1998: 728).

In this context, the specific issue we wish to address is whether dispersed-shareholder ownership constrains the development of a partnership approach in employment relations. Given that the time-dimension of partnership is crucial, the threat of exit by shareholders might be expected to undermine the credibility of attempts by management to build enduring partnership relations. By contrast, we might expect concentrated ownership to enable managers and shareholders more easily to make a credible commitment not to renege on ‘implicit contracts’ made with the other stakeholders.

**The case studies**

We aim to throw light on these questions by reference to qualitative case study evidence drawn from a sample of enterprises operating in the UK under different forms of corporate ownership. The case study firms are: a large specialised cleaning and facilities management company (‘Cleanwell UK’); a large manufacturing company (‘Tenswell UK’); a large telecommunications company (‘Hearwell’); two major multi-utilities providing electricity and gas services (‘Seewell UK’ and ‘Warmwell’); a smaller water and gas company (‘Flowell UK’); and an electrical contracting company (‘Fixwell’). Tables I-II contain more detailed information on the product-market environment, enterprise-specific factors and financial profiles for each of these companies.
The research concentrated on a small number of case study firms which could be studied in depth over a period of years. The aim of this approach was to gain an understanding of both management and union perceptions of partnership arrangements, and how those perceptions changed over time, from speaking directly to those involved in such arrangements. Rather than look at just one or two organisations, it was felt necessary to construct a sample which could provide a varied cross section of ownership forms. Thus some firms have more concentrated patterns of shareholder ownership (Cleanwell, Flowell and Fixwell) while, for others, it is more dispersed (Hearwell, Warmwell, Seewell and Tenswell). While the majority of the sample have a combination of US and UK shareholder ownership, Cleanwell and Flowell have continental European ownership. In other respects, the companies are similar. All seven are unionised companies; all have been actively engaged in merger and acquisition activity or in listing on or de-listing from the stock market in the period of the study; all have sought to promote partnership with employees and unions. Six have global operations or are subsidiaries of global parent corporations.

Companies in the sample were initially contacted in the late 1990s. Interviews on the issue of partnership were carried out with senior managers in the spring and summer of 1998, and the companies were then re-interviewed during 2000 and 2001 to see how partnership relations had developed in the interim. Interviews were also conducted with national-level trade union officials in relation to the specific companies and to conditions operating more generally in the sectors concerned. Detailed case histories of the companies were then undertaken, focusing on the one
Concentrated versus dispersed ownership

Cases of concentrated ownership

We find evidence, firstly, that concentrated ownership may be perceived by management and unions alike to provide a strong foundation for partnership. In Fixwell’s case, the company’s five managing directors organised a management buyout in 1997 in order to allow the firm to more easily pursue its chosen business objectives in a difficult economic environment. According to the personnel director, the absence of external shareholders permitted the company to ‘not get blown off course during difficult trading conditions’ and to maintain its commitment to high ethical standards and a high quality service. ‘We can grow at our own pace, we can make decisions that are sensible to us as a commercial organisation. There’s no one else to please other than the five directors.’

In another case where partnership was described by the union as ‘mature and deep,’ the company (Cleanwell UK) was a wholly owned subsidiary of a continental European company (Cleanwell International). In this case, prior to 2000,
approximately half of the voting shares were controlled by five main holdings, two of these being continental European public sector pension funds and one a continental European bank. Cleanwell International shares are primarily listed on a continental European stock exchange, with a secondary listing on the London Stock Exchange. The trade union at Cleanwell UK felt that the continental European model of ownership was an ‘important influence’ on the company’s approach to human resource strategy and union relations.

Still, it is important to stress that even under this model, the corporate group’s focus was on the creation of shareholder value; its stated business objective was to double turnover, operating profit and earnings per share by 2005. The significance for partnership is that the group was able to commit to growing the business over the longer-term. According to its 2000 annual report, Cleanwell International ‘believes that management, employees and shareholders share common long-term interests.’ In 2000, Cleanwell International’s chief executive said, ‘we do not believe in “management by quarter”’, with big dividends, fragmentation of the business with a view to short term profit’. The company does not pay a dividend, preferring to fund further investment from retained profits. According to Cleanwell UK’s finance director in 2001, the pressure felt from shareholders and bankers is to demonstrate ‘credibility of management,’ by delivering what is promised.

