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**Refereed paper**

# Whose voice gets heard?

## Shareholder Value vs. Stakeholder Value in International Modern Public Corporations

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# Whose voice gets heard?

## Shareholder Value vs. Stakeholder Value in International Modern Public Corporations


## Abstract

This paper examines the shareholder value orientation of modern public corporations and argues that employees as well as shareholders need voice. As firms increasingly operate on a worldwide basis, they tend to play out different locations against each other leading to an imbalance in the role of different stakeholder groups. Well-established co-determination mechanisms in countries like Germany are challenged by the threat of relocation of corporate activities to other countries and work relationships are changing from long-term to short-term perspectives. The aim of this paper is to analyse internationally operating modern public corporations from an agency theory point of view with the focus on the role of shareholders, managers and employees. The economic reasoning shows that the employees' voice from a strategic perspective should be listened to also in institutional environments that do not force firms to do so.



***Keywords:*** Shareholder, Stakeholder, Internationalisation, Employee Rights, Agency Theory

## 1 INTRODUCTION: INTERNATIONALISATION AND STAKEHOLDER RELATIONS IN PUBLIC CORPORATIONS

Internationalisation and globalisation need to be taken into account when contemplating modern business relations (e.g., Jones, 2005). Employee career and employment structure has changed while most Western countries have experienced a decline in traditional blue collar jobs over the last two decades. Concomitantly, the membership of trade unions has declined (Child & Rodrigues, 2004). However, higher skilled knowledge workers also face the prospects of relocation with the possibility of job loss, e.g. Fujitsu established an IT service centre in Bangalore and IBM India acts as a major outsourcing partner for other firms helping them with relocating activities to India.[*] This is an interesting development since blue collar workers have been much better represented traditionally by unions than knowledge workers. Knowledge workers are those who have been argued to contribute to the realisation of much of the competitive advantage of firms today. Drucker (2001:8) goes as far as to postulate " [..] that knowledge workers collectively own the means of production."

Sophisticated communication, transportation, and computing technologies create within firms multifaceted organisational relations and consequently both shareholder and stakeholder relations become more complex. The paper analyses the question of whether employees as a stakeholder group are to be taken into consideration from an economic perspective or if a pure shareholder orientation is sufficient. This research question reflects the importance the shareholder perspective has recently gained in practice as well as in research (e.g., Deakin, 2005).

[*] See http://www.channeltimes.com/channeltimes/jsp/article.jsp?article_id=69834&cat_id=741 and http://www.ibm.com/ibm/in/accessed 23-02-06.

Long-term employment being the norm in countries like Germany has transformed to relatively short-term employment. Employee responses include less loyalty and trust as well as a preference to dedicate human capital to general tasks that are not firm-specific to ensure the mobility of their skills in an increasingly insecure workplace (e.g., Pfeffer, 2005a and 2005b; Galunic & Anderson, 2000). The Anglo-Saxon countries such as the U.S and Australia belong to the countries with the lowest fraction of employees with more than ten years of tenure in a firm. The longest tenures can still be observed in Japan with an average tenure of 11.3 years, while Germany takes an average position in Europe with 9.7 years of average tenure. Australia in comparison has an average tenure of 6.4 years (OECD, 1997).

The tendency towards shorter term tenures in a firm is confirmed by research on psychological contracts. Psychological contracts include the implicit arrangements about what employers and employees can expect from each other and about their respective obligations (Rousseau & Schalk, 2000; Tyson & York, 2000). Rousseau (1990) has identified two types of psychological contracts that differ significantly from each other: the relational and the transactional contract. The relational contract regards the exchange of job security for loyalty and is characterized by rather traditional career expectations implying a vertical career track within one company. The transactional contract is based on an exchange between employability and flexibility. Employees holding this type of contract focus on personal skill development because they want to increase their attractiveness on the external labour market.

Current employer-employee relations can be characterized by a shift from a relational contract to a transactional contract (Mirvis & Hall, 1996). In the U.S. this trend emerged over the past decades. The relationship between employers and employees here become more distant, transactional and has largely been coordinated via the market (Cappelli, 1999). Since firms in

Western Europe as well as in Japan are oriented more and more towards 'the American way' of generating competitive advantages a similar development towards more distant and transactional employment relations in these countries has emerged (Pfeffer, 2005b). Rosenbaum and Miller call this development 'the end of the company man'. While the company man moved up the company ladder, the new generation of employees is mobile and climbs the ladders they can access (Rosenbaum & Miller, 1996; Nicholson, 1996; Rousseau, 1990) and can be seen as a 'free agent' (Pfeffer, 2005b). Thus, firms lose one of their most valuable and distinguishing resources - firm-specific human capital. These problems emerged in the 1980s when downsizing, restructuring and outsourcing cost many jobs in Western countries.

