

PARTNERSHIP, OWNERSHIP
AND CONTROL:
THE IMPACT OF CORPORATE
GOVERNANCE ON
EMPLOYMENT RELATIONS

S. Deakin, R. Hobbs, S.
Konzelmann and F. Wilkinson

WP 200
June 2001

**PARTNERSHIP, OWNERSHIP AND CONTROL:
THE IMPACT OF CORPORATE GOVERNANCE ON EMPLOYMENT
RELATIONS**

ESRC Centre for Business Research, University of Cambridge
Working Paper No. 200

By

Simon Deakin, Richard Hobbs, Suzanne Konzelmann and Frank Wilkinson

Centre for Business Research,
Top Floor
Judge Institute of Management Studies Building
Trumpington Street
Cambridge
CB2 1AG

Tel: 01223 765320
e-mail: sk359@cam.ac.uk

June 2001

This Working Paper forms part of the CBR Research Programme on Corporate Governance, Contracts and Incentives

Abstract

Most large UK private-sector organisations are listed companies that are subject to intense pressures to enhance shareholder value. The question arises of whether this constrains the ability of UK managers to pursue genuine partnership arrangements with long-term stakeholders, including employees. Empirical evidence is presented in the form of case studies of partnership relations between labour and management since the mid-1990s in companies operating under different forms of ownership. While some companies have been able to reconcile shareholder demands with a ‘partnership’ approach, in other cases, shareholder pressure has undermined partnership relations of the kind which have endured under more concentrated forms of ownership. Where the corporate governance system can be seen to support partnership, it is in conjunction with market regulation underpinning quality standards, relative stability in product markets, and a willingness on the part of senior management to mediate between the claims of different stakeholder groups.

JEL Codes: G34, J53, K22, K23

Keywords: corporate governance, industrial partnership, stakeholding, co-operation

Acknowledgements

Paper prepared for the Conference on ‘Corporate Governance: Reassessing Ownership and Control’, Faculty of Law, University of Cambridge, 19 May 2001.

PARTNERSHIP, OWNERSHIP AND CONTROL: THE IMPACT OF CORPORATE GOVERNANCE ON EMPLOYMENT RELATIONS

I. Introduction

This paper examines ‘partnership’ models of production organisation, their meaning, functioning and effectiveness, and the ability of parties to develop, implement and maintain such relationships in the context of different markets, regulatory frameworks and systems of corporate governance. Corporate governance has been variously defined. Mayer (1997) argues that corporate governance is concerned with aligning the interests of investors and managers to ensure that firms are run for the benefit of shareholders. By contrast, Deakin and Hughes (1997) view corporate governance as concerned with the relationship between internal governance mechanisms and society’s conception of the scope for corporate accountability. Within this broader definition, corporate governance can be seen to include structures, processes, cultures and systems designed to promote organisational effectiveness.¹ From this perspective, the ‘partnership’ model of production organisation offers an approach by which labour and management can achieve mutually beneficial outcomes by improving the quality of labour and employment relations and more closely co-operating with the objective of enhancing business performance.

Most large private-sector organisations in the UK are listed companies that are subject to intense pressures to enhance shareholder value. In principle, UK company law allows boards to take a view based on ‘enlightened shareholder value.’² This assumes that the long-run interests of shareholders and other stakeholders essentially coincide.³ In practice, however, the capacity of boards to mediate between the interests of different stakeholder groups may be constrained by features of the corporate governance system for listed companies. These include the dispersed nature of share ownership, the vulnerability of companies to hostile take-over bids, and pressures from institutional investors for quarterly improvements in earnings.

As a result, the UK system of corporate governance may place a constraint on the ability of UK-based corporations to pursue genuine partnership arrangements with stakeholders (suppliers, customers, communities and above all, labour) whose interests are, in the final analysis, subordinated to those of equity investors. Direct conflicts between stakeholder groups may be unavoidable, with negative consequences for long-run performance.

Empirical evidence is brought to bear on these questions by examining the evolution of corporate strategy since the mid-1990s in a small number of case-study companies operating under different forms of ownership. These include UK-listed companies that have been actively involved in take-overs and mergers while at the same time promoting ‘partnership’ with trade unions. Their experience is contrasted to that of comparator companies operating in the UK under continental European ownership, in which the controlling equity stake is held by a long-term, dominant ‘block-holder.’ From these cases, it is evident that some UK companies have been able to reconcile shareholder demands with a ‘partnership’ approach, and have used the market for corporate control to advance this philosophy at the expense of rivals adopting a more adversarial (and in practice less effective) philosophy. However, in other cases, shareholder pressure has undermined partnership relations of the kind which have endured under more concentrated forms of ownership. Overall, corporate governance can be seen to play a significant role in the development of partnership arrangements and the ability of firms to sustain them over time.

The order of the paper is as follows. Section two examines the governance of production relationships and the emergence of co-operation in production from an historical legacy of managerial prerogative and conflictual industrial relationships. It also reviews the development and implementation of industrial partnership in the UK since 1979, in response to competitive and economic difficulties. Section three examines the UK system of corporate governance, its influence on relationships and interactions among stakeholder groups

and its potential for interfering with the ability of parties to maintain partnership in employment relations. Section four presents the case evidence and analysis. Section five draws conclusions from the previous discussion and discusses policy implications that arise from the analysis.

II. The governance of production relations and the case for co-operation

The historical backdrop to the partnership debate is the apparent competitive failure of Taylorism. Long considered to be the most advanced form of capitalist work organisation, the essence of Taylorism was its acceptance of the superiority of top-down management in the conceptualisation, direction, co-ordination and control of production. Its application rested on managerial prerogative and the belief that employment relations are naturally antagonistic.

a. Managerial prerogative and conflictual industrial relations

Managerial prerogative and conflictual industrial relations evolved with the development of modern capitalism, as technology and managerial authority was progressively substituted for workers' skills and co-ordination. The task content of jobs was simplified, and workers' discretion over the execution and pace of work was reduced by mechanisation (which embedded the co-ordinating and control functions in the machine) and by scientific management (which developed the co-ordinating and command function of management). The hierarchical command structuring of management was reinforced by the contract of employment, which underpinned 'managerial prerogative,' and granted managers rights to the 'co-operation' of employees in areas not covered by implicit or explicit agreements. It therefore vested in the employer powers that went 'beyond contract.'⁴

The problem with this traditional form of work organisation was the support it gave to mutual antagonism and low trust relationships between workers and managers, which together seriously limited any possibility of collaboration.⁵ The prospects for partnership were

therefore bleak and industrial relations became premised on a 'behavioural acceptance of divergent purpose.'⁶ *Us against them* attitudes prevailed and both sides carefully guarded their separate interests by limiting mutual dependence, restricting information, resisting concession and readily resorting to sanctions.⁷ Collective bargaining, where it emerged, provided a basis for compromise and for the regulation of conflict. But it required that unions accept managerial prerogative as a condition for management's recognition of the right of unions to represent their members, and to negotiate on their behalf the terms and conditions of employment and the *effects* of management decisions.⁸ Collective bargaining therefore lent additional institutional weight to hierarchical managerial structures and power relationships whilst ameliorating their effects and providing procedures for securing agreements and resolving disputes.

The Taylorist system of production organisation operated most effectively in the US during the immediate post World War II period. In this era, it was combined with technological leadership and large-scale mass production, and a macro-economic environment of high demand, protected domestic markets and limited competition. However, Taylorism was soon subjected to both internal and external challenges.

a.1. The challenge from within: the development of HRM

The performance downside of traditional forms of production organisation has long been recognised, even by proponents of capitalism.⁹ Reflecting on a life-time of production management, and social and industrial research and experimentation, in which well-being and mutual dependence was a central focus, Seebohm Rowntree wrote in 1921:

'The attempt to establish an ideal working environment is not the fad of a sentimentalist, nor is it a counsel of perfection, which can only be operated by a wealthy firm. If workers are to co-operate in producing a high output of goods, which will compete successfully in world markets, they rightly demand, in their working lives, conditions which will enable and encourage them to give of their best.'¹⁰

The benefits of collective employee involvement and the negative effects of unrestricted managerial prerogative were also underlined in the 1930's Hawthorne Experiment, as well as by the Tavistock Institute's war-time experiments and their peacetime industrial applications.¹¹

Human Resource Management (HRM) built upon these early developments, drawing on industrial psychology theories of motivation, behavioural theories of job enlargement and enrichment, and organisational behaviour theories of better communication and employee involvement. HRM embraces the notion that firms will reap the rewards of greater worker motivation and improved job performance resulting from increased job satisfaction, enlarged and enriched job content, additional challenges and opportunities for workers, and new skill development. Workers' interests are engaged by designing wage systems that recognise individual differences and reward employees accordingly. In contrast to the hierarchical system of industrial relations (IR), HRM fosters pre-emptive rather than reactive approaches to operational efficiency, quality control and process development.¹² It emphasises joint participation in production-related activities and decision-making and shifts accountability and decision-making to the lowest appropriate level in the organisation, with the objective of maximising 'organisational integration, employee commitment, flexibility and the quality of work.'¹³ Despite these advantages, HRM has been slow to take root in Britain and has only recently emerged to challenge the traditionally more conflictual IR approach as the dominant system of internal governance in UK businesses.

