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Private Equity Investments and Labour: Current trends and challenges of trade unions

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The 2008 global economic crisis revealed how deeply the social life of the working class has been affected by deregulated finance. In this setting, the impact of private equity funds on working conditions has been attracting lots of attention since private equity funds - such as Blackstone, Carlyle Group or Texas Pacific Group - have been responsible for the employment standards of tens of millions of workers. Truly, as workers are confronted with over US $ 1-trillion in worldwide concentrated private equity buyout power, the relevance of private equity funds is outstanding in an analysis of the perspectives of mergers & acquisitions, employment and organised labour.

The new employers and the rationalisation strategies

This scenario has consolidated the work of new social actors: the fund managers of the private equity funds. Fund managers' services include fund raising, financial statement analysis, company selection, restructuring implementation and ongoing monitoring of investments. Fund managers centralise endowments from investors, such as financial institutions, institutional investors - also pension funds - and high net worth individuals, among others, in order to assume key roles in acquisitions of high profit potential.

In this financial and productive setup, capital has turned out to be faceless. In relation to the questions "Where does capital reproduction happen to be?", "How does capital reproduce itself?" and "Who is benefiting from the capital reproduction process?", the answers rely on the fund managers' actions that attract the owners of capital to specific business. These investors have been attracted by fund managers who do not only promise high short-term profits but also offer the incentive of seductive "irresponsibility" toward the portfolio companies. The fund managers assume full responsibility over the business and, thus, they have autonomy to implement any kind of operational and financial restructuring strategy. The real target of the fund managers is to sell the companies within ten years after the acquisition.

In fact, in the United States and many European countries, the behaviour of fund managers, entirely premised on profit targets aimed to increase short-term cash flow, have increased workers' exploitation. Beyond the "rationalisation" strategies, social conflicts and tensions are strengthened as restructuring actions reshape the control on workers and increase staff turnover, outsourcing and casual work. Under the fund managers' pressure, the portfolio companies turn out to be subordinated to narrow economic efficiency targets that shape employment relations for the worse. Workforce displacement and loss of rights are also part of the spectrum of management policies aimed at cost reduction. The challenges to the employment conditions that have been negotiated by trade unions through collective bargaining reveal the emergence of private equity funds as major "invisible" transnational employers. In fact, this "faceless capital" configures new employment relations and increases pressure on organised labour.

Private equity short-term returns and exit strategies have increased the challenges on collective bargaining power because of the accelerated cost-cutting through layoffs, closures, outsourcing and further reductions in productive investment. In this setting, the Global Unions have reported that private equity firms, mainly buyouts, have been threatening employment, working conditions and workers' rights through their financial strategies (IUF, 2007).

Global Unions' agenda

Global Unions have been mobilising against the business model of the private equity funds that poses risks not only to the sustainability of productive investment and employment in domestic markets but also to the stability of the international financial system. This attempt has included joint efforts and activities with the International Union of Food, Agricultural, Hotel Restaurant, Catering, Tobacco and Allied Workers´ Association (IUF) and Union Network International (UNI), as well as cooperation with the Trade Union Advisory Committee (TUAC) and the International Trade Union Confederation

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(ITUC), and International Metalworkers' Federation, among others.

Global Unions have been defending the view that the re-regulation agenda could promote long-term productive investment growth, employment creation based on the decent work agenda, employment security and protection of trade unions' rights (IUF, 2007). To achieve this, the following workers' rights should be secured: collective bargaining, information, consultation and representation within the workplace; trade union representatives should be informed about the capitalisation and debt structure of the buyout deals and who the ultimate investors are; additional government protection for workers affected by private equity takeovers – this could follow from the recent steps taken to uphold the employer responsibilities of private equity firms (ITUC, 2007).

In addition, Global Unions defend the view that regulatory reforms should address transparency to guarantee full access to audited financial accounts, particularly disclosing:

- characteristics of debt contracts (total amount, types and maturities, rates and schedules):
- restrictions on assuming more debt and the identity of the lenders/holders of the debt securities if they are not publicly traded:
- analysis of earnings (debt to earnings ratios, dividends to earnings ratios; special dividends financed through additional debt, fees);
- business plan guidelines (exit strategy, plans for selloffs/closures, management of cash flows, financial assets);
- investments in plants, equipment and research;
- labour conditions strategies (employment methods, training, pension funds/retirement benefits and negotiations with unions).

Regulatory reforms should also enforce changes in tax regulation to cover private equity regimes so that tax systems are not biased toward short-term investor behaviour. The regulatory Global Union agenda also includes the revision of corporate governance frameworks to include unlisted companies. Such regulation could include the following: measures to discourage short-termism: greater transparency and public reporting requirements; more supervision by public authorities; limits to debt; changes in taxation of capital gains; and ensuring that private equity funds comply with all relevant employer obligations (ITUC, 2007).

According to suggestions from the Global Unions, it is also important to address regulatory changes to enhance the stability of the international financial system. This proposal reveals a strong concern about the risks that private equity funds, mainly buyouts, pose to the sustainable growth of national economies in the global economy.

Conclusion

According to the ITUC (2007), "(o)nly government action can curb the external impact and the outright exploitation of these investment activities." Current trends in investment and private equity indeed provide an important opportunity for discussion and reflection about the global articulation of workers and unions. This relates to trade union representation as well as to the challenges presented by the impact of the political and economic forces beyond the private equity business model that organisations face.

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