XIII. LABOR-MANAGEMENT PARTNERSHIPS: U.S. AND U.K. COMPARISONS

Phoenix from the Ashes? Labor-Management Partnerships in Britain

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Abstract

This paper examines the "phoenix-like" resurgence of labor-management partnerships in Britain. Enduring partnerships are found in sectors where both sides can make credible commitments to cooperate over the medium to long term. This depends on the presence of product market regulations that encourage competition on the basis of quality rather than price, labor market rules that grant workers significant voice rights during the process of restructuring, and corporate governance practices that encourage shareholders to take a long-term view of their investments. Because these conditions are the exception rather than the norm, the future of partnerships in Britain is far from assured.

Innovative forms of labor-management partnerships emerged in the United States and the United Kingdom during the mid-1990s as ways of capturing the benefits of network-type relations between corporate stakeholders. The background to this was rapid technological change and intensifying competition in product markets, brought about by globalization and, particularly in the case of the United Kingdom, privatization. Customers learned to exercise

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their choice more aggressively, and shareholders became increasingly impatient for a quick and profitable return on their investments. In response to these pressures, firms were forced to reexamine their organizational systems and structures in an effort to improve performance. Although downsizing and business process reengineering were part of the response, labor-management partnerships were also initiated, often in the very same companies that had undergone substantial restructuring.

This paper examines the "phoenix-like" resurgence of labor-management partnerships in Britain and asks whether the phenomenon is likely to be sustained. We report evidence that successful partnerships tend to be found in sectors where both sides can make credible commitments to cooperate over the medium to long term. In this context, the key role played by the policy and regulatory framework is to extend the time period over which cooperative strategies can be played out. This can be done in a number of ways, most notably through product market regulations that encourage competition on the basis of quality rather than price; through labor market rules that grant workers significant voice rights during the process of restructuring; and through corporate governance practices that encourage shareholders to take a long-term view of their investments. Where these conditions are present, workers/unions and management are provided the opportunity to develop creative responses to external pressures. Where they are absent, however, partnership arrangements are highly vulnerable, no matter how much goodwill is invested by the two sides. Since favorable conditions for the emergence of partnerships are the exception rather than the norm, it would seem that the future of labor-management partnerships in Britain is far from assured.

The labor-relations policy of the U.K. Labour government, elected in 1997, endorses labor-management partnerships as an effective approach for improving economic performance. From 1999, the law has required employers to enter into negotiations with trade unions over collective bargaining, and, with this encouragement, trade union recognition agreements are on the increase after nearly 2 years of decline. At the same time, other forms of employee participation that do not necessarily involve trade union representation are being promoted, including employee share ownership. It is therefore far from clear that the government sees trade unions as the principle vehicle for delivering partnership on the labor-side.

A key point in the stakeholder debate of the 1990s was the claim that fairness of treatment, job satisfaction, high quality of work environment, and, particularly, income and job security are important factors in generating investments in firm-specific capital by employees. Although a growing body of work in the theory and practice of human resource management (HRM) suggests a positive link between effective HRM and performance, there are obvious bar-

riers or constraints on the ability of management to pursue a prostakeholder or partnership approach. These include product market pressures to compete on the basis of short-term performance metrics and cost minimization, often entailing labor shedding and cost cutting in areas such as training and maintenance. In this context, income and job security is usually severely compromised. They also arise from pressures on managers to generate continuous improvement in short-term shareholder value; usually resulting in efforts to cut costs and lay off workers, undermining any basis for partnership. One positive very recent development has been institutional investor activism designed to promote good corporate governance and a long-term view of shareholder value and relations. This provides scope for a partnership approach, even within a corporate governance system, such as that of the United States and United Kingdom, which accepts a version of the "shareholder primacy norm."

Our paper considers the question of whether it is possible to successfully implement and maintain real partnership with employees in the British economic and corporate governance system, where corporate culture is one of managerial prerogative and control, short-term shareholder interests are prioritized in management, and free markets are espoused at both a national and global level. Empirical evidence is available to test these rival hypotheses in the form of case studies carried out in the Cambridge Centre for Business Research since the mid-1990s. Four related sets of studies have examined, respectively: (1) the impact of organizational change on job insecurity and work intensification (the "JIWIS" study: Burchell et al. 2001); (2) the relationship between corporate governance, restructuring, and partnership at work (the "corporate restructuring" study: Deakinet al. 2002); (3) the role of stakeholder voice in influencing the outcomes of corporate bankruptcy (insolvency) proceedings (the "insolvency" study: Armour and Deakin 2002); and (4) institutional investor activism in promoting good corporate governance (the "employment institutions and governance" study: Armour et al. 2002). We will draw selectively on this body of research material to highlight the central characteristics of U.K. labor-management partnerships and to assess their strengths and weaknesses.