a.2. The challenge from outside: co-operation and competitiveness

The major challenge to traditional forms of work organisation in Britain came not from internal reforms, but rather, from the demonstrated competitive superiority of more co-operative forms of industrial organisation, largely by foreign producers. This *new competition*¹⁴ is broadly based on higher quality, improved design, greater variety more

rapid product and process innovation and lower costs. It was launched by Japanese, German, Italian, Swedish and other producers who had evolved co-operative employment relations and *relational* contracting arrangements with their suppliers and customers.¹⁵ The effect was the generation of high levels of operational and dynamic efficiency, largely as a consequence of mobilising and improving worker and supplier commitment, skills and knowledge. High levels of competitive performance rest on the recognition of the mutuality of interests and the ability to maximise these by building high-trust, partnership relationships.¹⁶ Such co-operative arrangements are supported by the state, trade associations, trade unions, and other organisations and institutions which intervene by setting norms, rules and standards for regulating market and other relations between the *social partners*.

b. From hierarchical management to industrial partnership

In response to increasing competitive pressures and difficulties, in 1979, the Conservative government focused on the perceived need to restore to management the right to manage within the traditional system of IR. Worker organisation was weakened by unemployment and by anti-trade union legislation. However, the failure of this strategy to stem the decline in UK competitiveness helps to explain why, especially during the 1990s, more and more companies have been re-assessing their HRM strategies and turning to more co-operative forms of work organisation.

Following this trend, the ‘New’ Labour Government, elected in 1997, endorsed labour-management co-operation and ‘partnership’ as an effective approach for improving economic performance. Tony Blair identified the Labour government’s primary industrial relations objective as being ‘nothing less than to change the culture of relations in and at work,’ based on the assumption that ‘efficiency and fairness are wholly compatible.’ He stressed the need for the new culture to be ‘one of voluntary understanding and co-operation because it has been recognised that the prosperity of each (employer and employee) is bound up in the prosperity of all.’ He emphasised that ‘partnership works best when it is about real goals – part of a strategy for instance

for doubling business. Or bringing employee relations in line with market re-positioning. Or ending the often-meaningless ritual of annual wage squabbling.’¹⁷

Wood (2000), too, distances partnership from the ‘zero-sum haggling’ of pre-Thatcher collective bargaining, interpreting the new system to be:

‘one of partnership at work ... associated with the kind of model of HRM ... focused on the achievement of a particular role orientation on the part of employees so that they are flexible, expansive in their perceptions and willing contributors to innovation.’¹⁸

He goes on to suggest that:

‘Partnership is a matter of employers having the right to ask employees to develop themselves in order to accept fresh responsibilities whilst they themselves must take responsibility for providing the context in which this can happen. In the terminology of principal-agent theory, it is about employers having a concern for the employability of the employees and in so doing acting as an agent for their development and security.’¹⁹

In this formulation of partnership, the strong emphasis is on the need for workers to make largely unconditional commitments to their employer’s business, and to mould themselves to its needs. In this way, workers provide additional and improved resources for the firm’s managers to manage more effectively.

In Wood’s view, ‘there is nothing in the notion of partnership to link it exclusively with unions.’²⁰ In Wood’s conception, then, the traditional belief in the superiority of managerialism is retained, but the employing organisation is redefined as being a ‘unitary’ system, in which all interests are assumed to be in common. Workers are required to adopt a *unitarian corporate culture* and to equip themselves to participate in team work, quality circles, total quality management and other HRM approaches. In this process, they are forced to relax

practices and reveal information, the control over which had previously been used in bargaining with management. In this form, partnership is incompatible with traditional ‘pluralistic’ industrial relations systems, which recognise differences of interest across stakeholder groups. Nevertheless, workers’ representatives may have a role to play by their incorporation into managerial processes, through engagement with works councils or other *integrating institutions*. Thus, if collective bargaining is to have any role, it is suggested, it must be ‘integrative’ rather than ‘distributive.’²¹ Further, if trade unions are to have any part to play, instead of competing with management, they must assume the role of co-ordinators of the strategic process and facilitate the achievement of managerial objectives, which are seen to forward the mutual interest of all the firm’s stakeholders.

As might be expected, the Trade Union Congress (TUC), although committing itself partnership, is more bipartisan in approach and places stronger emphasis on the terms and conditions for partnership. In its May 1999 by *Partners for Progress – New Unionism at the Workplace*, the TUC advocated enterprise-level industrial partnership and identified six underlying principles:

‘(1) a shared commitment to the success of the organisation; (2) a commitment by the employer to employment security in return for which the union agrees to a higher level of functional flexibility in the work place; (3) a renewed focus on the quality of working life, giving workers access to opportunities to improve their skills, focusing attention on improving job content and enriching the quality of work; (4) openness and a willingness to share information; (5) adding value – unions, workers and employers must see that partnership is delivering measurable improvements; and (6) a recognition by both the union and employer that they each have different and legitimate interests.’²²

c. Co-operation and conflict in partnership relations

There is no doubt of the advantage of co-operation in production. It allows for the full exploitation of the technical complementarities inherent to production and facilitates the sharing of knowledge

necessary for the effectiveness of productive systems and their improvement.²³ It also fuels the organisational learning processes by which new information and knowledge are created, incorporated and diffused, and by which new products, processes and organisational forms are developed.²⁴ The resulting *operational and dynamic efficiencies* are crucial determinants of the ability of organisations to compete effectively, and to respond flexibly to changing circumstances and new opportunities.

But it does not follow from the centrality of co-operation in production that organisations are necessarily unitary. However mutual the interests of workers and the organisation that employs them may be in production, there is an inevitable competition over the distribution of proceeds from that co-operation among the various stakeholder groups. In this context, pressure from the annual wage ‘squabbling’ is no more or less meaningless than pressures from other claimants: for example, the pressure exerted on companies to regularly report increases in earnings to the stock market; the pressure from consumer groups on utilities regulators to cut prices; or, for that matter, the political pressure exerted on behalf of taxpayers, determining the money available to pay for the public sector services taxpayers demand. These haggings, with their potentially negative-sum consequences for employees, shape the environment within which decisions are made regarding whether or not to co-operate or to form partnerships.

Difficulties in predicting outcomes are also important for decisions about commitments for which the pay-off is long-term. Important in this respect are the changes in technology, resource availability, consumer tastes and other developments that constitute largely unavoidable economic uncertainties. Other uncertainties are inherent to the institutional framework in which partnership agreements are concluded. The co-operating workers are not the only principals for whom managers are agents. Managers are required to operate in the interest of shareholders and, in the case of utilities, the interests of customers as represented by regulators. The ability of management to

fully commit themselves to long-term partnership arrangements may be similarly constrained by uncertainty about the actions of dominant suppliers and customers. The priority managers are required to give to these different interests will be importantly determined by the priorities enshrined in corporate governance, regulatory, employment and competition law, as well as by the relative bargaining leverage corporate managers can exert on those with whom they are required to deal. As currently constituted, the laws affecting the corporation and its practice assigns low priority to the interests of the workforce upon which competitive performance largely depends. Regardless of their views on the matter, managers are required to put the interests of others first, and in exchange for the unconditional commitment they demand of their workforce, managers can make, at best, only conditional promises.

III. The framework of corporate governance in the UK: constraint or opportunity?

When we turn to examine the rules and institutions that constitute the UK system of corporate governance, the importance of the wider context of labour-management relations becomes clear. Corporate governance is essentially concerned with issues of ownership and control within the enterprise. Ownership matters, in the sense that the legal allocation of property rights among the different stakeholders affects their incentives and, therefore, the effectiveness with which co-operation can be achieved. From this perspective, management and labour do not simply have to deal with each other. Both are subject to the wider interests and claims of the dominant stakeholders who make up the ‘residual claimants’²⁵ or ‘holders of the beneficial interest’²⁶ in the enterprise. It becomes important, then, to specify more precisely the nature of these interests and claims, the degree to which the legal-institutional system accords them priority, and their impact on productive relations within the enterprise.

Different corporate forms give rise to different patterns of ownership. In the case of most limited companies, ordinary shareholders are the

‘residual claimants,’ entitled to what is left from the income stream after the contractual claims of employees, commercial creditors and others have been met. It follows that because they are the last to receive anything in the event of insolvency, they assume the risk of failure. Conversely, shareholders gain in proportion to the company’s success. Although, in law, they are not *entitled* to receive a dividend, in practice, the linking of dividends to corporate performance links shareholder returns directly to the success or failure of the enterprise. They also benefit through the increase in the capital value of their shares.

Shareholders do not own the company, nor do they literally own its assets. But by virtue of the rules of company law and corporate governance practice, the ownership of common voting stock does give them certain ownership rights as residual claimants which have important implications for incentives and hence for efficiency. In particular, shareholders can dispose of their shares in the stock market, providing a way by which control of the corporation can be transferred. The orthodox view in the Anglo-American system is that the ability of shareholders to vote with their feet enhances the organisational efficiency of the enterprise. Their incentive to do so is said to arise from the fact that shareholder income is directly connected to the success or failure of the firm. In effect, the stock market becomes a market for corporate control, in which rival management teams bid to persuade shareholders to sell them controlling interests by offering them a premium over current share prices.

