CORPORATE GOVERNANCE, STAKE-HOLDING AND THE NATURE OF EMPLOYMENT RELATIONS WITHIN THE FIRM

Centre for Business Research, University of Cambridge
Working Paper No. 313

by

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September 2005

This Working Paper forms part of the CBR Research Programme on Corporate Governance.

Abstract
This paper investigates the effect of different forms of corporate governance on the structure and nature of stakeholder relationships within organizations and the consequent impact on employment relations within the firm. In this, HRM assumes a dual role in delivering improvements in production efficiency and in fostering employee commitment to the organization and its objectives. However, different forms of corporate governance prioritise stakeholder interests in ways that may bring these two objectives into conflict. To address these questions, we examine the interrelationship between corporate governance, HRM practices and HRM outcomes in a comparative analysis of companies operating under alternative forms of governance, including private sector, public sector and family-owned firms. The empirical analysis is based on the UK Work and Employment Relations Survey (WERS98).

JEL classification: J24, J53, L21, L23, M12, M5

Keywords: corporate governance, human resource management, stakeholding, employment, relations and Work and Employment Relations Survey

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INTRODUCTION

Dominant forms of work organisation have evolved from authoritarian management systems and Taylorist concepts embodied in scientific management to more human relations oriented forms associated with modern human resource management (HRM). In each stage of this development, the efficient organisation of work in production has been the focus and it is now widely recognised that across organisations, performance is enhanced by the effective management of human resources and the development of organisational commitment on the part of both labour and management (Guest, 1987; Legge, 1995; Walton, 1985). In parallel development, in the Anglo-American context, systems of corporate ownership and control have evolved in ways that reinforce traditional systems of governance; and this has had an impact on the ability of organisations to operationalise HRM and thereby to resolve their common problems in the area of production management. By designating a dominant stakeholder group and prioritizing interests accordingly, corporate governance has an important influence on the structure and nature of stakeholder relationships and on the credibility of commitments that stakeholders are able to make to one another; and this in turn affects their willingness to fully participate in productive activities.

This paper investigates the interrelationship between corporate governance and HRM practices and outcomes at the level of the firm. The influence of corporate governance on the nature of the HRM practices that are designed and implemented within an organization derives from the requirements of the dominant stakeholder and the contribution HRM might make to the achievement of these objectives. Corporate governance also has consequences for the effective translation of HRM practices into HRM outcomes because by prioritizing stakeholder interests, it determines the degree of organizational commitment that internal stakeholders are willing and able to extend to one another. To examine these relationships, we conduct a comparative analysis of companies operating under alternative forms of corporate governance, including public sector organisations, in which the government is the dominant stakeholder; private sector PLCs, in which the shareholder is the dominant stakeholder and the interests of tax-payers / customers are prioritised; owner-managed companies, in which the owner-manager is the dominant stakeholder; and other forms of private sector firms, in which stakeholder control is more diffused.

Section two considers the interrelationship between corporate governance and HRM in the context of the corporate productive system. In this, we develop a framework for understanding this inter-relationship and the credibility of commitments that stakeholders in organizations operating under alternative forms of corporate governance are able to make to one another. Section three analyses these relationships empirically, using the 1998 Work and Employment Relations Survey (WERS98) which permits analysis of the relationship between these forms of corporate governance and HRM practices and outcomes. Section four draws conclusions from the preceding analysis.

CORPORATE GOVERNANCE AND HRM

Corporate governance is essentially concerned with issues of ownership and control within the firm (Berle and Means, 1932). It sets the terms and conditions of the legal allocation of property rights among the different stakeholder groups; and this affects their incentives and hence their willingness to cooperate with one another in productive activities. Corporate governance therefore impacts the effectiveness of HRM practices in achieving the productive objectives to which they have been set. Because the diffusion of responsibility for production, process improvement and innovation has been shown to significantly improve organisational performance through the cooperation of stakeholders in the productive process and their voluntary contribution of skills, experience and commitment to meet organisational objectives, corporate governance plays a central role in the ability of firms to perform effectively over the long term (Baker, 1999; Black and Lynch, 1997; Huselid, 1995; Ichniowski, Kochan, Levine, Olson and Straus, 1996; Konzelmann, 2003; Pfeffer, 1998).

Corporate Governance and stakeholder relations

At the level of the firm, corporate governance establishes the legal configuration of stakeholder relations, in which there is usually a dominant stakeholder group whose interests are prioritized accordingly. By designating a dominant stakeholder group, corporate governance serves to structure stakeholder relationships, the nature of which will be importantly determined by the requirements of the dominant stakeholder group.

Internal and *external* corporate stakeholder groups can be identified, based on their relative proximity to the processes of value creation within the organisation. Internal stakeholders, for example, would include managers and employees while external stakeholders would include shareholders and the government.[i] In organizations with a dominant internal stakeholder, there are fewer constraints on the ability of managers and employees to work together in pursuit of their shared objectives in such things as long term organizational viability which forms the basis of their respective employment and income security. However, the further the dominant stakeholder is from the processes of production, the more difficult it becomes for internal stakeholders to implement and maintain strategic approaches aimed at long term production effectiveness. In organizations with a dominant external stakeholder such as shareholders or the government, for example, managerial commitments to internal stakeholders are conditional on the requirements of the dominant stakeholder; and this may be in opposition to those of internal stakeholder groups, making it more difficult to secure the commitment of these stakeholders to broader organisational objectives.

The requirements of the dominant stakeholder are therefore likely to impact on the approaches and practices developed and implemented by internal stakeholders and on their effectiveness in achieving the objectives they have been designed to accomplish. In public sector firms, for example, the government is the dominant stakeholder whose primary requirement will be the delivery of high quality products and services at reasonable price for customers / taxpayers. The ability to accomplish these potentially competing objectives, in a sector which is traditionally labour intensive, suggests an emphasis on approaches that both secure internal stakeholder commitment to the organization and its objectives and maximize the productivity of human and other productive resources. In PLCs, the shareholder is the dominant stakeholder, whose primary requirement is likely to be short term share value appreciation. In this case, approaches are likely to be biased towards those that minimize short term costs, in particular costs of labour and other productive inputs. In family owned and managed firms, the owner-manager is the dominant stakeholder whose primary requirement will be long term profitability of the enterprise. In these firms, the emphasis on *long term* institutional viability, coupled with the likelihood of small size, offers greater latitude for the pursuit of strategies involving internal stakeholders in securing performance objectives by means of high levels of organisational commitment.

HRM and organizational commitment

The field of human resource management (HRM) has evolved substantially during the past 90-100 years (Wright and Boswell, 2002). With growing recognition of the increasing returns to greater worker involvement in the planning and execution of work, as well as to worker self regulation and a more democratic style of management, HRM has become an increasingly important component of organizational strategy (Appelbaum and Batt, 1994; Blyton and Turnbull, 1992; Guest, 1987). Broadly speaking, its purpose is to foster a pre-emptive rather than re-active approach to operational efficiency, quality control, and innovation by shifting responsibility and accountability for decision making (on the part of both employees and managers responsible for employee related matters) towards the shop floor. The widespread adoption of HRM testifies to a shift in labour management practice ‘from coercion to the attempted production of self-regulated individuals’ (Hollway, 1991: 20).

In recent years, with the intensification of competitive pressures, interest in better understanding and developing sources of sustainable competitive advantage has grown; and firms are placing varying degrees of emphasis on strategic competencies in the form of intangible factors such as technological position, innovation, organizational design and HRM, depending upon the strategic orientation they adopt (Conant, Mokawa and Varadarajan, 1990). In assessing the contribution these might make both to competitiveness and organizational performance, significant research attention has been focused on explaining the performance impacts associated with HR systems, typically referred to as 'High Performance Work Systems' (HPWS) (Wright and Boswell, 2002).

Strategic orientation is therefore an important determinant of the approach taken in the area of HRM; and top managers will emphasize different philosophies of HRM depending upon the organization's strategic approach, who controls the firm and whose interests are prioritized (Zahra and Pearce 1990, p.752). Similarly, as theorized by Miles and Snow (1978), different organizational types (i.e., 'prospector,' 'analyzer' and 'defender') will be associated with related sets of HR practices. Many studies have tested this theory of strategy, structure and process with the aim of identifying the most appropriate and effective HR practices for each of the strategic types.[ii] Miles and Snow (1984), for example, found that 'defender' firms (i.e., firms focusing on a narrow and limited product market domain, trying to protect their market share) typically have less developed systems of HRM. These firms tend to use internal recruitment and selection strategies and to design traditional systems of compensation, based on fixed salaries; they rarely appraise employee performance but they attach importance to long-term training. By contrast, 'prospector' firms (i.e., firms that continuously search for new market opportunities through processes of innovation and new product development) make use of more advanced and better developed systems of HRM. These companies normally depend on external recruitment and selection processes, performance-based systems of evaluation and variable compensation systems; and they usually offer limited and informal training. Ostroff (cited in Wright and Boswell, 2002) also found a significant relationship between clusters of HR practices and the firm's strategic business approach. Because the firm's governance system is likely to impact its strategic orientation, these findings provide an indication of the types of HRM practices / systems that firms operating under different forms of governance might choose to adopt.

