WZB
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Ownership Structures, Corporate Governance and Labor

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Central questions and empirical basis

- Central questions:
  - How Are Corporate Governance Systems Changing in the Automotive Supply Industry?
  - What Have Been the Consequences of Changes in Corporate Governance on Employee Voice Mechanisms?
  - How Do Different Arrangements of Corporate Governance and Employee Voice Impact on the Development of Work Systems, in Particular on forms of Work Organization that Favour High-Road Jobs?

- Theory perspective: Path theory, Varieties of Capitalism

- Company level interviews in the automotive supplier industry. Three companies each in Germany, Sweden, USA.

- Research project (together with Inge Lippert) carried out 2009/2010 financed by the Hans-Böckler-Foundation

Publications:

Lippert, Inge, Ulrich Jürgens, Corporate Governance und Arbeitnehmerbeteiligung in den Spielarten des Kapitalismus. Pfade der Unternehmensentwicklung in der Automobilzulieferindustrie in Deutschland, Schweden und den USA. Hans Böckler Stiftung Forschung 143. Berlin: edition sigma 2012.

Lippert, Inge, Tony Huzzard, Ulrich Jürgens and William Lazonick, Sustaining High-Road Jobs. Labour´s Voice in Corporate Governance, Oxford University Press, forthcoming.

Three types of companies

- **Capital market buffered companies (type I):**
  Stable (private) capital, little dependency on capital markets
  Our assumption: Continuous long-term orientation, high employee influence and „high road“ strategies of work systems.

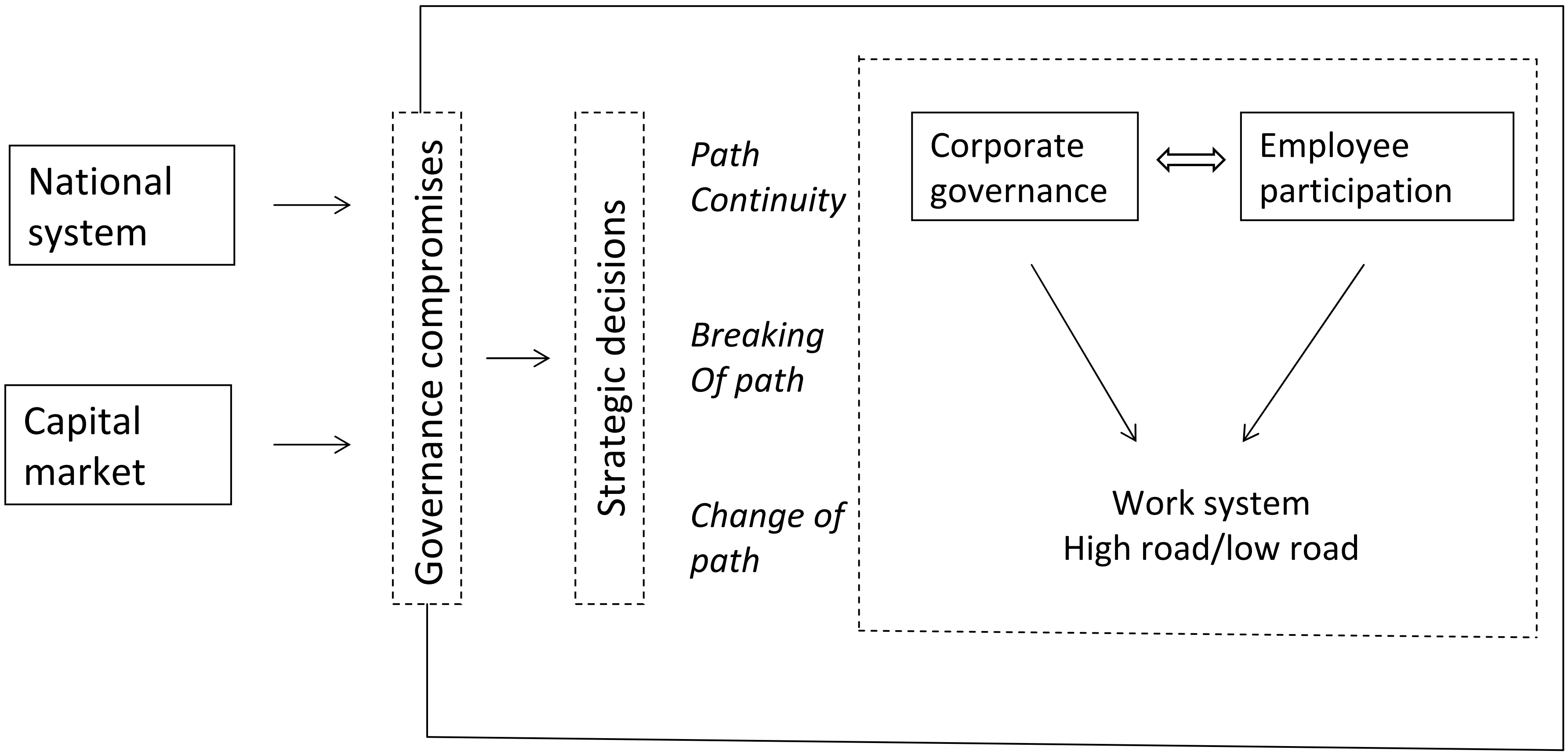
- **Capital market exposed companies (type II):**
  High dispersion of share ownership, predominance of institutional investors,
  high dependency on capital markets for financing
  Our assumption: Change towards the shareholder-value model, adaptation of the employee participation and working systems.