It can be argued that employees and other long-term stakeholders may have just as valid a claim as shareholders do to be considered the residual claimants. This is because they are equally likely to make relation-specific investments (in human capital, for example) which will be at risk if the enterprise fails.²⁷ The response of orthodox corporate governance theorists is that while it may be the case that many groups have a stake in the firm, only the shareholders have sufficient interests in common of effectively hold managers to account.²⁸ Compromises in the pre-eminent rights of shareholders embodied in, for example, codetermination laws and laws requiring

employee consultation, are said to be inherently inefficient, and to survive only because the costs of unraveling politically-motivated compromises are too high.²⁹

A large proportion of UK productive capacity, in relative terms, is held in the form of publicly-listed companies, that is to say, companies whose shares are listed on the London stock exchange and/or on one or more of a number of overseas exchanges. The predominant type of ownership in UK publicly-listed companies may be described as *dispersed-shareholder ownership*. The principal shareholders are institutions - insurance companies and pension funds - who invest on behalf of their policy-holders and beneficiaries respectively. They vest the day-to-day control and management of their shareholdings in fund managers - investment banks and other specialist investors - who act as their agents. Typically, the share structure of a listed company will consist of several blocks (of between 5 and 10 percent) that are controlled by fund managers on behalf of a number of clients. By contrast, the *dominant block-holding* model, in which one shareholder holds a majority or near-majority stake, is rare in UK listed companies. Methods for securing dominant blocks through cross-shareholdings by large companies in one another (which are common in France, and by bank-led governance of the kind that operates (in various different ways) in Germany and Japan)³⁰ are the exception in the UK.

In general, dispersed shareholder ownership strongly privileges exit over voice as the mechanism by which shareholders can exercise control over management. The deep liquidity of the London stock exchange means that there is a highly active market for the shares of UK listed companies. The threat of shareholders exiting corporations is therefore a meaningful one. The disadvantage of dispersed ownership comes in the form of the high costs of effectively coordinating the direct involvement of shareholders in the conduct of corporate affairs. To some extent, this problem may be overcome through coordinated actions of institutional shareholders (or, more accurately, the fund managers who represent them). Where five or six

institutions between them hold a majority or near-majority stake, it seems that they can exercise powerful influence behind the scenes in the ongoing management of companies.

A more tangible mechanism for overcoming costs of dispersed shareholder voting is the hostile take-over. A hostile take-over is, in effect, an appeal to the shareholders of a listed company to sell out en masse to an external bidder. The shareholders are induced to exit the scene by the offer of a premium on top of the current value of their shares, the cost of which the new owner will aim to recover by restructuring the company. The collective action costs of voting in response to a 'tender offer' of this kind are reduced by regulation - a combination of provisions of the Companies Acts and the City Code on Take-overs and Mergers - that enables minority shareholders, who would otherwise 'hold out' against the offer in the hope of getting a better deal, to be compulsorily bought out. Conversely, minority shareholders receive strong protection against expropriation by majorities during a bid. Two-tier offers, partial bids and other techniques that seek to lever a bid by offering differential terms to particular shareholders are, in effect, banned. Other rules of UK securities law and practice make it nearly impossible for the managers of a listed company to put in place advance protection against hostile bids. Such protection might include the issuing of non-voting stock or the implementation of various 'poison pill' defenses that are much more regularly observed in the USA.³¹

The overall effect is to further encourage dispersion of ownership. Large cross-shareholdings are rare, due in part to the fact that under the City Code, they would trigger an obligation to launch a 'mandatory' bid for control. This in turn would most likely lead to an expensive process of buying out minority shareholders. Minority shareholders are encouraged to take small stakes, knowing that they are in general safe from the predatory actions of major shareholders.

The more general effect of these rules is to entrench *shareholder value* as the dominant objective of corporate management. The source

for this norm is only partially located in UK company law, providing weak support for the notion that companies are run *for* their shareholders as ‘owners’ of the enterprise. Since the late nineteenth century, UK company law has largely aimed to protect the autonomy of boards from day-to-day shareholder pressures. The legal notion that directors must act in good faith in the interests of the *company*, rather than the shareholders, means that boards have considerable leeway in taking a long-term view of what is in the best interest of stakeholders as a whole. This is reinforced by legislation requiring boards to consider the interests of employees alongside those of shareholders when exercising fiduciary duties as well as by case-law recognising that creditors, too, have claims as residual owners when the company approaches insolvency.³² Boards, then, are permitted to take a view based on ‘enlightened shareholder value’ – which seeks to strike a balance between the competing interests of the different stakeholders - if their objective is to benefit the shareholders in the long run. For example, in most cases, it would be legally open to the directors to pursue a policy of minimum redundancies (to gain the co-operation of the workforce) or a preferred supplier policy (to enhance the quality of supplier relations), if the ultimate objective of these policies is to advance the long-term interests of shareholders.

However, when the impact of company law is considered *together with* the operation of securities regulation -- the rules of the City Code together with the listing rules and other codes of good practice issued by the financial authorities or by investor representatives such as the Association of British Insurers, -- the picture is quite different. The room for maneuver of boards of listed companies is now much more limited.³³ During a hostile take-over bid, the boards of target companies are required to assume a neutral stance and offer disinterested advice to shareholders on the financial merits of the bid. Although the rules of the Code require bidders to state their intentions with regard to the future treatment of employees, this results in little more than the insertion of standard-form legal ‘boilerplate’ in offer documents. There is no obligation on the part of either the target board or the board of the bidder to consult employee representatives

during a bid; this only occurs after a bid has gone through when large-scale redundancies are announced. There is even some doubt as to how far either board may go in providing information to employee representatives without contravening the provisions of the Code and the listing rules on the disclosure of price-sensitive information. These rules, together with the doctrine of ‘pre-emption’ (which makes it impractical for most listed companies to issue non-voting stock as a way of beating off a take-over bid), create particular incentives for boards to prioritise short-term shareholder interests over other interests during a bid.

Conversely, the prevailing system of executive compensation in the UK provides incentives for boards to engage in hostile take-over activity. In particular, share-option schemes that link director remuneration directly to the performance of company stock encourage boards to forestall possible share price declines by such things as engaging in restructurings and initiating strategies for expansion through hostile take-over. These strategies, while not required by the general rules of company law, are not actively discouraged by them either. Despite the legal principle that makes it compulsory for boards to take into account the interests of employees when exercising fiduciary duties, employees have no standing to challenge a particular decision or commercial transaction. Nor do employees have any standing before the City Panel on Take-overs and Mergers.

By international standards, there is a high level of hostile take-over activity in the UK. Even so, the numbers of hostile bids in a given year will be in the tens rather than the hundreds, whereas the number of listed companies runs into the thousands.³⁴ More significant is the long shadow cast over corporate governance by the Code and by the listing rules. No listed company is immune from the possibility of a hostile bid. To varying degrees, companies can insulate themselves against short-term fluctuations in their share price relative to the market by cultivating a culture of long-term investment. But this is not an option open to all; and there is question as to whether it is continuously available for any. In practice, the take-over mechanism

has been the principal catalyst for corporate restructuring in the UK during the last decade; and virtually no industrial or services sector has escaped the changes induced by take-over activity. The corporate governance rules clearly have a wider effect on the economy and industrial structure of the UK.

The more specific issue we wish to address here is whether the dispersed shareholder model constrains the development of a 'partnership' approach in employment relations in the UK. The hallmark of an effective partnership is that parties give open-ended commitment to co-operate based on their expectation that significant benefits will result for them. Important factors for creating such expectations can be expected to include: fairness of treatment, job satisfaction, high quality of work environment and, particularly, income and job security. However, the decision to co-operate and form a productive partnership also means giving a hostage to fortune because the benefits are unlikely to accrue immediately. When deciding to co-operate, it must be taken on trust by individuals that their action will be reciprocated. This depends on the reliability of the person or persons with whom the agreement is made as well as upon the commitment parties have from each others and the priority they are required to give to the latter.

If managers, through the combined effect of convention and law, are required to prioritise shareholder value over other interests when decisions regarding corporate structure are made, they will be correspondingly less able to make 'credible commitments' to respect the long-term interests of other stakeholders, in particular, employees. As a result, employees for whom no meaningful guarantee of economic security is given would have little incentive to engage in the sharing of information and reciprocal learning. The prevailing system of corporate governance would then represent a major constraint on the possibilities for effective partnership in UK employment relations.

We now turn to our case studies to review the empirical evidence for and against this proposition.