Moreover, there are signs in the case of Cleanwell that partnership relations can endure despite a move to a more dispersed shareholder base. In 2000, Cleanwell International’s corporate governance environment changed significantly as Cleanwell increased its issued share capital by 5.1 per cent to fund acquisitions, and merged the
voting and capital shares into a single class. As a result, its shareholder base became much more dispersed, with only one pension scheme holding more than 5 per cent of the share capital. The geographical distribution of shares also shifted: 30 per cent of investors were now continental European, while 56 per cent were from Britain and America. Despite this change in share ownership, there was still strong evidence of Cleanwell’s commitment to partnership with its employees. In 2000, the Group launched a new human resource strategy as ‘a core element’ of the Group’s overall business strategy, and set up a corporate human resource function ‘to strengthen its employee development efforts.’ Although it may be too early to tell, according to the UK finance director, changing share ownership is not a negative factor for partnership because new investors know what they are buying into.

Nor, conversely, does concentrated ownership appear to guarantee partnership. In one company (Flowell UK), we found evidence that a single block shareholding by a continental European parent can even be destructive of partnership-style working practices. In May 2000, Flowell UK became a wholly owned subsidiary of a continental European multi-utility company, Flowell International, which had previously held a substantial part of Flowell UK’s equity. According to Flowell UK’s managing director, the continental European parent could be rated at seven or eight (out of ten) in terms of taking a long-term approach (compared with a rating of one for an American and two for a UK parent). Nevertheless, he told us that pressure from a single shareholder (to return a satisfactory dividend) was felt all the more intensely than pressure from dispersed shareholders. By the time of the second wave of interviews, there was substantial evidence of the breakdown of partnership in employment relations at Flowell UK. Following the takeover, work was increasingly
contracted out and we were told by a senior manager that there was a ‘culture of insecurity [that] runs right the way through the company, from the top to the bottom.’

Cases of dispersed ownership

Tenswell UK provides the strongest evidence of the claim that the pressure to deliver continuously high returns to a dispersed shareholder base can have a destructive impact on partnership with employees. This company had a long history of labour-management partnership both before and after privatization in the 1980s. In 1998, however, Tenswell’s chairman said: ‘[o]ur business is about profits and shareholder value. If it’s jobs before shareholder interests, the answer is no…it simply prolongs the agony.’ In 1999, the company merged with a large continental European manufacturer to become Tenswell International. Its ordinary shares were then traded on the London Stock Exchange and a continental European stock exchange; its American depository shares, each representing 10 ordinary shares, were listed on the New York Stock Exchange.

In February 2001, the company announced a major restructuring programme and the loss of 6,000 jobs. There was no prior consultation with employee representatives, union proposals were rejected outright, and government ministers criticised Tenswell for its failure to consult with them. On the day of the restructuring announcement, Tenswell’s share price increased by 11 per cent. The trade union was particularly critical of American institutional investors. They were perceived to have a short-term, finance-centred view and to be distant from the political and social implications associated with plant closures in the UK. However, it is important to note here that
although American investors represented approximately 32 per cent of Tenswell shareholders and three US institutions owned 16 per cent of the shares, a similar proportion of Cleanwell International shareholders are also American.\textsuperscript{2} It is also significant that the union at Tenswell stressed the negative influence brought to bear by a German bank that owned 5 per cent of Tenswell International’s shares. According to the union, pressure on the company from the German bank to reduce borrowings was a significant factor in the company’s restructuring plans and its decision to eliminate 6,000 jobs.

But although the example of Tenswell suggests that the UK system of corporate governance can indeed serve as a constraint on partnership, the cases of Warmwell and Hearwell demonstrate that mature and enduring partnership can also be developed and maintained within the UK’s distinctive corporate governance environment. Both companies have been commended by the government for their partnership approach to employment relations. According to the personnel director of Warmwell, ‘we have excellent relations with our trade unions. We sit at the table with them at the national and the local level. We ... recognise the value of a legitimate role for the trade unions. Why fight? Why go back to the seventies? If there is a problem, we share the problem and the solution.’ At Hearwell, too, the union described a ‘mature’ partnership, explaining that evidence could be found in the fact that over a two-year period, the company and union had negotiated a complete overhaul of the system of grading structures, pay and conditions. In the opinion of the union official we interviewed, the result was a win-win situation: the company achieved greater flexibility and employees achieved better pay and a reduced working week.
Hearwell’s personnel director commented in 1999, ‘I hesitate to call it a partnership, although to some extent that’s what it has become.’