Differences in product market strategies and measures of performance are also likely to influence managerial decision-making with respect to employment, training and workforce development. Market-based strategies, for example, typically depend on internal measures of firm performance that are primarily financial. But assigning too great an emphasis on financial imperatives may cause managers to lose sight of the importance of firm specific, human capital in effective production and service delivery. This will tend to discourage investment in training, contributing to reliance instead on external labour markets for a supply of skilled labour. In market-based systems, too, it is typical to use market-type devices to secure employee commitment. Because in the absence of close relations between owners and mangers, there is a danger that managers will pursue interests that diverge from those of owners, stock based options are often used to deal with the problem of commitment, adding to the pressures shareholders are able to exert on managerial decision-making with respect to labour and HRM.

Insight into the interrelationship between systems of governance and systems of employment can also be found in the work of Gospel and Pendleton (2003), who, for example, argue that the incentives and governance structures found in the Anglo-American shareholder-based model force managers during hard times to shed labour and avoid investments that have uncertain returns, such as training. Although the assumption is usually made that the firm's primary objective is profit maximisation, Gospel and Pendleton (2003) found that whereas institutional investors may prioritise short term profits, shareholder value and liquidity, family owners are more likely to consider long-term organizational viability, control and private benefits to be the more important objectives. The key equity holders in an organization are therefore important in shaping HR practices because of the pressure that different classes of investors are able to exert on management and the influence this will have on the way that work is organized and labour is managed.

The national-level system of finance and corporate governance will also have an influence on labour management within the firm because of the relative importance national systems assign to such things as labour interests, time frames, strategy types, financial measures of performance, the use of market-based instruments to secure commitment and the extent of employer co-ordination (Gospel and Pendleton 2005). In liberal market-based systems like the US and UK, for example, managers are required to pursue shareholder interests above those of labour, which often forces them to break implicit (psychological) contracts with labour in the interest of short-term shareholder value. Hall and Soskice (2001, p. 16), too, suggest that intensified pressure from investors has shifted the balance against labour in managerial decision-making because of weaker statutory protection for labour.

While there is evidence of inter-linkages between governance and HRM systems at the national level, there are also inter-relationships between finance, governance and HRM within these systems. For example, some large listed firms in the UK (such as pharmaceutical companies) have stable and active relationships with investors and at the same time are committed to employment security, career opportunities and human capital development. The extent to which managerial discretion is constrained and influenced by investor pressures is likely to be a function of the identity and activities of shareholders and managers (Gospel and Pendleton 2003; Deakin et. al. 2002).

Having discussed the evidence for hypothesizing the linkages between forms of corporate governance and labour management (HRM), we now consider the relative importance of HRM in relation to corporate governance and organization performance.

The idea that an organization's human resources are of critical strategic importance, and that the skills, behaviours and interactions of employees have the potential to provide both the foundation of strategy and the means for strategy implementation, has led to the emergence of 'strategic' HRM (SHRM) (Dyer and Kochan, 1995; Lundy, 1994; Schuler, Dowling and DeCieri, 1993; Truss and Grattan, 1994). Strategic HRM is not merely a subset of HRM or traditional HRM tagged with the word 'strategic.' According to Beardwell, Holden and Claydon (2004) SHRM is differentiated from HRM in a number of ways, primarily related to movement away from a micro-perspective on individual HR functions in the direction of a more macro-perspective (Wright and Boswell, 2002), with an emphasis on vertical integration (Guest, 1989) and horizontal integration (MacDuffie, 1995). This strategic orientation has important implications for the inter-relationship between HRM and governance.

Most models of SHRM emphasize the importance of 'flexibility' and 'fit.' 'Flexibility' represents the organization's capability of recognizing and adapting to changes in environmental pressures, opportunities and constraints (Snell, Youndt and Wright, 1996). The concept of 'fit' assumes that particular types of business strategy are best supported by particular sets of employee behaviors and attitudes, which themselves are produced by particular 'bundles' of HRM approaches and policies (Capelli and Singh, 1992). 'Fit' has both vertical and horizontal dimensions, where vertical fit involves alignment of HRM practices with the firm's strategic business approach (Schuler and Jackson 1987) and horizontal fit involves consistency within bundles of HRM practices (Baird and Meshoulan, 1988). There are however conflicting views as to the meaning of strategic HRM and a number of approaches adopted from which to explore HRM which this paper does not allow us to go into; but from the point of view of this paper what is important is that strategic HRM is about enhanced organizational performance, whether this is in the 'hard' sense through cost reduction and efficiency driven practices, or through 'soft' high commitment and involvement-driven value added practices, and the decision about which model to adopt or which mix of models is likely to be driven by the form of governance of the organization and the business strategy adopted.

Both the ‘hard’ and ‘soft’ dimensions (Storey, 2002) emphasise the importance of integrating HRM into business strategy; but they differ in their view of the contribution employees might make to the achievement of business objectives. The focus of *hard HRM* is maximising the economic return from labour resources. Its key objectives include continuous improvement in quality and performance, just-in-time inventory systems, and statistical process control designed to iron out variation in quality, create consistency in meeting standards, locate inventory savings and eliminate waste. From the perspective of hard HRM, labour is primarily a ‘factor of production,’ the effective management of which requires emphasis on the ‘quantitative, calculative and business strategic aspects of managing the headcount resource in as ‘rational’ way as for any other economic factor’ (Storey, 1987: 6). By contrast, *soft HRM* views workers as valued assets and ‘a source of competitive advantage through their commitment, adaptability and high quality of skills performance’ (Legge, 1995:66). With a greater emphasis on human relations, the objective of soft HRM is to release the ‘untapped reserves of ‘human resourcefulness’ by increasing employee commitment, participation and involvement’ (Blyton and Turnbull, 1992: 4). Employees are viewed as active inputs into the productive process, capable of development, involvement and informed choice. Communication, motivation and leadership are therefore encouraged in order to develop and strengthen commitment and a shared or ‘mutual’ vision of the organization and its objectives (Beer and Spector, 1985). ‘The theory is that policies of mutuality will elicit commitment which in turn will yield better economic performance and greater human development’ (Walton, 1985).

It is important to note that hard and soft models of HRM are not necessarily contradictory or mutually exclusive; rather they form parts of a whole HRM strategy that may be more heavily influenced by aspects of one or the other. Regardless of the relative emphasis on hard and soft approaches, models of HRM assign central importance to *commitment* to the objectives of the organization (Guest, 1987; Legge, 1995; Walton, 1985), where commitment implies ‘identification with the goals and values of the organization, a desire to belong to the organization and a willingness to display effort on behalf of the organization’ (Mowday, Porter and Steers, 1982 in Guest, 1987). Organisational commitment is important because it is seen to motivate workers to work harder and go ‘beyond contract;’ to self-monitor and control, eliminating the need for supervisory and inspection personnel; to persist with the organization, thereby increasing the returns to investments in selection, training and development; and to avoid collective activities that might lower the quality and quantity of individual contributions to the organization (Guest, 1987).

The objective of HRM is therefore to create a satisfying work environment while also rewarding the development of skills and creativity, thereby gaining competitive advantage (Handel and Gittlemann, 2004). The benefits are claimed to accrue to both the organization and the individuals working for it. However, how and to whom the benefits accrue has been a source of considerable debate. There is evidence to suggest that high performance work systems may bring benefits to the organization and its shareholders but not necessarily to employees. In fact, many studies show that these work systems disadvantage employees because 'performance gains from new management practices [give] rise instead [to] work intensification, offloading of task controls, and increased job strain' (Ramsay et al, 2000, p.501). In this, corporate governance may be a key contributing factor.