IV. Corporate governance and partnership in UK companies: Case study patterns and analysis

In assessing the influence of corporate governance on the ability of parties to develop and maintain partnership in employment relations, we examined the evolution of corporate and human resources strategy in seven case study firms operating in the UK. All seven are unionised companies; six have global operations or are subsidiaries of global parent corporations. All have been actively involved in the market for corporate control during the 1990s (either through merger and acquisition activity or through listing or de-listing from the stock market) while at the same time promoting ‘partnership’ with their employees and unions. They 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, gas and water services (‘Seewell UK’ and ‘Warmwell’), a water and gas company (‘Flowell UK’) and an electrical contracting company (‘Fixwell’). Tables 1-3 contain more detailed information on environmental factors, micro-level factors and financial profiles for each of these companies.

a. Corporate governance and partnership

The case studies paint a complex picture of the relationship between corporate governance models and the sustainability of partnership in employment relations.

a.1. Concentrated ownership and partnership

In companies where share ownership is *not* dispersed, we find strong evidence that concentrated ownership can provide a foundation for partnership. In one case, the company’s five managing directors organised a management buyout in order to allow the firm to more easily pursue its chosen business objectives in a difficult economic environment. Fixwell is now owned wholly by its five directors, following a management buy-out in 1997; and there are no plans to float on the stock market. According to the Personnel Director, the

absence of external shareholders has allowed 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) is a wholly owned subsidiary of a continental European company (Cleanwell International). In this case, prior to 2000, approximately half of 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 was an ‘important influence’ on the company’s approach to HR strategy and union relations. Still, it is important to stress that even under this model, the corporate group’s focus is on the creation of shareholder value; and its current business objective is to double turnover, operating profit and earnings per share by 2005. The significance for partnership is that the group is 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, etc.’ The company does not pay a dividend, preferring to fund further investment. 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.

In 2000, Cleanwell International’s corporate governance environment changed significantly as Cleanwell increased its issued share capital

by 5.1 percent to fund acquisitions, and merged the voting and capital shares into a single class. As a result, its shareholder base is now much more dispersed, with only one pension scheme holding more than 5 percent of the share capital. The geographical distribution of shares has also shifted such that 30 percent of investors are continental European, while 56 percent are Anglo-American. Despite this change in share ownership, there is still strong evidence of Cleanwell's commitment to partnership with its employees. In 2000, the Group launched a new HR strategy as 'a core element' of the Group's business strategy, and set up a corporate HR function 'to strengthen its employee development efforts.' Although it may be 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.

While conducive to partnership, concentrated ownership does not guarantee that it will be supported. In one company (Flowell UK), we found evidence that a single block shareholding by a continental European parent can also serve as a constraint and perhaps even be destructive of partnership 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 48.3 percent of Flowell UK's equity. According to Flowell UK's Managing Director in 2001, 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) is felt all the more intensely than pressure from dispersed shareholders. There is now substantial evidence of the breakdown of partnership in employment relations at Flowell UK. Following the take-over, work has been increasingly contracted out and there is now an even greater 'culture of insecurity [that] runs right the way through the company, from the top to the bottom.'

a.2. Dispersed ownership and partnership

Having considered the evidence on alternative models of share ownership and partnership, we now consider the influence of the UK system of dispersed share ownership on the sustainability of partnership in employment relations in our case study firms.

Despite an historical legacy of partnership prior to privatisation, the case of Tenswell UK provides the strongest evidence of the claim that the pressure to deliver continual returns to shareholders (as dominant stakeholders) can have a destructive impact on partnership with employees. In 1998, 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 are traded on the London and Amsterdam Stock exchanges; its American Depository Shares, each representing 10 ordinary shares, are listed on the New York Stock Exchange.

According to the union, Tenswell's UK employees now feel 'betrayed' because pressure from shareholders and bankers has dictated company policy and it is the UK employees that have taken the brunt of these pressures. 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 percent.

The 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 represent approximately 32 percent of Tenswell shareholders and three US institutions own 16 percent of the

shares,³⁵ a similar proportion of Cleanwell International shareholders are also American.³⁶ It is also significant that the union at Tenswell stressed the negative influence brought to bear by a German Bank that owns 5 percent 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. This seems to run contrary to the perceived wisdom that German banks with cross shareholdings take a long-term interest in partner companies.³⁷

Although the example of Tenswell suggests that the UK system of corporate governance can serve as a constraint on partnership, the cases of Warmwell and Hearwell demonstrate that mature partnership can also be developed and maintained within this 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. According to Hearwell's personnel director 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 ownership³⁸ and in their *Annual Reports* stressed the importance of delivering value to shareholders. In recent years, both companies have also pursued strategies designed to pay high dividends relative to earnings.³⁹ Warmwell aims to grow its dividend by 5 percent 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.

It is important to note the emphasis both companies place 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, another of our case study companies but one 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).⁴⁰

Recently, however, Hearwell has come under pressure from the financial markets, because debts have mounted to fund acquisitions

and certain investments have failed to produce expected returns. The response of Hearwell's union is significant in that it specifically 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 fall, management tends to make 'knee jerk reactions' and attack costs, so as to demonstrate to financial analysts that some action is being taken.⁴¹ 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 the UK system of corporate governance that encourages a high level of take-overs and merger activity. Warmwell and Cleanwell are instructive cases, since both are strong partnership companies yet at the same time have grown shareholder value through a strategy of acquisition. In the case of Warmwell, partnership has been employed as a mechanism to assist in the take-over process. According to Warmwell's personnel director, the company's acquisition of another UK utility was made possible by Warmwell's HR 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"'. Take-overs 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. The case of Tenswell demonstrates that the framework of UK corporate governance can serve as a constraint on partnership by inadequately buttressing the consultation rights of employees. However, alternative models that more closely align the interests of employees with other stakeholders can also be a limiting or constraining influence on the effectiveness of partnership. What seems to be more important than the nature of share ownership as such is the *attitude* of shareholders, and in particular whether they wish to take a long-term view of their investments. However, the extent to which these attitudes are a product of the system of corporate governance is unclear. What is apparent in the cases is the fact that shareholder expectations can be managed, suggesting that partnership can be sustained despite of the UK system of corporate governance. There are also 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 corporate governance system, 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.

b. Regulation and partnership

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.’ The Cleanwell UK union, too, identified the regulation of Private Finance Initiative (PFI) in the National Health Service (NHS) as a more significant influence on the sustainability of partnership practices than the continental European model of corporate governance.

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 PFI 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;⁴² they also *entitle* trade unions to interview and submit a report on short-listed bidders.⁴³ 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. Cleanwell UK currently holds ten contracts with an annual turnover of over £30 million. As a result of the relative success of Cleanwell UK’s partnership approach in this environment, more and more firms in the NHS PFI market have been building partnership into their relations with employees. It is important to note that employers’ support for the terms of PFI regulations in the NHS has had an influence on the

content of regulation. According to Cleanwell UK's union, 'if the NHS contractor employers had opposed the idea of trade unions being on selection panels ... it might not have gone through.'

Health and safety regulations can also serve as a support for the relative position of employees in the hierarchy of stakeholders. This is evident in the case of Fixwell, an electrical contracting firm, in an industry where health and safety legislation is strong and there are significant costs associated with failure to comply. According to Fixwell's Personnel Director, customers are prepared to pay a premium because 'the cost of getting health and safety wrong is higher than the premium they pay to Fixwell for getting it right.' He welcomed harsher health and safety regulation as a way of 'leveling up' the playing field.

Regulation can also serve as a constraint on partnership if it fails to support employee interests or if it places other stakeholders above employees in the hierarchy. The regulatory environment in telecommunications and utilities, in contrast to the PFI regime, is seen by unions in those sectors as failing to represent employee interests. According to the union at Seewell, 'it needs to be built into the regulation that the interests of employees as stakeholders in the business are explicitly recognised and some duty, however formulated, is given to the regulator to balance the interests of employees, especially health and safety.' This concern was echoed by the union at Hearwell, which recently made a submission to the regulator about the failure of current regulation to represent the interests of employee stakeholders.

Although telecommunications and utilities regulation gives precedence to stakeholder constituencies other than employees (i.e., customers, capital providers and the community interest in the environment), we nevertheless found evidence of other respects in which this form of regulation could provide support for partnership in employment relations. This relates to the influence of such regulations on quality standards and time horizons.

The imposition of guaranteed customer service standards by the regulators 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.⁴⁴ 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 $RPI - X$. Regulatory price controls have had a substantial impact on several of the companies in our study. For example, Hearwell has reduced prices by £1.8 billion over the last three financial years, largely as a result of the regulatory formulae. Flowell is required to reduce prices by 14.3 percent in real terms this year and by a further 2.3 percent in real terms over the next four years. Seewell’s generation business will see revenue reduced by 28 percent this year and 3 per cent per annum for the next four years. Price controls will adversely impact Warmwell’s operating profit by £127 million in 2000-01. In themselves, price controls potentially serve as a constraint on partnership because of the likelihood that they will lead to restructuring and manpower reductions.

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 that they will be brought to account. So that’s advantageous to us.’ Several of our interviewees said that the regulator is perceived to be a ‘common enemy’ that brings the unions and management together to find solutions in the face of seemingly contradictory pressures to reduce costs, meet quality and service standards and maintain profitability.

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 ‘a return that is sufficient, but no more than sufficient,’⁴⁵ 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.⁴⁶ They also set the 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’.⁴⁷ At the same time, regulators’ assessments of returns on capital are indicative and not prescriptive;⁴⁸ 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 customer service in utility regulation can serve to encourage active partnership in conjunction with the operation of the take-over mechanism. Warmwell, with a particularly strong labour-management partnership and an active 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 was able to benchmark its own performance against industry standards and identify a suitable target for acquisition:

‘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 which we considered earlier, the regulatory process can be said to have had a bias in favour of companies which relied on a strong partnership ethic to enhance their performance.

