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# Financialisation, ownership and employee interests under private equity at the AA, part two

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## ABSTRACT

This article examines a theoretically informed case study of the effects of financialisation at the workplace. It focuses in particular on trade union de-recognition and trade union recognition in the furtherance of ownership interests. The paper reports on the continued diffusion of investor-owner interests under the private equity business model which has recently witnessed the AA re-listed on the stock market. It addresses two research questions. One, how are investor-owner interests secured by trade union de-recognition and re-recognition? Two, how and why, as a de-recognised trade union, does the GMB continue to campaign for and represent GMB members in the AA when the IDU (the independent democratic union) has sole recognition at the firm?

## 1 INTRODUCTION—FINANCIALISATION AND WORKPLACE OUTCOMES—THE RESEARCH QUESTIONS

Financialisation can be defined as the costs and consequences of financial innovation for firms and their employees in the non-financial sector of the economy. This article provides a theoretically informed case study of financialisation at the workplace where a firm is captured by a business model associated with new investor-owners and the ideology of investor and shareholder value (I&SHV). Investor-owners, such as hedge funds, private equity partnerships and sovereign wealth funds, use innovative and sophisticated investment leverage in the forms of derivatives, junk bonds, credit default swaps, mortgage backed securitisation of firm level assets and liabilities, shorting and collateralised debt obligations to acquire (what become) portfolio firms. More significantly these investor-owners and the ideology and motives and values central to I&SHV witness the core of financialisation—the endogenous creation of money, credit and debt—become rooted in the operation of non-financial firms. This is a contagion effect of financialisation where investor-owners in non-financial firms use unregulated financial processes associated with leveraged acquisitions to appropriate value from a portfolio firm.

A first research question focusses on how and why investor-owner interests pursue union de-recognition and re-recognition and how direct ownership interests are experienced by the workforce at the AA. More specifically empirical material is advanced to reveal how work intensification, performance management and required revenue

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generation at the AA have, over the past ten years, facilitated the recent re-listing of the firm on the stock market. The data show how the GMB union was out manoeuvred by new investor-owners determined to appropriate value for themselves at the expense of the workforce. A second research question examines how and why, as a de-recognised trade union, the GMB continues to campaign for and represent GMB members in the AA. The GMB does so despite a new break-away union, the independent democratic union (IDU), and its role and development since 2005 when it secured sole recognition rights for collective bargaining at the AA.

The study is based on in-depth case study interviews at the GMB, the examination of archive sources at the GMB union and the Certification Office, adjudication reports of Employment Tribunal Judgements, the IDU website and the financial press. The article has four substantive parts. Part one establishes a theoretical framework centred on a theory of firm level financialisation and transmission mechanisms between this and employment relations outcomes for workers at the AA. Part two details the research methods and sources employed in this study. Part three presents empirical findings and part four interrogates the empirical findings from the standpoint of the two research questions. The concluding section asks whether the insights from this study may be generalised beyond the detail of the AA case.

## 2 A THEORETICAL FRAMEWORK FOR EMPLOYMENT RELATIONS OUTCOMES BEYOND INFERENCE

The emergence of aggressive short-term investor-owners is, as Thelen (2009: 491) observes, almost completely lost in path dependent approaches to the political economy of employment relations. In contrast to this the established literature on financialisation asserts that capital markets increasingly regulate the behaviour of financialised firms in three ways. First, the ascendency of investor and shareholder value as a strategy prioritises the interests of investors at the expense of other actors in the corporation (van der Zwan, 2014). Second this strategy legitimises more aggressive management of corporate assets where new financial objectives, for example high stock prices and maximising the release of cash flows to shareholders, are being pursued at the expense of other 'high performance' goals, (Thompson, 2013). Third and directly associated capital re-structuring in delayering, downsizing and divestment fund share-buy-backs but blunt the innovative capabilities of a firm as revenues generated from these layoffs are not reinvested. The (potential) productivity gains of 'financialised' firms are appropriated by shareholder value driven investors at the expense of retained profit for further investment in innovation (Goyer et al., 2016, Lapavitatas, 2013). Within the financialisation literature there is, however, less explicit discussion of how these developments create transmission mechanisms that produce labour outcomes in employment relations at firm level.

