A stake in place? The geography of employee ownership and its implications for a stakeholding society

Jane Wills

In recent years employee ownership has become a means by which some workers facing privatization, closure or takeover have attempted to defend their jobs and communities. Proponents of a 'stakeholding' society have advocated the widening of share ownership as a means of democratizing the economy, building partnerships and achieving consensus at work. But is employee ownership able to sustain local investment and industrial partnership? Through a detailed case study of a management and employee buyout in the railway industry, I suggest that the ability of employee ownership to fix investment in place may be enhanced by relations of 'stakeholding', increasing employee commitment to the firm and its future. In the case studied here, however, lack of employee power and finance effectively excluded most workers from the processes and philosophy of the buyout. The new ownership structure did little to reshape local relations between workers and those in control. While ownership cannot eradicate economic threats to community, it might, if used as a mechanism to promote new styles of management and employee commitment, foster long-term success. It is argued that government and trade unions can do more to promote wider employee ownership and participation at work in the future.

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Department of Geography, University of Southampton, Highfield, Southampton SO17 1BJ
e-mail: jwills@soton.ac.uk

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... it is surely time to assess how we shift the emphasis in corporate ethos – from the company being a mere vehicle for the capital market – to be traded, bought and sold as a commodity, towards the vision of the company as a community or partnership where each employee has a stake, and where a company’s responsibilities are more clearly defined. (Tony Blair, speech to the Singapore Business Community, 8 January 1996, quoted in Froud et al. 1996, 132)

Introduction

During December 1995, the unthinkable happened when representatives from the employee-owned Tower Colliery in South Wales announced annual pre-tax profits of £2.1 million on £15.7 million turnover. In just twelve months, the 239 members of the National Union of Mine Workers (NUM) had turned an 'uneconomic' nationalized pit into an economic success. Against all the odds, workers had bought their own mine after government closure and so kept a community alive in one of the poorest regions of the country. Moreover, such developments threaten to shatter the traditional certainties of class politics in Britain, for the very geographies of solidarity and cohesion that made Tower a thorn in the flesh of British Coal managers also made the buyout a viable alternative. In handing over £8000 of their redundancy money to buy
the pit, these trade unionists demonstrated that it is possible to own the means of production and remain in the union fold. Contrary to long-held expectations in the British labour movement then, employee ownership and trade unionism have not proved incompatible at the pit and the implications of Tower are revitalizing debates about the perils and possibilities of workers taking part, and finding a place, in the contemporary capitalist world.

In this paper I explore the development of employee ownership in Britain with an eye to its geographical implications, asking whether such developments are a route to economic and political democracy at a local scale. As demonstrated at Tower, it might be possible for workers to defend their jobs and communities by buying their workplaces when they are threatened with closure, privatization or takeover. Employee ownership might be a means to revitalize local politics, empower employees and refugue corporate governance in an era when the apparently inexorable development of multinational capital, processes of globalization and neo-liberal policy agendas are reducing local autonomy and control.1

Paul Hirst (1994) has been particularly vocal in his promotion of employee ownership as a means to keep capital in place. In Associative democracy, he argues that the development of new forms of corporate ownership and governance needs to be prioritized as a means to democratize the contemporary economy and foster local relationships of participation and trust.2 Drawing upon the research findings of those geographers and socio-economists who have explored the economic vitality of new industrial districts (see Pyke et al. 1990; Scott 1988; Storper and Scott 1989), Hirst suggests that employee ownership would strengthen such geographies and foster a long-term approach to investment and management planning. In this sense, he argues that employee ownership and local democracy in the workplace have geographical causes and consequences, helping to embed firms in their localities by facilitating the development of relations between local plants, between firms and public institutions, and between managers and workers:

The spread of co-operative and mutual ownership would tend to reduce the current gap between the wage worker, who sees the firm as a mere means to earn a living, and the manager, who acts as a steward of external providers of capital. Both would have distinct positions but common interests in an ongoing, self-governing association. Such forms of ownership would also help to facilitate the regional collaboration of firms and public-private partnerships. Labour would thus be united with the enterprise and capital would be rooted in the locality, rather than vanishing into the international market. (Hirst 1994, 121)

Hirst's vision of an associative and democratic economy is one in which employees would have a stake in their firms, and thus a stake in their local community, grounding their productive capital in place. But, while geographers have argued that the roots of economic vitality lie in the industrial atmosphere, local institutional dynamics and shared relations of trust in industrial districts, questions of ownership have not been discussed. Fixing capital in place through relations of ownership is an obvious route to sustaining long-term investment in local production, reproduction and community life but we know little about its success. Indeed, at a time when multinational capital investment necessarily exposes local communities to the threat of relocation, rationalization and restructuring, new forms of ownership might become part of a policy agenda to increase long-termism and commitment to place (for debate about the risks to industrial districts posed by 'big' capital, see Amin and Robins 1990; Amin and Thrift 1992; Baker 1996). By emphasizing the importance of democratizing the economy in order to sustain local economic development and keep capital in place, Hirst thus draws our attention to the importance of local relations of ownership and related cultures of corporate life in shaping the landscape of economic development. Geographically, a case can be made for increasing employee ownership as a means to sustain local growth and community.3

It is in North America that the geographical lessons of employee ownership are most clearly defined. It is estimated that there are now over 10 000 Employee Stock Ownership Plans (ESOPs) in operation in the USA, covering over 11.5 million workers and major firms such as Avis (12 000 employees), United Airlines (75 000 employees) and the Parsons Corporation (10 000 employees) have been taken into employee-owned trusts (National Centre for Employee Ownership 1995, 7). Of course, ESOPs will have been set up for a variety of reasons including beneficial tax arrangements, company succession in the absence of a family heir and paternalistic cultures of employment as well as for the defence of jobs and
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conditions. In ESOPs, where workers own only a small number of shares, there is often no innovation in the prevailing structures of corporate governance and culture, doing little to increase participation at work. However, there are a considerable number of firms in the US and Canada where jobs and investment have been saved by the creative deployment of ESOPs and new management plans. The United Steelworkers of America (USWA) have been very active in this regard. They recently took part in a plan to buy up the Algoma Steel plant in Ontario, Canada, turning round the company from huge losses to profit in less than a year (see Gunderson et al. 1995). Indeed, when combined with participative management programmes, North American ESOPs (of a union and non-union hue) have been found to make substantial gains in corporate performance.