Regulation also influences partnership its influence on conditions in product markets. In this sense, partnership is most supported when regulations stabilise markets and buffer firms from destructive competitive pressures. The example of PFI in the NHS provides a good example because of its limiting effect on competition. The opposite case is that where the aim of regulation is market liberalisation, as in the case of Tenswell UK. Liberalised markets are intensely competitive, adding to the pressures that must be resolved within the productive system, and making partnership with employees more difficult.

Overall, the case studies demonstrate that although market regulation can serve as both a constraint and a support for partnership in employee relations, its effect can be highly significant. Nevertheless, as in the case of the corporate governance factors that we looked at above, the effect of market regulation should not be overstated. If the regulatory environment were the sole or main determining factor, we would expect to find similar sorts of partnership arrangements developing in firms that are operating in the same regulatory environment. However, this is not the case. Flowell, Seewell and Warmwell provide a good example of diversity of responses to a similar environment, as all operate in the utilities sector. We found strong evidence of mature and pro-active partnership in the case of Warmwell, with HR strategy at the forefront of business strategy and

a positive role for unions at the national and local level and on the company training board. However, we found little evidence of partnership at Flowell and evidence of what might be described as ‘reactive partnership’ at Seewell, where partnership was essentially concerned with the management of downsizing and redundancies.

We now turn to examination of the impact of product markets on partnership in employment relations.

c. Product markets and partnership

As discussed above, regulations can have an effect on both the nature of the product (through the imposition of standards for price and quality) as well as on product market condition (through regulation aimed at market liberalisation). In both cases, this has an influence on partnership in employment relations. The nature of competition in a particular market, with or without intervening regulation, has an impact on the sustainability of partnership in employment relations. This relates to the nature of the product or service, and hence the relative contribution of partnership to the firm’s ability to produce and distribute it effectively.

High quality market niches, particularly in services, benefit most from partnership in production. At Fixwell, for example, the personnel director told us that ‘we sell on high quality, high safety, an excellent job, and we get that from having a well trained stable workforce.’ This is also demonstrated by the commercial strategy of Cleanwell UK, which is increasingly moving away from general cleaning services and into specialised multi-services provision and facilities management. According to *its 2000 Annual Report*, service delivery in these markets is more complex, knowledge intensive and sophisticated, and characterised by a high degree of operational integration with customers.

Provision of services also influences the effectiveness of partnership in employment relations because of the close proximity of employees and customers. According to Fixwell’s Personnel Director, ‘At the

end of the day, all we have to offer our customers is the skills that our people have. We don't manufacture anything. All we sell is the skills of our people, so we spend a lot of time and money devoted to training, technical training, management development.' Similarly, the Finance Director at Cleanwell UK identified employees as the most important stakeholder group because 'without employees, Cleanwell is nothing and would be unable to achieve its goals. ... Sustainability boils down to employees.'

The nature of competition is also a factor in 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 to maintain partnership, whereas sectors characterised by high technical barriers to entry and managed competition is conducive to partnership. We found evidence of this in the case of Fixwell, a company with a culture of partnership. According to Fixwell's Personnel Director, with the intensification of competitive pressures, the company has become 'less patient' with the trade unions. At Tenswell, too, the high degree of competitive pressures and the need to be responsive to volatile market conditions has made partnership difficult, if not impossible to achieve.

In cases where competition is limited, partnership is much easier to maintain. Cleanwell UK's experience in the PFI market in NHS provides a good example. In this case, Cleanwell UK's reputation for partnership in employment relations is much better in the NHS than in other market segments where competitive pressures are greater, such as the privatised railways. According to Cleanwell UK's union, in the NHS PFI market, 'the big five, between them, control 85 percent 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. '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.' Moreover, 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 said 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 Managing Director of Cleanwell UK said that this constrained the Cleanwell approach because, ‘we have to bear it in mind because otherwise we would lose a lot of business.’

Competitive pressures are not deterministic of the effectiveness of partnership in employment relations, however. According to the union at Hearwell, partnership in its mobile phones business is less developed than in networks because of differences in the cultural maturity of the two businesses rather than the fact that competitive pressures are greater in the mobile phones sector than they are in fixed networks.

The above analysis perhaps helps to explain why we see little, if any, evidence of Partnership at Tenswell. Not only is share ownership highly dispersed (nearly 90 percent of which is Anglo-American) but there is also an absence of environmental support mechanisms for partnership. Over 80 percent of the workforce is engaged in the production of a product where markets are volatile and price sensitive and there is substantial global over-supply. Regulation has been aimed at increasing the intensity of national competition through the removal of barriers to trade, and the market is unregulated in terms of price and quality standards.

The case of Flowell is an apparent contradiction because despite a favourable corporate governance, regulatory and market environment, its record on partnership is poor. As a water utility company, Flowell operates as a regional monopoly, and is required to meet very high regulatory standards. It is also wholly owned by a continental European parent. In this case, the problem relates to weakness in the local union and the management of partnership.

We now examine the influence of micro-level factors at the level of the enterprise itself, and in particular the dynamics of partnership relations between managers and union officers.

d. Micro-level factors and the management of partnership

The macro-level environment (that is to say, corporate governance, regulation, and product market conditions) has an indisputable influence on partnership in employment relations. However, it is the quality and strength of management and union leadership at local level and the way in which these pressures are managed that is perhaps most important in determining the durability and effectiveness of partnership.

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. At the strategic level, appreciation of the relationship between HR and the company's ability to achieve its business objectives, coupled with a vision for how partnership might be incorporated into this approach was a critical factor. This was evident at Warmwell, where HR is now recognised as adding real value to the business, rather than 'people administration.' According to the Director of Personnel, 'HR 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.' In this case, board membership of an individual manager with responsibility for HR served as the catalyst for moving HR strategy to the forefront of the company's business strategy. Similarly, Fixwell's Personnel Director underlined the complementary relationship between its HR strategy and business strategy by contrasting Fixwell's long-term approach to that of the electrical contracting industry in general. At Fixwell, approximately 90 percent of the workforce is permanent compared with an industry average of 70 percent agency and subcontracted labour. 'What we get from that is a stable workforce ... that's well trained ... is high quality ... We sell on high quality, high safety, an excellent job, and we get

that from having a well-trained, stable workforce.’ A strategic vision for partnership is also evident at Cleanwell International, whose *1999 Annual Report* says:

‘The extent to which we fulfil our responsibilities to our employees, customers, and society at large will continue to be a measure of our success on an equal footing with our financial performance.’

At the operational level, the effectiveness and durability of partnership is influenced by how well the company manages the environmental pressures (corporate governance, regulations, product markets) to which it is subject. As we have seen, particularly important in this respect is the management of shareholder expectations. This is evident in a comparison of Seewell and Warmwell, which compete in the multi-utility market. Seewell’s union contrasted the short-term approach of Seewell’s previous management, who were concerned with delivering returns over one year, with the longer-term approach taken by management of Warmwell. According to the union representative we talked with at Seewell, shareholder pressures should not be used as an excuse for short-termism and performance difficulties because shareholders expect only what they are promised by management. 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 privatisation when Hearwell’s CEO had acted as a buffer between the union and the board to ensure that there were no compulsory redundancies. The role of a ‘hard hitting’ HR Director who could persuade the board 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, behaviours of trust and delivering high quality outputs.’

The negative influence of poor quality management was also evident in our cases. At Seewell, for example, the union leader explained how

a ‘macho’ management style in one part of the business had undermined partnership in that section, despite relative good relationships in other sections of the business. Similarly, Tenswell UK’s union described the adverse effects of this type of management style on employee relationships in one of its plants.

The strength and sophistication of the union is also vitally important for the success of partnership. In this, union strength depends not only on union density but also on its ability to effectively represent the interests of its membership at both the national and local levels. Its sophistication is shaped by an ability to understand and explain to membership the pressures operating on employers, the mutuality of interests in finding a way forward and the contribution of partnership to that process.

A weak and/or adversarial union (at the national and / or local level) can be an impediment to partnership. At Flowell, for example, despite an improvement in union density, from 40 percent in 1998 to 50 percent in 2001 (resulting from the successful recruitment campaign of a large union), the local union is weak and ineffective. According to the Managing Director, the union had only been recognised as a result of the passage of the Employment Relations Act 1999.⁴⁹ Under this legislation, it would have been possible for the union to mount a legal challenge, requiring the company to recognise it for the purposes of collective bargaining. A previous Managing Director, when interviewed in 1998, said about relations with the union: ‘what relations, we never see them.’

Variation in the success and maturity of partnership across different business segments of the same company was also apparent in several of the cases in this study, suggesting that relationship and union leadership at the operational level influences partnership. Seewell’s personnel director told us that ‘there’s not just one picture of [Seewell] ... it doesn’t work like that ... we’ve got some very good examples of partnership, but these examples are where the unions have an active membership.’ At Seewell, union density varies from

over 80 percent in power generation and networks to less than 10 percent in trading, which is viewed as a more individualistic and professional business area. Similarly, at Hearwell, there are different partnership models in different parts of the business. In general, the older the product and the more experienced the parties to the relationship are, the more mature and deep the partnership. This is evident in the fact that Hearwell's partnership model is much more mature in the networks sector than in the newer mobile sector. In networks, union density is 99 percent and union and management have extensive experience with each other and with the product.