Yet both companies have highly dispersed share ownership and in their annual reports stress the importance of delivering value to shareholders. During the period of the study, both companies also pursued strategies designed to pay high dividends relative to earnings. In 2000 Warmwell announced an intention to grow its dividend by 5 per cent in nominal terms over the next three financial years. Hearwell told us that executive bonuses depend on maintaining the company’s position in the top thirty UK companies, based on delivering total shareholder returns (that is, stock value growth plus dividend flow) over a five year period. According to Hearwell’s director of strategy, shareholders are the company’s ‘most important’ stakeholder group.

The key to both companies’ experience is the emphasis on delivering long-term shareholder value and on managing shareholder expectations. According to Warmwell’s 1999 annual report, there is a ‘long-term strategy of concentrating on…shareholder value’ (emphasis added). Warmwell’s personnel director told us that ‘we spend a lot of time trying to educate the stock market on what we’re about…the institutions are seeing us in a better light…All of our strategies are about building businesses. We believe that you can’t do that in the short term…In every pound that we use to acquire or to grow organically, we’re looking for a long term return.’ It was his belief that such a strategy would support the provision of regular, above average returns to shareholders. The union at Seewell, a company with a less articulated form of partnership, stressed the importance of managing shareholder expectations: ‘it’s
what management promises to shareholders, not what shareholders demand of
management.’

According to Hearwell’s 2000 annual report, the chief executive and group finance
director hold meetings with the company’s principal institutional shareholders to
discuss the company’s strategy, financial performance and specific major investment
activities. In 1999, Hearwell told us that ‘we have a different shareholder base to our
competitors. We have a lot of pension funds and so on who are interested in long-
running, continuing cash flows rather than sparky value appreciation and decline … I
think the other thing is that we are quite explicit that we are a medium term stock.’
(emphasis added).\(^5\)

During 2001, however, Hearwell came under pressure from the financial markets, as
debts mounted following a series of acquisitions and certain investments failed to
produce expected returns. The response of Hearwell’s union was significant, in that it
carefully avoided making the argument that the UK model of corporate governance
had a negative effect on partnership. It did, however, say that the need to satisfy the
financial markets could distract management from developing more long-term
strategies because as share prices fell, management was prone to making ‘knee jerk
reactions’, attacking costs in order to demonstrate to financial analysts that some
action was being taken.\(^6\) The union also said that it would refuse to join in public
criticism of the company. Rather, it was urging management to be less defensive in
managing financial analysts and more aggressive in publicising the company’s
underlying achievements.
The cases also demonstrate the potential for a mutually reinforcing relationship between partnership in employment relations and those rules of the UK system of corporate governance that encourage a high level of takeover and merger activity. Warmwell and Cleanwell are instructive cases, since both are companies in which partnership has endured over time, at the same time as the companies have sought to grow shareholder value through a strategy of acquisition. In the case of Warmwell, partnership has been employed as a mechanism to assist in the takeover process. According to Warmwell’s human resource director, the company’s acquisition of another UK utility was made possible by Warmwell’s human resource strategy: ‘[we] use our trade unions … to talk with the local unions and say “we know you don’t like the idea of being taken over. We don’t like the idea of you being taken over. But if you’re going to be taken over, it’s better that it’s these guys because they know what they’re going to do and they’ll treat you firmly but very fairly”’. Takeovers of this kind can be used to import the partnership philosophy into companies that were previously hostile to the concept. After Warmwell completed its acquisition, it reintroduced union recognition arrangements that the previous management had removed following privatisation.

The experience of Cleanwell UK offers a further example. In 2000, Cleanwell UK acquired a UK listed company, which was de-listed following the acquisition. According to the union,

‘in the case of [X], the effect is overwhelmingly positive. We did not have any national relationship with [X] and our local relationships varied from the neutral to the very bad. So it has been a massive step forward just in terms of dialogue,
ability to raise issues…In general terms, we see acquisitions by [Cleanwell UK ] positively. They seem to extend their company philosophy into the companies they take over rather than importing other philosophies from the companies they take over.’