Employment security has substantially decreased since then. These developments in job markets led Shleifer and Summers (1988) to suggest the 'breach of trust' hypothesis. In psychological contract research, the term used is the 'violated psychological contract' (Robinson & Rousseau, 1994). Employers broke implicit contracts with employees who had been willing to invest in firm-specific human capital. Firm-specific qualifications were considered less valuable on the external than the firm-internal labour market. Thus, employees were only willing to invest in such skills and capabilities if their investment was rewarded, e.g. in the form of job security (Child & Rodrigues, 2004).

An increasingly neo-liberal thinking framework gave way to greater orientation towards the external principals, i.e. the shareholders, thereby neglecting the relationship towards the employees (Child & Rodrigues, 2004). However, valuable resources and capabilities lie inside the firm (e.g. Barney, 1991; Grant, 1991; Peteraf, 1993 and Eisenhardt & Martin, 2000). Distinct human resources in this context are seen as very valuable for gaining competitive advantages (e.g. Cappelli & Crocker-Hefter, 1996). Even in the traditionally stakeholder-oriented

German labour market a more shareholder-oriented thinking framework has emerged. Flexibility is regarded as the solution for the stagnation of the employment market however, the consequences of greater flexibility are usually not job creation but rather a streamlining of firms through workforce downsizing often in the name of shareholder value creation.

The relevant issue is whether these new flexibility measures genuinely lead to firm success. Porter (1996) poses the question of whether this is really strategy or whether it is aimed merely at operational effectiveness in an increasingly competitive market where increased numbers of competitors seek to gain a share of a relatively static market. Such a situation would (in the long run) be neither advantageous for the employees nor the shareholders (at least for those who are investors and not speculators). Only those firms that are able to establish the reputation of being fair employers in the long-run will have access to the most talented people and also can convince employees (on all levels) to build firm-specific human capital (Cappelli, 1999; Child & Rodrigues, 2004). Research has shown that the efficient organization of firm-specific human capital requires long-term employment relationships, which have been suggested by Williamson (1984) using the term of the ‘relational team’ for this type of internal labour market being characterized by a high degree of uncertainty. Such long-term relationships may be more beneficial to different types of firms under different circumstances and to varying degrees.

Cappelli and Crocker-Hefter (1996) suggest that firms that want to realise first mover advantages by attacking new markets or by responding quickly to changing preferences of customers need to be flexible. They typically gain this flexibility by not developing competencies of employees within the firm but by taking these competencies from the external labour market and strongly rely on individual performance. On the other hand side there are firms that main-

tain stable market niches. These players rely on developing firm-specific human capital to gain and sustain competitive advantage. This aspect bears relevance for the chain of arguments presented here by embedding it into a certain firm and market context. At all times there have been employers that cared more about their employees and had a closer relationship withthem than others and reasons for that may lie in the different strategic orientations of these firms as outlined above. However, what is concerning today is that an overall trend can be observed for less closeness and less caring of employers for their employees not only in the U.S. but also in Western Europe and Japan and over various industries, including knowledge industries, with the consequence that job satisfaction, employee engagement as well as trust in management are declining (Pfeffer, 2005b).

## 2 PRINCIPALS AND AGENTS AS RELEVANT STAKEHOLDERS

Stakeholders are "[…] persons or groups with legitimate interest in procedure and/or substantive aspects of corporate activity" (Donaldson & Preston, 1995: 67). Stakeholders that may be taken into account can be employees, customers, suppliers and creditors as well as groups with a non-economic relationship to the firm such as environmentalists (Culpan & Trussel, 2005). In this paper the focus however lies on employees as one relevant stakeholder group. Some authors see ethical reasons as the essence of the responsibility of firms towards employees (e.g., Cuplan & Trussel, 2005; Shankman 1999). We want to add an economic reasoning for this responsibility and discuss strategic consequences.