Such examples raise a number of important issues for geographical research and debate. Comparison between different national economies suggests that national regulatory frameworks (particularly the law, business culture and local traditions of industrial relations) shape the extent to which employee ownership can develop. But at a smaller scale too, the success, or otherwise, of ESOPs will depend in part on the terms of the arrangement, the degree of control given to workers and the development of new participative management styles. Such factors will be shaped by the pre-existing culture of industrial relations at work and the ability of workers to determine the terms of a sale. Union membership might thus be expected to have a positive impact upon employee-owned firms, increasing the stake gained for workers whilst also fostering participation in and control of the firm.

Indeed, one of the major differences between employee ownership in the US and UK is the high-profile national support given to ESOPs by North American trade union officials, even to the extent of finding the finance and legal support (see Gunderson et al. 1995; Oakeshott 1994). Within the UK, the unique case of Tower Colliery is also a direct result of trade union strength and local commitment as the workers were determined to secure complete ownership and control of the mine.

In the remainder of this paper, I make a tentative step towards exploring these questions through a case study of a management and employee buyout (MEBO) in the railway industry, in Hampshire, England. This buyout has successfully kept capital and jobs in a town which has been historically dependent upon the rail industry. Although the firm is not in majority employee control, the case highlights the problems and possibilities of widening ownership to include employees. The case also resonates with certain experiences of employee involvement in the British bus industry, where workers have taken part in buyouts as a result of privatization (see Pendleton, Robinson and Wilson 1995). Before this case is explored in more detail, however, a brief history of attempts to increase industrial democracy and widen employee ownership in the UK is provided to contextualize the case discussed further below.

Owning workers? Left, right and the industrial democracy debate

Debates about the virtues of employee ownership and industrial democracy have been characteristic of both left and right in recent British political discourse. During the 1970s, the Labour government launched a number of important initiatives to try and extend employee influence in the workplace. As Secretary of State for Industry, Tony Benn gave support to the Institute for Workers' Control and used public funds to allow workers at Meriden Motorcycles, Kirkby Manufacturing and the Scottish Daily News to take over their ailing corporations (see Bradley and Gelb 1983). Moreover, Lord Bullock was charged with the task of identifying the mechanisms by which industrial democracy might be extended in large corporations, seeking to increase economic initiative through greater worker participation in corporate affairs (published as the Committee of inquiry into industrial democracy (Bullock 1977); see Batstone et al. 1983; Hirst 1986). Bullock declared that there should be a statutory duty upon companies with more than 2000 employees to allow trade union representatives to sit on the board. As Hirst (ibid., 126) suggests, this extension of industrial democracy was to be part of a package for solving the 'British disease', fostering a culture of cooperation between managers and workers in pursuit of economic success:

Legislation to grant the workers a say in the governance of their firms was intended to be another step towards the completion of the edifice of political,
welfare and citizenship rights that would enable the working classes to play a full part in the society.

The radical suggestion that economic performance might increase if workers were better integrated into the structures of corporate governance fell upon deaf ears in Britain during the 1970s. Managers, trade unionists and workers themselves were largely indifferent to such initiatives and the experiments of worker representation on the boards of the Post Office (Batstone et al. 1983) and British Steel (Brannen et al. 1976) were roundly declared to be failures (see also Jenkins and Poole 1990; Pendleton et al. 1994).

In revisiting these debates from the vantage point of the mid-1990s, it is clear that questions of employee involvement have remained on the policy agenda. Debates which were the political domain of the left during the 1970s have resurfaced in the new rhetoric of the right. Rather than seeking industrial democracy and employee participation through trade union representation on the boards of large corporations, however, industrial strategists now implore managers to use quality circles, team working and improved channels of communication to change the culture of the British economy. Indeed, the focus of much of the new management strategy associated with human resource management (HRM) has been to foster cooperation and a unity of interest between managers and employees in the workplace (Wickens 1987; and see Blyton and Turnbull 1992 for a more critical analysis). Mrs Thatcher's dream of a property-owning democracy centred upon the ideal of individuals owning their own home, having shares in their own firm and, preferably, also having a small stake in the privatized industries such as those providing water, energy, telecommunications and transport. Successive Conservative administrations during the 1980s and early 1990s encouraged corporations to establish share ownership schemes to foster improved economic performance with greater employee involvement, participation and loyalty to the management of the firm. It is argued that this personal commitment to 'their' business sobers the militant worker, giving them a stake in the success of 'their' firm. As Margaret Thatcher famously declared in 1986:

An employee should not only be working on the shop-floor or in the office. He [sic] should also be present at the AGM as a shareholder. He should be wanting to satisfy himself that management is efficient and that profits are as good as they could be. (quoted in Baddon et al. 1989, 18)

This licence to scrutinize management has not been without its contradictions for the right wing of the political spectrum, however, and there has been healthy disquiet about boardroom extravagance and economic mismanagement in the British economy. The scrutinization of management has, in many ways, prompted a disrespect for authority which is now widespread across all sections of British society (see Walley and Wilson 1992). And, unless individuals can channel their dissatisfaction into positive measures for change, the rhetoric of a share-owning democracy can simply increase popular discontent towards those in power. Employee share holding, HRM and new strategies for employee involvement currently carry no burden on employers to increase industrial democracy and allow workers any say in the management of their firm. If worker shareholders are disillusioned with the performance of managers in their firm, they have no real power, outside the traditional trade union route, to change the system of corporate governance under which they have to work. This contradiction between rhetoric and reality in workplace politics has created an ideological vacuum in which new debates about stakeholding are emerging to take centre stage.