Corporate Governance and HRM

As discussed above, corporate governance structures internal and external stakeholder relationships, the nature of which will be importantly determined by the requirements of the dominant stakeholder group. These requirements will have an impact on the organisation's objectives and the ways by which performance is measured and assessed; and from this will flow the strategies designed to meet them. In this context, the HRM practices that are developed and implemented can be expected to reflect the firm's strategic orientation. For example, strategies aimed at producing satisfactory quality at minimum cost in the short term are likely to favour HRM practices designed to maximize the economic returns from labour resources while strategies aimed at maximizing production efficiency and quality through the close cooperation of productive agents favour approaches designed to develop employee involvement and commitment to the longer-term objectives of the organization.

HRM system outcomes in the areas of HR (people) and HRM (processes) will be influenced by the effectiveness of the strategies and approaches taken. Also important will be corporate governance because by prioritizing stakeholder interests, it determines the level and degree of internal stakeholder commitments. Particularly important in this respect will be the credibility of managerial commitments to employees, which can be expected to be determined by the degree to which they are made conditional on the requirements of stakeholders other than employees. In general, the further the dominant stakeholder is from the processes of value creation within the firm, the weaker their attachment to the organization, the more likely their interests will compete with those of internal stakeholders and, consequently, the weaker managerial commitments to employees are likely to be. Corporate governance thus has important consequences for the effective translation of HRM practices and HRM outcomes.

Considering the relationship between the four corporate governance forms in WERS98 and HRM (See Table 1), in public sector firms, the government is the dominant stakeholder, dependent on tax-payers for funding; and the interests of customers (and taxpayers) are prioritized in regulations requiring the delivery of high quality products and services at low price (and cost). The public sector tends to be very labour intensive, and employees are central to the delivery of high quality services. In this context, human resources are likely to be viewed as essential in the ability to deliver the potentially competing objectives of high quality and low cost because of the benefits associated with the close working together of managers, employees, suppliers and customers. We would therefore expect to see high levels of work pressures and extensive use of HRM, both in its hard and soft forms, in public sector organizations.

TABLE 1
Corporate governance and Human Resources

Type of Organisation	Dominant Stakeholder	Primary Organizational Objective	Dominant View of Human Resources
Public sector organisation	Government (external)	High quality / low price products for customers produced at low cost for customers / taxpayers	Central to accomplishment of potentially competing quality, price and cost objectives
Private sector: PLC	Shareholder (external)	Shareholder value (emphasis on short-term)	Cost to be minimized Resource to be exploited
Private sector: other	Depends on corporate form (internal)	Long-term economic performance and institutional viability (profitability and sustainability)	Central to accomplishment of long-term performance objectives and institutional viability
Owner-managed firm	Owner-Manager (internal)	Long-term economic performance and institutional viability (profitability and sustainability)	Central to accomplishment of long-term performance objectives and institutional viability

In PLCs, the shareholder is the dominant stakeholder whose continued investment in the firm is largely dependent on the delivery of persistent increases in short-term shareholder value. Because shareholders tend to be less committed to the organisation than they are to the value of the shares they hold, their relationship with other (internal) stakeholders, such as employees, suppliers and customers, is a relatively detached one. There is also the potential for conflictual stakeholder relations because shareholder requirements may undermine the commitment managers and the organization are able to make to internal stakeholders, in particular, employees. In this context, human resources are more likely to be viewed as a cost to be minimized or a productive resource to be exploited. We would therefore expect to see well developed HRM practices aimed at the delivery of short term financial returns and likely to have a bias towards calculative or hard HRM.

In family-owned and managed firms, the manager is the dominant stakeholder and family member interests in the firm's long-term institutional viability are prioritized. This is also likely to be the case for other types of private sector employers firms; these include private limited companies, partnerships, trusts and charities, cooperatives, mutuals and friendly societies. In all of these 'private sector other' organisations, it is unlikely that there is a dominant external stakeholder and it is to be expected that control will be less likely to be concentrated exclusively in the hands of managers. In organisations operating under both owner managed and private sector other forms of corporate governance, we would expect to see a lower level of formality in HRM practices because relationships among internal stakeholders in these firms are typically close. In these firms as well, human resources are likely to be viewed as central to the accomplishment of long-term economic performance effectiveness and institutional viability, giving rise to a bias in the direction of more commitment oriented practices.

Operationalising the analysis of corporate governance and HRM

The choice of HR practices in the present study was somewhat constrained by the data set and the information contained in the WERS98 survey. However from the items available, it was decided to include those that would reflect collaborative or 'soft' HR practices and calculative 'hard' HR practices as described by Gooderham, Nordhaug and Ringdal (1999), practices that have been shown to have a linkage with finance and governance described above. Various authors have suggested that the strategic HRM model contains within it an inherent duality between, on the one hand, strong, economic and calculative considerations and, on the other, a more humanistic orientation to promote mutual goals, mutual influence, respect, rewards and responsibility (Gooderham, Nordhaug and Ringdal, 1999). Based on the evidence suggested by Gospel and Pendleton (2003), different forms of corporate governance and strategy are likely to be associated with different emphases in HR practices; so within the constraints of the HR practices surveyed in WERS98, it was important to incorporate items that reflected this and the two very different perspectives of 'hard' and 'soft' HRM.

Items associated with 'hard' HRM include a range of efficiency-seeking devices aimed at ensuring that each employee's contribution to the firm is assessed and rewarded appropriately through individual performance appraisals and individually-oriented reward systems. Incentive systems are explored including job security, which has been shown to be a factor influenced by governance and strategic orientation. Investment in employee development and training are also included as this has been shown to be important for evaluation of the benefits of these practices to the business strategy. To reflect the 'soft' model of HRM, consultation is important as employees are viewed as active partners and core assets premised on commitment, communication and collaboration. The collaborative emphasis is characterized by efforts to create and communicate a culture of partnership between employer and employee as well as among employees. As a result, the level and nature of consultation and commitment of management to HRM will allow conclusions to be drawn about the nature of HRM associated with particular forms of governance.

As a result of radical changes in employment legislation during the 1980s, it is arguable that UK managers are no longer constrained to a significant degree by regulative pressures or labour unions (Gooderham, Nordhaug and Ringdal. 1999). They are therefore free to adopt a mix of calculative and collaborative HR practices with different configurations and emphases relating to the form of corporate governance. Various attempts have been made to identify 'best practices,' 'high commitment work practices' or 'high performance work systems' (Becker and Gerhart, 1996, P.785). In this study, those contributing to organizational performance that might be related to corporate governance include information sharing and consultation (Huselid, 1995; Pfeffer, 1998), incentive systems (Arthur, 1994; Huselid, 1995; MacDuffie, 1995; Delery and Doty, 1996; Pfeffer, 1998), training (Arthur, 1994; Huselid, 1995; MacDuffie, 1995; Peffer, 1998), organization of work including job design and working in teams (Arthur, 1994; MacDuffie, 1995; Pfeffer, 1998). Items relating to managerial commitment to HRM are included because the level of managerial commitment is influenced by form of corporate governance and the degree to which managers are forced to prioritise the interests of others ahead of employees.