For employment relations researchers the need to better understand broader developments such as financialisation and associated financial engineering is clear: financialisation and investor and shareholder value now drive accumulation strategies for many firms which prioritise capital market requirements and not those of a wider group of stakeholders. These strategies and requirements stimulate transmission mechanisms that have significant employment relations outcomes for workers. Those researchers who do focus on financialisation as a structural development in capitalism and who have sought to explain how financialisation interfaces with employment relations have done so with some success (Appelbaum et al., 2013, Gospel and

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Pendleton, 2014: 27–8 and Pendleton and Gospel, 2014: 95–99). Appelbaum et al. (2013) identifies 'breach of implicit contracts' as empirically observable in portfolio firms where financialisation is imposed on a business. Gospel and Pendleton (2014) and Pendleton and Gospel (2014) take a different tack. Focusing on the UK, they situate the effects of financialisation as in-direct and not necessarily transmission mechanisms flowing between business strategies and employment relations outcomes. Similarly, Standing (2014) outlines the manner in which a labour 'precariat' has emerged from the diffusion of neo-liberal economic policies based on de-regulation, marketisation and privatisation. Within neo-liberalism employees (such as those at the AA) may find themselves in minimal trust relationships with capital and the state and where subordination degrades implicit contracts with employees and associated labour security.

Cushen and Thompson (2016) and Clark and Macey (2015) outline how the presence of financialisation raises further theoretical challenges which the research questions posed in this article seek to address. First, as a specific development in the broader political economy of employment relations, how (beyond inference) are the contagion effects of financialisation evident in firms transmitted into workplace outcomes and worker experiences? Second, to develop the theoretical and empirical evaluation of financialisation, it is necessary to sub-divide its effects into 'profit' financialisation, and 'control' financialisation. Heyes et al. (2014) use aggregate data to demonstrate the diffusion of 'profit' and 'control' financialisation. Generally, profit financialisation refers to the growth in the profit share of the financial sector in accordance with the arguments of Krippner (2011). However, more specifically for Heyes et al. (2014), the category refers to the growing role of financial transactions in the appropriation of value within financialised firms beyond the financial sector. In contrast to this control financialisation refers to the imposition of managerial strategies designed to appropriate value from a workforce with the aim of securing profit financialisation, for example, dis-regarding collective bargaining agreements, downsizing followed by work intensification and sometimes out-sourcing. In other words, in firms which embrace financialisation or have financialisation imposed on them, these are the transmission mechanisms that feed through and shape employment relations outcomes which must be evaluated and measured.

A focus on the contagion effects of financialisation in a non-financial firm such as the AA and its established patterns of employment relations is a central objective of this contribution where the theoretical framework goes beyond an isolated discussion of firm level developments as 'financialisation'. Owner investors do reinforce the imperatives and priorities of financial capitalism and the associated appropriation of value but weaken the relations of ownership and stakeholder interests therein. Financialisation is theorised as contagious but also as a measure of the extent to which finance has moved beyond its established role as a provider of capital in managerial capitalism. It follows from this that the theoretical and empirical advances of this contribution are threefold. First, it goes beyond those who have emphasised market forces, for example, Blackburn (2006: 41) where labour outcomes are inferred to merely flow from financialised market forces. Rather it is necessary to demonstrate that the forces which promote short-termism are not a reification—market forces—but real investor-owner actors. Intermediary financial actors such as hedge funds, private equity funds and sovereign wealth funds diffuse new business models and appropriate productivity gains made in firms re-distributing these gains to investors, shareholders and other investor-owners. This approach to the ownership and

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corporate governance of firms hyper activates short-termism to appropriate value for investors.

A second contribution derives from the framework which distinguishes between profit financialisation and its contagion effects in control financialisation. By developing the distinction between profit and control financialisation this contribution builds on Mazzucato's (2013) discussion of disincentives to innovation, technological diffusion and investment in human capital, that is, the key determinants of productivity. The key contribution here is that the disincentive effects of contagion are created by investor-owner actors who concentrate on the appropriation of value and its distribution among a small group of investor-owners leaving less retained profit for further investment in innovation.

Third, a key structural change in contemporary capitalism diffused by not only financialised owner-investors but also the management class in listed firms more generally is the use of share buy-backs to raise the share price of a firm and increase potential dividend payments to investors and shareholders. So whilst we concentrate on the role of owner-investors it is important to recognise that for some the distinction between national models of managerial capitalism and a globally focussed model of financial capitalism is less significant than the diffusion of practices such as share buy-backs. Lazonick (2014), for example, has consistently argued that the management class in listed firms pioneered the use of share-buy backs; therefore the practice cannot be associated exclusively with financial capitalism and investor-owners. The argument developed here is that owner-investors and their fund managers profit from re-producing the investor and shareholder value ideology, 'bench marking' firms against the best performers across sectors (Nölke and Perry, 2007). Here a key contribution we make is to identify financial estimates of transmission mechanisms to labour outcomes associated with this benchmarking which necessarily impose on the employment relationship. Hence the overall value-added contribution of this framework is that the financialisation of the firm has a profit dimension centred on the appropriation and distribution of value and a control dimension focussed on employment relations, a key source of appropriated value. Table 1 summarises these contributions and the two research questions.