Andrew Gamble (1996, 2), for example, has recently argued that 'Stakeholding is . . . part of a general cultural backlash that is taking place in British politics against the individualism of the 80s.' For our purposes, it is significant that much of the debate about stakeholding concerns relations of power at work. Coining the term 'stakeholding' to describe a democratic polity and economy in which employees, consumers and share owners play a more equal part in decision-making, a number of commentators are suggesting that British capitalism needs to learn the lessons of partnership, cooperation and mutual respect which are practised in other manifestations of capitalism (see Hutton 1996b; Kay and Silberston 1995). As during the 1970s and 1980s, management and labour are again entreated to work together, to share ideas and cooperate in pursuit of economic success. Indeed, in Will Hutton's (1996a, xxii) version of a stakeholding society, labour has a central role to play as a social partner in the
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... the stakeholder capitalism for which I argue enthrones labour as a social partner – [there is] a fundamentally important role for trade unions, albeit rather different from that envisaged by the traditional left. The regulation of capitalism does not have to cast trade unions in permanent opposition; indeed, strong, responsible unions are one of the guardians of social inclusion and bulwarks against the excessive influence of the market on society.

As the quote from Tony Blair at the start of this paper bears testament, the Labour Party is now publicly supporting the stakeholding agenda and the TUC has also issued a report of which '(...)the central message ... is that co-operative relations are more productive than adversarial ones' (TUC 1996, 55).

Employee ownership could play a key role in the emerging policy agenda of a government committed to stakeholding. At its best, employee ownership might help to overcome insecurity at work, promote partnership between management and workers, increase employee involvement in the dynamics of the firm and maintain business roots in the local community. Indeed, when employee ownership is combined with participative management practice, a company might come to resemble the stakeholder model of the capitalist firm.

A people's capitalism? Employee ownership and trade unionism in the UK

Employee ownership usually involves the establishment of an employee share ownership plan (ESOP) in which company shares can be bought by employees.11 The system originated in the US and it has been slow to develop in Britain. The first ESOP was introduced at Roadchef in 1987 and financial legislation and changes to forms of taxation have not brought any dramatic growth in this field. Take-up has been relatively low. In 1993, only 1076 out of more than 2 million VAT-registered businesses operated an ESOP of some description (IRS 1995, 4). Moreover, the majority of these schemes were not found to give workers any increased involvement in the running of the firm and they made little contribution to the industrial democratic cause. For these reasons, Pendleton, McDonald, Robinson and Wilson (1995) make a tripartite distinction between technical, paternalist and representative ESOPs, of which only the latter group involves any sustained attempt to increase employee participation in corporate life.

Technical ESOPs are described as those introduced after the 1989 Companies Act which allowed publicly limited companies to buy their own shares for the purposes of operating a profit-sharing, share option or executive option share scheme. These developments might allow workers to exercise their rights as shareholders but they are rarely associated with any degree of management change. Likewise, paternalist ESOPs involve share ownership by employees, usually due to corporate philanthropy or in the event of a management buyout, but they are rarely associated with measures to increase employee influence at work. As Pendleton, McDonald, Robinson and Wilson (ibid., 53) explain, paternalist ESOPs are those where their architects believe their work forces should receive more of the fruits of their labour than is customary but have a limited conception of employees’ rights as workers and certainly do not believe that any substantial modification should be made to management structures, functions and practices. The proportion of equity passed to employees ranges from ten to around 30 per cent: i.e. substantially more than in conventional share schemes but an insufficient proportion (given the typical concentration of ownership of the rest of the equity) to pass control of the company to employees.

ESOPs of this nature generally operate as ordinary share ownership schemes and they usually fail to make any significant impact upon the corporate culture of work (see Baddon et al. 1989; Carter 1990; Dunn et al. 1990).

The only type of employee ownership that might be expected to make a really serious contribution to a stakeholding economy of the future are those described by Pendleton et al. (1994) as representative ESOPs. These developments are concentrated in the privatized industries, particularly in the bus industry, and they have usually been initiated by trade union representatives to save jobs and conditions. In some cases, workers have managed to buy the whole company, as at Tower Colliery in Wales and at City Bus in Southampton, but more usually workers have gone along with their managers to secure a considerable stake in their firm. Evidence suggests that the majority of these firms have left the trade unions to represent employees while promoting the indirect representation of employee shareholders through the
election of worker-directors onto the management board. Moreover, preliminary research in the bus industry suggests that these employee-directors are having some influence on the inherited management structures and workplace cultures in which they are working (ibid.).

These examples of participatory ESOPs in the privatized industries indicate a small but significant change in grass-roots trade union attitudes towards employee ownership and participation. Traditionally, the British labour movement has opposed such developments on the grounds that ownership threatens trade union organization (Wright et al. 1990; and, for details of the attitudes of American trade unions, see McElrath and Rowan 1992). It is argued that if workers perceive themselves to be owners, they will identify with the interests of their firm rather than those of their class and, as Margaret Thatcher predicted, thus lose their affinity to the collective organizations of labour. Moreover, if unions try and extend their role to the representation of shareholders, their strength in negotiations will be undermined. As Pendleton, Robinson and Wilson (1995, 8) explain:

Unions are therefore presented with a dilemma by employee ownership. If new institutions of participation and decision-making are created, union representation may be undermined. Alternatively, if unions take over the representation of owners as well as employees they will experience a conflict of roles, especially when economic circumstances necessitate retrenchment. Either way the function and standing of the union may be threatened with the result that membership and density may fall.

Indeed, when share owning has been promoted by the right in recent years, trade unionists are surely correct to approach the issue with caution. In his discussion of the American situation, Russell (1984) implores trade unionists to avoid the trap of ownership, declaring it to be a capitalist plot ensnaring workers in their own exploitation. He suggests that the main reason for employee ownership is ideological, encouraging 'employees to perceive a harmony of interest between themselves and the firm that employs them' (ibid., 266). Russell (ibid.) points to a considerable body of research conducted in the US which suggests that share ownership increases worker loyalty, productivity, discipline and peer pressure to work hard (see also Fogarty and White 1988; Long 1980). Without any real increase in corporate power, workers can be ideologically disarmed by share ownership, their unions weakened and so less able to resist any changes.