However, the unions at Hearwell and Seewell viewed the future of partnership very differently, providing insight into the nature and degree of partnership at the two companies. At Hearwell the union was confident that the culture of partnership would develop over time in all product areas, even the newer lines, whereas Seewell's union told us that the company was 'not being particularly helpful to the unions in expanding membership in areas where the business is developing.'

More important than union density is the quality of union leadership. The ability of the union to take a strategic approach is very important. According to Hearwell's personnel director, 'The unions themselves have become more and more realistic in terms of what it means to be a private 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 is fundamentally opposed to PFI and contracting out in the public sector.

'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.'

Union leadership is also important at the operational level. According to Hearwell's personnel director, the union was 'prepared to manage the inevitable activists ... you had a high degree of respect on both sides which helps.' By contrast, the personnel director at Fixwell said that recently appointed new union leaders were 'less partnership orientated.' At Seewell, the union told us that disagreement between the three recognised unions was a constraint on partnership with the company.

It is at this operational level that the true effectiveness of partnership is manifest. According to the union at Seewell, the attitude of management is 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. 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 importance influence on the type of partnership that developed. In cases where the objective was to deliver a high quality/value product or service to consumers, or to jointly find a way forward in the face of market or regulatory opportunities and challenges, the partnership tended to be *pro-active* and mature. In contrast, where the objective was to manage the execution of redundancies or plant closure, it was *re-active* and unstable.

V. Conclusions

While the UK system of corporate governance may operate as a constraint, it also provides opportunity for publicly traded firms to pursue partnership with their various stakeholder groups, in particular with employees. As a constraint, the nature of shareholder pressure varies depending upon how companies choose to manage investor expectations. Companies that succeed in building a long-term orientation into relations with shareholders have an important degree of flexibility in managing their way through the other pressures to which they are subject (i.e., product market pressures and regulatory pressures). For these firms, the corporate governance system offers an opportunity to gain an important competitive edge by demonstrating their ability to better handle conflicting pressures than rivals. Other cases suggest that when confronted with a range of unfavourable conditions (i.e., corporate governance prioritises short-term shareholder returns; product markets are volatile and have turned against the UK-based operations; and regulation supports open transnational competition), partnership may be very difficult to construct and maintain, even if production system stakeholders would choose partnership for their very survival.

At the same time, the case studies demonstrate that the nature and structure of share ownership is not the only corporate governance factor that influences the sustainability of partnership policies. There

are different layers of governance in different legal and economic systems that can buttress the rights of employee stakeholders, and so create a more conducive environment for partnership in employment relations. From this perspective, a governance model of co-determination can be seen to more closely align the different stakeholder interests. This is evident at Cleanwell International where three of the nine members of the board of directors are employee representatives. Another way in which the legal environment can support employee interests is to provide extensive consultation rights. For example, the critical issue for the Union at Tenswell was that it believed the company's UK employees were treated less favourably than the company's employees in another European country. According to the union, this was because legislation in that country requires comprehensive information sharing and joint consultation; and decisions regarding plant closures must be made transparent because they are subject to judicial scrutiny.

However, it should not be assumed that a governance model of codetermination would necessarily enhance partnership in the UK. In only one case did a union representative favour some form of co-determination, on the basis that although the Union was 'woven into the fabric of the business' in terms of information and consultation, 'the fabric of that weaving could be easily unraveled.' In all other cases (even Tenswell UK, with a restricted and reactive form of partnership), although the unions favoured consultation and collective bargaining, they opposed co-determination in the form of employee representation on the board. At Hearwell, a company with a mature and strong partnership culture, the union saw no merit in worker-directors. Moreover, the union at Cleanwell UK, which also had a proactive form of partnership, argued that co-determination would serve as a constraint on partnership because of the union's need to maintain credibility with, and the trust of, its membership. As a result, it preferred an arms' length relationship with the company.

The example of employee share options provides further evidence that effective partnership is not guaranteed simply by more closely

aligning the interests of employees, management and shareholders through financial instruments. The union at Hearwell told us that, paradoxically, employee share ownership exerted a negative influence on partnership. This is because as employees saw their investments fall in value, *qua* investors, they brought pressure on the union leadership to publicly attack the perceived failings of the company's management and board, an attitude which union leadership believed would be detrimental to the partnership relationship.

Nor does legal pressure for employee representation, in itself, promote effective partnership relationships. The union at Cleanwell UK spoke of a competitor that had 'long running hostilities' towards the union. According to the union, even with more supportive legislation 'unless [x] changed their approach, what we would have is regulated conflict...people would be forced to deal with one another, but they would fall out at almost every opportunity.'

Thus, although the UK model of corporate governance may not provide the ideal environment in which to sustain partnership, simply transplanting a different governance framework is no guarantee that partnership will flourish in the UK system of industrial relations.

In so far as policy intervention can make a difference, its effectiveness depends upon altering the environment within which partnership strategies are developed and implemented. The case studies demonstrate that, in determining how to respond to the governance constraint, corporate actors have a strategic space in which to develop solutions of various kinds. In this, the quality of both management and union leadership at the company level are vital. Strong and strategically-minded managers who are willing to stand up to the board in support of long-term production-level interests are better able to manage the constraints and pressures operating on the firm in such a way as to reconcile the expectations of the different stakeholders. The willingness of top management to support partnership against external questioning and scrutiny from shareholders can provide confidence to partners that it will be defended, thereby engendering

trust. A strong union with an understanding of the industry, the pressures to which the firm is subject and a cohesive and sophisticated approach to partnership through the good times and the bad, as well as the ability to manage and mediate both employees and managers, is also important.

However, a finding that emerges from our studies concerns the critical position of the board. Both top management and the union are vulnerable to board-level pressure since in response to stock market concerns, the board can unilaterally eliminate top management. It can also take steps to sell or merge the firm. Both of these approaches have the potential to severely damage production system relationships and viability, and are largely out of the control of management and the union. In companies like Hearwell, for example, that are subject to intense scrutiny from the financial markets and frequent pronouncements on the company's strategy from institutional investors, relations between the non-executive directors, on the one hand, and board-level executives (in particular the CEO), on the other, play a vital role in shaping the conditions for and against partnership.

In short, the relationship between corporate governance and partnership in employment relations is complex and characterised by dynamic interaction and feedback effects. Regulatory requirements and product market conditions which are largely unavoidable can interact with each other and with the system of corporate governance in ways that either support or constrain efforts to maintain partnership with employees. Corporate governance is rarely a determining factor in its own right. But, when coupled with these other environmental forces, corporate governance can influence the choice of strategy by both union and management. While some UK companies have been able to reconcile shareholder demands with a 'partnership' approach, in other cases, shareholder pressure has undermined partnership relations of the kind which have endured under more concentrated forms of ownership. The crucial point seems to be that the *attitude* of shareholders, rather than the nature of share ownership, can serve as a constraint or support for partnership. As evident in the case of

Tenswell UK, the *framework* of UK corporate governance constrains partnership because it inadequately buttresses the consultation rights of employee stakeholders. In contrast, the cases of Warmwell and Hearwell demonstrate that successful partnership arrangements can be sustained despite dispersed share ownership and a high level of take-over activity. In these cases, corporate governance can be said to support partnership, but only in conjunction with market regulation underpinning quality standards, relative stability in product markets. Also critical is the willingness of senior management to mediate between the claims of different stakeholder groups and the ability of the union to effectively represent its members' interests.

The effectiveness of a partnership approach, then, cannot be separated from its broader environmental context. The dominant system of corporate governance, in combination with the firm's market and regulatory framework may serve to encourage or to constrain more micro-level efforts at co-operation by influencing the terms and conditions for, and the durability of, partnership in production. Within this context, governance systems can be viewed as successive layerings, from the level of the work system to norms that operate at a national or trans-national level. Each layer of governance forms a significant part of the environment in which the lower levels operate. These layers of governance may also interact with, moderate or magnify external market and regulatory pressures operating on the productive system. Although not the only factor, corporate governance therefore has an important influence on the ability of parties to develop and maintain partnership relationships at various organisational levels. It also plays a role in allocating the resulting costs and benefits, and hence the returns to partnership. Therefore, the ability of management to honour commitments made to their workforce in exchange for workers' acceptance of the additional skill, effort and responsibility needed for effective partnership will depend upon the institutional and economic environment in which the agreements are made and implemented.

Notes

1. Keasey, Thompson and Wright, 1997.
2. See Company Law Review Steering Group, 1999: 37.
3. For the purposes of this paper, we understand as the 'stakeholders' those groups with a significant stake (or, in economic terms, 'relation specific investment') in the enterprise or organisation, whose co-operation is needed for its success, and who bear a significant downside risk in the event of its failure. See Blair, 1995; Kochan and Rubinstein, 2000; Slinger and Deakin, 2000.
4. Fox, 1974; Deakin and Wilkinson, 1996.
5. Fox, 1974: 362.
6. *ibid.*, 29.
7. *ibid.*, 362.
8. See Batt and Darbyshire (1997) for a discussion of *effects bargaining*.
9. And, of course, much longer by proponents of labour.
10. Quoted in Briggs, 1961, p87.
11. See Slinger, 2000; Ladipo and Wilkinson, 2001.
12. Ladipo and Wilkinson, 2001: 7.
13. Guest, 1987.
14. Best, 1990.