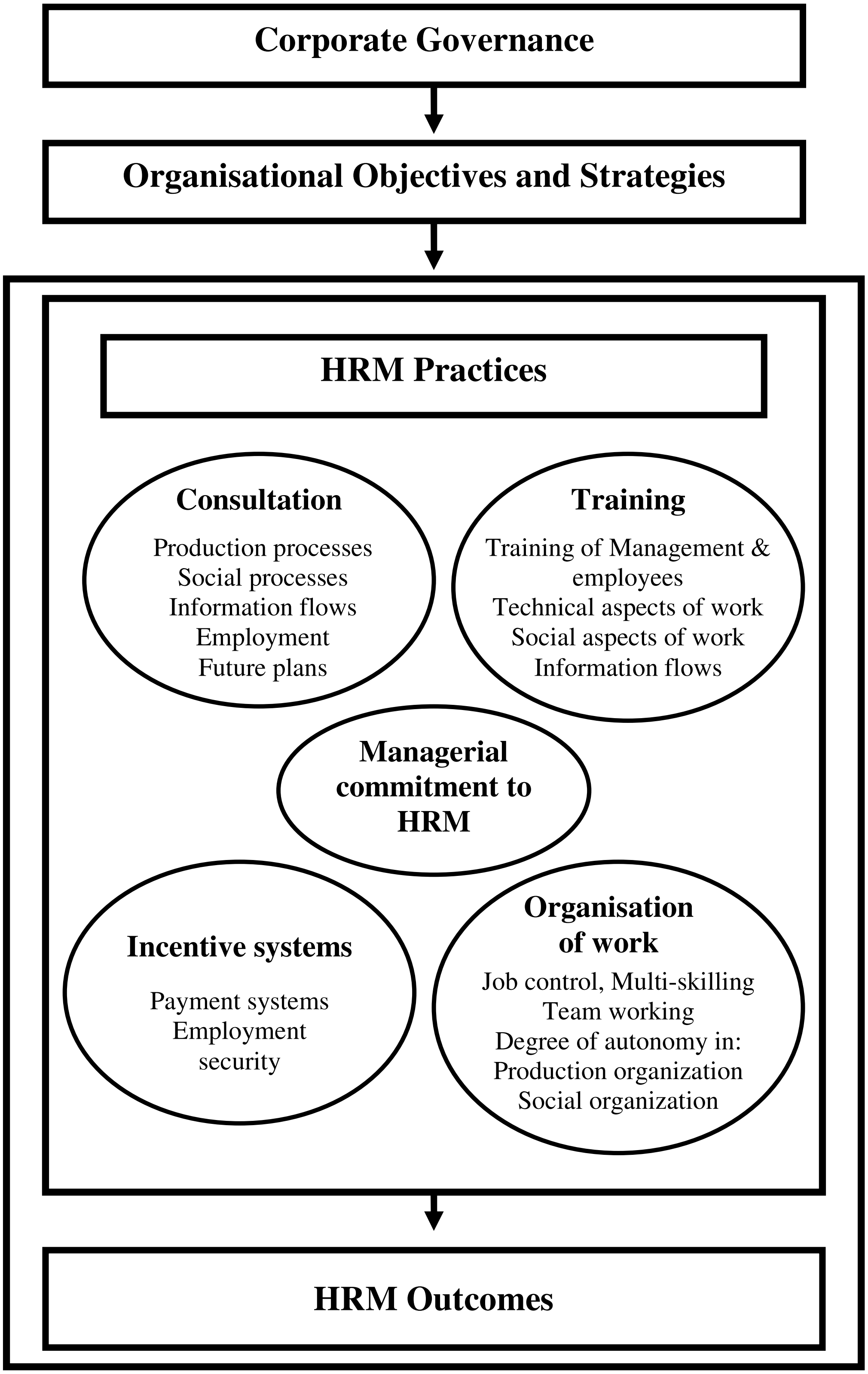
Guest, Michie, Sheehan and Conway (2000a) and Guest, Michie, Sheehan, Conway and Metochi (2000b), also drawing on the WERS98 data set, found that human resource practices were still not embedded in most workplaces with few organizations having in place a coherent range of practices of the sort that would be associated with 'high commitment' or 'high performance' HRM (Marchington and Wilkinson, 2002: 189). But it has not been shown whether the practices that are utilised have a relationship with the organisation's system of corporate governance.
In examining the relationship between corporate governance and HRM, it is also important to understand the meaning of performance and how it is

measured. Many attempts have been made to identify a linkage between HRM and organizational performance; but these have largely been based on the common sense that improving the way people work and are managed leads to improved performance (Truss, 2001). One such attempt was made by Guest (1997), who sought to explain the intermediary linkage between HRM practices and HR outcomes such as productivity, organizational commitment and job satisfaction. His model proposed that high performance at the individual level (which ostensibly leads to improved performance at the organizational level) depends upon high motivation, possession of the necessary skills and abilities and an appropriate role and understanding of that role.

Based on this assumption, the HR outcome variables in our study include employee commitment to the values of the organization and the quality of labour-management relations (from the perspective of managers) and work pressure, job satisfaction, organizational commitment and the quality of labour-management relations (from the perspective of employees). The logic is that better HRM outcomes, such as lower levels of work pressure, higher levels of job satisfaction and employee commitment to the organisation and a high quality of labour-management relations will contribute to greater individual productivity and better organizational performance. It is proposed here that these can also be related to the form taken by corporate governance. Finally, as size in terms of numbers of employees has been shown to influence the methods used for controlling and coordinating employees, size is controlled for in the present study.

On the basis of the above, there is good reason to believe that corporate governance will have an influence on the HRM practices employed within the firm and that corporate governance and HRM practices together will impact the performance of the HR system in terms of achieving the objectives to which it has been set. The model in Figure 1 provides a guide to the empirical analysis of the inter-relationship between corporate governance, HRM practices and HRM outcomes (below).

FIGURE 1 Corporate Governance and HRM System Approaches & Outcomes



As discussed above, the form taken by corporate governance can be expected to have an influence on organizational objectives and strategies, which in turn will shape the HRM practices that are implemented; and these, together, are likely to impact HRM outcomes. Based on the data in WERS98, HRM practices include training, incentive systems, work organization and managerial commitment to HRM.[iii] These are represented in the analysis by composite variables, constructed from variables representing different aspects of these more general dimensions of the HRM system. Consultation, for example, includes consultation (both horizontal and vertical) regarding production and social processes, information flows within the organization, employment issues, future plans and the implications of proposed changes. Training encompasses training for management and employees in the technical and social aspects of work as well as information flows within the organization. Incentive systems encompass practices relating to compensation and employment security. The organization of work concerns employee autonomy, discretion and control over their work, job flexibility and team working. Managerial commitment to HRM is evident in such things as the training of managers in people management skills, appointment of an employee relations representative to the Board of Directors, and existence of a strategic plan covering employee development. HRM outcomes include such things as employee commitment to the organization, quality of the relationship between management and employees, employee attitudes about work pressure and job satisfaction. In the following section, these relationships are examined more closely using the data contained in the WERS98 survey.

DATA ANALYSIS

The 1998 Work and Employment Relations Survey (WERS98) was conducted between October 1997 and June 1998 by Social and Community Planning Research (SCPR). WERS98 was jointly sponsored by the Department of Trade and Industry (DTI), The Economic and Social Research Council (ESRC), The Advisory, Conciliation and Arbitration Service and the Policy Studies Institute (PSI). The largest survey of its kind and the fourth in a series of surveys that started in 1980, WERS98 is based on a sample of more than 3,000 workplaces in Britain. It involved interviews with managers having responsibility for employee relations issues, interviews with worker representatives, and surveys completed by more than 30,000 employees. As a whole, the survey represents approximately 75 percent of all employees in the U.K. In addition to general information about the workplace and respondents, topics covered in the survey include more detailed information about recruitment and training, consultation and communication, representation at work, pay systems and determination, collective disputes and procedures, grievance and disciplinary procedures, fair treatment at work, workplace flexibility, workplace performance and workplace change.

For purposes of the analysis here, public sector, PLC, owner-managed companies and other types of private sector firms are compared, together representing 2,189 workplaces (682 in the public sector, 829 PLCs, 208 owner-managed firms and 470 other private sector firms). Of these, the majority (81 percent) were in the non-production sector, with a higher concentration of small firms located in the owner-managed and private sector-other categories (See Table 2). As a result, in the regression analyses below, we control for organization size.

TABLE 2
Sector and Size distribution of firms (percent of workplaces)

	Public Sector	**PLC**	**Owner-Managed**	**Private Sector other**	**Total**
	%	%	%	%	%
Sector					
Production	2%	30%	29%	19%	19%
Non-production	98	70	71	81	81
Establishment size					
1 to 24 employees	10%	10%	21%	16%	12%
25 to 49 employees	18	14	30	20	18
50 to 99 employees	18	17	24	18	18
100 to 199 employees	19	18	14	17	18
200 to 499 employees	18	26	7	20	21
500 to 999 employees	8	11	4	6	8
1000 employees & over	9	4	0	3	5
Number of workplaces:	682	829	208	470	2189

Appendix Table 1 presents in greater detail the variables used in the empirical analysis below, showing how composite variables were constructed from Management and Employee responses to WERS98 questions, how these were coded for purposes of creating the composite variables and how the items were aggregated. Significance levels are based on a One Way Analysis of Variance comparing the corporate governance forms for each of the HRM practice and HRM outcome variables. The statistical analysis and all later regression analyses are conducted at the level of the workplace (N = 2,189 for analyses drawing solely on manager responses; N = 1,720 when drawing on manager responses and employee responses). Employee responses are aggregated to the level of the workplace by taking the arithmetic mean from employees surveyed at that workplace. On average, 16 employees were surveyed from each workplace.

Corporate governance forms, HRM practices and HRM system performance

As a preliminary step to looking at how the corporate governance forms compare and contrast with respect to key features of their HRM practices and HRM outcomes, we conducted an analysis of variance (ANOVA) based on multiple comparisons as a means of ranking the corporate governance forms in each HRM practice and outcome. The results are summarized in Tables 3 and 4, below. From this, very interesting results across the corporate governance forms and across management and employee perspectives can be found.