In some measure, the British trade union response to employee ownership reflects these dilemmas and the general approach has been described as one of 'bored hostility' to the issue. Even in the case of the privatized industries, the main campaign focus has been to oppose privatization rather than engage in debate about the opportunities it poses for new forms of industrial practice (Baddon et al. 1989; see also Blagburn 1992). When discussing the position of national trade union officers towards employee ownership in the privatized industries, for example, Norman Watson of Fairwater Consultancy13 remarked that 'Plan A is that they’re against it [privatization] but there’s no Plan B'. Likewise, Robin Blagburn of Unity Corporate Advisors (UCA)14 remarked that the best you could hope for was no policy at all:

My job would be impossible if unions had a national policy of opposing buyouts, but they don’t. They have a policy of opposing privatisation and that doesn’t then become a policy of opposing buyouts and employee ownership. They’re quite happy to see us involved if that’s what local people want.

This vacuum in political direction allows organizations like UCA and Fairwater Consultancy to provide support, advice and training to workers engaged in the buyout process but the lack of policy is an obstacle to the promotion of wider employee ownership and industrial democracy in Britain. There is now growing evidence from the employee and management–employee buyouts in the privatized industries to suggest that trade unionism is not necessarily undermined by new contours of ownership (Pendleton, Robinson and Wilson 1995; Wright et al. 1990). The NUM still represents 100 per cent of the eligible workers at Tower Colliery and the employees there are more involved in the management of the firm. Tyrone O'Sullivan, who was an NUM officer for 27 years prior to the buyout is now personnel director and he negotiates with his union colleagues over pay and conditions. Likewise, in the 25 employee and management–employee-owned bus companies surveyed by Pendleton, Robinson and Wilson (1995), union density was found to be higher than in private-sector firms and the establishment of worker-directors was found to complement and strengthen trade union activity rather than undermine it.15 In short then, research into employee
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ownership in these recently privatized operations would suggest that when unions are actively involved in the buyout process, playing a role in delineating the contours of corporate governance in the new company, workers can be given a more meaningful stake in their working futures and so protect jobs for their members. These developments alone would suggest that the trade union movement needs to rethink its traditional strategy towards employee ownership. Maybe the time has come to see ownership as an opportunity rather than a threat, making ESOPs work for union members rather than viewing them as a barrier to trade union organization (for a detailed theoretical exposition of this 'new politics of ownership', see Gamble and Kelly 1996).16

Lost opportunities at RailCo17

At this point it is appropriate to look at the case of RailCo in more detail. For, although the MEBO only took place in June 1995 and the new company is still feeling its way, the case has some important lessons for debates about ownership and the stakeholding future. RailCo used to be part of the British Rail maintenance and repair empire, servicing rail stock in the south of England. The company occupies a large site alongside the railway track in a medium-sized town in Hampshire and, at the time of sale in June 1995, the operation had approximately 1000 employees. This part of the rail industry had already been introduced to commercialization in the late 1980s when British Rail Engineering Ltd (BREL) was sold in two parts, the three new build operations passing into the private hands of ABB and the six maintenance and repair concerns being run by a management team (thereafter being known as British Rail Management Ltd (BRML)). The sale of the case study site as a single entity in 1995 was thus just a further development in the process of introducing competition and private capitalism into the railway. RailCo is now an independent company, operating in competition against those who used to be colleagues, many of whom are now part of much larger engineering conglomerates such as ABB, GEC and Babcock-Scotts. As a small commercial minnow in a pond overstocked with much larger species of fish, the management and employees at RailCo are entering difficult waters with no economic or political certainty about the industrial future of the railway or their particular part of it. RailCo was the only MEBO bid to succeed in the sale of this part of the railway. The share structure of the sale was arranged so that the venture capitalists 3i hold 51 per cent of the shares, while the management and employees hold the remaining 49 per cent. Of this latter share, about a third is held by four managers and the two non-executive directors appointed by 3i, and the workers have just over 30 per cent of the shares.

When questioned about their reasons for wanting to buy RailCo, it is significant that both managers and workers sought to avoid being incorporated into the geography of a large multinational concern. As the union convenor on site explained:

We, as trade unionists,18 felt it was important that we get in with our interest to buy it, as we did not want to become a multinational. We thought that we would have a better say in how the business was run if we got involved.

Likewise, a management representative declared that, although the vendor unit encouraged management buyouts in the industry and offered a 5 per cent reduction in selling price to management teams, the managers also had a fear of takeover from outside:

I think we were of the opinion that it [being bought up by a multinational concern] wasn't the best thing that could happen to the ... works. Certainly, we didn't relish the idea of being taken over by them very much. As senior managers on the site, we were going to be vulnerable if they decided to bring their own team in. There was also a view that it would be nice to have decisions made about the ... works taken by ... [the] works itself.

On receipt of separate expressions of interest from both managers and workers at the site, the vendor unit (the body responsible for the privatization of the rail industry) asked that they join together in planning one bid for the site, forcing managers and union representatives to talk to each other and form an alliance to purchase the plant. Unfortunately, however, this public partnership was never established upon relations of trust. As far as the union stewards were concerned, the buyout attempt would have failed without management involvement and the management, likewise, needed to keep the workers on board. In this Faustian bargain, each needed the other but, while the workers were there in the belief that they would have a greater say in their future, the
managers had no vision of reconfiguring traditional relations of power. This lack of common cause is reflected in the views of one of the managers involved in the buyout proposal:

I personally had a few reservations [about a joint bid] at the outset; it's not a secret. Our traditional industrial relations procedure had always been a long, drawn out process, we've got a very formalized bargaining machinery which operated in the traditional way. Like, you put forward a suggestion, we'll take it away for a month and think about it, then we'll put back counter proposals and you'll think about it for another month, and I had a vision of this type of thing happening with the employees dragging out the process and not entirely being constructive. However, I think we realized that to make a success of the management buyout, we needed employee support.

The political basis of the buyout was thus limited from the start: managers and workers needed each other to secure the bid but they had little faith in each other as partners. As this manager went on to acknowledge, they had no intention of power sharing – despite the expectations and desires of union members on site:

Although it was a management and employee buyout, there were some trade unionists who thought it was going to be a cooperative. There was always a clear indication from the financial people and everybody else that, whatever the control of the company in terms of share ownership, there would always be managers to manage and employees to do what they had to do. That sometimes didn’t quite gel with the trade unions. They tended to view it as a partnership . . . there was quite a bit of conflict there.