## 3 RESEARCH METHODS AND SOURCES

This project has been on-going since 2007 and has followed the GMB in its relationship with the AA and its private equity owners since then. The research reported in this article commenced in autumn 2013 when access was secured to the GMB AA archive.[1] It examines the consequences of union de-recognition for the GMB, preparations by the current owners for the re-listing of the AA on the London stock exchange and the impact of this on the AA workforce and the GMB membership in particular. The research design took the form of mixed research methods and the utilisation of multiple research sources in an effort to accurately position the GMBs arguments and claims in a broader historical context.

The project utilised five inter-related methods combined with three additional sources of material. First, access to GMB-AA archive held at its Chessington

[1] Because the research utilises archive and documentary sources whilst the Harvard reference system is used throughout documentary and archive sources are cited separately and are pre-fixed with a source, e.g. GMB, Certification Office etc. and listed in alphabetical order in the end list of references.

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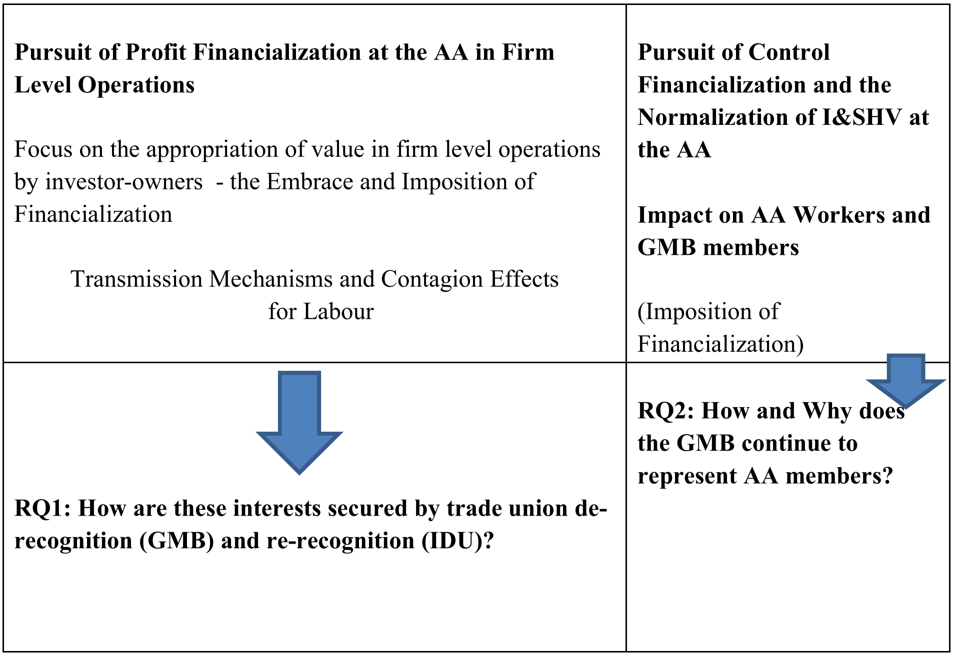


southern region office made it possible to trace the GMB-AA relationship back to 1999, before the arrival of new private equity investor-owners, through until 2015. In effect the archive represented a central primary source because it contained correspondence with the GMB head office in Euston, the GMB legal team, the IDU under its original name of the AA Democratic Union, GMB members and the AA owners. The archive also contains a library of press and media clippings and recordings on the AA and its changing membership. Finally, the archive contains details of the GMB campaign at the AA and examples of publicity material for this campaign. Once an accurate narrative had been developed from this source it was possible to turn to the second method of data capture and confirmation.

Interviews were conducted with the GMB General Secretary, National organiser, Southern region senior organiser and GMB national legal officer. These interviews were supplemented by face-to-face and follow-up telephone interviews with GMB lay officials who continue to represent GMB members as individuals in Liverpool, Manchester, Leicester and Birmingham and used to clarify the material from the GMB archive. Third, the interviews were supplemented by participation observation at the GMB national congress and in meetings between GMB officials and GMB supported Members of Parliament in the shadow Business Innovation and Skills department before the recent general election. This participation provided an insight into the extent to which GMB policy on private equity was informed and driven by experience at the AA and the extent to which this fed into policy formulation by the Labour opposition. One of the MPs also agreed to an interview and discussion on private equity ownership and employee interests more generally. Fourth, interviews were conducted with three private equity entrepreneurs familiar with the Permira buy-out of the AA. In total twenty five useable interviews were completed. Fifth, the AAs Base Prospectus for an initial public offering of shares issued to potential investors in June 2013 provided details on outline cost control measures to be introduced after the share

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issue, (AA, 2013). These primary methods were supplemented by secondary sources, including the Certification Office on-line service, employment tribunal judgements and the IDU website. To balance the very open access secured at the GMB it was necessary to seek to secure some formal access at the IDU. This aspiration proved troublesome and problematic: IDU officials repeatedly declined to engage with the study and eventually declined to take phone calls or respond to email inquiries. Accordingly analysis of the IDU has been restricted to references to their website and through the returns of the certification officer.