Principal agent theory (e.g., Jensen & Meckling, 1976) sets its focus on the contracted relationship between principals and agents. In the case of international public corporations there is a variety of different principal agent relationships to be analysed. Representative of these are the relationship between the shareholders (principals) and the management (agents) as

well as the relationship between the management (principals) and the employees (agents). It is argued that the "[…] underlying mechanism with which this relationship is articulated is in terms of a contract between the principal and the agent; thus, the firm is seen as a nexus of contracts between principals and agents" (Shankman, 1999:320). Agency theory postulates that information asymmetry leads to situations of opportunistic agent behaviour. In the analyses of the relationships between shareholders (principals), managers (agents as well as principals) and employees (agents) often the impression is created that only managers or employees (as agents) potentially behave opportunistically. We argue that opportunistic behaviour is not necessarily limited to these actors. Shareholders also may act opportunistically, thereby harming the firm, other shareholders as well as managers and employees.

Agency theory usually casts the principal as the 'good guy' while agents are (at least potentially) 'bad guys'. Thus a need may arise to prevent the possibility of opportunistic agent behaviour by managers such as consumption on the job, empire building and uneconomic diversifications. In a shareholder-oriented framework the shareholder is seen as the owner and therefore the objective is maximising the shareholder (owner) value with little regard to the impact on other stakeholders. However, owners not only have rights but also obligations and shareholders differ from traditional owners in terms of having no reserve liability and are removed from both direct involvement and attachment to the organisations they own. Direct involvement in running of a company is interceded by management while the method of purchasing most shares through an open share market intermediary creates even further remoteness between shareholder and company.

The general obligations of owners should be taken into account in the field of corporate governance to also include shareholder responsibilities on the agenda along with those of man-

agement (Warren, 2002: 14) and other employees. Warren (2002) illustrates this by examining the asbestos crisis and the firm, Turner and Newall. He outlines that for many years not only managers but also shareholders clearly knew more about the consequences of asbestos use than they admitted, yet both failed to act to protect employees. In a similar case in Australia it was found that James Hardie Industries may have sought to protect itself from nearly A$2 billion of asbestosis victims' claims through creating subsidiaries and moving its major assets and operations off-shore – an action not substantially opposed by shareholders anxious to protect their capital investment. The actions of interested employee groups and unions ultimately achieved compensation for victims. In the cases of both Turner and Newall and James Hardie, it became obvious how difficult it is in a public corporation to hold shareholders responsible for such consequences. Many shareholders only invest in the firm for a certain time period and many have only a minor stake and therefore may not feel morally responsible.

The implications of shareholders protected by limitations to their financial liability that are applicable to investors in public companies also have to be considered. Shareholders may also be implicated in the highlighted agency problem as they can argue that management had not provided all relevant information and that management was better informed than the shareholders as they work in the business on a day-by-day basis. If shareholders in public companies do not assume the duties as well as the rights of owners then they can only partly be considered as owners.

When putting forward the argument that the relevant purpose of firms lies in maximising shareholder value by selling products and therefore other stakeholders should stay in the background (e.g., Sternberg, 1992), economic counter-arguments can be given. It is not only the ethical perspective that favours integrating other stakeholders. In the liberal framework a

firm has the purpose to maximise its value for the owners, i.e. the shareholders. This leads to the following: "The shareholders are [..] entitled to hold the company to account. Employees are accountable to the company. The shareholders are not, however, accountable to the company nor to its employees." (Warren, 2002: 15). Further, as outlined before, shareholders are a diverse group that in relevant aspects is different from what traditionally is understood as an owner.

Some shareholders adopt a long-term investment position and have a long-term view with regard to the firm's success. However, there are also speculators interested in short-term profits. In contrast, private firm owners are forced to adopt a longer-term perspective. The reason for these problems is the high level of goodwill tied up in the idiosyncratic experience and knowledge of owner-operators in successful private businesses. These relevant resources can usually only be acquired in a learning-by-doing process and are hard to be evaluated from outside thus making the exit option difficult (Royer et al. 2006).

The more it can be spoken of controlling investors the more we come back to the shareholder in the traditional sense of the owner in terms of their influence on decisions. However, this interpretation only takes one side of the equation into consideration. With shareholders that hold a dominant share in a firm the mentioned agency problems between shareholders and management decrease since such shareholders are highly motivated to effectively control management. On the other hand these shareholders can much more easily make use of their exit option than an owner of a family business. Exercising their exit option when their holding is large consequently leads to a decline in share price that is ultimately harmful to the welfare of the firm. However, shareholders at least have a market where shares can be voluntarily traded until firm insolvency. The voluntary aspect is removed for employees who have in-

vested in firm specific knowledge capital and whose jobs may be at risk through no influence of their own.