- **Private Equity controlled companies (type III):**
  Short-term oriented capital, close control by financial investor
  Our assumption: abrupt change of governance system; subordination or displacement of employee participation, „low road“ work systems

The company sample

Country	Company (anonymous)	Employees (2010)	Form of Governance	Number of interviews
Germany	Ger_Insider	47.000	Capital market buffered, foundation company	7
	Ger_Stock	10.000	Market-listed stock corporation, Distributed capital stock	6
	Ger_Equity	3.900	Private Equity-financed	2
Sweden	Sweden_Insider	44.000	Capital market buffered, company of the Wallenberg-family	5
	Sweden_Stock	43.000	Market-listed stock corporation, Distributed capital stock	5
	Sweden_Equity	6.000 (before crisis), 600 (after crisis)	Private Equity-financed	5
USA	US_Insider	15.000	Capital market buffered, ESOP-company	8
	US_Stock	80.000 (1998), 24.000	Market-listed stock corporation, Distributed capital stock	8
	US_Equity	61.000	Private Equity - financed	5

Explanatory Model



Trajectories of capital market buffered (type I) companies (1)

No change of path in the Corporate Governance System, endogenously driven change

•High continuity of corporate governance actors (owners, management, labor representatives);

•Resources are used for reinvestment. Investment in long-term skill development of employees was not reduced.

•Management remuneration and bonuses lower than in listed stock companies and based on long-term development criteria.

Trajectories of capital market buffered companies (2)

… but isomorphous adaptation processes

•The companies adopted strategies and modes of behavior which are similar to the ones of type II companies:

- Increased profitability expectations and use of financial indicators (EBIT and ROCE) also used by market-listed companies.
- Incentive systems (systems of management payment) are adapted to the systems of market-listed companies.
- Adoption of so called „best practice“ strategies (off-shoring into low-wage countries, benchmarking with ‚best practices‘, restructuring of value-added chains etc.)

Summary of findings on type I companies

	Interest representation	Work systems
Ger_Insider	▪ Strong system of employee interest representation ▪ No subordination to financial goals; „co-operative countervailing power“; „negotiated shareholder value“	▪ Not a pioneer in work system social innovation, no team work because of opposing interests ▪ Qualification policy on the „high road“ ▪ High job security standards for employees
Sweden_Insider	▪ Strong system of employee interest representation ▪ Strong „voice“ on the supervisory board ▪ Weekly negotiation rounds ▪ International solidarity („World Union Council“)	▪ Pioneer in „good work“ principles ▪ System of competency development and „Knowledge based pay system“ ▪ Employment security through work-time flexibility and a “multi-knowledge“ approach
US_Insider	▪ No union! Originally strong labor voice and empowerment - weakening ▪ „Veto-right“ of the employee shareholders as poison pill against hostile takeovers	▪ Strong tradition of teamwork ▪ Qualification on the „high road“ (own university) – continued ▪ Commitment to long-term job security

Trajectories of capital market exposed (type II) companies (1)

Changes of path and transformation with new strategies, new goals and new actors.

•Increasingly „impatient capital“ in the ownership structures. The shareholders are mainly institutional investors.

•Radical restructuring measures: closure of plants in peripheral areas, opening of new plants in core areas of competence, aggressive strategies concerning relocation to low-cost countries, thereby undermining the model of long-term employment also in the European companies.

•The goal of shareholder- value maximization is accompanied by shareholder friendly policies aiming at a redistribution of ressources in favour of the shareholders.

•The change of course towards a shareholder- value model went along with complete exchange of personnel in management and corporate governance institutions. High bonuses induce the management to prioritize short-term shareholder interests.

