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Howard Gospel and Andrew Pendleton, *Corporate Governance and Labour Management: an international comparison*

Abstract

Gospel and Pendleton have written a broad descriptive view of governance and labour management. Indeed, their book provides the reader with an examination of a multitude of governance issues and practices in a variety of national settings. The book emphasizes comparison, both between market and stakeholder views of the firm and among national governance systems. Resulting from a series of academic seminars, the authors present a set of case studies dealing with governance practices in the United States, United Kingdom, Germany, Netherlands, France, Spain, Italy, and Japan. The book is written from the market/country level of analysis and describes aggregate trends in governance in the respective countries. The structure of the text is very straightforward - each chapter is similar in form and similar in terms of content themes- dealing with a focal country and its dominant form of governance. Central among the themes of the book is the observation that the traditional categorization of market versus relational systems is overly simplistic in explaining governance changes in the world's leading markets.

Disciplines

Labor Relations | Management Information Systems

Comments

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Howard Gospel and Andrew Pendleton, Corporate Governance and Labour Management: an international comparison, Oxford University Press, 2005, ISBN 0199263671

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Traditional Models of Governance

Market/Finance Model	Stakeholder/Relational Model
Liberal market economy	Coordinated market economy
Short-term profit orientation	Long-term orientation
Flexible employment	Low labour mobility – long tenure
Performance-related labour/management relations	Employment skills orientation, collective agreements
High cost of controlling management	High cost of controlling labour
Equity funding	Internal funding
Disclosure of financial information	Less public financial information
Limited legal controls	Extensive system of case law
Dispersed ownership	Concentrated ownership
Limits firms in terms of pursuing strategies advantageous to labour	Limits firms in terms of pursuing strategies favorable to shareholders
Financial motives	Web of contacts – social standing
Relatively high executive compensation	Relatively high worker pay
Market shock countered with layoffs	Market shock absorbed with capital
National examples – United Kingdom, United States	National examples – Germany, Japan

In the introduction, the authors set forth the national/country level of analysis as well as present some of the major themes of the book. Will traditional national patterns of governance be maintained in an era of ever increasing market forces? Can governance forms and outcomes be predicted by making traditional observations about stakeholders? Will governance forms converge as firms continue to become ever more multi-national in scope? The authors’ general answer to these questions is that even while national

governance practices will not change much in the near term, they are indeed evolving. And while the pressures for change are similar, the mechanisms for resolving pressures differ across systems. Market based systems are borrowing practices from stakeholder systems, and stakeholder systems are responding to market pressures.

International Governance Systems

In the first chapter, the authors argue that a broader contextual perspective is needed to understand emerging systems of governance. Major world trends in governance include labour's voice being drowned by market forces in Germany, traditional lifetime employment being threatened by market forces in Japan, and increasing pay inequity and growing job insecurity in the UK and US. The chapter concludes with an observation of how labour can help shape governance through direct participation in decisions, and by becoming active in corporate regulation and wealth distribution.

Chapter two continues discussion of forms of employee representation in governance. The main points are that employee representation must be enhanced to bring about true board reform, and that employee influence on governance may make a firm less prone to malfeasance. Three proposals are given to improve governance: 1) stakeholders should be provided more data on aggregate firm performance, 2) ownership and governance should be linked through employee stock ownership and by giving employee owners positions on boards, and 3) make boards more responsible to stakeholders by allowing employees and other stakeholder opportunities to challenge director decisions.

In chapter three, the authors explore the conventional wisdom that current UK governance practices have adverse consequences for firm employees. They examine the different management priorities and behaviors associated with the market versus relationship governance models and conclude that prioritizing high returns for shareholders often subjugates other stakeholders. They cite empirical evidence that market systems are disadvantageous to labour. However, the authors observe that the United Kingdom system of governance cannot be reduced to a single model and that multiple forms of governance are becoming important.

Chapters four and five examine governance in Germany. The German system of governance is characterized primarily by highly concentrated ownership, monitoring by banks, low transparency, and two-tiered boards of directors. Labour within firms is often characterized as having a very high employee skill orientation. This skill orientation can often provide firms with competitive advantages, but may at times hinder short-term firm performance. New German employment law is making firm reporting more transparent and market forces are affecting income and labour security. As with most other countries, market and stakeholder forces are having mutual influence.

Governance in the Netherlands, in chapter six, is described as balancing the best of both the market and stakeholder worlds. The Netherlands is still one of the world's most coordinated market economies. New laws are allowing institutions to capture the best of both models- shareholder value with the commitment of employees.

In France (chapter seven), employees tend to be somewhat detached from decision making at the firm level, therefore they have not provided incentives for governance reform. A nation-wide trend toward focusing on firm core competencies has French management moving toward the market model of governance.

Western Europe, with special emphasis on Spain, is considered in chapter eight. Governance in Spain is seen as including strong government intervention, weak participation by labour, and highly concentrated ownership. As in other countries, the observation is that Spain is moving toward a hybrid model of governance. In Italy (chapter nine), where family control of corporations is the norm, labour does not play a significant role in governance. Institutions are experiencing increasing influence over firms and firms are responding with increasing transparency and with increasingly flexible internal labour markets. The Italian system seems to be a blend of the market and stakeholder models.

The old system of governance in Japan (chapter ten) was characterized by networks of firms and banks monitoring and controlling management. Employees traditionally have been powerful stakeholders in this system. New regulations, however, have transferred some power to audit committees on boards. Governance in Japan is being influenced slightly by market forces, but will not change drastically.

The final chapter offers a wonderful summary of the comparative chapters of the book. One key summarizing point is that despite empirical findings indicating very complex associations among governance variables, most comparative research still relies on the ‘false’ dichotomy of market versus stakeholder systems. There are many countries that are not categorized well within this traditional framework. Consequently, new theories and classifications are warranted.

New Theory Needed

Unfortunately, the book misses the opportunity to offer a new theory of governance. There seems to be opportunity for a new model of convergence between the market and stakeholder models. Given the clear themes that liberal market governance systems and stakeholder systems are influencing each other, and that past literature has overestimated the degree to which capital and labour are tightly linked, it is disappointing that some form of dynamic counter-point is not offered. In the same vein, the book contains a number of ‘corporate responsibility’ themes including integrity as control, trust and transparency, accountability, and conflict versus coalition that could be built into a comprehensive model of governance. Moreover, with the book’s journey through the histories and development of governance systems in countries, it would have been appropriate to have a life-cycle theory of governance – one that starts with country tradition and then builds into tradition the multiple influences of markets, values, and governments.

Potential Audience/Classroom Use

This book provides a wonderful comparative literature review, and as such, would be of great use in graduate seminars on the topic of worldwide governance practices. Both the language and terminology are fairly consistent across that various chapter authors- which facilitates comparisons. Accordingly, the book would be very appropriate for graduate work in international or comparative governance.

However, the book contains few prescriptions on how to improve governance practice. Any reader seeking insights into how to build an effective governance system at the firm level will not find it here. There are few firm-level examples in the book. Consequently, the book will be difficult for MBAs and practicing managers wanting a

manual on governance reform. It would make sense to combine this text with more prescriptive works dealing with the improvement of internal board processes such as Conger, Lawler, and Finegold (2001) or Charan (2005) in an MBA-level course on governance.

Overall, this is an excellent comprehensive text that draws together a tremendous amount of information and observation about world governance, and offers great insights into current world governance practices. The book should be of interest to any scholar interested in international governance and how governance systems world-wide are evolving.

References

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