## 4 EMPIRICAL FINDINGS

This part of the article provides an account of what the financialisation of a business means on the ground for workers and managers. It builds on some of the material in an earlier study (Clark, 2011) which can now be referred to as the AA part one. The article presents new empirical findings within a theoretical framework which may be useful to accommodate further cases of firm level financialisation and the potential for transmission mechanisms between this and labour outcomes.

### 4.1 The financialisation of the AA

The AA was founded as a mutual business and remained so until members voted to de-mutualise in a decision which was quickly followed by the AAs sale to Centrica, the British Gas holding company in 1999. Five years later the AA passed into private equity backed ownership and in 2007 the firm was merged with Saga whereupon its ownership was re-formatted under the title of Acromas Holdings. In 2014 the AA and Saga were de-merged with both firms re-listed on the London Stock Exchange. The cost of the de-merger and all associated flotation costs were placed on the AA balance sheet. This marked the beginning of financialisation at firm level. The ownership structure employed by the AA private equity owners—the limited partnership—enabled them to become the firm's new investor owners via a change of majority shareholder and continue to run the firm as it was before they acquired it. This allowed the new owner to place any costs associated with its acquisition of the firm and any further costs associated with any re-structure on the balance sheet of the business. Debts associated with leverage and any loans or dividend payments to themselves, consultancy fees and accumulated debt interest can be charged to the portfolio firm (the AA) which Acromas holdings owned. That is, the AA was mined for returns to investors and shareholders and then charged for the direct and in-direct costs of this appropriation of value. The original purchase by private equity partnerships CVC and Permira was highly leveraged with loans of £1.3 billion or 75% of the £1.75 billion purchase price secured against AA assets. The following year the owners increased their loans by a further £1billion 50% of which they appropriated as an interim payment. Two years later in 2007 Acromas holdings funded the merger of the AA and Saga via a re-financing deal which resulted in £4.8 billion of debt on the AA/Saga balance sheet. Three billion pounds was used to buy back existing debt at the AA and Saga whilst the remainder of the debt was used to make a further interim payment to management and private equity investors in Acromas. In June 2014 Acromas de-merged the AA and Saga and re-financed AA debt with a further £3 billion loan secured against AA assets and future revenue streams. A management team at the AA bought 70% of the firm with backing from ten City fund managers for approximately £1 billion to fund an accelerated stock market listing valued at

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£1.4 billion. At the time of its stock market listing the accumulated debt on the AA balance sheet was roughly twice the value of its listing valuation. In March 2015 the AA announced plans to raise a further £1billion to help improve its finances and repay 'PIKs' (payment in kind) notes in an effort to reduce annual financing interest costs of £195 million. In June 2015 the AAs market capitalisation value was £2.32 billion.

Mutual firms are based on the principle of mutuality where members derive their rights to profits and votes via a customer relationship not via the contribution of capital to the firm in the form of direct investment. Funds raised by mutual firms provide services to members of the firm and because there are no external shareholders these firms do not have to maximise investor and shareholder value. Therefore profits can be re-invested and used for internal financing. So in less than 100 years the AA went from a service based mutual firm to a highly geared and leveraged financialised firm where its debts are greater than its current stock market valuation.

### 4.2 Impact on AA employees

The impact of the AAs financialisation on its employees was that loans and the re-financing of existing loans were secured against AA assets and future revenue streams, for example all AA vehicles and associated equipment were sold and leased back by the firm. Moreover, in addition to the loans themselves the firm has to service interest payments on the loans which the firm has had to re-finance on a regular basis. Both the principal debt and the interest burden place huge cost pressures on the business.

As reported in Clark (2011), the GMB was de-recognised soon after the firm was acquired by private equity in 2005. It is however, worth summarising this development here to provide full contextual setting for more recent developments. The AA helped set up an in-house trade union called the AADU—the Automobile Association Democratic Union which both the firm and the AADU's leadership claimed was a reversion to the AAs original trade union representation the AASA (GMB archive item 1, henceforth GMB1). The Automobile Association Staff association was originally an independent group affiliated to what is now the GMB union and subsequently became a part of the union via a transfer of engagement agreement between APEX—the association of Professional, Executive, Clerical and Computer Staff which later became part of the GMB. AADU publicity materials clearly state that the AADU is effectively a re-formatted AASA (GMB 2) and in March 2005 the AA human resources director de-recognised the GMB in a letter sent to the GMB regional secretary (GMB 3). The AADU was immediately recognised after this by the AA (GMB 4).