In short, there is a complex relationship between corporate governance models and the ability to sustain partnership. There are suggestions that the corporate governance system may favour partnership, at least in the sense of enabling successful experiments in partnership to provide the springboard for companies to undertake acquisitions of less successful competitors. This suggests that the market for corporate control, on its own, is not a decisive factor for or against partnership. However, we need to investigate more closely how corporate governance interacts with other factors that influence the sustainability of partnership, in particular market regulation, product market conditions and the dynamics of relations between management and unions at enterprise level.

**Regulation**

The nature of regulation has an important influence on the sustainability of partnership in employment relations through its impact on the hierarchy of stakeholder interests as well as its effect on conditions and requirements firms confront in their product markets. According to the Seewell union, ‘regulation is the pervading influence … ownership is not a distinct driver.’ Similarly, the personnel director at Warmwell told us that the ability of the company to pursue a long-term
strategy, while at the same time delivering year-on-year above average returns ‘very much depends … where regulation goes.’

 Regulations can serve as a complement to corporate governance through their influence on the relative position of stakeholder groups within the hierarchy of interests they support. From this perspective, the most supportive environment for partnership is one in which regulations buttress the relative position of employees. The regulation of the Private Finance Initiative in the NHS provides a good example. With the objective of ensuring a high quality standard of service in this sector, PFI regulations in the NHS require evaluation of the employment-relations records of firms who bid for contracts; they also entitle trade unions to interview and submit a report on short-listed bidders. According to the guidelines, the underlying logic is that companies with poor labour relations and inadequate investment in staff often deliver a poor standard of service. We found strong evidence of the supportive role of PFI regulation in the NHS in the case of Cleanwell UK, which has been particularly successful in this area. In 2000 Cleanwell UK held ten contracts with an annual turnover of over £30 million.

Equally, the imposition of guaranteed customer service standards by regulators in the utilities serves as a significant support mechanism for partnership because it means that pressures to cut costs cannot be permitted to undermine standards of customer service. According to the managing director of Flowell, ‘the whole thing is driven by customer service.’ This is important because regulators themselves intensify the pressure to cut costs and increase efficiency by imposing price controls. In the UK, regulation has tended to restrict price increases to customers to levels below the
increase in the retail price index, through a formula expressed as RPI – X (with ‘RPI’ indicating retail price inflation and ‘X’ an efficiency improvement brought about by enhanced performance). In themselves, price controls potentially serve as a constraint on partnership because of the likelihood that they will lead to restructuring and downsizing. However, when taken together, price controls and customer service requirements may provide strong incentives for active partnership to be sought as a way of enhancing the level of performance. At both Seewell and Hearwell, the unions told us that high guaranteed standards of customer service provide an effective bargaining tool in negotiations over cost cutting: ‘[t]he vulnerable area is customer relationships and if those are disrupted, then there are various means through the regulator and other bodies by which [the company] will be brought to account. So that’s advantageous to us.’

Telecommunications and utilities regulations can also extend time horizons by tempering the expectations of capital providers and extending operating parameters. By allowing for capital providers what one interviewee called ‘a return that is sufficient, but no more than sufficient,’ these regulations temper the expectations of institutional investors, facilitating a longer-term view that is conducive to partnership. Regulators make assessments for costs of debt, costs of equity and dividend yields in their price determinations.¹⁰ They also set operating parameters for periods of up to five years. According to the water regulator, financing costs have fallen as ‘financial markets have adapted to the position of privatised utilities’.¹¹ At the same time, regulators’ assessments of returns on capital are indicative and not prescriptive;¹² regulators determine the level of prices but leave it to companies to manage their level of profits. As a result, this form of regulation still provides only a very weak support
mechanism for partnership in itself; it is open to companies operating under this regime to decide whether or not to opt for a proactive approach to partnership.