The first set of case studies, drawn from the JIWIS project, focused on organizational aspects of partnership with an emphasis on the internal organization of employment relations. Cases tending toward partnership were compared with matched cases tending away from partnership in organizations operating in a variety of different industries, including utilities, further education, financial services, food and beverages, and manufacturing. The analysis was based on both quantitative and qualitative data, and interviews with managers, employees, and officials of relevant trade unions in 1997–1998. In this paper, we focus on four manufacturing firms (CementCo, CableCo, DrinksCo, and DairyCo). See Table 1 for descriptions of each company.

TABLE 1
Organizations Participating in the Study

Company	Description
A. Companies Tending toward Partnership	
CementCo	Large independent manufacturing company in the building materials sector. CementCo's shares are quoted on the stock market.
DrinksCo	Large manufacturing company in the food and drinks sector that is owned by a British corporation. DrinksCo is quoted on the stock market.
B. Companies Tending away from Partnership	
CableCo	Large manufacturer of components for the telecommunications and IT markets, which is owned by a British corporation. CableCo's shares are quoted on the stock market.
DairyCo	Large, independent food manufacturer. DairyCo's shares are traded on the stock market.

Of the four cases, CementCo and DrinksCo come closest to a model of "proactive" partnership. Both companies described themselves as "partnership" organizations, aspiring to develop "positive" and "constructive" employment relationships and a healthy psychological contract. In both cases, "goodwill" and "high trust" were identified as important catalysts for organizational change, and both reported movement toward "greater" social partnership during the previous five years, with substantial effort being made to formalize the parameters of that relationship. In contrast are the cases of DairyCo and CableCo. In these cases, concern with cutting costs had generated a situation of distributive conflict and recourse to industrial action, poor relations between unions and management, and disillusionment with social dialogue. There was consequently little if any evidence of partnership in employment relations in these companies.

The JIWIS case studies demonstrate both the propensity for labor-management partnerships to emerge in response to economic uncertainty and the fragility of these arrangements in such a context. Managerial strategies such as downsizing have the potential to fuel organizational and social uncertainty. This in turn undermines tendencies toward partnership as employees lose faith in promises of employment security.

The corporate restructuring study consisted of in-depth case studies of seven companies that have been examined on a longitudinal basis since the mid-1990s. These are all companies that at some point in their recent history have claimed to follow a partnership model with employee representatives. At the same time, they have actively engaged in the market for corporate control, resulting in periodic restructurings following mergers and acquisitions.

Successive waves of interviews have been conducted with senior managers and trade union representatives in order to track, over time, changing perceptions regarding partnership. The sample was constructed with the aim of seeing how contrasting patterns of ownership (dispersed share ownership; concentrated ownership; U.K. control; overseas control) and different forms of market regulation (ranging from relatively unregulated product markets exposed to intense international competition to utilities markets, which are subject to intensive price and quality regulation) affected the emergence and stabilization of partnership relations. It therefore enables us to draw out the role of external pressures, including regulatory and governance factors, in explaining the variation in managerial responses to organizational uncertainty that the JIWIS study highlights.

Table 2 provides an overview of some of the key characteristics of the firms we examined. As evident in this table, the findings were not what might have been predicted, given a working hypothesis that firms operating under dispersed share ownership would find it more difficult to maintain partnership than firms operating under concentrated share ownership. Overall, the corporate restructuring case studies suggest that corporate governance structures play an important role in shaping partnership, but only in conjunction with regulatory factors. Regulation of product and service quality, of the kind observed in most utility sectors and in certain others, favors the emergence of stable partnerships. This is because, in these markets, profitability is linked to the ability of firms to maintain a high and consistent quality of service for end users. As a result, companies are better able to convince shareholders to take a view that they will reap significant returns over the long term from a stakeholder approach (as evident in the case of Warmwell). In the absence of these stabilizing forces, however, goodwill between labor and management is not enough to sustain a partnership approach when it conflicts with shareholder interests. Then, the pressure to meet shareholder value over the short term tends to prevail (as evident in the case of Tenswell).

Whereas the first two sets of case studies demonstrate how partnership relations are selected or deselected according to the presence of certain factors in the regulatory environment, the third case study is drawn from a study of the role of the different stakeholder groups (in particular shareholders, creditors, and employees) within the processes surrounding corporate insolvency and illustrates how laws granting voice rights to employees may have a wide-reaching effect on the way in which corporate transactions are structured.