This research reports on later correspondence between the certification office for trade unions and employers' associations and the GMB where the certification office operations manager confirmed that they had received an application from the AADU for entry into the certification officer's list of trade unions. More significantly the operations manager made it clear that

> 'entry on the list of trade unions would mean that the body concerned meets the definition of a trade union within section 2 of the Trade Union Relations (Consolidation) Act of 1992 (as amended). It does not mean that such a union is an independent trade union within the meaning of the 1992 Act'. Further, 'Once a union is on the list of trade unions, it may then apply for a certificate of independence, which, if granted would be conclusive evidence, in law, that it is an independent trade union' (GMB 5)

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At the time of recognition in 2005 the full-time GMB official and the AASA coordinator who was employed by the AA but worked full-time for the GMB both defected to the AADU informing GMB members that their membership had reverted to the former AASA. This move secured funding for the AADU in the form of GMB account balances and cheque books whereas further short-term funding was secured as the AA paid union subscriptions for membership of the AADU for the first year of its full recognition. In 2005 the GMB had 10,000 members at the AA or roughly 70% union density.

Within a month of recognising the AADU investor-owners commenced a re-structure by initiating a performance management programme via letters sent to all patrol staff informing them that they will be placed in one of two categories; those meeting or exceeding expectation and those whose performance does not meet expectations. Patrol staff who met expectations were awarded a £2,000 bonus. Those who did not were called to one-to-one roadside meetings without representation from the AADU or the GMB and offered £18,000 to leave the AA or accept placement on an improvement programme which would lead to summary dismissal if they did not accept this change to their terms and conditions to which the AADU had agreed (GMB 6).

Through this process 3,400 patrol workers (50% of the patrol force) left the firm. These departures were not redundancies but voluntary resignations recorded on an AA RSS Patrol decision form. In the decision box AA employees are given two options: either 'I wish to accept a mutual termination of my employment' or 'I wish to continue my employment with the AA as an RSS patrol', (GMB 7). In addition these resignations were covered by an 'authority to advise on compromise agreements' (GMB 8).

> 'I hereby authorise xxxxxxxx xxxxxxx to advise me regarding the compromise agreement between myself and the AA. I understand the rules of the union representation/advice in connection with this compromise agreement is given by the AADU national secretary or representative nominated by the AADU national secretary on condition that 1, I will remain a member of the AADU and continue to pay the normal contribution rate whilst the proceedings continue and 2, I will cooperate fully with the representative nominated by the AADU, act upon their advice and provide as far as possible, all relevant information. I understand that if I fail to comply with condition or wilfully provide false information to the union or my representative, representation may be withdrawn by the AADU'

The £18,000 exit award was far lower than those previously agreed between the now de-recognised GMB union and the AA which on average could see a patrol worker retire or take voluntary redundancy with a payment of around £30,000 and in some cases up to £50,000 for long serving workers.

The GMB AA archive and interviews with the GMB regional organisers revealed that further performance innovations are regularly introduced. Patrol improvement notices represent a further refinement of the performance management system and can lead to immediate dismissal if patrol staffs fail to meet the performance requirements of these notices. In interviews it became clear that these developments were a mechanism to encourage employees to transfer status to self-employed drivers. The firm also intensified working by the introduction of the 'last job of shift' which could significantly lengthen a workers shift. 'Last jobs' can be called within the final thirty minutes of an eight hour shift which can potentially lengthen working time by as much as a further five hours. Third, the firm introduced 195 annual 'standby hours' which in-effect equate to unpaid overtime. These individual developments were recently rolled-up into new contracts which cut core earnings but insert incentives for

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jobs completed to compensate for last job of shift and stand-by hours and further incentives for sales commissions, for example on membership up-grades.