15. Applebaum and Batt (1994) in their extremely valuable study identified 4 main systems of cooperative production: Japanese lean production; Italian flexible specialisation; German diversified quality production; and Swedish sociotechnical systems. The Japanese and Swedish systems are more firmly rooted in Taylorist mass production than the German or, particularly, the Italian. But what the four systems have in common is the importance given to high levels of worker training and the success they have achieved in closely involving workers at all levels in the organisation and management of production, in product and process innovation and in the development of organisations and institutions designed to facilitate co-operation working relationships.
16. See Fox (1974) for a further discussion.
17. Foreword to the White Paper, *Fairness at Work* Cm 3968 (1998), at p. 3.
18. Wood 2000, p. 130.
19. Wood 2000, p. 134.
20. *ibid.*, 134.
21. A distinction made by Walton and McKersie (1965).
22. www.tuc.ork.uk/partnership/six_principles.cfm
23. For a discussion of the concept of productive systems see Wilkinson (1983), Tarling and Wilkinson (1987), Konzelmann Smith (1996), Birecree and Konzelmann (1997) and Birecree, Konzelmann and Wilkinson (1997), Konzelmann and Farrant (2000).
24. O'Sullivan 1998; Lazonick 1991.

25. Fama and Jensen, 1982.
26. Hansmann and Kraakman, 2001a.
27. Blair, 1995; Deakin and Slinger, 1997; Blair and Kochan, 2000.
28. Hansmann, 1996.
29. Hansmann and Kraakman, 2001b.
30. Franks and Mayer, 1998.
31. See generally Deakin and Slinger, 1997.
32. See Deakin and Slinger, 1997.
33. Deakin and Slinger, 1997.
34. See Deakin and Slinger, 1997 for details.
35. 55percent are UK based and 9percent are Dutch.
36. 1997: 35percent; 1998: 23percent; 1999: 23percent 2000: 30percent. Two US institutions held 15percent of the capital shares (8percent of voting shares) at December 1998.
37. But, of course, in the case of Tenswell the German Bank is not a dominant blockholder.
38. At March 2000, there were 531,000 holdings of Warmwell shares, 79percent of them UK based and 21percent US based. At March 2000 18percent of Hearwell's shares were held in 60,402 institutional holdings and 18percent in 1,751,341 individual holdings.

39. In the last financial year underlying Warmwell's earnings per share fell by 2.6percent (for the UK businesses EPS increased by 1.4percent), but dividend per share increased by 10.2percent. Dividend per share increased by an average 12.7percent per annum over the last five years. At Hearwell dividend per share increased by 7.4percent in the 2000 financial year whereas underlying earnings per share fell by 2.2percent.
40. This is supported by the comment of one of Hearwell's leading shareholders, with a stake of more than 2 percent, that 'we're certainly not bearish on telecoms when you take a medium-term view.' *Financial Times* May 2001.
41. The Union at Hearwell also felt that to have true partnership in terms of long term investment in human capital, it was crucially important to show training costs as investment in the balance sheet, to avoid this being the first thing that is cut when budgets are tightened.
42. *PFI in the NHS Section 2, paragraph 5.79. See also PFI Projects: Disclosure of Information and Consultation with Staff and Other Interested Parties*, paragraph 4.3.
43. Letter from the Secretary of State for Health to the Head of Health, UNISON, 20 October 1998. Generic guidelines of PFI say 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*, paragraph 4.3.
44. See for example OFGEM 'Guaranteed and Overall Standards of Performance'.
45. *Ibid.*

46. For example, in the electricity distribution businesses OFGEM estimated the cost of capital, as a weighted-average of the cost of debt and equity finance at 6.5percent and implied a dividend yield of 4.75percent. OFGEM 'Distribution Price Control Review', p.38-47.
47. 'OFWAT Periodic Review 1999', p.21.
48. OFGEM recognises the figures it uses 'may differ substantially' from the actual levels paid by the PESs. 'Distribution Price Control Review' p.41.
49. On this legislation and its implementation, see Brown, Deakin, Hudson and Pratten, 2001; Oxenbridge and Brown, 2001.

TABLES

Table 1: Case Study Characteristics: Environmental Factors

	Cleanwell	Fixwell	Flowell	Hearwell	Warmwell	Seewell	Tenswell
Sector	Specialised contract cleaning & facilities maintenance	Electrical Contracting	Multi-utility: water & gas	Telecommunications	Multi-utility: Electricity, gas, water	Multi-utility: electricity & gas	Manufacturer: Heavy Industry
Ownership (degree of dispersion, stock exchange listings)	<ul style="list-style-type: none"> Concentrated: European parent Stock Exchanges: Copenhagen 	<ul style="list-style-type: none"> Concentrated: UK Management Buyout Not listed 	<ul style="list-style-type: none"> Concentrated: European parent Stock Exchanges: Madrid 	<ul style="list-style-type: none"> Dispersed: UK parent Stock Exchanges: London & NY 	<ul style="list-style-type: none"> Dispersed: UK parent Stock Exchanges: London & NY 	<ul style="list-style-type: none"> Dispersed: US parent Stock Exchanges: NY 	<ul style="list-style-type: none"> Dispersed: Merger between UK & Euro parent Stock Exchanges: London, NY & Amsterdam
Partnership	Pro-active partnership in UK	Pro-active partnership	Little evidence of partnership in UK	Pro-active & re-active partnership	Pro-active & re-active partnership	Re-active partnership in UK	No evidence of partnership in UK
Regulation (stakeholder representation, industry regulations)	<ul style="list-style-type: none"> Employee interests dominate in PFI Regulations: quality in NHS, health & safety 	<ul style="list-style-type: none"> Regulations: predominantly health & safety 	<ul style="list-style-type: none"> Customer interests dominate Regulations: price, quality service, financing, competition, environment 	<ul style="list-style-type: none"> Customer interests dominate Regulations: price, quality service, financing, competition, environment 	<ul style="list-style-type: none"> Customer interests dominate Regulations: price, quality service, financing, competition, environment 	<ul style="list-style-type: none"> Customer interests dominate Regulations: price, quality service, financing, competition, environment 	<ul style="list-style-type: none"> Regulations minimal: environment, health & safety
Product Markets (product type, degree & nature of competition, supply relations)	<ul style="list-style-type: none"> General cleaning: price competitive Specialised svces: competition on the basis of quality, given price. fewer, larger competitors. reputation important 	<ul style="list-style-type: none"> Electrical contracting services Operates across different markets. Mainly high quality Mainly medium size contracts. 	<ul style="list-style-type: none"> Multi-utility services Generally very limited competition, although energy retail market open to competition 	<ul style="list-style-type: none"> Services & products: specialised & technologically sophisticated Competitive market: price & quality Long-term relations 	<ul style="list-style-type: none"> Multi-utility services Generally very limited competition, although energy retail market open to competition 	<ul style="list-style-type: none"> Multi-utility services Generally very limited competition, although energy retail market open to competition 	<ul style="list-style-type: none"> Mass produced, manufactured goods Intense competition on basis of price and satisfactory quality Volatile & difficult market conditions Short-term relations

	<ul style="list-style-type: none">• Long-term contracts in PFI						
--	------------------------------------------------------------------------------	--	--	--	--	--	--

Table 2: Case Study Characteristics: Micro-level Factors

	Cleanwell	Fixwell	Flowell	Hearwell	Warmwell	Seewell	Tenswell
Corporate Structure	<ul style="list-style-type: none"> Multi-site Multi-country 	<ul style="list-style-type: none"> Multi-site UK 	<ul style="list-style-type: none"> Multi-plant Multi-country 	<ul style="list-style-type: none"> Multi-plant Multi-country 	<ul style="list-style-type: none"> Multi plant UK & US 	<ul style="list-style-type: none"> Multi-plant Multi country 	<ul style="list-style-type: none"> Multi-plant Multi-country
Union Strength (density, effective representation)	<ul style="list-style-type: none"> Density: 35% overall, 60% in NHS Effective representation of membership 	<ul style="list-style-type: none"> Density: 50% New leadership at local level said to be less partnership orientated 	<ul style="list-style-type: none"> Density: 50% (up from 40% two years ago) Weak representation at local level 	<ul style="list-style-type: none"> Density: 60% Overall, 99% in networks Effective representation of membership 	<ul style="list-style-type: none"> Density: 45% overall, 66% of staff covered by collective agreements Effective representation of membership 	<ul style="list-style-type: none"> Density: over 80% in generating and networks, less than 10% in trading Internal divisions among Seewell unions 	<ul style="list-style-type: none"> Density: 80% overall, 100% blue collar Internal divisions Redundancies eroding UK membership base
Aspects of Partnership	<ul style="list-style-type: none"> Pro-active Voluntary Mature and deep, especially in NHS Joint consultation & dialogue HR policy supports business objectives & partnership Union involvement in working through challenges Recognition of mutual interests 	<ul style="list-style-type: none"> Pro-active Unions seen by management as an effective check and balance against commercial pressures. HR policy supports business objectives & partnership 	<ul style="list-style-type: none"> Very little Union only recognised as a result of legislation Works council with union and independent representatives Culture of insecurity 	<ul style="list-style-type: none"> Pro-active & re-active Voluntary Mature, especially in traditional lines Joint consultation & dialogue HR policy supports business objectives & partnership Union involvement in working through challenges Recognition of mutual interests 	<ul style="list-style-type: none"> Pro-active & re-active Divisional and local joint bodies to develop awareness of business plan and objectives. HR policy supports business objectives & partnership Union involvement in working through challenges Recognition of mutual interests 	<ul style="list-style-type: none"> Re-active Much information & 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 	<ul style="list-style-type: none"> Very little Insufficient sharing of information & consultation, especially re: redundancies & plant closures Union has no confidence in business strategy.