The unions on site had a real problem in securing a stake in the firm without encouragement from the top. But, more than this, they were unable to communicate with those who elected them from below. The bid to buy RailCo was encased in secrecy and silence, effectively excluding the vast majority of employees from the bid altogether. In order to take part in negotiations over the terms of the purchase, the shop stewards on site had to elect a four-person steering group to look after their interests and concerns. These individuals had to sign confidentiality agreements to conform to the terms of the sale and were thus separated from those who elected them. Union members and employees were attempting to secure a stake in their firm without being told anything about the progress and terms of the deal. Indeed, any bulletins the steering group wrote for the workforce had to be vetted by the vendor unit to ensure no unfair advantage accrued to the local team compared to the commercial competition who were interested in buying the firm. Even though the steering group were able to report non-confidential information back to the stewards, the union convenor explained that ‘At times there were months when they couldn’t come back with anything, literally months’. This lack of involvement and the dearth of information tended to make some workers hostile towards the buyout as they feared the worst for their future. In a group discussion, one of the senior shop stewards remarked that the shop floor treated them as ‘lepers’ during this period, believing them to be selling out workers’ interests in pursuit of a deal.

The management representative interviewed also acknowledged this contradiction at the heart of the buyout procedure in privatized firms, as he explained:

One of the difficulties we encountered all the way through the buyout process was the degree of confidentiality that the vendor unit insisted upon. Trying to be scrupulously fair, so that we did not appear to have any advantage over other prospective bidders, they would not let us talk to the employees. And when you are trying to put a management and employee buyout together and you can’t talk to the employees, it becomes a bit difficult!

This insistence on confidentiality effectively excluded the workers from the terms of debate. The buyout was imposed on them, rather than being something in which they participated and, as a result, only half the employees have taken up shares.

During the research process, it became clear that a number of trade unionists on site saw these confidentiality clauses as a mechanism designed to keep workers out of the buyout process. Moreover, they argued that confidentiality was seriously undermined when all the competitor bidders were able to come on site and gain access to company records, pricing systems and working arrangements. They are now operating in a marketplace in which sensitive corporate information about RailCo is in the hands of their competitors, as one of the stewards explained:

Whereas we weren’t allowed to talk to the workforce because they deemed it would be unfair to the other companies, any company that put in to buy this site
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had the right, and they did use it, to come down and go through all our books, see all our prices, what we were charging, to walk round the works to see what we had in the works in the way of machinery and how we do the job ... they came in here with laptop computers and everything ... Yet they [the vendor unit] were saying to us that we were not allowed to talk to the workforce because it was an unfair advantage to the other firms but all of those firms, who are now our competitors, like ABB and Babcocks, have walked away from these works knowing exactly what we do.

Confidentiality is thus shown to operate in the interests of the corporations buying up privatized firms and to undermine the possibilities for workers to try and purchase a stake in their future. The vendor unit effectively excluded workers at RailCo from the processes of the buyout, leaving a residue of workplace hostility after the sale.

It is significant that in other successful privatizations, where the workers have bought all or part of their company, these confidentiality clauses have either not been in place (where Labour councils have encouraged employee ownership in the bus industry, for example) or confidentiality has been ignored for political reasons (as in the case of Tower Colliery). Norman Watson from Fairwater Consultancy, who advised the Tower miners on their bid to buy the pit, recalled that they had fortnightly meetings with the whole workforce to explain what was going on, ignoring the confidentiality clauses they had signed:

The trouble is that in a buyout you get tied into the issue of confidentiality. If information leaks out the whole deal can be brought down and someone else can buy it. We signed a confidentiality clause with Rothschilds that said we would not even mention that we had put in a bid. We did not take a blind bit of notice of it though because everybody was phoning us up, we were in the Daily Mirror, we were all over the place. Anyway, we were determined to meet with the whole workforce to explain what was going on, ignoring the confidentiality clauses they had signed:

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In this case, it is interesting to note that the advice offered to trade unionists at Tower Colliery by Fairwater Consultancy is at variance with that offered to the RailCo workers by UCA. Robin Blagburn of UCA argued that confidentiality had to be adhered to in the RailCo case, despite its effect on the members. He suggested that a deal without confidentiality

... would have been impossible because the managers and their advisors would have gone off and had private meetings with the institutional investors, the vendor, or whoever and made decisions there before perhaps having the sham of a meeting with somebody from the steering group ... The only way it could work was by having the steering group effectively proving that they could be trusted with everything that was said.

Unlike the situation at Tower, RailCo was a MEBO without any financial commitment from employees prior to the sale and this made the institutional investors (in this case the venture capitalists 3i, Samuel Montagu and Midland Bank) and their representatives on the management board more powerful than the workers.

Management distrust and the issue of confidentiality seriously undermined employee participation at RailCo but, since the buyout, additional factors have dampened morale. While productivity has been increased and 20 per cent cuts in employment have been made in the interests of the business (there have been more than 100 redundancies since June 1995), the four managers involved in the buyout have awarded themselves large pay rises and doubled their income. Where trust was low before the buyout, such action has dented it further and, at the time of writing, relations between managers and workers were declared to be difficult. The reconfiguration of ownership at RailCo has heightened awareness of the need for management decision-making and leadership to take the firm forward and workers are now asking questions about the activities of those leading their firm. Pointing to the fact that three of the four managers leading the buyout have very long histories within the rail industry, some of the shop stewards acknowledged the difficulties facing their managers in the new climate:

They [the managers] find it difficult to make decisions. You see in the past, if they were ever stuck they just got on the telephone to Derby, to BR headquarters. Now they have to make the decisions themselves and they do struggle with it. They've got a new role.

Indeed, the management representative interviewed acknowledged this, saying:

After six to nine months of putting together a benefits package and then negotiating it in, I can say that my role is nothing like it was. Before, I used to get a parcel from on high and I was told to implement it. The role has changed more than any of us thought it would do ... If I had a problem before, I used to phone head office, or one of the other sites, and ask them how they
deal with it...now they're competitors and you stand alone. Any advice costs you money.

