FINANCIALISATION OF ENTERPRISES AND SOCIAL DIALOGUE

Conducted by

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AIM OF THE STUDY

The aim of this study is to appreciate the nature and magnitude of the various impacts the financialisation of enterprises has had on employees and their representatives, in particular with regard to social dialogue and power relationships within enterprises.

The financialisation of enterprises has been the subject of a large number of studies that have sought to analyse the process by means of which financial activities have been given priority over the production of goods and services that create real wealth, thus causing a delinking between the respective dynamics of earned income and capital. But the relationships between financialisation and employees and their representatives still for the most part need to be explored, from the point of view of both the employees' and their representatives' capacity to understand the logics at work and of the place they wish to occupy in the process of financialisation. As there is an exploratory dimension to this study, therefore, it aims to open rather than conclude a process of reflection on this relationship.

CHOICE OF METHOD

Given the very general nature of the realities addressed in this study, it was important to evaluate those changes which have taken place within enterprises that have to do with the impact of, and other issues specific to, financialisation. This is why so much room in the analysis is given over to the most recent and most refined forms of financialisation, namely the growth in private equity funds and LBOs (leveraged buyouts), both of which have shown particular growth in France in the last few years.

The literature was reviewed for manifestations, both current and historical, of financialisation. This review made it possible to focus on the logics at work and the manner in which, they pull aside the question of the dynamics characterising the world of the employee. Moreover, studying the few works that have been written on the types of relationship that exist between the growing financialisation of enterprises and the world of employees highlights the difficulty of apprehending the situation.

As the diversity of situations and the constantly changing makeup of corporate groups make it difficult to show causalities using figures, we decided to conduct a field study. This took two complementary forms:

- Semi-directive interviews with CFDT members from a dozen enterprises taking part in the social dialogue, either within staff representative bodies or as union representatives
- A study of the capitalisation of enterprises that had undergone LBOs, carried out by 22 centres of expertise.

SAMPLE

The composition of the panel of enterprises, which were selected from Syndex's mission portfolio, was decided jointly with the body commissioning the study. For the interviews, the enterprises (12) were selected on the basis of the following:

- A perception on the part of the experts on the workers' council of a high level of financialisation,
- Diversity of types of shareholding, (*public equity, private equity, family capital*),
- Representation of different sectors and sub-sectors *(chemicals (2), metallurgy (7) (microelectronics, automobile, aeronautical, mechanical engineering, electronic components, etc.), services (2), health and social (1))*, including, in particular, activities related to public services,
- Variety of size of enterprise, both in the absolute sense and from the point of view of the interlocutor (group or establishment).

I – The motives for financialisation

Easy access to credit, increased debt, use of financial «innovations» in the search for ever higher yields without the usually associated risks… The current financial crisis is highly revealing with regard to the contradictions that result from the logics employed by a finance sector - which has truly earned the name of "industry" - in an environment where increasingly less heed is paid to public regulations.

1. Markets that have become regulators

The globalisation that has taken place over the last thirty years, and which was initially orchestrated by individual states, has resulted in a profound transformation of financial systems. The development of the financial markets has thus been a meeting point of, on the one hand, demand for capital linked to the need to finance public deficits and, on the other, supply, in the form of the increased power of the institutional investors benefiting from payroll savings linked to the financing of pensions and social protection.

The increased power of the financial markets has manifested itself differently in the various countries of the West. Studies of the characteristics of financialisation in France in recent years show evidence of a more marked rapprochement between the financing of our economy and that of the Anglo-Saxon countries than in the countries of continental Europe or in Japan.

2. The structure of this finance "industry"

There has been a definite increase in the share of market finance, and at the same time new types of intermediation have been developed in terms of the raising and investing of capital. It is thus ***an entire system*** which, by combining the various financial intermediaries, collects, manages, analyses, sells, advises and remunerates.

Those involved in the amassing of funds, such as the pension funds, the insurance companies and the investment funds, can delegate the management of their funds to managers (asset management companies), who act directly in the financial markets and make use, in turn, of brokers.

But fund management can also take place on the margins of the financial markets, under the aegis of capital investment groups, or *private equity*, players who are «the ultimate» in the world of finance, but also the most controversial. These groups, the *modi operandi* of which this study has made a particular point of investigating, are distinguished both by their aptitude for circumventing regulations and the complexity of the financial transactions they enter into and which benefited also to the others players of the world of finances.

This industry is also characterised by the ***permanent adaptation of the players within it****,* as borne out by the constant and unavoidable presence of the financial organisms. Noticing the extent to which economies are now financed by the markets, the financial organisms have grown both their consulting businesses in the primary market, particularly in the areas of share issues (IPO) and mergers and acquisitions, and their management and brokering businesses in the secondary market. They have thus attained a key position at the heart of the financial system, which they have also helped to feed - by changing their loans into negotiable securities….

The «creativity» of this industry is also illustrated by **the eternal rebirth of certain of its players** – the hedge funds, for example.

Termed speculative because of the types of financial transaction to which they resort in order to increase their performance, *hedge funds* are intended to appeal to an informed clientele. In this way they escape at least some regulations. Particularly active in periods of instability, these funds have been appearing and disappearing regularly since the early nineteen-fifties.

The capacity of new players, **such as sovereign wealth funds, *to emerge*,** also requires mention.

Controlled by states, these funds are the repositories of capital coming from resources connected with raw materials (especially petroleum), balance of payments surpluses or foreign exchange reserves held by the central banks (especially of China). Their appearance was particularly noticed when they participated in the recapitalisation of the American banks.

The finance industry has considerable political power – power that is manifested in its ability to bring about successive transformations, to both modify and free itself from the economic and financial rules that existed initially and to cause the notion of "financial discipline" to be accepted as a matter of course.