Regarding the different kinds of shareholders, Charkham and Simpson (1999) suggest that it should be differentiated regarding the obligations of these different groups by making an analogy to tax systems where those who earn more have to pay more taxes. Family business owners are usually as dependent on the success of their firm as the employees as bearers of firm-specific human capital. In this situation the argument that the businesses' purpose lies in maximising the long-term value for the owners makes sense and leaves room for responsibility of the owners towards other stakeholders, especially the employees. Shareholders are far from being owners in the traditional sense.

Looking at firms in business it becomes clear that their performance depends on different input suppliers that contribute different assets to create complex resource bundles that should form the basis of (sustainable) competitive advantage (Grant, 1991). The total outcome of the firm activities, however, cannot be exactly known in that it is not possible to grant every input supplier a certain reward for the effort. At least one of the actors has to accept the residual as reward. The residual is the risk that cannot be contractually covered. Shareholders are those that primarily deal with the residual risk. Those who bear the residual risk quasi insure the other stakeholders against economic risks resulting from incomplete information as well as incomplete contracts. In public corporations this risk often is shared by many shareholders who own small portions of the total share capital.

From this perspective the relationship between the shareholders and the internal stakeholders can be seen as a relationship between insurer and insured (Picot et al., 2005). Insurers need to

establish mechanisms to protect themselves against those who are insured and who may try to opportunistically exploit the insurance company by committing insurance fraud. However, insurers may also behave opportunistically in a way that maximises profit through preventing the insured from receiving their legitimate entitlements. Thus in most countries insurance control is in place to prevent opportunistic behaviour of the insurers. When interpreting the relationship between shareholders and internal stakeholders as an insurance relationship some sort of insurance control becomes necessary (Picot et al., 2005).

Payment reductions, shortening of social benefits or lay-offs often stem from reasons unrelated to the efforts of the employees. They may reflect strategies to opportunistically exploit a firm by the insurers (i.e. the shareholders). Thus, not only shareholders need protection against managers and other input suppliers, who have incentives to commit insurance fraud by claiming that bad performance was due to accident or random events. At the same time managers and other suppliers need protection against shareholders (i.e. the insurers) who have incentives to ex post try to not fulfil their insurance function (Blair, 1995 and 1996).

Blair (1995 and 1996) shows that other parties can also make investments in a public corporation that are similarly under risk as share capital: Employees invest in specific human capital such as skills, capabilities, routines and personal relationships that are specifically dedicated to the firm. The longer an employee is with a company the higher is his or her amount of firm-specific knowledge and this knowledge contributes to the added value of a firm generated through productive activities (Blair1996). In return, employees receive their share of the value added in the form of higher payments (i.e. a compensation for their investment in firm-specific human capital).

Shareholders only appear to be the sole bearers of residual risk because salaries and wages are deducted in the balance sheet before profits are established. Employees also can be regarded as residual risk bearers. This becomes obvious when firms are in an economic crisis. In such situations claims for payments from employees are treated very differently from claims of for example, secured creditors that can be contractually and legally accomplished. In times of economic crisis employees are often willing to sacrifice parts of their wages as well as other benefits to not lose their jobs (and specific investments), yet run a greater risk of never receiving compensation in the event of corporate collapse. For example, the collapse of Ansett Airlines in Australia can be cited here, where for some time employees did not receive their salary and superannuation entitlements until a 'rescue package' was provided by the Australian government. Contracts that protect specific investments of employees are therefore incomplete.

Following this line of argument, salary increases of employees are in direct competition with profit increases for shareholders. Employees are not able to protect their organisational-specific investments in human capital by exit or retreat. Therefore employees need voice. Only if they are able to achieve a voice will they, in the long-term, be prepared to act as investors in human capital (see Hirschman, 1970, with regard to the general exit-voice problem; see e.g. Luchak, 2003 for further analyses of Hirschman's framework). Shareholders exactly for these reasons have both voice as well as an exit option (even though the latter may involve the partial loss of invested capital). Furthermore shareholders are generally compensated to some degree for their losses through the taxation system. Thus, corporate governance systems should consider a fairer distribution of reward between human capitalists and share capitalists for the value-adding each generates. Not all interest groups from society can be given a say in the business activities of public corporations. Only those who bear residual rights and cannot

protect their specific investment by exiting the relationship are from an economic viewpoint eligible to obtain voice. The objective should be to create a balanced power constellation between protection-less groups that fulfil these criteria (Picot et al., 2005; Warren, 2002).