In this situation, the stewards felt they had to 'push the managers into being better managers', thus securing the future success of the business, as one shop steward put it:

They have got to manage. We will be asking questions of the new Commercial Director within the next month. We will ask what he is doing. We know his salary and he's got a brand new Rover car but we are losing around 100 people who are achieving something and we want to know what he is achieving.

The lack of commercial acumen at the top of the RailCo management structure was a matter of serious concern to union members in the plant and they were frustrated with the lack of progress in addressing this shortfall. As one of the stewards explained:

The whole problem with the railway is that it wasn't a commercial company. It was never a commercial organisation...the railways were a service...the repair depots never had commercial facilities. The maintenance depots were sold first, and the design and technical capability are in the process of being sold now. They weren't aligned...and we haven't got the marketing, sales, design and technical people here...we're now floundering around.

New commercial drive and direction is needed to ensure the success of the firm and union members were concerned that their own managers were not up to the job. Indeed, this lack of apparent direction amongst the management team, the hostility prompted by management salary rises and redundancies on the shop floor, and the widespread disillusionment with the pace of change at the plant provoked some of the stewards to speculate about takeover. They felt they should have had the chance to know what their competitors would have offered and whether things would have been more secure with a multinational firm, as one union representative declared:

The main concern to me is the future. We're a small fish in a big sea and I worry about the future...We need to get the orders and if we had the financial security of ABB or Babcocks, things might be better. You never know what's best.

Such ambivalence is hardly a ringing endorsement of the argument that employee ownership is a route into stakeholding and the unions on site were balloted for industrial action (which was never taken) over pay and conditions during the summer of 1996.

RailCo provides a gloomy prognosis for employee ownership as a route into stakeholding and defending local communities: relations between management and workers have not improved; workers are disillusioned with the outcome of joint ownership; and the structures of corporate governance are largely unchanged. The MEBO at RailCo has failed to make the new ownership structure an opportunity for greater corporate democracy, commitment and new stakeholding relations at work. The persistent 'them and us' attitude between management and workers, the low level of worker involvement in the buyout process, the disillusionment caused by slow management change at the plant and the lack of direction given to union members by their trade union officials have all undermined the potential success of the venture.

Yet, despite these difficulties, most union representatives defended their efforts to take up a stake in their firm. As one of those involved declared:

I'm quite upfront about what we managed to negotiate for the employees. Firstly, we managed to up the number of shares that it was possible for people to purchase. Secondly, we were able to negotiate within that a real purpose for owning shares - that they would have a vote and a say in the way the company was run - on a once-yearly or one-off basis. And, thirdly, we managed to negotiate worker-directors on the board. And, in simplistic terms, that's what the steering group managed to get.

The employee share owners have just elected two worker-directors to represent their interests on the board and competition for places was fierce. These directors are being trained at the company's expense and they will negotiate mechanisms for making regular reports back to their constituency on the shop floor. As Robin Blagburn from UCA explained, the workers at RailCo can gain influence from share holding, not control:

You've got influence, not control. 3is have got 51 per cent of the equity so they effectively control the company and they leave the management to the board of directors. The employee-directors have got influence over the way that the company operates and its policy but it's only influence, it's not control. It's not a coop, it's a normal business. But you hope that over time, the philosophy that develops will be one of
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everybody being in it together. If the company does well, everybody does well in it.

Only time will allow any assessment of the degree to which such philosophical changes can evolve at RailCo but, at the time of writing, the obstacles to a partnership which might be worthy of the name ‘stakeholding’ are considerable.

Trade union intervention in the corporate governance debate

The case of RailCo illustrates the difficulties workers face in attempting to secure a greater stake in their futures. Although UCA and Fairwater Consultancy have offered advice and guidance to those involved, there are some significant gaps in trade union support. During a group discussion of the senior shop stewards on site, one of the representatives remarked that

... all the senior stewards who talked to their national officers [about the buyout] were told the same thing. ‘Wouldn’t touch it with a barge pole’ or ‘Have nothing to do with it’.

Without the intervention of UCA, these workers would have been without any trade union advice or support for their endeavour. And one of the stewards explained this indifference as a product of history and the legacy of British class relations in particular:

The trouble is that the trade union movement in this country is too steeped in history to understand the issue. There are a lot of people in the trade union movement who always have management on the other side of the table and say we will always fight. Over the last ten to fifteen years things have changed but I still believe that trade unions aren’t ready to change yet – despite all the closures. There’s also a problem that the City and the financial institutions don’t understand employee buyouts.

These trade unionists implored a Labour government to take action to make employee ownership a more viable option for employees facing closure, takeover or privatization. Changes to confidentiality clauses and measures to enhance the democratization of corporate life would, they argued, do much to support and promote employee ownership for the future. Indeed, it can be argued that such measures might add meaning and substance to the rhetoric of stakeholding which at present says very little about the renegotiation of power relations in corporate Britain.

Cultures of trade union organization are very variable across, as well as within, national boundaries and British trade unions might usefully look to their colleagues in Europe and North America for new ideas and inspiration. The case of RailCo indicates that opportunities to develop employee ownership and enhance corporate democracy are being lost in Britain at the present time. As more skilled workers are discarded due to closure, privatization or takeover, the option of employee ownership needs careful attention. At a time when debates about the economic and political contours of a stakeholding society are occupying intellectuals on the left, it is to be hoped that the case of RailCo will add sobering evidence of the need for new thinking in the labour movement. Workers at RailCo display an enthusiasm for reconfiguring their business despite the slim chances that they will realize those desires. A stakeholding economy must develop the mechanisms for such voices to be reflected in the structure of business and be heard at the heart of the boardroom. The case of RailCo adds empirical fuel to the fire of reform, suggesting that reform from the top and new approaches from below will be needed to make employee ownership a success.