Based on management's responses, the ANOVA supports the proposition above that firms in the public sector and PLCs were considerably ahead of owner-managed firms in terms of the formalization of their HRM systems, with the public sector leading the way in consultation, training, multi-skilling and team-working; and PLCs leading in terms of individual incentive systems and managerial commitment to strategic HRM (See Table 3). These findings are generally supported by employee responses with respect to training, consultation (about job progress, promotion chances, training needs and pay) and the quality of line managers (in terms of their effectiveness at keeping workers up to date about change, providing opportunities to comment on proposed changes, responding to suggestions, dealing with work problems and treating people fairly). However, employees' responses contradict those of management on the question of consultation whereby management seeks employees' views on such things as future plans, staffing, changes to work practices, pay issues and health and safety. In this, whereas the ranking based on managers' responses put the public sector and PLCs ahead of owner-managed and other private sector firms, when employee responses are considered, owner-managed and other private sector firms take the lead. Employees in owner-managed and other private sector firms were also considerably ahead of the public sector and PLCs in terms of job autonomy and the level of influence they reported over job content, pace of work and discretion.

TABLE 3
Sector Ranking of HRM Practices based on ANOVA

a. Management perspectives

	Consultation	Incentives	Managerial Commitment to strategic HRM	Training	Multi-skilling & Team-working
Public sector	1	4	3	1	1
PLC	2	1	1	2	2
Private: Other	3	2	2	3	3
Owner managed	4	3	4	4	4

b. Employee perspectives

	Consultation	Management Seeks employee views	Quality of Line mgmt	Training	Job autonomy & control
Public sector	3	4	1	1	4
PLC	1	3	3	2	3
Private: Other	2	1	2	3	2
Owner managed	4	2	4	4	1

TABLE 4
Sector Ranking of HRM Outcomes based on ANOVA

a. Management perspectives

	Employee commitment	Employment relations
Public sector	2	3
PLC	4	4
Private: Other	1	2
Owner managed	3	1

b. Employee perspectives

	Work pressure	Job satisfaction	Organisational commitment	Employment relations
Public sector	1	3	1	4
PLC	2	4	4	3
Private: Other	3	2	2	2
Owner managed	4	1	3	1

As evident in Table 4, when HRM outcomes are considered, employees in the public sector and PLCs were far more likely to experience high levels of work pressure and job stress; and their job satisfaction lagged behind those in owner-managed and other private sector firms.

This is reinforced by the contrasting perspectives of managers and employees with respect to employment security (See Table 5). While an overwhelming proportion of managers in all four corporate governance sectors indicated that employees were led to expect long-term employment in the organization (81.8% in owner-managed firms, 73.4% in other private sector firms, 71.9% in PLCs and 68.3% in public sector organizations), employees were less likely to feel secure. However, employees in owner-managed and other private sector firms were far more likely to agree with managers on the question of employment security and to feel that their job was secure; 70.6% of employees in owner managed firms and 60.7% in other private sector firms agreed or strongly agreed. Yet a minority of employees in the other two sectors reported that they felt secure (49.1% in PLCs and 41.3% in public sector organizations). These figures are very interesting when compared with managers' responses because they suggest that although public sector organizations and PLCs are using HRM approaches aimed at making employees feel that their employment is secure in an effort to secure their commitment to the organization and its objectives, employees themselves are much less likely to feel so.

TABLE 5
Organisational Commitment of Employees

Managers perspectives

Commitment to the organization*	Employees are fully committed to the values of the organisation	Employees are led to expect long-term employment
	%	%
Public sector	65	68
PLC	65	72
Private: Other	70	73
Owner managed	69	82
All	66	72

Employees perspectives

Commitment to the organization*	I feel my job is secure in this place	I am proud to work here	I feel loyal to the organisation	I share many of organisation's values
	%	%	%	%
Public sector	41	59	74	56
PLC	49	57	69	38
Private: Other	61	60	73	46
Owner managed	71	59	75	36
All	51	58	72	45

* Percentage agreeing strongly or very strongly with statement

Returning to Table 4, on the question of organizational commitment and of the quality of the relationship between management and employees, management and employee responses revealed similar patterns. The public sector was ahead of owner-managed firms and PLCs in terms of both management's perceptions regarding employee commitment to the values of the organization and the level of organizational commitment reported by employees, with PLCs lagging the other two corporate governance forms. Nevertheless, as Table 5 shows, when the question of commitment is considered more closely, there is evidence that in all four sectors, employees are highly committed, with a majority of managers reporting high levels of employee commitment to the values of the organization, and a majority of employees (higher in public sector and owner-managed firms than in PLCs) reporting that they felt loyalty and pride in the organization for which they work. This suggests that while employees have a high degree of commitment to their work and loyalty to their organization, this does not extend to what managers do with their work or to the values of the organization. The notable exception is the case of the public sector, where a majority (55.8%) of employees reported sharing many of the values of the organisation.

As evident in Table 4, from the perspective of both managers and employees, owner-managed and other private sector firms were ahead of the public sector and PLCs when the quality of labour management relations was taken into account. This supports the notion that despite the informality of HRM systems and structures in owner-managed and other private sector firms, relationships between managers and employees are conducive to achievement of the outcomes that more formal HRM systems are designed to accomplish. Thus, despite evidence of formal HRM practices in the public sector and PLCs, relationships, commitment levels, job satisfaction and employment security tended to be much better in owner-managed and other private secor firms, suggesting that informal HRM systems and structures are positively impacting HRM outcomes in these organizations.

However, this conclusion might need qualification, bearing in mind that corporate governance is not the only characteristic differentiating the organizations in our study. As discussed above (and evident in Table 2), public sector organisations and PLCs tend to be larger than owner-managed and other private sector firms. In the remainder of this section, therefore, we use regression analysis to investigate more closely the separate effects of organisational size and corporate governance form on HRM practices and HRM outcomes. In the first model, organization size and corporate governance form are used to predict HRM practices and outcomes. In the second model, HRM practices are added to organization size and corporate governance form to predict HRM outcomes. In each regression, organization size is introduced in step 1 as a control variable and the corporate governance forms are entered in step 2. In the second regression model, HRM practices are entered in step 3. The results are summarized in Tables 6-9. The four category variables of corporate governance (Public sector, PLC, Owner-managed and Private sector–other) were converted into dummy variables, and the omitted dummy variable was 'Private sector–other' companies. Therefore, in the regression analyses, the effects of other corporate governance types are relative to 'Private sector–other'. Due to the large sample size, we restrict our discussion to variables with significance levels of $p < .001$.

Size and corporate governance form as predictors of HRM practices and outcomes

As discussed above, organization size varied across the corporate governance forms, with owner-managed and private sector-other firms more likely to be small. Based on the responses of managers, organization size is significant and positively related to HRM practices including consultation (beta = 0.20), incentive systems (beta = 0.26), managerial commitment to strategic HRM (beta = 0.32) and training (beta = 0.09) (See Table 6). In general, as firm size increases, managers are more likely to report the existence of these HRM practices. Based on employee responses, organization size is significant and positively related to HRM practices including consultation (beta = 0.13) and training (beta = 0.14); and it is significant and inversely related to the quality of line management (beta = -0.05) and job autonomy (beta = -0.19). This suggests that as firm size increases, employees are more likely to report that they are consulted and that they receive formal off-the-job training but they are less likely to report that the quality of line management is high or that they have autonomy in their jobs.