# 3 RETHINKING AGENCY RELATIONS BETWEEN STAKEHOLDERS IN THE CONTEXT OF GLOBALLY OPERATING FIRMS

There is a need to reassess the complex agency relationship between shareholders, managers and employees. Shareholders are usually conceptualised as owners but rather act as insurers. Shareholders are principals with regard to the management of the firm. There is sufficient evidence to suggest that managers as agents may make use of the information asymmetries between them and the shareholders and opportunistically act in their own favour (e.g., Baumol, 1959; Williamson, 1963 & 1964). If shareholders are seen as owners, then they should share the obligations ownership implies. However, if the only option for shareholders to effectively protest against firm policy lies in selling the shares, company democracy seems unrealistic (Warren, 2002). If shareholders are seen as insurers, those who are insured need protection. If such protection is not in place the insurer may not meet its obligations when needed. The insurer also may act opportunistically, by not taking the insured into account and not considering other shareholders in the same position.

The employees just as the shareholders invest in the firm by attaching their specific human capital to a particular firm. In contrast to shareholders (share capitalists) who usually invest in multiple public corporations, employees (human capitalists) invest significant amounts of their human assets to one business. These specific investments limit the employee mobility on the external labour market. Empirical studies show that employees who have to find a new job after a layoff in the external labour market on average lose between 15 and 20 per cent of

payment as well as the value of benefits that are not transferred from the old to the new workplace (Osterman, 1999; Topel, 1991). In the strategic management literature usually only senior managerial employees are seen as critical resources, i.e. the core workforce that has to be bound to the firm (Godard & Delaney, 2000). We argue this is a limited view as most employees remaining in a certain firm for a longer time period accumulate firm-specific relevant knowledge (Kullak, 1995). On all levels people become accustomed to the organisational structure, know the formal but especially informal communication channels and may develop loyalty to their employer.

In summary, it is regarded as important that the complex relationships between the different stakeholders are more balanced when firm-specific human capital is regarded as valuable. Not only shareholders and managers but also employees need voice to defend their investments in specific human capital against devaluation. Since employees are not very concentrated it is relevant for this group to organise in some way to gain power compared to that held by other stakeholder groups. It is further argued that the traditional principal-agent framework in the context of shareholder-manager-employee relations should be adapted. Next to the traditionally focused principal agent relationships between shareholders and managers as well as between managers and employees, it is argued that shareholders are more similar to insurers than to owners. However, there is a need to control these insurers as they may act opportunistically to the detriment of other stakeholders. With regard to the relationship between managers and owners it has also been outlined that not only employees behave opportunistically, but so too do the managers as well as the shareholders. Further, the focus should be less on opportunistic actors as such and more on the possibilities to create a transaction atmosphere characterised by trust and fairness that prevents opportunism from the start by creating common goals for employers and employees as well as shareholders.

It can be concluded that long-term employees who invest in firm-specific human capital, are investors in the firm and may contribute significantly to value generation. While it has been established that shareholders are bearers of residual risk, employees also bear substantial residual risk by building firm-specific human capital and being vulnerable to corporate collapse not associated with their own activities. Employees, therefore, differ from other stakeholders such as creditors or suppliers as they invest emotional and human capital in the employer company. Therefore, employees can be characterised as hybrid stakeholders, partly residual risk bearers and partly input suppliers.

Even though some authors argue that shareholder and stakeholder value orientation in the long-run lead to the same results (e.g., Albach, 2001) it seems that the short-time orientation on maximising shareholder value is able to harm employee interests to a relevant degree. To optimise shareholder value, firms have employed a number of strategies to ensure their competitiveness and profitability in the global environment. Strategies have included the expansion of operations into the international arena and establishing strong links with global firms through those firm's supply chains (Waterhouse et al., 2004). Both these strategies have inevitably resulted in changes to the employment relationship. The recent documentary "Is Wal-Mart Good for America?" highlighted the effect that international competitiveness has, not just on the firm choosing to expand globally, but on those firms in the supply chain. Forced to compete with cheap imports for Wal-Mart's business, American manufacturers have themselves moved their operations offshore to take advantage of cheaper labour, primarily, in China. The result has been major job losses in the United States along with the loss of specific human capital on all levels (in different locations). While shareholder value increases, the (long-term) outcome is detrimental to other stakeholders, namely, employees.