Concluding remarks

To return to the point at which I began, it is clear that Hirst’s vision of an associative democratic society, which involves employee ownership to help keep capital embedded in place and community is, given the different geographies of labour and capital, hard to achieve. Employee ownership might help to retain jobs but it does not necessarily secure them in the long term. Indeed, recent events in the privatized bus and rail industries suggest that firms in management and/or employee ownership are more vulnerable to takeover than many other units of capital. The government invariably undervalued these assets in their original sale price and, more significantly, working share owners with uncertain futures are easily tempted by the offer of cash in exchange for their stake in the firm. A number of employee-owned bus companies have already been sold to private operators for very large sums of cash – Hartlepool Transport going to Stagecoach for £1.55 million and Yorkshire Rider going to Badgerline for £38 million – their working share owners receiving large sums of cash as part
of the deal. A recent report by Industrial Relations Services (IRS 1995, 9) concluded that

the overwhelming evidence from [other] EBOs [employee buyouts] shows that should a buy-out be financially successful then the company is likely to be either bought by a larger company or floated on the stock exchange, with share holding employees realising a ‘quick profit’ on their equity stake . . . Significantly, buy-outs arising from privatisation are more likely to be sold to a third party and generally within a much shorter period than other buy-outs.

So too, RailCo is still prey to the markets beyond it and the company may yet be bought up by a larger concern. While employee ownership gives working share owners a vote about the decision to sell, there is no guarantee of the way they will vote and disillusionment with the terms of the MEBO might make a sale easier to achieve.

The key lessons of recent employee ownership ventures in Britain concern the structure of buyouts and the management style of such businesses. Those that secure long-term success are likely to be firms where workers have a large number of shares and a say in the way the business is run. And, as the case of RailCo in Hampshire so clearly implies, workers and unions need to ensure that the terms of the buyout engender involvement and refigure management style. At RailCo, the pre-existing cultures of trade union organization, management and industrial relations were not overturned by the buyout. Mutual mistrust and hostile industrial relations in place prior to buyout were left unchanged by the sale. When social relations are not reconfigured to further workers’ participation or to increase local commitment, the real opportunities of employee share owning are lost to the business.

The development of employee ownership in Britain also highlights the role played by local social relations in the geography of economic development and decision-making. It is no coincidence that the most successful employee-owned business in the UK has its roots in a vibrant community where local people share traditions of mutual support and collectivism. Workers at Tower Colliery had a political campaign to buy their pit in 1995 and they each felt able to trust their representatives with £8000 of their redundancy money to secure their control. Since buyout, Tower workers have appointed the managers they require and the NUM officials, who were so active in the industrial relations history of the region, have taken up managerial posts. The social relations of the locality thus enabled workers to organize and fund a bid for ownership, and to take part in a new corporate culture. Relations between workers, between workers and managers, and between workers and their representative organizations played a central role in the changing economic geography of the Cynon valley. And if, as Storper (1997, 248) suggests, regional economies are ‘stocks of relational assets’ and regional development is the ‘evolution of regionally-specific relational assets’, labour relations, such as those witnessed at Tower and RailCo, help to determine the way that economic development takes place. The very possibilities of employee ownership occurring and the terms on which it takes place are profoundly influenced by the geography of local social relations.

In the contemporary labour market many workers are rightfully fearful of losing their jobs and their very dependence upon local employment has fuelled insecurity and powerlessness in the workplace. Yet, despite this, employee ownership at Tower has allowed workers to turn local dependence to their advantage. In an era during which competition between places has muted conflict within them and silenced workers who might otherwise challenge cuts in their working conditions (see Cox and Mair 1988; Peck 1996), employee ownership provides workers with the opportunity to exercise greater control over their geo-economic dependence. As Cox and Mair (1988, 316) have suggested, the most common response to the contemporary political-economic order has been for workers ‘to support business coalition projects in the hope that they may at least provide some economic relief to those unable to move elsewhere’ but, in so doing, workers have no guarantee of long-term success. Employee ownership is an alternative response to locality dependence in which workers can take more control. And while the threat of competition, takeover and decline cannot be avoided, the localization of capital and workers’ participation increase the likelihood of long-term success.

The challenge is thus to make ownership work through changes in the way buyouts and ESOPs are structured and managed to allow worker participation and to promote management change after sale. Such change will be aided by support from the top in the promotion of new ownership structures and new cultures of work in legislation
A stake in place? and legal reform. But change may also come from below, as trade unions seek to realize the potential of ownership in refiguring relations of work. By rethinking their traditional position of ‘bored hostility’ towards buyout attempts, British trade unions could see employee ownership as a chance to defend jobs and involve workers in their businesses and, hence, in their futures. Employee share ownership is no guarantee of long-term investment in particular places and people, nor of the participation and industrial citizenship needed to make employee-owned firms a success, but it does provide opportunities for such developments to occur. The case of RailCo would suggest that the realization of these opportunities depends upon the attitudes of managers, financiers and those leading the trade union movement. Should the stakeholding agenda come to be policy in the future, reconfigured routes to employee ownership can be part of much broader changes in the power relations of the British economy. This research would suggest that such developments are likely to be highly differentiated across space.

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Notes

1 Amin and Thrift (1994, 1997); Dicken et al. (1997); Held (1995); Ohmae (1990, 1995); and Reich (1991); and, for a more cautious approach, see Hirst and Thompson (1996).

2 Hirst’s work has recently been criticized for playing down the role of the state in shaping economic governance (see Amin 1996) and the history of employee ownership certainly highlights the importance of national legislation and financial support in the development of new ownership structures (see Gamble and Kelly 1996).

3 Geographically, it is also important to recognize the dangers of employee-owned firms. Keeping capital in place is no guarantee of future prosperity and dependent communities remain vulnerable whoever controls fixed investment. The vagaries of the market leaves local people exposed to the fortunes of their businesses and in ESOPs the risk is born by the community whereas it once rested partly in corporate hands. Workers might also make unsound investments, buying up shares in firms that could not be turned round, making it easy for firms to divest from particular places (for a fuller critique of ESOPs on this basis, see Prude 1984; and for the example of the Benn Co-operatives in Britain during the 1970s; see note 7). It is also likely that the dependence of the local community on one major business will cause tensions between those who have jobs and those who are denied access to work (for a fuller debate about the dilemmas of locality dependence, see Cox and Mair 1988).