Rover is a U.K. car manufacturer with several plants located mainly in the West Midlands of England. In autumn 1999, Rover's overseas parent company (BMW) decided to sell Rover on the grounds that it was running losses of more than £2 million per day. If no buyer was found, BMW had plans to liq-

TABLE 2
Corporate Restructuring Case Study Characteristics

Nature of Company	Sector	Ownership	Regulation	Partnership
Cleanwell	Specialized cleaning and facilities maintenance	Concentrated: European parent; stock exchanges: Contintental Europe	Quality in National Health Service, health and safety	Proactive and mature
Fixwell	Electrical contracting	Concentrated: U.K. management buy-out. Not listed	Predominantly health and safety	Proactive and mature
Flowell	Multiutility: water and gas	Concentrated: European parent; stock exchanges: Continental Europe	Price, quality service, financing, compensation, environment	Very little: disintegrating
Hearwell	Telecommunications	Dispersed: U.K. parent; stock exchanges: London and New York	Price, quality service, financing, compensation, environment	Proactive (with some reactive elements) and mature
Warmwell	Multiutility: electricity, gas, water	Dispersed: U.K. parent; stock exchanges: London and New York	Price, quality service, financing, compensation, environment	Proactive (with some reactive elements) and mature
Seewell	Multiutility: electricity and gas	Dispersed: U.S. parent; stock exchange: New York	Price, quality service, financing, compensation, environment	Reactive and weak
Tenswell	Manufacturer: heavy industry	Dispersed: merger between U.K. and European parent; stock exchanges: London, New York, and Continental Europe	Regulations minimal: environment, health and safety	Very little: disintegrating

uidate Rover's business on the basis of a members' voluntary winding-up, making it possible to realize the company's assets and (it was thought) pay off the creditors in full. This would have meant the loss of an estimated 24,000 jobs, not only in Rover's Longbridge plant (which employed 8,000 workers) but also through knock-on effects on suppliers and dealers and in the wider West Midlands economy. The break-up option, while leaving shareholders and creditors comparatively unscathed, would have inflicted substantial losses on other stakeholder groups, in particular employees, long-term customers and suppliers, and the local community. The best outcome for these other stakeholders was clearly the emergence of a buyer who would carry on the business as a going concern while preserving as many jobs as possible. As events turned out, employment law played a crucial role in achieving this outcome.

The Rover case provides evidence that factoring employee interests into the restructuring process can result in outcomes that protect the firm-specific human capital of the workforce without undermining the preservation of jobs. Indeed, the role of the law in the Rover case was more positive than that—by requiring a potential purchaser to bear the costs of large-scale redundancies, it served to penalize a bid that would have broken up the company, leaving the Longbridge plant a shadow of its former self, and favored an alternative that minimized the extent of job loss. Just occasionally, employment law gives employees leverage through creating liabilities for the employer associated with redundancy, which give the employees some power to bargain over outcomes.

An important feature that distinguishes corporate ownership in the United Kingdom from that in the United States is the relatively high level of institutional investor ownership of shares in the United Kingdom. As of early 1999, about 70 percent of listed U.K. equities were held by institutional investors. In the fourth of our case studies, we consider the influence of institutional investor activism on corporate governance practices and the ways in which this is incentivizing managers to pursue competitive strategies in a more stakeholder-friendly way with the aim of promoting long-term shareholder value.

Whereas institutional investors typically do not become involved in the direction of the companies in which they invest, Hermes is the first major investment institution in the world to have established an activist investment fund, Hermes' UK Focus Funds. This fund invests in companies that are poorly performing but fundamentally sound with the aim of improving performance and delivering long-term shareholder value through better management and corporate governance. In this process, a team of specialist professionals liaises closely with fund managers to monitor company direction and performance. Hermes' fundamental belief is that companies with concerned and involved shareholders are more likely to achieve superior long-term returns than those without. As a result, Hermes actively involves itself in working together with

managers and directors in all companies in which it invests to ensure that long-term shareholder interests are prioritized. Ethical, as well as environmentally and socially responsible behavior, is also given high priority. Although it remains to be seen how far the Hermes example is followed in the future, it arguably represents a new stage in the evolution of shareholder ownership and in relations between corporate management and institutional shareholders.

Our overall conclusion is that a balance of power is a central feature of and a necessary condition for genuine partnership and for productive system success, and this, in turn, requires effective and independent employee representation. The present regulatory framework in the United Kingdom, however, downplays the role of independent trade unions and focuses the attention of managers on maintaining shareholder value. The ability of managers to persuade investors to accept an "enlightened shareholder approach" depends to a large degree on external market and regulatory conditions. Even in sectors where conditions are favorable to partnership, sudden changes in the market and regulatory environment may induce managers to resort to downsizing in order to restore what is understood to be "investor confidence." Thus labor-management partnerships, while a significant development, are also highly vulnerable to external shocks that can see a return to managerial strategies based on labor shedding.

European Union law, as the Rover case demonstrates, has the potential to shift the system in the direction of a more stakeholder-inclusive approach to corporate strategy, but it remains to be seen whether this approach will prevail over more traditional conceptions of shareholder primacy. Still, new forms of investment practice are emerging, like that of Hermes, that involve innovative attempts to factor stakeholder issues into the assessment of corporate performance. Where long-term partnership strategies are value creating, they will of course be in the interests of shareholders, as well as other stakeholders, and so coordination by institutions so as to foster long-term stability in companies' approaches may help to enable such partnership strategies.

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