Table 3: Corporate Mission and HR Philosophy

	Cleanwell	Fixwell	Flowell	Hearwell	Warmwell	Seewell	Tenswell
Mission statement	“To advance the facility support services industry and lead it globally. The Group aims to achieve this by being the preferred employer in the industry, by offering customers global service concepts and solutions through a local organisation and by partnering with the customers to improve their competitiveness.”	“Through enterprise, quality and high standards of customer service in electrical contracting, we will significantly add value for our customers.”	“At the parent company, we are concerned about financial results, professionalism and the quality of our work. Attention to customer service and results are the core concerns.”	“To be the most successful worldwide communications group. ... we intend to build shareholder value by: seizing the many opportunities open to us in the global market; building our current business, focusing on high-growth areas; operating to the highest standards of integrity; fulfilling our responsibilities to the communities in which we operate.”	“To be a committed builder of businesses, in electricity and utility-related markets, determined to deliver outstanding performance. This is achieved by following the five values that support every company activity: well earned customer loyalty; enhanced shareholder value, positive working environment; trust of communities; teamwork & leadership.”	“At the parent company we are concerned about financial results, professionalism and the quality of our work. Attention to customer service and results are the core concerns.”	Tenswell is committed to achieving strategic growth by improving its competitive position and increasing product and service quality, in order to deliver customer satisfaction.
HR and Partnership Philosophy	“The extent to which we fulfil our responsibilities to our employees, customers, and society at large will continue to be a measure of our success on an equal footing with our financial performance.”	“Gaining Investor in People status recognises the Company’s commitment to the training & development of all employees & involving them in the development of the business & all matters which affect their work. This is achieved primarily through a firm policy of communicating & consulting with employees by a variety of means.”	“The experience of our highly knowledgeable business professionals constitutes one of the company’s most valuable assets.”	“[Hearwell] is committed to investing in and supporting its people with innovative, leading-edge policies and programmes, creating a working environment which embraces all aspects of diversity and allows people to achieve their real potential.”	“[Warmwell] recruits and retains the best people, offering everyone opportunities to realise their potential. This is achieved through working together to a clear and common purpose.”	“Employees are our greatest asset and the reason for the business’s successes with customers and communities.”	“[Tenswell] is proud of its workforce and recognises the contribution made by its employees ... employees are valued and much emphasis is placed on training and development. In this way [Tenswell] ensures its workforce is highly skilled and capable of delivering world class performance.”

References

- Appelbaum, E. and Batt, R. (1994) *The New American Workplace: Transforming Work Systems in the United States*, New York: ILR Press.
- Batt, R. and Darbyshire, O. (1997) 'Institutional Determinants of Deregulation and Restructuring in Telecommunications: Britain, Germany and the US Compared', *International Contributions to Labour Studies*, Vol. 7, pp. 59-80.
- Best, M. (1990) *The New Competition: Institutions of Industrial Restructuring*, Cambridge, Mass: Harvard University Press.
- Birecree, A. and Konzelmann, S. (1997) 'Structural and Strategic Determinants of Conflictual Labour Relations Strategies at the Industry Level: The Cases of Steel, Paper, Corn and Coal', *Journal of Economic Issues*, Vol. 31, pp. 129-144.
- Birecree, A., Konzelmann, S. and Wilkinson, F. (1997) 'Productive Systems, Competitive Pressures, Strategic Choices and Work Organization: An Introduction', *International Contributions to Labour Studies*, Vol. 7, pp. 3-17.
- Blair, M. (1995) *Ownership and Control*, Washington, D.C.: Brookings Institute.
- Blair, M. and Kochan, T. (eds.) (2000) *The New Relationship: Human Capital in the American Corporation*, Washington DC: Brookings Institution.
- Briggs, A. (1961) *A Study of the Work of Seebohm Rowntree*, London: Longman.
- Deakin, S. and Hughes, A. (1997) 'Comparative Corporate Governance: An Interdisciplinary Agenda', in S. Deakin and A.

Hughes (eds.) *Enterprise and Community: New Directions in Corporate Governance*, Oxford: Blackwell Publishers.

Deakin, S. and Slinger, G. (1997) 'Hostile Take-overs, Corporate Law, and the Theory of the Firm', *Journal of Law and Society* Vol. 24, pp. 124-151.

Deakin, S. and Wilkinson, F. (1996) 'Contracts, Co-operation and Trust: The Role of the Institutional Framework', in Campbell, D. and Vincent-Jones (eds.) *Contract and Economic Organisation*, Dartmouth, Aldershot: Dartmouth Publishing Company.

Fama, E. F. and Jensen, M. C. (1983) 'Agency Problems and Residual Claims', *Journal of Law and Economics*. Vol. 26, June. Pp. 327-49.

Fox, A. (1974) *Beyond Contract*, London: Routledge.

Franks, J. and Mayer, C. (1996) 'Hostile Take-overs and the Correction of Managerial Failure', *Journal of Financial Economics*, Vol. 40, no. 1, pp. 163-81.

Franks, J. and Mayer, C. (1998) 'Ownership and Control in Europe', in P. Newman (ed.) *The New Palgrave Dictionary of Economics and the Law*, Vol. II. London: Macmillan.

Guest, D. (1987) 'Human Resource Management and Industrial Relations', *Journal of Management Studies*, Vol. 24, no. 5, pp. 503-21.

Hansmann, H. (1996) *The Ownership of Enterprise*, Cambridge, Mass: Belknap Press.

- Hansmann, H. and Kraakman, R. (2001a) 'Organisational Law as Asset Partitioning', NY University School of Law and Harvard University, mimeo.
- Hansmann, H. and Kraakman, R. (2001b) 'The End of History for Corporate Law', NY University School of Law and Harvard University, mimeo.
- Hart, O. (1995) *Firms, Contracts and Financial Performance*, Oxford: Clarendon Press.
- Keasey, K., Thompson, S. and Wright, M. (1997) 'The Corporate Governance Problem - Competing Diagnoses and Solutions', *Corporate Governance: Economic, Financial and Management Issues*, Oxford: OUP.
- Kochan, T. and Rubinstein, S. (2000) 'Toward a Stakeholder Theory of the Firm: The Saturn Partnership', *Organization Science*, Vol. 11, pp. 367-386.
- Konzelmann Smith, S. (1996) 'Co-operative Corporate Level Strategies and Divergent Labour Relations Outcomes', *Journal of Economic Issues*, Vol. 30, pp. 797-827.
- Konzelmann, S. and Forrant, R. (2000) 'Creative Work Systems in Destructive Markets', *ESRC CBR Working Paper Series. No. 187*. Cambridge: University of Cambridge.
- Ladipo, D. and Wilkinson, F. (2001) 'What Can Governments Do?' in Burchill, B. D. Ladipo and F. Wilkinson (eds.) *Job Insecurity and Work Intensification*, London: Routledge.
- Lazonick, W. (1991) *Business Organization and the Myth of the Market*, Cambridge: Cambridge University Press.

- Mayer, C. (1997) 'Corporate Governance, Competition and Performance.' in S. Deakin and A. Hughes (eds.) *Enterprise and Community: New Directions in Corporate Governance*, Oxford: Blackwell Publishers.
- O'Sullivan, M. (1998) 'Sustainable Prosperity, Corporate Governance and Innovation in Europe' in Michie, J. and Grieve Smith, J. (eds.) *Globalization, Growth and Governance*, Oxford: Oxford University Press.
- Slinger, G. (1998) 'Spanning the Gap: the Theoretical Principles that Connect Stakeholder Policies to Business Performance', *ESRC CBR Working Paper Series*, No. 111.
- Slinger, G. (2000) 'Essays on Stakeholders and Take-overs.' *Ph.D. Thesis*, University of Cambridge.
- Slinger, G. and Deakin, S. (2000) 'Company Law: an Instrument for Inclusion - Regulating Stakeholder Relations in Take-over Situations', in A. Stewart and P. Askonas (eds.) *Social Inclusion: Possibilities and Tensions*, London: Macmillan.
- Tarling, R. and Wilkinson, F. (1987) 'The Level, Structure and Flexibility of Costs', in Tarling, R. (ed.) *Flexibility in Labour Markets*, London: Academic Press.
- Walton, R. and McKersie, R. (1965) *A Behavioural Theory of Labour Negotiations*, NY: McGraw Hill.
- Wilkinson, F. (1983) 'Productive Systems', *Cambridge Journal of Economics*, Vol. 7. Pp. 413-29.
- Wood, S. (2000) 'From Voluntarism to Partnership: A Third Way Overview of the Public Policy Debate in British Industrial Relations', in Collins, H. P. Davies and R. Rideout (eds.) *Legal Regulation of the Employment Relation*, London: Kluwer Law International.