Nevertheless, the stress on quality of customer service in utility regulation can serve to encourage active partnership in conjunction with the operation of the takeover mechanism. Warmwell, which combined what both management and unions regarded as a particularly strong labour-management partnership with a highly proactive role in the market for corporate control, illustrates this point. Warmwell’s bid for another UK utility company was assisted by the publication by the regulator of information relating to levels of customer service and organisational costs in companies which had recently been privatised. On this basis, Warmwell’s management was able to benchmark the company’s performance against industry standards and identify a suitable target for acquisition. As one of its senior managers put it:

‘The skills that we built through benchmarking were just the same ones that we needed to evaluate potential acquisitions… We looked at [the target] and said we know what it can do: its costs per customer, per kilometre of line, its fault rates and so on were all in the public domain from the regulatory process. We knew the international benchmarking levels possible from looking at … other leading companies. We could say - if that company was under our control, this is what it would be worth to us. We then looked at what we would have to pay for it.’

The information generated by regulation was used by the company to exploit what it considered to be its comparative advantage in being better able than the target to meet
high standards of service. In that sense, as in the case of PFI, the regulatory process can be said to have had a bias in favour of companies which rely on a partnership ethic to enhance their performance.

Regulation also affects the nature of product market competition which in turn impacts on the firm’s ability to maintain partnership in employment relations. In general, the more volatile a market, the greater the pressures operating on the firm and the more difficult it is to maintain the partnership, whereas sectors characterised by high technical barriers to entry and managed competition are conducive to partnership. Cleanwell UK’s differential experience in the PFI market in the NHS and the railway sector provides a good example. According to the union at Cleanwell UK, in the NHS PFI market, ‘the big five, between them, control 85 per cent of the market. The small companies are all being edged out.’ The union pointed out that there are high barriers to entry associated with running a NHS building contract. ‘There are a lot of risks … so [NHS bodies] tend to go with people they know, which has helped [Cleanwell].’ Furthermore, ‘because of the nature of the contracts, you have to be pretty big.’ PFI contracts are typically awarded for 25-30 years and ‘it is very unlikely that the contract will be taken away from the PFI company that gets it in the first place.’ The union suggested that this meant that Cleanwell could look at the long-term profitability of PFI contracts and so ‘the degree of conflict in the first few years is lessened.’ By contrast, in the railway marketplace there were many medium and small sized companies competing for short-term contracts, primarily on the basis of price. The management of Cleanwell UK regarded this as a constraint on the Cleanwell approach.
At Tenswell, by contrast, not only was share ownership highly dispersed (and held mainly by British or American investors) but there was also an absence of market and regulatory factors favouring partnership at the time of the major plant closure which occurred in 2000. Over 80 per cent of the workforce was engaged in the production of a product whose markets were extremely volatile and price sensitive and for which there was substantial global over-supply. Regulation had if anything been aimed at increasing the intensity of national competition through the removal of barriers to trade, and this globalised market was little affected by price and quality standards.

The management of partnership

In addition to the factors we have so far been considering, the quality and vision of company management at all levels of the organisation, from the strategic level on down, contributed significantly to the effectiveness of partnership in the companies we studied. In the case of Warmwell, its human resource director told us, ‘human resource strategy is equally as important, not anymore so, not any less so, than the financial, commercial and engineering strategy. It is by playing all the strands at the same time that we get the key strength’. The union at Hearwell also stressed the importance of the role of management as ‘an interface’ between the investment community, the regulator, customers and workers. This was particularly evident during the massive restructuring following privatization, during which Hearwell’s chief executive was perceived to act as a buffer between the union and the board to ensure that there were no compulsory redundancies. The role of a ‘hard hitting’ human resource director who could persuade the board of the case for investment in
human capital and deliver on commitments was also seen as integral to effective partnership relations at Hearwell. According to the union, partnership is ‘not just a piece of paper that sets out procedures. It is about identifying issues, trustworthy behaviour, and delivering high quality outputs.’

The strength and sophistication of the union is also vitally important for the success of partnership. A weak and/or adversarial union (at the national and/or local level) can be an impediment to partnership. At Flowell, despite an improvement in union density from 40 per cent in 1998 to 50 per cent in 2001 (resulting from the successful recruitment campaign of a large union), the local union was regarded by management as weak and ineffective. Collective bargaining rights were granted in 1999 only under the pressure of legislation putting in place a statutory procedure aimed at encouraging recognition. By contrast, at Hearwell, where the position of the union had been strengthened following the company’s unilateral decision, in 1996, to restore trade union recognition at a subsidiary it had acquired by takeover, the personnel director could comment:

‘The unions themselves have become more and more realistic in terms of what it means to be a private [sector] company in terms of what their role is, how they can participate in a strategic debate…they have been well served over that period by the national leadership.’