The outlined economic reasoning suggests that all stakeholders bearing parts of the residual risk should be given voice as neither chief executives nor senior management are able to have a total view of their firms. Not even the best monitoring systems can solve this problem of information asymmetry (Child & Rodrigues, 2004). Furthermore, new organisational forms and fluid labour markets in the context of global firm activities have decreased the opportunities for employee monitoring by management. Employees with 'voice' can contribute to the reduction of the information asymmetry on the national and international level.

Internationalising firms enter new terrain where they are not forced into country-specific institutional contexts of work relations but can choose the location(s) with the lowest level of employee rights (no voice for the employees in the extreme case). A top management measured by short-term financial performance of firm activities has a motivation to do exactly this. In the pre-globalisation era firms rather had to act in a given country context. Now they can choose this context actively with the consequence that the basis for a long-term balance between employees (human capitalists) as one relevant stakeholder group and share capitalists as well as top management (human capitalists) changes massively.

In an environment of a decline in loyalty on the part of both management and employees, the principal-agent relationship between these stakeholders becomes more tenuous. The opportunity to achieve voice, particularly for employees, is diminished due to shorter term employment relationships and increased job insecurity. Investment of human capital by individual employees may diminish under these circumstances, while simultaneously the moral obligations of management to their employees may decline. The result may be less than optimal outcomes for shareholders as their management agents lose the ability to attract and retain the

organisation's main competitive advantage. Recent corporate collapses (e.g. Enron in the United States and One-Tel and Ansett in Australia) continue to demonstrate the vulnerability of employees in their agency arrangements and the need for voice.

In many industrialised countries such as Germany different institutions supported a work environment in which the voice of the human capitalists has to be taken into account (work councils, co-determination legislation). These institutions usually have not developed on behalf of the firms. However, the following chain of arguments can be built: When exploring the German work council construct it is significant to note that the single business has no initial incentive to implement a work council as it makes employment relations more complicated and does usually not lead to short-term increases in performance. However, when forced to install a work council, in the long run performance increases can be observed since a protected work environment has positive impact on the motivation of the workforce (Waterhouse et al., 2004). Dilger (2003) shows empirical evidence that German work councils can be regarded as efficient since they are valuable for employees and do not harm employer interests as long as these actively cooperate. For the Japanese context Okazaki (2006) shows evidence that 'sanpo' has a positive impact on efficiency and acts as an institution that prevents labour disputes. In Japan 'sanpo' (sangyo hukokukai) was introduced to build an organisation where employers and employees within the firm meet and communicate in order to moderate labour relations. Pfeffer (2005b) suggests that close relations between employers and employees ("communal-like relations") presumably lead to a higher motivation of employees and increased organisational performance.

Management uses work councils as a communication channel to the employees that establishes a flow of information top-down and bottom-up. This constant ("forced") flow of infor-

mation, gives workers a very good picture of their firm's situation. Consequently, workers do not automatically question all management claims but are able to differentiate. Thus, the work council structure leads to less aggressive behaviour of workers in times of economic downturn, leading to an increase in flexibility advantageous for both parties. Furthermore, because the stakeholders are forced to consult with each other a platform of sharing knowledge about the firm can result. Finally, the right to participate with regard to firm decisions leads to more security for the human capitalists, resulting in a longer-run perspective on the employees' side (for an overview of these impacts see e.g., Addison et al., 2001, Waterhouse et al., 2004).

The implications of institutions formed to represent employees' interests may well have a positive impact in the long run for the employers. As long as firms are "forced to their luck" this system works. However, with increasing globalisation and corporate internationalisation, firms can choose between different locations with different legislation and workplace institutions. If now they can prevent to be "forced to their luck" by leaving certain countries and trying to create a competition between the employees in different locations they may lose a valuable resource in the longer term. By bringing more location options for firms into the game the voice of employees is less important. Cost savings are possible in the short term however losing competitive advantage may be the long-term effect.

It has to be discussed for which firms in which contexts the above chain of arguments is especially relevant. In this context it may be helpful to differentiate between rather stable and very dynamic markets and between firms with different strategic directions. Bingley and Westergaard-Nielsen (2003) suggest that more tenure-heterogeneity between firms may be an indicator for a split up of the labour market into one part with the need for firm-specific human capital to realise sustainable competitive advantage and another part that relies on flexibility

and therefore cannot afford long-term contracts with employees. Thus it may be relevant to distinguish between different environments in which firms compete. As suggested from a dynamic capabilities perspective it can be differentiated between moderately dynamic and very dynamic (or high velocity) markets (Eisenhardt & Martin, 2001). While Eisenhardt and Martin (2001) characterise moderately dynamic markets by a stable industry structure, defined boundaries, clear business models and identifiable players as well as linear and predictable change, they see an ambiguous industry structure, blurred boundaries, fluid business models, ambiguous and shifting players as well as nonlinear and unpredictable change in high velocity markets.