Trajectories of capital market exposed companies (2)

- The changes were driven by exogenous factors: „Crisis“ and „merger“ are critical events.
- But the exogenous factors were reinforced by endogenous processes:
  - Ger_stock: Changes after a crisis in the parent group (1999) → Changes intensified by the exit of former owners (acquisition of 60% of the shares by institutional investors) → Advancement of a shareholder- value orientation.
  - Sweden_stock: Merger with a US-company (1997) → Shift of the ownership structures from „Swedish“ to „American“ → Incorporation of the new company in the USA → Extensive process of „Americanization“.
  - US_stock: Change to the shareholder-value model beginning in the 80th → Intensifies with crisis

Summary of findings on type II companies

	Interest representation	Work systems
Ger_stock	▪ Differentiated and established system of co-determination ▪„Concession Bargaining“ (employment security commitment as a means to enforce cost reduction) ▪ Shareholder value orientation weakens co-determination practices	▪ No roll back of “qualified team work“ ▪ Skill development on the „high road“
Sweden_stock	▪ Considerable weakening of the system for the representation of union interests ▪ No representation of employees on the board ▪ Moves towards an adversarial model of industrial relations	▪ Pushing aside of „good work“ by Toyota production system ▪ Qualifiaction on the „low road“ ▪ No committment to employment security (hire and fire)
US_stock	▪ Strengthening of labor voice through a crisis deal ▪ New strategic partnership with UAW ▪ A union representative in the board ▪ Participation of unions on the local level (Co-Management)	▪ Strengthening of team orientation through HPWP with taylorist features ▪ Investment in skills in order to improve product quality ▪ New standards of employment security (UAW has to agree to layoffs, encouragement of union organized plants etc.)

Trajectories of private equity financed (type III) companies (1)

Abrupt change of path

•Exchange of personnal in central management positions and in corporate governance institutions, determined by the private equity investor.

•Development of a mid/long-term plan, describing goals and activities of the turnaround process. The implementation of the measures is evaluated by the investor.

•Far reaching restructuring processes: in some cases even relocation of the entire production to low-wage countries and fast growth by acquisitions.

•Measures to increase the cash flow, for example selling real estate and machinery which have to be rented back (expensively).

Trajectories of private equity financed companies (2)

Change processes in unstable structures

•Private equity takeovers imply that the company has to come up for the interest rates and amortization of the purchasing price and own investments.

•The debt burden can lead to cash-flow problems in case of dropping demand.

•Erosion of the company‘s assets because of the sale of productive inventory (machinery, real estate etc.). The investors sell these assets in order to pay back the debts they made in order to acquire the company.

•Financial „exhaustion“ because of the high dividend payments which are expected by the investors.

But: The private equity governance can lead to a reverse process „back to the roots“, see the case of Sweden_equity

Summary of findings on type III companies

	Interest representation	Work systems
Ger_equity	▪ Weakening of interest representation rights by reducing workforce to under 2000 employees ▪ Cooperative attitude towards interest representatives, but dominance of private equity goals ▪ Low impact of employee representatives in corporate governance	▪ Displacement of qualified team work and return to Taylorism ▪ Standardized production system with low qualified employees ▪ Qualification on the „low road“ ▪ Emplyoment security as an „instable compromise“
Sweden_equity	▪ Cooperative attitude towards interest representatives ▪ Weak employee representation on the board	▪ Rollback of „good work“ ▪ Qualification on the „low road“, incentives for specialization ▪ Low employment security, massive reduction of staff and wages because of insolvency
US_equity	▪ Strategic avoidance of unions ▪ Long tradition of HRM policy competing with union organization ▪ Closure of plants with organized unions, opening of union free ones	▪ „manufacturing excellence“ based on team oriented production structures and employee involvement ▪ Reduction of participatory elements with crisis ▪ Reduction of costs via staff cuts (hire and fire)

Corporate Governance – General Findings

- The differences between the types of companies are bigger than the ones between nations. The positioning vis à vis the capital markets is the central variable explaning different path developments.

- Instances of a re-alignment with the national model are observable in some cases (US_insider, Sweden_equity). The changes of CG in type II companies were however firmly established.

Employee Participation – General Findings

Interactions between the elements of the institutional system are not just caused by changes in the corporate governance system. They can also be caused by changes in the system of employee participation.

➢There is no fixed „hierachy of institutions“ meaning that the system of employee participation unidirectionally gets adapted to the shareholder-value logic.

➢The example US_stock shows that also the reverse way is possible → change of the corporate governance system in the direction of strengthening labor voice.

Work Systems – General Findings

- In cases of weak interests representation the relation is clearly observable (private equity financed companies, Sweden_stock)

- A strong representation of worker interests however can countervail „low road" developments (Ger_stock)