A strategic approach to partnership has also been adopted by the union at Cleanwell UK, which, while fundamentally opposed to PFI and contracting out in the public sector, has used regulation of the PFI process to strengthen its bargaining position:
‘We don’t actually agree with the fact that [Cleanwell] should have the contract in the first place … [However] we have to deal with the world as it is rather than as we would like it to be. So, if private sector employers are going to be awarded contracts … we have taken the view that it is better that we have a partnership arrangement with those employers, rather than a wholly conflictual one.’

It is at the operational level that the true effectiveness of partnership is particularly manifest. According to the union at Seewell, the attitude of management was that ‘this is our agenda, these are our decisions, we make them, we implement them. It’s not actually we don’t want to deal with unions, it’s just that we own the problem and we’re going to drive it.’ By contrast, the personnel director at Warmwell (Seewell’s competitor) told us that ‘trade unions in many ways assist me in solving my problems. They solve problems for me before they even come to my attention.’ Fixwell’s personnel director echoed this view:

‘They help us to manage change, you know a lot of the change that we have needed to introduce within the business would not have been managed without the involvement of the trade unions. They do a lot of work in communicating to staff and they provide a good check and balance as well…Commercial pressures on the business will always pressure us into doing things…a bit of check and balance which the trade union provides helps us to see that perhaps we’re not being as reasonable as we could be. So, they do a good job for us.’
The personnel director at Hearwell also highlighted the important role of the union as ‘a very effective communication channel and a persuasion channel.’

There are, then, important differences in the conception of partnership that emerges from the dynamics of enterprise-level relations between unions and management (see Table II). In most of the cases we studied, ‘partnership’ was defined as ‘working together to achieve a common objective’. However, variation in that objective had an important influence on the type of partnership that developed. In cases where the objective was to deliver a high quality or higher value product or service to consumers, or jointly to find a way forward in the face of market or regulatory opportunities and challenges, the partnership could be characterized as proactive and mature. By this we mean that, having endured moments of difficulty for the company in the past, it was regarded as more likely to continue in the future. In contrast, where the objective was to simply to involve the union to manage the execution of redundancies or plant closure, we may characterize the partnership as reactive and unstable. From the case-study evidence presented here, such partnerships are unlikely to survive downsizing aimed at maintaining shareholder value over the immediate term.

**Conclusion**

Three principal findings emerge from our case studies into the impact of corporate governance on labour-management partnerships. Firstly, ownership structures are important but not necessarily decisive in determining the emergence of partnership. Some companies with dispersed ownership demonstrate long-lasting partnership
arrangements, while others, with concentrated ownership, are characterized by its absence.

Secondly, regulation of product and service quality, of the kind observed in most utility sectors and in certain others, favours the emergence of what we have called here ‘mature’, that is to say, stable and enduring partnerships. This is because, in these markets, profitability is linked to the ability of companies to maintain a high and consistent quality of service for end users over an extended period of time. As a result, managers are better able to convince shareholders to take the view that they will reap significant returns over the long term from a stakeholder approach. In the absence of these stabilizing factors, however, goodwill between labour and management is not enough to sustain a partnership approach when it conflicts with short term shareholder interests. Then, the pressure to meet shareholder value over the immediate term tends to prevail.

Thirdly, the role of the board in mapping out a strategic approach to corporate governance issues is essential. In particular, executive directors can play an important role in arguing for a stakeholder-orientated strategy on the grounds that it will bring benefits over the longer-term, and, above all, in defending it when times are difficult. Since this long-term strategic positioning is quintessentially a function for the board, the incorporation of the human resource function into board-level corporate planning would appear to be a vital factor in underpinning partnership.