While in rather stable markets firm-specific human capital seems to play a dominant role this is less the case in very dynamic markets. Henderson, Miller and Hambrick (2006) for example find that firm-level performance improved steadily in stable markets such as the branded food industry with the tenure of CEOs. For dynamic markets such as the computer industry they however came to the conclusion that CEOs were best when they first started their jobs and that firm performance declined steadily across their tenure.

From this reasoning it may be concluded that there are relevant firm contexts that ask for the establishment of firm-specific human capital more than others. Firm-specific human capital for these actors plays the central role regarding the generation of sustainable competitive advantage. Especially for these firms a short-sighted shareholder value orientation is dangerous. To secure success in the long-run these organisations have to bind the human resources to the firm and motivate employees to invest in firm-specific human capital. These organisations presumably benefit a lot from giving voice to the employees. Figure 1 summarises the suggested relations between the relevant actors.

--------------------------------------Insert Figure 1 about here-----------------------------------------

## 4 CONCLUSION

This paper has argued that employees as well as shareholders need voice. A core strength of successful companies in many environments lies in firm-specific human capital. Firms building on this strength by committing to their employees in the long-run traditionally formed one of the backbones of the German economy. The increasing focus on a pure shareholder value approach drives firms to risk losing this strength, which we argue, in the long-run is not something shareholders in the sense of long-term investors will profit from.

As more firms operate on a worldwide basis and use different locations against each other the former balanced situations became imbalanced. Well-established co-determination mechanisms in countries like Germany are challenged by the realistic threat of relocation of corporate activities. The consequences of this are twofold: (1) Firms actually relocate parts to other countries (where employees have less voice), making those employees with voice redundant; and (2) the balance inside a country is challenged since firms are able to hold up against employees that they will relocate as soon as the employees raise their voice in a way not congruent with a firm's (short-term-oriented) view leading to a situation with employees with no voice as well. Both consequences have negative impact on employees already in the short run. However, our reasoning suggests that they are also negative for the competitive strength of the firms in the medium to long run.

Building on the results of this paper, the next step should be an intense case study analysis of how successful firms in different industry environments integrate their workforce in the reali-

sation of competitive advantage. Table 1 gives an introductory overview of German public corporation that are to be further analysed with regard to this objective. The table is structured along four of the six dimensions that Jeffrey Pfeffer (2005b) uses to characterise the degree to which organisations are communities.

---------------------------------------Insert Table 1 about here-----------------------------------------

One further avenue to be researched in this context would be the exploration of cases where employees become shareholders in the company through either open market operations or staff share schemes (Child & Rodrigues, 2004). However, a double-threat also exists in that employees not only invest their human capital but also their financial capital in a public company over which they may have little control regarding performance.

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**Figure 1: Relations between Shareholders and Stakeholders**