TABLE 6
Corporate governance and organization size as predictors of HRM practices: Management and employee questionnaires

Management questionnaire					
HRM Practices:	Consultation	Incentive systems	Managerial commitment to strategic HRM	Training	Organization of work: Multi-skilling and Team-working
	Standardised Beta Coefficients				
Organization size	0.20***	0.26***	0.32***	0.09***	0.03
Corporate governance form					
PLC	0.00	0.09***	0.16***	0.06*	0.02
Public sector	0.14***	-0.17***	-0.15***	0.15***	0.14***
Owner managed	-0.14***	0.01	-0.10***	-0.07**	-0.06*
Adjusted R-square	0.12***	0.11***	0.22***	0.05***	0.03***
Employee questionnaire					
HRM Practices:	Consultation	Managerial commitment to HRM: seeking views of employees	Managerial commitment to HRM: quality of line manager quality	Training	Organization of work: job autonomy
	Standardised Beta Coefficients				
Organization size	0.13***	0.01	-0.05*	0.14***	-0.19***
Corporate governance form					
PLC	0.10***	-0.01	-0.03	0.09**	0.00
Public sector	-0.10***	-0.11***	0.08*	0.23***	0.01
Owner managed	-0.12***	0.00	-0.04	-0.14***	0.00
Adjusted R-square	0.08***	0.01***	0.01***	0.13***	0.03***

The remaining category of corporate governance ‘Private sector – other’ is the omitted dummy variable.
*** $p < 0.001$
** $p < 0.01$
* $p < 0.05$

With respect to HRM outcomes, from the perspective of managers, size is significant and inversely related to employee commitment to the values of the organization (beta = -0.11), suggesting that the larger the organization, the lower the level of employee commitment (See Table 7). From the viewpoint of employees, size is significant and inversely related to job satisfaction (beta = -0.17), employee commitment to the organization (beta = -0.18) and the quality of labour-management relations (beta = -0.11). This suggests that as the size of the organization increases, employees are less likely to report satisfaction with their jobs, commitment to the organization or a high quality of labour-management relations.

TABLE 7
Corporate governance and organization size as predictors of HRM outcomes: Management and Employee questionnaires

Management questionnaire		
HRM Outcomes:	Employee commitment to organization	Quality of labour-management relations
	Standardised Beta Coefficients	
Organization size	-0.11***	-0.05
Corporate governance form		
PLC	-0.02	-0.01
Public sector	0.03	-0.04
Owner managed	-0.04	0.05*
Adjusted R-square	0.01***	0.01***

Employee Questionnaire				
HRM Outcomes:	Work pressure	Job satisfaction	Organisational commitment	Employment relations
	Standardised Beta Coefficients			
Organization size	-0.01	-0.17***	-0.18***	-0.11***
Corporate governance form				
PLC	0.01	-0.04	-0.01	-0.03
Public sector	0.25***	0.02	0.10***	-0.01
Owner managed	-0.08**	-0.02	-0.04	0.01
Adjusted R-square	0.07***	0.03***	0.03***	0.01***

The remaining category of corporate governance 'Private sector – other' is the omitted dummy variable.
*** $p < 0.001$
** $p < 0.01$
* $p < 0.05$

Considering the impact of corporate governance form on HRM practices (See Table 6), based on managers' responses, the strongest model is that for *managerial commitment to strategic HRM*, where organization size and corporate governance together explain 21.8% of the variation in commitment. In this, being a PLC is positively related to managerial commitment (beta = 0.16) whereas being in the public sector (beta = -0.15) or owner-managed (beta = -0.10) are negatively related. In other words, and recalling that these types of corporate governance are relative to the omitted dummy variable of 'private sector other', PLCs are more likely to exhibit evidence of managerial commitment to strategic HRM (i.e., training supervisors in people management skills, having an employee relations representative on the Board of Directors and having a formal strategic plan for employee development) than 'private sector other', public sector and owner-managed firms; and public sector and owner-managed firms exhibit significantly lower managerial commitment to strategic HRM than 'private sector other' firms.

The second largest R-square is for *consultation*, where 12% of the variation in consultation can be explained by size and corporate governance form. In this model, being in the public sector is positively related to consultation (beta = 0.14) whereas being owner-managed is negatively related (beta = -0.14). This suggests that public sector firms have well developed consultation systems whereas owner-managed enterprises tend not to, regardless of size; it also indicates that while PLCs and 'private sector – other' (the omitted dummy variable) have less developed consultation systems than public sector organisations, they have more developed systems than do owner-managed enterprises. The third strongest model is that predicting *incentive systems*, where 11% of the variation in incentive systems can be explained by size and corporate governance form. In this, being a PLC is positively related to the existence of a system of incentives (beta = 0.09) while being in the public sector is negatively related (beta = -0.17). PLCs are more likely to exhibit evidence of incentive systems than 'private sector other' (the omitted dummy variable) and public sector firms; and public sector firms have significantly fewer incentive systems compared with 'private sector – other'. The incentive systems of owner-managed firms do not differ significantly from 'private sector – other'. The other models explain less than 5% of the variation in the dependent variable; so they are not elaborated here.

From the perspective of employees, the lower explanatory power of the regression models in terms of the adjusted R-square suggests that size and corporate governance form are less important predictors of HRM practices and outcomes than they are when the managers' perspective is considered. We therefore restrict our discussion here to cases where the independent variables explain more than 5% of the variation in the dependent variable. As evident in

Table 6, from the perspective of employees, organization size and corporate governance explain 12.9% of the variation in training, where the public sector (beta = .23) exhibits higher levels of training when compared with the other forms of corporate governance, and owner-managed enterprises (beta = -.14) exhibit lower levels of training. Organization size and corporate governance explain 7.6% of the variation in consultation, where the public sector and owner-managed enterprises have lower levels of consultation than 'private sector – other' (beta = -.10 and -.12 respectively) while PLCs have significantly higher levels of consultation than than 'private sector – other' (beta = .102).

Turning to the relationships between corporate governance and HRM outcomes in Table 7, from a management perspective, corporate governance has negligible associations with employee commitment to the organization or the quality of labour-management relations. From the perspective of employees, however, the results are more significant in that corporate governance and organizational size together explain 7% of the variance in *work pressure*, with public sector employees reporting the highest levels of work pressure (beta = .25) and owner managed firms reporting the lowest (beta = -.08). The form taken by corporate governance explains only a small amount of the variance (less than 5%) in the remaining HRM outcomes of job satisfaction, organizational commitment and the perceived state of employment relations. The only significant finding here is where public sector employees report significantly higher levels of organizational commitment (beta = .10) than employees working in other firms. This may be an indicator of the high level of occupational commitment characteristic of public sector professions (Burchell et. al. 1999).

In general, controlling for size, when the impact of corporate governance form on HRM practices and outcomes is considered, from the perspective of managers, the patterns conform with those that might be predicted. Owner-managed firms tend to have less formalized HRM systems and structures than can be found in PLCs, the private sector more generally, and public sector firms. PLCs and public sector organizations are more heavily engaged in both 'hard' and 'soft' HRM practices, with the bias in PLCs towards the calculative (i.e., individual incentive systems) and strategic end of the continuum and the public sector towards the commitment (i.e., consultation) oriented pole. However, the relationship between corporate governance form and HRM outcomes is negligible. When the viewpoint of employees is considered, the patterns of relationship between corporate governance and HRM practices are less pronounced and at times contradictory with those of management (i.e., with respect to consultation). In terms of HRM outcomes, the strongest finding relates to work pressures, with public sector employees reporting high levels of stress and employees in owner-managed firms reporting the opposite.

HRM practices a predictor of HRM outcomes

To investigate the degree to which HRM outcomes can be explained by HRM practices, we turn to the second set of regressions, where organization size was entered in step 1, corporate governance form in step 2 and HRM practices in step 3. The results from the perspective of managers are summarized in Table 8 and those from the perspective of employees are summarized in Table 9. Of these models, the strongest are those from the employees' perspective, with those based on managers' responses accounting for less than 15% of the variation in HRM outcomes.

Considering HRM outcomes from the managers' perspective first (See Table 8), HRM practices including the quality of line management, consultation and the organization of work consistently and positively predict the HRM outcomes of employee commitment (beta = .23 for quality of line management, beta = .125 for consultation and beta = .11 for the organization of work,) and quality of labour-management relations (beta = .33 for quality of line management, beta = .09 for consultation and beta = .09 for the organization of work,). In other words, managers report higher levels of employee commitment and a better quality of employment relations in firms where they also highly rate the quality of line management, consultation and multi-skilling and team working.