It would therefore seem that corporate managers can feasibly aim to reconcile the interests of stakeholder groups with the goal of ‘enlightened shareholder value’. This is
particularly the case where regulatory influences and the product market environment favour such an approach. At the same time, our study suggests that regulatory and product market factors should not be viewed in isolation from corporate governance, broadly understood to include the structure of ownership and control and the conditions for the exercise of stakeholder voice. There is a complex relationship between managerial strategy and investor expectations which requires further investigation. There are signs that institutional investors may be increasingly prepared to take a long-term view of their holdings, just as managers may be prepared to make a case for corporate strategy to be judged against a long-term time horizon. Our case studies also suggest that a proactive management benefits from strong and independent employee representation in building partnership. However, employee representation of this kind is not consistently available. Under these circumstances, it remains to be seen how durable labour-management partnerships will prove to be in response to exogenous shocks in the form of economic downturns and changes in systems of regulation.
Table I: Case Study Characteristics: The Structure of Ownership, Product Markets and the Regulatory Environment

<table>
<thead>
<tr>
<th>Sector</th>
<th>Cleanwell</th>
<th>Fixwell</th>
<th>Flowell</th>
<th>Hearwell</th>
<th>Warmwell</th>
<th>Seewell</th>
<th>Tenswell</th>
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<tbody>
<tr>
<td></td>
<td>maintenance</td>
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<td></td>
<td>Europe</td>
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<tr>
<td><strong>Regulation</strong></td>
<td>Employee interests influence PFI</td>
<td>Regulations: predominantly health &amp; safety</td>
<td>Customer interests dominate</td>
<td>Customer interests dominate</td>
<td>Customer interests dominate</td>
<td>Customer interests dominate</td>
<td>Regulations minimal: environment, health &amp;</td>
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<td></td>
<td>Regulations: quality in NHS, health &amp; safety</td>
<td></td>
<td>Regulations: price, quality service, financing, competition, environment</td>
<td>Regulations: price, quality service, financing, competition, environment</td>
<td>Regulations: price, quality service, financing, competition, environment</td>
<td>Regulations: price, quality service, financing, competition, environment</td>
<td>safety</td>
</tr>
<tr>
<td><strong>Product Markets</strong></td>
<td>General cleaning: price competitive</td>
<td>Electrical contracting services</td>
<td>Multi-utility services</td>
<td>Services &amp; products: specialised &amp; technologically sophisticated</td>
<td>Multi-utility services</td>
<td>Multi-utility services</td>
<td>Mass produced, manufactured goods</td>
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<td></td>
<td>Specialised services: competition on the basis of quality and given price. Fewer, larger competitors; reputation important; long-term contracts in PFI</td>
<td>Operates across different markets.</td>
<td>Generally very limited competition, although energy retail market open to competition</td>
<td>Competitive market: price &amp; quality</td>
<td>Generally very limited competition, although energy retail market open to competition</td>
<td>Generally very limited competition, although energy retail market open to competition</td>
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<tr>
<td></td>
<td>Mainly high quality</td>
<td>Mainly medium size contracts.</td>
<td></td>
<td>Long-term relations</td>
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<td></td>
<td>Intense competition on basis of price and satisfactory quality</td>
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<td></td>
<td>Volatile &amp; difficult market conditions</td>
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<td>Short-term relations</td>
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<td>Table II: Case Study Characteristics: Enterprise-specific Factors and Nature of Partnership</td>
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<td></td>
<td>Cleanwell</td>
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<td>Hearwell</td>
<td>Warmwell</td>
<td>Seewell</td>
<td>Tenswell</td>
</tr>
<tr>
<td><strong>Enterprise Structure</strong></td>
<td>Multi-site Multi-country</td>
<td>Multi-site UK</td>
<td>Multi-plant Multi-country</td>
<td>Multi-plant Multi-country</td>
<td>Multi-plant UK &amp; US</td>
<td>Multi-plant Multi-country</td>
<td>Multi-plant Multi-country</td>
</tr>
<tr>
<td><strong>Union Strength</strong></td>
<td>Density: 35% overall, 60% in NHS sector</td>
<td>Density: 50%</td>
<td>Density: 50% (up from 40% two years ago)</td>
<td>Density: 60% Overall, 99% in networks</td>
<td>Density: 45% overall, 66% of staff covered by collective agreements</td>
<td>Density: over 80% in generating and networks, less than 10% in trading</td>
<td>Density: 80% overall, 100% blue collar</td>
</tr>
<tr>
<td>(density, effective representation)</td>
<td>Effective representation of membership</td>
<td>New leadership at local level said to be less partnership orientated</td>
<td>Weak representation at local level</td>
<td>Effective representation of membership</td>
<td>Effective representation of membership</td>
<td>Internal divisions among Seewell unions</td>
<td>Internal divisions</td>
</tr>
<tr>
<td><strong>Nature of partnership</strong></td>
<td>Proactive and mature Voluntary</td>
<td>Proactive and mature Unions seen by management as an effective check and balance against commercial pressures. HR policy supports business objectives &amp; partnership</td>
<td>Very little; disintegrating Union only recognised as a result of legislation Works council with union and independent representatives Culture of insecurity</td>
<td>Proactive (with some reactive elements) and mature Voluntary Mature, especially in traditional lines Joint consultation &amp; dialogue HR policy supports business objectives &amp; partnership Union involvement in working through challenges Recognition of mutual interests</td>
<td>Proactive (with some reactive elements) and mature Divisional and local joint bodies to develop awareness of business plan and objectives. HR policy supports business objectives &amp; partnership Union involvement in working through challenges Recognition of mutual interests</td>
<td>Reactive and weak Much information &amp; consultation in some parts of business but individualisation in other parts. Union not involved at all in strategy Union used to manage downsizing Issues owned by management</td>
<td>Very little; disintegrating Insufficient sharing of information &amp; consultation, especially re. redundancies &amp; plant closures Union has no confidence in business strategy.</td>
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</tbody>
</table>
Bibliography