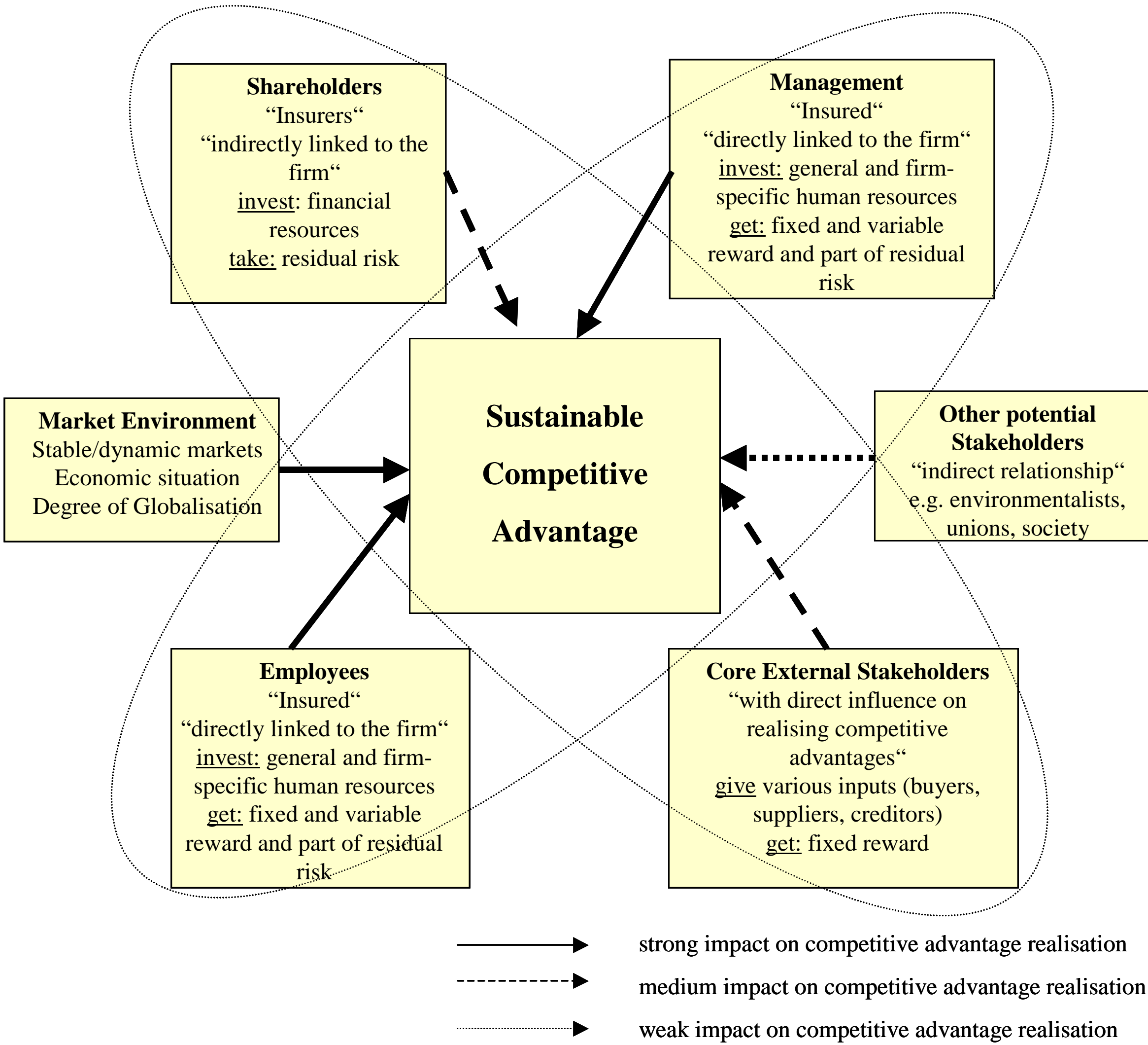

**Table 1: Selected German Firms and Dimensions of Community Organisations**

| Firm (Industry) | Employees Benefits and Assistance | Companies Sponsored Social Events | Resolving Work-Family Issues | Long-term Employment |
|---|---|---|---|---|
| **Weleda AG** (Cosmetics, Pharmaceuticals) | Qualification programs | Diverse activities to protect the nature | Child care, generation network, flexible working times (concept of trust-based working time). | **n.a.** |
| **BASF AG** (Chemical) | Education and qualification programs; social benefits; pensions; individual share of firm success; health management; optional share programs and heath insurance | Education initiatives for children; various cultural and sport activities; activities for environmental protection | Individual part-time work, child care | **n.a.** |
| **Linde AG** (Gas, Engineering & Material Handling) | Education and qualification programs; virtual 'Linde-University'; bonus system for suggested improvements, innovation awards; pension insurance; healthcare programs; junior circles | Scholarships and support for non-German students; various local activities; activities for environmental protection; support for vocational training and education (Carlvon Linde Akademie, Carl von Linde Foundation, Dr. –Friedrich-Linde Foundation) | Improvement of family friendliness is fostered; idea of work-balance is acknowledged. | In 2004 the average tenure with Linde Germany was 16.1 years. |
| **SAP AG** (Software, IT Services) | Education and qualification programs; awards for excellent ideas; Stock Appreciation Rights-Program (STAR), Long-Term-Incentive-Plan (LTI), Stock Option Program (SOP); pension and risk insurance; healthcare programs; diverse recreation facilities; free lunch for all staff | SAP University Alliances Program; FIRST LEGO League Competition; various local activities (focus on education, innovation and governance); SAP CUP (Soccer tournament for employees) | Childcare ('SAP Babyplace'); possibility to exchange parts of salary for time | In 2005 the average tenure with SAP AG was 5 years. |

Source: Dimensions adapted from Pfeffer (2005b): 37; web pages of mentioned firms.