Whilst remaining de-recognised in 2016, the GMB retains over 800 members in the AAs current workforce of 4,000, giving it a density of 20%. The majority of these members work in the patrol service where 2,300 workers are currently employed. Although the GMB aim is to secure re-recognition this may prove hard to secure other than if patrol workers are taken as an initial bargaining unit which would give the GMB an approximate density of 30%. Interviews with GMB lay representatives revealed that patrol recovery drivers are the fastest returning group of workers to GMB membership precisely because they are the group most affected by contractual changes agreed to by the AADU. Employees nearing retirement age have been returning to the GMB in large number because of concerns about performance management measures and the potential impact of improvement notices on pension pay outs. The GMB has scored regular successes in employment tribunal cases where the union represented AA workers as individuals and has now secured the right under the Employment Relations Act 1999 for GMB shop stewards to represent union members on individual issues which the AA previously denied them. Under the Employment Relations Act employees have the right to be accompanied to grievance or disciplinary hearings by an official who is employed by a trade union, an official who is certified by a trade union or a workplace colleague. The AA agreed that its position that AA workers could not be accompanied by a certified GMB representative did not reflect the procedural position laid out in legislation. The union has won employment tribunal cases on the grounds of employer termination decisions on grounds of disability and unfair dismissal in the case of an employee who raised concerns about the re-structuring programme at the AA. Since flotation the AA has been headed by a new chief executive, who previously headed a rival car recovery service Green Flag, a business run on a franchise model. Interviews with the GMB national organiser, senior southern region organiser and regional organisers suggest that this model may be one that the new management team may seek to diffuse at the AA, that is, retreat from an employment based model to one of self-employment. One private equity interviewee whose Better Capital private Equity partnership applied this model at the now defunct City Link parcel delivery firm suggested that this model could easily be applied at the AA yielding significant cost savings (X1).

### 4.3 What about the independent democratic union?

As noted it proved impossible to secure access to IDU officials or indeed to speak to any IDU members at the AA. Every employee interviewed was asked if they were a member of the IDU but none of our interviewees admitted to being members of the union. The IDU has sole recognition for collective bargaining at the AA and the certification office granted the union a certificate of independence ten years ago (certification office 1). The certification office data base also records that the AA and related organisations such as AA windshields, AA contact centres, is the only organisation where the IDU has collective bargaining recognition. For example, the 2013 annual return form for a trade union (form AR21, page 3) record that the AA payroll is the major source of funding for the IDU and that it had 5,699 members. This is the case even though on its website the IDU claims to represent employees in a number of other organisations including the British School of Motoring, Halfords, the NHS (particularly overseas workers), 'Care Workers', Saga and 'others' (IDU.org.uk).

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More detailed trawling of the IDU website reveals that in the NHS for example that the IDU is 'committed to acting for you as an individual and representing your interests' (idu.org.uk NHS section menu). IDU legal services on disciplinary and grievance matters, re-structuring, redundancy, changes to pay systems and shift rosters, pay, bullying and harassment, personal injury and discrimination are provided through a private firm of solicitors. Essentially the IDU operates on a service model beyond the AA and is not recognised for the purpose of collective bargaining at any employer which is not part of the AA group.

The IDU and the AA are both located in the same post code area of Basingstoke and previously both occupied a common address. It follows from these limitations that all the material on the IDU has been gathered from official sources such as the certification office and the IDU website. For more background detail on the IDU see Clark (2011:44). Failure to secure to access to the IDU is significant for two reasons; first, what might be described as 'dead-ended' pursuits of access such as this one reveal much about the process of financialisation at the AA. Without the support of the IDU via its endorsement of the re-structure initiated by new owner-management the returns recorded for investors would not have been forthcoming. It is interesting therefore that the IDU officials who are integral to the process of financialisation at the AA have chosen not to give their side of the story particularly as the union regularly receives criticism from the GMB on its AA web page and in interviews with its officials. A second reason why the stance of the IDU is significant relates to methodology. Denials of access should no longer be seen merely as a denial of access from which researchers move on but rather they are a source of contextual information in themselves. That is, it is more likely to be the case that denials of access relate less to how busy a hoped for interview contact is but that these contacts prefer not to have probing questions put to them.

## 5 DISCUSSION

Our discussion focuses on two questions: de-recognition of the GMB and its decision to continue to resource efforts to organise the AA. On the first research question of de-recognition there are two issues; one micro and one macro. The micro issue is fully reported on in this research and is very clear. For the majority of its existence the AA was a mutual and therefore did not fully embrace I&SHV approaches to management, not even under Centrica's ownership from 1999 to 2005. Rather like the John Lewis partnership until 2005, the AA's partnership model ensured that the financial success of the business was evenly distributed to a wide range of stake holders not just investors. As one of our private equity interviewees made clear the AA was 'ripe for picking' 'it had a cosy relationship with its workforce and a large property portfolio' (quotes from interview with private equity partner Y). The GMB national organiser made clear the AA was a 'good employer'. Therefore the AA was ripe for picking and downsizing if new investor-owners could rapidly re-structure the firm and legitimise this via a union endorsement. This was unlikely under GMB recognition and that is why new investor-owners and one GMB official colluded to create the AADU which morphed into the IDU on the basis that both replaced the GMB by reversion to the AASA. Many GMB members accepted this in good faith and further accepted the exit payments which they thought had been negotiated by the GMB. Nearly all the 3,400 patrol staff who voluntarily left the firm this way held GMB membership so since 2005 it is remarkable that 800 AA workers have retained GMB membership