TABLE 8
HRM Practices as a predictor of HRM outcomes:
Management perspectives on HRM outcomes

HRM Outcomes:	Employee commitment to the values of the Organisation	Quality of Labour-Management relations
	Standardised Beta Coefficients	
Organisation size	-0.14***	-0.06*
Corporate Governance Form		
Public Sector	0.00	-0.09**
PLC	-0.01	0.00
Owner-managed	0.00	0.07**
HRM Practices		
Management responses		
Consultation	0.13***	0.09***
Incentive systems	-0.06*	0.01
Managerial commitment to strategic HRM	0.05	0.04
Training	0.03	0.05
Organisation of Work: Multi-skilling and Team-working	0.11***	0.09***
Employee responses		
Consultation	0.06*	-0.13***
Managerial commitment to HRM: seeking employees' views	0.02	0.05
Managerial commitment to HRM: Quality of line management	0.231***	0.33***
Training (employee view)	-0.05	-0.01
Organisation of work: Job autonomy and control	0.00	-0.06**
Adjusted r-squares	0.13***	0.14***

The remaining category of corporate governance 'Private sector – other' is the omitted dummy variable.
*** $p < 0.001$
** $p < 0.01$
* $p < 0.05$

As evident in Table 9, from the perspective of employees, the regressions predicting the quality of labour-management relations, job satisfaction and organizational commitment were all very strong. In these, respectively, 72.9%, 57.5% and 48.8% of the variation in the HRM outcomes under consideration can be explained by including the independent variables of size, corporate governance form and HRM practices in the model. In each, by far the strongest of the independent variables is the quality of line management, followed by the level of autonomy and control employees feel they have over their jobs. In other words, high quality line management and high levels of job autonomy and control are positively related to the quality of employment relations, job satisfaction and organizational commitment. Also apparent in Table 9 is the significant positive relationship between being in the public sector and employees reporting high levels of work pressure (beta = .24), low levels of job satisfaction (beta = -0.06) and a low quality of labour management relations (beta = -0.07). The relationship between corporate governance forms and HRM outcomes are not significant for the other three sectors.

Considering HRM outcomes from the perspective of employees, the responses of both managers and employees with respect to HRM practices indicate a positive relationship between *work pressure* and consultation (beta = 0.06 for managers and beta = 0.13 for employees). Work pressure is also positively associated with managers reporting higher levels of multi-skilling and team-working (beta = .08) and employees reporting a low quality of line management (beta = -.11). This suggests that consultation, multi-skilling and team-working and a low quality of line management generate increased work pressures for employees. Turning to the more positive HRM outcomes, employees' *job satisfaction* is better in firms where they rate the quality line management to be high (beta = .62) and where they report a greater degree of job autonomy (beta = .30) and less consultation (beta = -.08); and employees' *organizational commitment* is highest in firms where they consider the quality of line management to be high (beta = .57) and where they have more autonomy and control in their jobs (beta = .19). Employees also report better *employment relations* in firms where they have higher quality line management (beta = .84) and greater job autonomy (beta = .09). These findings in general suggest that the more effective employees feel management to be and the greater their control over the pace and content of their work, the better will be the relationship between managers and employees, the greater will be employees' job satisfaction and the more committed they will be to the objectives of their organizations.

TABLE 9
HRM Practices as a predictor of HRM outcomes:
Employee perspectives on HRM outcomes

HRM Outcomes	Work pressure	Job satisfaction	Employee Commitment to Organisation	Quality of Labour-Management Relations
	Standardised Beta Coefficients			
Organisation Size	-0.05	-0.05**	-0.12**	-0.03
Corporate Governance Form				
Public Sector	0.24***	-0.06*	0.03	-0.07**
PLC	-0.01	0.00	0.01	0.00
Owner-managed	-0.05	0.01	-0.02	0.03
HRM Practices				
Management responses				
Consultation	0.06*	0.01	0.04*	-0.04**
Incentive systems	-0.01	-0.01	-0.02	-0.01
Managerial commitment to strategic HRM	-0.01	-0.05**	-0.03	-0.04**
Training	0.03	-0.01	0.04*	-0.01
Organisation of work: Multi-skilling and Team-working	0.08***	0.00	0.03	0.00
Employee responses				
Consultation	0.13***	-0.08***	-0.02	0.01
Managerial commitment to HRM: Management seeks employees views	0.04	-0.01	0.03	-0.04**
Managerial commitment to HRM: Quality of line management	-0.11***	0.62**	0.57***	0.84***
Training	0.05	0.02	0.05*	0.02
Job autonomy and control	0.04	0.30***	0.19***	0.09***
Adjusted r-squares	0.12***	0.58***	0.45***	0.73***

The remaining category of corporate governance ‘Private sector – other’ is the omitted dummy variable.
*** $p < 0.001$
** $p < 0.01$
* $p < 0.05$

CONCLUSIONS

Organisational effectiveness can be seen to extend to the management of human resources in such a way as to develop and facilitate the reciprocal commitments required for successful long-term organizational performance and sustainability. However, the nature and structure of stakeholder relations shaped by corporate governance may impose constraints on the ability of managers to honour commitments made to employees as well as on the willingness of internal stakeholders to fully commit to one another and to the organization and its objectives. While stakeholders have mutual interests in the long term effectiveness of their organizations, not all interests are shared. This can be complicated when organizational size and the location of stakeholders and the workplace under consideration within the corporate system are taken into account (Konzelmann 1995, 2003). In large organizations, it may be difficult to create the systems and structures that effectively align stakeholder interests. Whereas in small, single plant firms, all stakeholders have a shared interest in the viability of the firm, in large organizations where there are multiple plants, lower level interests may be subordinated to those of the organisation as a whole, giving rise to conflicts of interest across workplaces, among plants and between levels within the larger enterprise. Likewise, when there is a dominant external stakeholder, whose objectives are not directly aligned with those of internal stakeholders and the requirements of the production system, conflicts of interest between internal and external stakeholders can arise, with potentially damaging effects on organizational performance. Stakeholder relationships are also characterised by differences in relative power. How these are managed and to what end are centrally important not only for the quality of stakeholder relations and the consequent effectiveness of HRM in meeting the objectives of the organisation and the requirements of production but also for the ability of the organisation to meet the demands of the markets in which it operates.

The basis for maintaining co-operative and high performance employment systems is therefore not so much in arguing that there are no differences in stakeholder interests, but rather, in creating ways for finding acceptable solutions to differences in order to secure the reciprocal commitments upon which effective HRM and organizational performance depend (Wilkinson 2002). But the ability of managers to commit themselves in this way depends upon the extent to which they are required to prioritise the interests of others than their workforce and internal stakeholders. In this respect, the form taken by corporate governance has an important influence not only on the structure and nature of stakeholder relations but also on the dominant view of human resources (employee stakeholders).

As evident in WERS98, firms in all four corporate governance sectors faced intense competitive and regulatory pressures and substantial change; and they considered HRM to be an increasingly important strategic response. In this, the patterns in HRM approaches reported by managers follow the predicted patterns. Public sector firms and PLCs were heavily engaged in both 'hard' and 'soft' HRM practices, with the public sector much further ahead in the use of non-standard forms of employment, training and consultation. By contrast, in PLCs, there was a bias towards a more strategic HRM orientation and 'hard' HRM practices such as individual incentive systems. Owner-managed enterprises stood out from the others in the informality of their HRM systems and structures; for example, employees in owner-managed firms were much less likely than those in the public sector and PLCs to be trained or consulted. However, interestingly, the patterns in HRM practices reported by managers were not always consistent with those reported by employees, particularly in the public sector and PLCs. For example, whereas managers in the public sector reported high levels of consultation, employees reported low levels.

The issue of size is certainly a contributing factor in the level of formality of HRM systems and structures, with large firms facing greater pressure to formalize their HRM processes and to involve a greater number of people in HRM. In WERS98, large size was associated with the existence of a wider array of formal HRM practices; however, it was also correlated with lower levels of employee commitment, job satisfaction and quality of labour-management relations. This implies that the formalization of HRM may compromise the purpose to which it is put, particularly in companies where managers are forced to serve 'multiple masters.' In this, the nature of corporate governance assumes central importance by identifying the range of stakeholders that managers must take into account and in prioritizing interests among them. For example, in PLCs and public sector organizations, managers must meet the requirements of employees in order to galvanise the workforce in the development and implementation of HRM systems and structures; yet at the same time, they must meet the requirements of external stakeholders, such as shareholders, regulators and the state. By contrast, managers in owner-managed firms are less constrained by the demands of external stakeholders and consequently potentially better able to meet the requirements of employees in such a way as to secure their commitment to the organization and its objectives.

In WERS98, there is evidence of variation in the impact of HRM approaches on employees across corporate governance forms. Employees in owner-managed firms, for example, were likely to report low levels of job stress whereas in PLCs and public sector organizations, levels of work pressure were high despite evidence of greater attention to HRM. This is consistent with Legge's (1995) contention that all HRM practices are geared towards the achievement of managerial objectives and are designed to be exploitative of labour, whether 'hard' or 'soft.' In the public sector (where significant results were found in terms of high work pressure, low job satisfaction and a poor quality of line management combined with a high level of organizational commitment), this exploitation may be facilitated by the high degree of occupational commitment that public sector employees tend to exhibit, thereby permitting employers to take advantage of their 'occupational slack' (Burchell et. al. 1999).