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1 This is a reference to the common practice of quarterly assessments of the performance of fund managers (see Slinger and Deakin, 2000).

2 1997: 35 per cent; 1998: 23 per cent; 1999: 23 per cent 2000: 30 per cent. Two US institutions held 15 per cent of the capital shares (8 per cent of voting shares) in December 1998.

3 At March 2000, there were 531,000 holdings of Warmwell shares, 79 per cent of them UK based and 21 per cent US based. At March 2000 82 per cent of Hearwell’s shares were held in 60,402 institutional holdings and 18 per cent in 1,751,341 individual holdings.

4 In the 2000 financial year Warmwell’s underlying earnings per share fell by 2.6 per cent (for all UK businesses earnings per share increased by 1.4 per cent), but dividend per share increased by 10.2 per cent. Dividend per share increased by an average 12.7 per cent per annum over the five years to 2000. At Hearwell dividend per share increased by 7.4 per cent in the 2000 financial year whereas underlying earnings per share fell by 2.2 per cent.

5 This is supported by the comment of one of Hearwell’s leading shareholders, with a stake of more than 2 per cent, that ‘we’re certainly not bearish on telecoms when you take a medium-term view’ (Financial Times 3 May 2001).

6 The union at Hearwell also argued that to have true partnership in terms of long term investment in human capital, it was crucially important to show training costs as an investment in the balance sheet, to avoid this being the first thing that was cut when budgets were tightened.

7 PFI in the NHS (1999) section 2, paragraph 5.79. See also PFI Projects: Disclosure of Information and Consultation with Staff and Other Interested Parties (1999), paragraph 4.3.

8 Letter from the Secretary of State for Health to the Head of Health, UNISON, 20 October 1998. Generic guidelines of PFI state that, having regard to the views of tenderers, public sector clients should consider inviting recognised trade unions or staff representatives to discuss relevant employment issues with short listed bidders. PFI Projects: Disclosure of Information and Consultation with Staff and Other Interested Parties (1999), paragraph 4.3.

9 See for example OFGEM Guaranteed and Overall Standards of Performance (1999).

10 For example, in relation to the electricity distribution sector during the period of the study, the electricity regulatory body OFGEM estimated the cost of capital as a weighted average of the cost of debt and equity finance at 6.5 per cent, implying a dividend yield of 4.75 per cent. OFGEM Distribution Price Control Review (1999), pp. 38-47.

11 OFWAT Periodic Review 1999, p.21

12 OFGEM recognises that the figures it uses ‘may differ substantially’ from the actual levels paid out by the electricity companies: Distribution Price Control Review (1999), at p. 41.

13 The relevant legislation was contained in the Employment Relations Act 1999; see generally Brown et al., 2001, on the meaning and impact of this legislation.