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for purposes of individual representation. Interestingly the time line in the GMB AA archive establishes that the AADU was recognised before it secured a certificate of independence which supports GMB claims that the AADU was a 'scab union' setup and funded by AA management (see Clark, 2011). As documented the GMB national organiser repeated these claims as 'fair comment' on television and in newspaper articles and has never been challenged by any of the AAs new owners. Hence it is clear that these arguments and claims are not issues which the owners of the AA have disputed in the past.

The macro issue in the wider political economy is one which this research touches on tangentially; because private equity backed buy-outs of firms are classed as a change of majority shareholder rather than a transfer of undertaking tupe regulations—transfer of undertakings protection of employment does not apply. So in this case it is as though a new management team has decided to de-recognise the GMB rather than a new investor-ownership team owning the firm. The latter is the case even though a succession of new investor-owners has both managed and owned the firm, often the same investors under different ownership names. Under the leadership of Vince Cable the Department of Business Innovation and Skills did produce some research (BIS/Kay 2014) into the nature of this situation. In summary the sale of a majority of the shares in a firm to a single ownership entity such as a private equity investor gives the new owner the opportunity to de-list the firm and run it as a private entity and or re-list the business at a later date. In addition to this any new ownership entity is able to pursue strategic and operational decisions in a manner which over writes agreements made between previous owners and employees and avoid falling foul of tupe regulations because in theory the business remains intact.

Why does the GMB continue to devote considerable resources to the AA? Documents in the archive reveal that a dispute resulting from personal rivalry and disagreement led to the defection of key GMB leaders to the AADU. In 2004 when the AA was purchased by the private equity firms CVC and Permira the GMB southern region senior organiser who represented AA members quickly developed a relationship with these new owners. At about the same time as this a GMB post for southern region regional secretary became vacant. The southern region senior organiser applied for this post, was interviewed but another candidate was chosen for the job. Soon after this the southern region national organiser left the AA under a compromise agreement with a £41,000 golden handshake (GMB 10). Two weeks later the same individual assumed the post of general secretary of the forerunner to the IDU the AADU which witnessed the narrative detailed earlier in this article. Here the GMB failed to act fast enough to prevent this move and was out manoeuvred by one of their own staff who has remained the IDUs general secretary since 2005 (Certification Office annual return forms, AR21, 2006–13). As the national organiser argued in several interviews 'he rubber stamped the re-structure out of spite and sold his members down the river'. This argument was 'stood-up' by many returning GMB members; however, it has proved impossible to get the IDU perspective on the re-structure. The IDU general secretary rarely speaks to the media but in 2010 did so following a strike ballot at the AA over pension reforms which was eventually settled voluntarily, (Independent, 2010). It follows from this that the argument that the IDU has done nothing for the AA workforce cannot be supported 100%.

By addressing these research questions the theoretical framework outlined in part one of the article identifies three contributions which this research can make to the evaluation of financialisation at the workplace and its transmission to employment

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relations outcomes where new investor-owners appropriate value in the form of productivity gains. First, once in control of the firm, the new investor-owners, to secure the dividend payments for themselves with the agreement of the AADU, instigated a drastic downsizing programme which witnessed 3,400 patrol workers voluntarily leave the business. An alternative way to evaluate these exits is that workers were performance managed out of the business on the basis of the RSS patrol decision form which massaged these exits as mutual decisions. Many patrol workers revealed that they were confused by the AADU endorsement of this form; because they had been told that the AADU developed out of the GMB but had reverted back to the original title and bargaining unit around the AASA. Workplace exits via the RSS form resulted in patrol workers jobs being potentially subject to up to 50% work intensification but the value of this and the value of exit cost savings (redundancy packages agreed by the GMB minus £18,000 in the first round and £16,000 in the second round) were not re-invested back into the firm. Rather, they have been appropriated by investor-owner rentiers and re-imposed back on the re-listed business as balance sheet debts.