Regardless of the level of formality of HRM systems and structures, the findings in WERS98 highlight the importance of the quality of relationships between managers and employees in achieving the outcomes that HRM systems are designed to accomplish. Particularly from the perspective of employees, HRM practices explained a substantial degree of the variation in HRM outcomes; and of these, the quality of line management and employee job autonomy and control were consistently the strongest predictors. Thus, we might conclude that regardless of the nature and sophistication of the HRM system and the mutuality of benefits they are designed to achieve, if employees perceive HRM to be a form of work intensification and exploitation rather than a vehicle for employee empowerment and involvement, the HRM system is likely to achieve quite the opposite outcomes to those for which the it was designed and implemented to achieve. This underlines the importance, when developing and formalizing HRM systems and structures, of focusing on employee perceptions of and responses to such arrangements.

The findings from WERS98 (summarized in Table 3) suggest that the form taken by corporate governance is more likely to impact the formal or strategic level HRM activities (such as consultation, training and managerial commitment to strategic HRM) than the informal, day-to-day HRM practices (such as job autonomy and quality of line management). In these, the links between corporate governance and HRM were statistically weak or insignificant. However, the findings (summarized in Tables 5 and 6) suggest that it is these more informal, local level HRM practices that are the most significant predictors of HRM outcomes. What remains unexplained is how corporate governance in combination with a complex array of other factors (that includes configurations of HRM objectives and practices) influences HRM outcomes. The next step in this research, therefore, is to more closely examine the strategic organization of HRM practices, with a view to better understanding these interrelationships. This further study will be based on the WERS2004 data set, which includes questions that address some of these dimensions of the interrelationship between corporate governance and employment relations.

To conclude, given the central importance of *commitment* for the effectiveness of HRM approaches in supporting business objectives, recognition of the existence of legitimate conflicts of interest among stakeholder groups and the potential for these to undermine the commitment necessary for effective HRM and organizational performance is crucial. This underscores the competitive advantages associated with developing effective mechanisms for resolving conflicts so as to make possible the reciprocity of stakeholder commitments that is required for effective long-term HRM and, hence, organizational performance.

Notes

[i] Other internal and external stakeholder groups can be identified, including suppliers (of productive inputs, physical and financial capital), customers, the host economy, etc. Whether they are considered internal or external stakeholders will depend upon the way the boundaries of the productive system are drawn. For example, suppliers might be internal stakeholders within the corporate productive system but external stakeholders within the workplace productive system. For purposes of this analysis, the key internal stakeholders include employees and managers; and the key external stakeholders include shareholders in the case of private sector PLCs and the government in the case of public sector organizations.

[ii] See, for example, Delery & Doty, 1996.

[iii] Appendix Table 1 provides greater detail on each of the HRM practice and outcome variables.

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APPENDIX

TABLE 1
Summary of HRM Practices and HRM Outcomes Variables

Summary Variable	Meaning	Scale	Sig. level**
HRM Practices			
Management questionnaire			
Consultation	Count across 10 items:		0.000
	1. Management seek employee views about job specifications	1 = agree; 0 = DK, disagree *	
	2. Management discuss implications of change with employees	1 = agree; 0 = DK, disagree *	
	3. Those at top make decisions	1 = agree; 0 = DK, disagree *	
	4. Decisions made without consultation with employees	1 = disagree; 0 = DK, agree *	
	5. System of briefings?	1 = yes; 0 = no	
	6. Is briefing generally for the whole workplace?	1 = yes; 0 = no	
	7. Consultation committees?	1 = yes; 0 = no	
	8. Wide range of issues concerning employees discussed by committees	1 = yes; 0 = no	
	9. Quality circles?	1 = yes; 0 = no	
	10. Other ways management communicates with employees	1 = yes; 0 = no	
Incentive systems	Count across 5 items:		0.000
	1. Employees led to expect job security	1 = agree; 0 = DK, disagree *	
	2. Employees get PRP or bonuses	1 = yes; 0 = no	
	3. Employees get individual or group performance schemes	1 = yes; 0 = no	
	4. Most non-managerial staff receiving performance related pay	1 = yes; 0 = no	
	5. Guaranteed job security for certain groups of employees	1 = yes; 0 = no	
Managerial commitment to strategic HRM	Count across 3 items:		0.000
	1. Percent of supervisors trained in people management skills	1 = 60%+; 0 = less than 60%	
	2. Employee relations rep on Board of Directors?	1 = yes; 0 = no	
	3. If yes to BSTRATEG, does the formal strategic plan cover employee development	1 = yes; 0 = no	

Training	Count across 3 items: 1. Percent employees with off-the-job training 2. Time spent on off-the-job training for employees 3. Did training cover teamworking, communication, problem solving, quality control procedures?	1 = 60%+; 0 = less than 60% 1 = 5 days or more; 0 = less than 5 days 1 = yes; 0 = no	0.000
Organization of work	Count across 5 items: 1. Percent of employees trained to do jobs other than their own 2. Do employees have discretion in work? 3. Do employees have control over pace of work? 4. Percent of employees in formal teams? 5. Teamwork involves 3 or more of cooperation, control over leadership, control over work, and responsibility for products and services	1 = 60%+; 0 = less than 60% 1 = Some or a lot; 0 = little or none 1 = Some or a lot; 0 = little or none 1 = 60%+; 0 = less than 60% 1 = yes; 0 = no	0.000
Employee questionnaire			
Consultation	Count across 4 items: Consultation with line manager about: 1. job progress 2. promotion chances 3. training needs 4. pay	 1 = yes; 0 = no 1 = yes; 0 = no 1 = yes; 0 = no 1 = yes; 0 = no	0.000
Managerial commitment to HRM (seeking views)	Arithmetic mean across 5 items: Frequency managers ask for employee views about: 1. future plans for workplace 2. staffing issues 3. changes to work practices 4. pay issues 5. health and safety at work	All items measured on a 4-point scale where 1 = never, 2 = hardly ever, 3 = sometimes, 4 = frequently.	0.000
Managerial commitment to HRM (line manager quality)	Arithmetic mean across 5 items: How good are managers at: 1. keeping workers up to date about change 2. providing opportunities to comment on proposed changes 3. responding to suggestions from e'ees	All items measured on a 5-point scale where 1 = very poor, 2 = poor, 3 = neither good nor poor, 4 = good, 5 = very good	0.001

	4. dealing with employees' work problems 5. treating employees fairly		
Training	Single item: Off the job training in past 12 months	All items measured on a 6-point scale ranging from 1 = 'none' to 6 = '10 days or more'	0.000
Organization of work (job autonomy)	Arithmetic mean across 5 items: How much influence over: 1. tasks 2. pace of work 3. how work is done	All items measured on a 4-point scale where 1 = none, 2 = a little, 3 = some, 4 = a lot.	0.002
HRM Outcomes			
Management questionnaire			
Employee commitment	Single item: Employee commitment to the values of the organization	5-point scale where 1 = strongly disagree, 2 = disagree, 3 = neither, 4 = agree, 5 = strongly agree	0.092
Employment relations	Single item: Relationship between management and employees	5-point scale where 1 = very poor, 2 = poor, 3 = neither good nor poor, 4 = good, 5 = very good	0.001
Employee questionnaire			
Work pressure	Arithmetic mean across 2 items: 1. Job requires to work very hard 2. Pressures to get job done on time	Items measured on a 5-point scale where 1 = strongly disagree, 2 = disagree, 3 = neither, 4 = agree, 5 = strongly agree	0.000
Job satisfaction	Arithmetic mean across 4 items: Satisfaction: 1. influence over job 2. pay 3. sense of achievement 4. respect from line managers	Items measured on a 5-point scale where 5 = very satisfied, 4 = satisfied, 3 = neither, 2 = dissatisfied, 1 = very dissatisfied	0.002
Organisational commitment	Arithmetic mean across 3 items: 1. Share values of the organization 2. Loyalty to organization 3. Pride in working here	Items measured on a 5-point scale where 1 = strongly disagree, 2 = disagree, 3 = neither, 4 = agree, 5 = strongly agree	0.000
Employment relations	Single item: Relationship between management and employees	5-point scale where 1 = very poor, 2 = poor, 3 = neither good nor poor, 4 = good, 5 = very good	0.011

* Indicates that a longer interval scale (such as a 5 or 7-point Likert scale) was dichotomized.
** Significance level based on one way analysis of variance (ANOVA) comparing corporate governance forms for each HRM system, HRM system performance and organizational performance variable.