3. Growth in yields and transfer of risk

Financialisation is based on logics connected with the search for ever-growing liquidity and profitability of investments. To compensate for the lack of certainty, management horizons become foreshortened, and in the interests of risk limitation certain methods of transfer, both within the financial sphere and to the productive sphere, are organised.

From being entrepreneurs harvesting the fruits, sweet or otherwise, of their investments, shareholders effectively become the recipients of annuities, or predefined incomes. Profit, understood in the broader sense, becomes nothing more than a kind of systematic, non-negotiable contractual remuneration of shareholders for making financial resources available.

II The effects on the enterprise

Various phenomena at national level, in the form of institutions, cultures and specific stories, serve as “sieves” through which the international diffusion of financialisation into enterprises is taking place. The extent to which an enterprise becomes “financialised” depends on the manner in which management adopts these financial logics. The effects of financialisation on an enterprise are thus often difficult to identify.

Analysis of interviews conducted with employee representatives revealed unanimously shared feelings of confrontation towards new operating logics that alter existing rules of engagement between the various players.

1. The enterprise, a cog in the wheels of an exogenous financial mechanism

The enterprise appears to be increasingly subject to new operating logics. Standards in share performance are defined that have no connection with the real economic world and are implemented against a background of foreshortened management horizons. Organization by business unit transforms enterprises into a simple collection of assets and progressively strips them of any autonomy in decision-making .

As a consequence, the pressure exerted on employees takes on new forms, at the same time as intensifying the logics already at work.

The policy of individualising remuneration appears to be central here, as it allows organisations to continue to function in a state of permanent understaffing - an aspect that was repeatedly highlighted during interviews.

2. Financialisation and employment: complex relations

Modification of shareholder structure does not necessarily impact on volume of employment and, inversely, employment volumes can be modified for other reasons than that of responding to the demands of financial profitability.

However, several studies conducted in western countries have provided evidence of common traits as regards the influence shareholder structure has on the management of labour: constraints brought to bear on management to slant decisions in their favour; pressures on labour connected with the foreshortening of management horizons; abandonment of mature sectors for radical innovation sectors.

3. The increased fragmentation of the collectives

Financial logic produces division between the management and the employees of an enterprise.
Greater recourse to an increasingly diverse array of statutes has led to compartmentalisation among employees. The cleavages produced in this way can be accentuated by management’s promotion of the concept of the individual employee as shareholder. Among the most «recognised» employees, the emphasis put on the individualisation of remuneration and the increase in workload provoke competition and reinforce the trend towards individualism, as well as provoking shared feelings of injustice, of lack of recognition, of exhaustion and of a loss of any sense a ”job done”.

This ultimately leads to the weakening of initially unifying feelings of belonging at the various levels within an enterprise – work collectives, site, company, group.

III. The challenges and levers for employee representatives

1. Traditional points of reference for union action called into question

Interviews conducted with employee representatives have revealed a shared feeling of confrontation towards new rules of engagement between the respective participants in the social dialogue. It is thus particularly difficult, in financialised enterprises, for employee representatives to exercise their traditional prerogatives. This difficulty is linked to the opacity of the overall financial mechanism, which stems from a distancing of the centres de decision-making and the obstacles that stand in the way of locating and getting in touch with the right contact. Added to this are the constant changes in the makeup of corporate groups and the increasingly rapid turnover of managers brought about by the foreshortening of time horizons.

The establishment of a real social dialogue is hampered by the development of policies seeking freedom from the collective. The relationship between management and employees operates on a basis of purely bilateral relations, with communication policies aimed solely at relaying financial logic.

The prerogatives of information and consultation are replaced by the diffusion of information geared exclusively to financial communication. All this conveys a vision of the enterprise reduced to the service of the shareholder (with LBOs representing the archetype of this). *Corporate governance*, driven by Anglo-Saxon institutional investors, drastically limits the role that can be played by the trade union players.

Social relations are therefore often only formal, at best. The exercise of the prerogatives of the employee representative bodies is thus in danger of becoming confined to the level of sterile conflict or renunciation.

This feeling of destabilisation expressed in the interviews can then be analysed as a calling into question of the traditional pillars of trade union action, based on the enterprise as legal entity. These new realities make it necessary to seek a new action paradigm, both within the enterprise and on more general levels.

2. Levers for trade union action

Despite the feelings of helplessness expressed during the interviews, staff representatives are of the opinion that mobilising existing rights may allow the special right to information and consultation of employee representatives to be preserved.

In this respect, France is fortunate in having consistent legislation and jurisprudence on information and consultation - which it is important to support. The new institutional configurations that have developed as a result of financialisation (non-listed companies, LBOs) call, therefore, for the reconquering of useful information for employees.

Exploiting the areas of vulnerability of the new «financialised» modes of ownership may also prove to be equally effective. The latter in fact include a multiplicity of grades and dummy corporations, but also a potentially frequent turnover of shareholders and management, which increases the complexity and instability of power plays. A sound understanding of the margins for manoeuvre of all the players is crucial. For example, there are key moments in the life of an enterprise when an action organised by staff representatives can prove to be highly effective: with LBOs, this is especially the case when they are being set up, or when the target company is being resold.

With **enterprises investing in new fields of legitimacy**, further areas of action are opened up to staff representatives**.**
Corporate social responsibility (CSR) questions the very concept of the enterprise, by promoting institutional representation that takes the interests of a plurality of players into account. Its use by enterprises in order to legitimise their activities when faced with the challenges of sustainable development begs questions on the nature and depth of this commitment, especially as the emergence of CSR is at odds with the advance of the shareholder model. The employee representative bodies thus have a role to play as promoters of an effective version of CSR

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