Work intensification was manifest in several ways—from 2008 50% fewer patrols attempted to manage the call load. In a monthly audio tape 'on patrol' the AAs then chief executive admitted that the firm had cut too many jobs leaving many AA members who had broken down stranded. This resulted in sustained complaints from AA members as roadside waiting times escalated beyond two hours. These points are repeated and further detailed in the Independent Newspaper (2006), where in addition to these details on the effects of labour downsizing at the AA an AA spokesman for chief executive Tim Parker stated, that the downsizing had the support of a new 'staff association' which replaced the GMB. Another way in which work intensification became clear was the innovation of last job of shift and the 195 standby hours of free overtime. Last job of shift callouts extend working time whereas standby hours equate to approximately four hours per week unpaid overtime and often come together in a last job of shift. The finding that investor-owners seek to appropriate value for themselves and their investors at the expense of firm level stakeholders such as labour is generalisable beyond this case. The key point of scrutiny which advances generalisable knowledge is identification of how such embrace creates a potential transmission mechanism from profits and returns to investors to employment relations and the labour process. We contend that the new investor-owners strategise these transmission mechanisms in their business strategy but are not always able to enact them in the manner they were implemented in this case. Neither are investor-owners subject to such sustained resistance as in this case.

A second contribution relates to how this appropriation affects investment in training and development. Two examples serve to demonstrate this case. The regional organiser raised the lack of training for VRS (vehicle recovery system) winches a matter on which he received regular representation from patrol staff. The AA ordered modification to these systems (which subsequently the Health and Safety executive ruled were unlawful because they breached manufacturer guidelines which in turn invalidated AA insurance for patrol drivers). The regional organiser reported that VRS training did not cover these modifications. Patrol drivers reported that this modification included replacing a steel winch rope with a fibre one which had snapped on several occasions damaging vehicles and potentially causing serious whiplash injuries to operatives. Operatives were not trained to deal with this modification neither were they warned about the snap hazard (GMB 9). A further example of forthcoming

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reductions to training budgets is included in the base prospectus which outlines how the AA will secure 'headcount reductions' and closures of customer contact centres ahead of its share float. As a demonstration of the transmission mechanism from the financialisation of the business through to labour outcomes the prospectus anticipates problems with staff morale flowing from these economies, a deterioration in customer service and the efficiency of AA patrol operations following the introduction of these controls on training costs (AA, 2013: 24). That is, following the further financialisation of the business.

A third contribution attempts to measure the transmission mechanism between the financialisation of the business and labour outcomes. Here a simple calculation establishes the point. Transfers from employees via breaches of implicit contracts on redundancy terms to investor-owners made a major contribution to the first dividend re-capitalisation taken out of the firm by its rentier owners of approximately £409,000,000 in 2005. Three thousand and four hundred patrol workers left the AA via voluntary exit, if they all received £18,000 to do so the exercise cost the firm £61,200,000; however, these exit costs were lower than what patrol staff would have received under the GMB collective agreement. Before de-recognition £30,000 was the average payment that the AA budgeted for in cases of redundancy, therefore to downsize patrol staff by 3,400 would have cost the firm £102,000,000 netting the new investor-owners around £40,800,000. The £30,000 for average collectively agreed redundancy payments is likely to be an under estimate but the GMB archive does not contain accurate exit salary information. Hence as an estimate £40,800,000 represents profit financialisation appropriated and re-distributed to investor-owners and in turn those who invested in these private equity funds. Subsequent re-capitalisations have been added to the balance sheet of AA/Saga and latterly since floatation the AA to repeat this type of appropriation.

## 6 CONCLUSION

These points lead to three specific conclusions. First, the sustained exclusion of the GMB, even though the union retains a substantial membership density at the AA, has helped promote an accommodation between the investor-owners and the IDU. Second, the manner in which the recognised union, the IDU, has endorsed a text book example of restructuring under the private equity business model questions the independence of the IDUs status, if not as a union as an oppositional body in the workplace. Third, as part of their drive to a re-listing on the stock exchange investor-owners have imposed significant work intensification, performance management and required revenue generation on the workforce. The imposition of control financialisation measures such as these are direct transmission mechanisms to employment relations outcomes enabling the owners to appropriate value from the business but impose the cost of this on the AA balance sheet and its workforce going forward. This figure stood at £2.7 billion in spring 2015 built on a debt to earnings ratio of 6.9% on flotation—an unusually high leverage figure for a recently listed firm. This is a measure of the contagion effect of financialisation in a non-financial firm and a significant factor in making jobs at the AA precarious.

Whilst the AA remains a going concern its financialisation clearly makes the status of jobs precarious. In many other cases similar to this one a portfolio firm that is either returned to the stock market after a private equity re-structure or which is subject to a private equity sponsored re-structure may go into administration. This is so

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because the weight of debt and annual debt interest imposed on the balance sheet undermines the business model, for example City Link Parcels or Jessop's cameras. This may or may not be a possibility at the AA. Rather more likely is the possibility that the imposition of a franchise business model will reduce employee status at the AA further still.

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