4 In 1990, it was estimated that 50 000 USWA members were participating in 23 employee-ownership plans, rising to about 70 000 members in 1994 (Oakeshott 1994). Moreover, Oakeshott points out that only three of the USWA employee share ownership schemes have failed economically; the extraordinary success of twelve of the ownership initiatives indicating a better rate of return than that expected by most conventional capitalist firms.

5 See Baddon et al. (1989); Fogarty and White (1988); Long (1980); and the National Centre for Employee Ownership (1995).

6 A number of geographers have argued that local patterns of industrial relations tend to be reproduced over time and the ability of workplace unions to determine the terms of ownership might be expected to reflect these spatial variations in union organization (see Haughton and Peck 1996; Martin et al. 1996; Peck 1996; Wills 1996). Such traditions might shape attitudes towards ownership choices and the deals secured if pursued.
7 The so-called Benn Co-operatives were very short-lived as they failed to reverse the decline of these ventures. Employee ownership and control were clearly insufficient to fix capital in place in this instance as these businesses were uneconomic and unable to make any profit. Employee ownership operates only within the bounds of the capitalist marketplace and, if this cannot sustain a firm, it will fail.

8 It is important to note that the language of stakeholding echoes much of the rhetoric of greater consumer choice, increased efficiency and employee participation associated with privatization and unitary approaches to corporate life in the 1980s (Froud et al. 1996). The left has adopted much of the ground from the right but in so doing has emphasized the need for representation, responsibility and social concern.

9 It is important to note that these ideas have been subject to critique by those who argue change should focus on the individual rather than corporate, state and institutional structures (see Leadbeater and Mulgan 1996). It is also significant that these critics have tried to take the debate further by politicizing questions of ownership, arguing that people need a real stake to foster any desired development. Leadbeater and Mulgan (ibid.), for example, advocate a ‘stakeowner’ society rather than Hutton’s and Kay’s stakeholding model (see also Gamble and Kelly 1996; Hirst 1994).

10 At a European scale, this language of stakeholding was enshrined in the Maastricht Treaty, following which social policy is to be made by means of negotiation between designated social partners. The European Trade Union Congress (ETUC) is one such social partner, representing the interests of labour at a European scale (see Hyman and Ferner 1994; Streeck 1993; Van Ruysseveldt and Visser 1996). It is this philosophy that lies behind the development of European Works Councils as part of the social chapter of the Maastricht Treaty, providing workers in multinational corporations with representational rights to cross-national meetings for information and consultation (Rogers and Streeck 1995; Wills forthcoming). Such neocorporatism is, of course, antithetical to the Conservative administration in the UK but should Britain opt into the social chapter of the Maastricht Treaty in the future, labour might take on more of a role as a social partner in national political life. Such a role is, of course, very different from the vision some British trade unions and the left in general have had for much of the twentieth century. As Will Hutton (1996b, 3) acknowledges, commitment to the democratization of your firm ‘is not about storming the Winter Palace in 1917, or nationalising the top 100 enterprises in Britain, but it is about the socialisation, if not of the economy, of the organisation of capitalism. You lower your sights but it is something achievable’.

11 ESOPs refer to Employee Stock Ownership Plans in the North American context and Employee Share Ownership Plans in the UK. They are, however, the same thing.

12 It is very interesting that works councils have been similarly charged as they can allow workers to form alliances with their enterprise management to the detriment of the trade union movement and the working class as a whole. As Rogers and Streeck (1995, 11) explain: ‘political unionism came to hold deep suspicions about workplace organisation and representation. These [works councils] were regarded as a potential base for the assertion of the particularistic and economistic interests of workers – at odds with the objective of mobilizing broad, political, class-based solidarity across the boundaries of individual plants, enterprises, or, for that matter, occupations’.

13 Fairwater Consultancy is an advisory and training service which emerged from the Welsh Co-operative Development Agency (funded by the Welsh TUC) in the early 1990s. Norman Watson is the director of Fairwater Consultancy, offering advice to workers considering the possibility of ownership and training for worker-directors appointed to management boards in employee-owned, or part-owned, firms.

14 UCA is the other major organization available to give support to trade union members in the field of employee ownership. Robin Blagburn, managing director of UCA, joined Unity Bank (an operation sponsored by the trade unions) to develop share ownership plans in 1987 and decided to set up UCA as a subsidiary advice service in the late 1980s. UCA is still connected to Unity Bank but their chief role is as advisors to those involved in the buyout process. Indeed, it is common for buyouts like the case described in the following section to draw their funding from commercial sources, rather than using the financial services of Unity Bank.

15 Drawing again on the parallels with works councils, it is also clear that these councils can operate in tandem with trade union organization, providing an additional source of information and another arena for the negotiation of interest (Rogers and Streeck 1995).

16 Gamble and Kelly (1996) argue that the left needs to rethink its traditional adherence to common ownership in the light of the failures of state planning, east and west. In their plea for a ‘new politics of ownership’, they suggest that ‘a left programme should promote the broadest possible individual ownership of productive assets as well as new
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collective ways of monitoring and controlling the ways in which they are managed’ (ibid., 64). Indeed, later on in their account of this vision, they suggest that ‘employee ownership schemes, if properly designed, offer the strongest vehicle for pursuing the dual objectives of wide extension of private ownership and more effective control’ (ibid., 93).

RailCo is not the real name of the company studied. This fictitious name is to protect the identities of those who took part in the research.

There are six unions with members at RailCo: the Rail Maritime and Transport Union (RMT), the Transport and Salaried Staff Association (TSSA), the Transport and General Workers Union (TGWU), Manufacturing, Science and Finance (MSF), the Amalgamated Engineering and Electrical Union (AEEU) and the General and Municipal Boilermakers (GMB). The unions operate a joint works council and elect officials to negotiate on their behalf. Outside officials come on site for business council meetings in order to resolve outstanding disputes. This union structure has not changed with the new ownership structure of the firm.

It is perhaps not a coincidence that similar events took place in the privatized utilities where the sale of water, gas, electricity, power generation and communications preceded large numbers of redundancies and increasing wage differentials (see Froud et al. 1996).

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