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Shared Capitalism: Missing in Action

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> *"…There is one form of economic organization in which millions of North Americans participate in various ways. It even dominates some sectors and has a long and interesting history. Yet it remains invisible in the textbooks. It is the co-operative."* (Hill, 2000)

1. Introduction

There is a noticeable gap in the education of business students: the topic of employee ownership, which includes co-operatives[1]. Although there are between 7,000 and 10,000 employee-owned companies in the U. S., depending upon how they are counted, the topic does not appear in standard management textbooks, and appears only as special, elective courses in schools of business and management. Yet a strong case may be made that employee ownership is a strategic variable, i.e., a strategic choice made to gain competitive advantage. As Hill (2000) pointed out in his article "The Case of the Missing Organizations: Co-operatives and the Textbooks" in the *Journal of Economic Education,* textbooks typically list just three legal forms of organization: proprietorships, partnerships, and corporations. Yet co-operatives and employee stock ownership plans (ESOPs), not to mention stock purchase plans, broad-based stock option plans, profit-sharing plans and gainsharing plans dot the economic landscape and are hardly invisible. If one includes other forms of *shared capitalism* (whereby ordinary workers either own equity in the organizations in which they labor, or share in the good and bad fortunes of their employer), the absence of employee ownership in business education is puzzling. If there are so many instances of novel or hybrid organizational forms besides the traditional three, why aren't they mentioned in textbooks?

1. The author gratefully acknowledges helpful comments from Abagail McWilliams, Corey Rosen, and Loren Rodgers.

Not One, But Many Topics
Hill's argument that the topic of co-operatives is missing from textbooks is: it is missing because their authors proceed from the limiting assumption that there are only three legal forms. His argument is compelling, but incomplete. A more complete explanation is that shared capitalism in general and co-operatives in particular are missing from standard textbooks because they do not lend themselves to traditional economic or management analysis (e.g., see Moss, 1991). Shared capitalism is a multidimensional, multi-level phenomenon that cannot be neatly categorized into economics, strategy, finance, accounting, organization behavior, organization theory, corporate finance, governance, or human resource management. Shared capitalism fits into not one, but many disciplines, falling between the cracks, as it were. A few employee ownership articles appear from time to time in management journals (e.g., Pierce, Rubenfeld, and Morgan, 1991; Pierce and Rogers, 2003; Pierce and Jussila, 2010), but most of the discussions touching upon the topic appear in journals of other disciplines such as economics (e.g., Ben-Ner, 1988; Blasi and Kruse, 1993; Blinder, 1990; Demsetz, 1983; Doucouliagos, 1990, 1995; Fama and Jensen, 1983; Kruse and Blasi, 1997; Kruse, Freeman, and Blasi, 2010; Vanek, 1976), sociology (Whyte, and Blasi, 1982, 1984), law (e.g., Hansmann, 1990), labor relations, (e.g., Berry and Schneider, 2011; McCarthy, Voos, Eaton, Kruse, and Blasi; 2011; Whyte and Blasi, 1984), etc. Plainly, the topic ranges across a broad territory, encompassing a variety of landscapes.

Accordingly, to fully encompass employee ownership, one must examine it from all of these perspectives—a daunting task for instructor and student alike. Study requires examination of shared capitalism from the points of view of: level of analysis (i.e., world, nation, industry, type of government, group, individual), labor markets, capital markets, H R management, financial management, property rights, employee well being, efficiency, managerial control, philosophy of human nature, political economy, economics, management, industrial relations, etc.

2. Understanding Employee Ownership

Given that the topic of employee ownership does not fit into traditional management or economic categories, it follows that the instructor must help his or her students view the topic more broadly by drawing on different disciplines, while recognizing that its elements are interrelated horizontally *and* vertically in a complex system. To begin this process, I touch upon multiple topics and relevant questions that bear on the many facets of employee ownership.

There are two parts to this paper, the first comprising global or philosophical topics loosely encompassed by the term *political economy.* Relevant questions touch upon what is deemed to be *right,* i.e., ethical, valued, just, or desirable. The second perspective touches upon what features of shared capitalism work and how, in the sense of what is practical, as well as the details of cause and effect. In other words, the first deals with what *should be*, while the second deals with *what is*.

2.1. Political Economy

Industrial Democracy

Here, industrial democracy is understood to include those circumstances where workers own and control the means of production, though there are many forms and degrees within each form.

ESOPs and Cooperatives
Employee ownership holds promise for proponents of industrial democracy, although opinion is divided as to whether anything other than a cooperative is an acceptable mechanism for achieving it (Mygind and Rock, 1993; Ellerman, 1984; Whyte, 1999). (See discussion below under "Property Rights.") The ideal of industrial democracy is that in a democratic society nothing less than enfranchisement of workers in the governance of their workplaces is fair (Krimerman and Lindenfeld, 1992; Dugger, 1987; Brennan, 2005; Meyers, 2011; Michie and Oughton, 2001). Proponents call for worker control of business enterprises (Bradley, 1986; Darr and Stern, 2002; Howe, 1986; Wood, 2002). However, total worker control violates the property rights of owners—in the case where workers who are not owners have control of assets they do not own, that is plant, equipment and inventory—and such control alienates the property rights of the corporation and its investors (Hessen, 1983; Pagano and Volpin, 2005).

What remains when ownership and the right to control is removed from the hands of workers is merely participation in decision-making (PDM), but with final responsibility in the hands of owners, or their agents. The effect of PDM on productivity and employee attitudes is well researched (Russell, 1988; Stern, 1988; Cotton, Vollrath, Froggatt, Lengnick-Hall, and Jennings, 1988). Alternatively, when workers have both *total* ownership and control, the result is a worker's cooperative. Occupying middle ground between the two extremes is an employee stock ownership plan (ESOP), where it may be that workers share ownership with outside investors. In an ESOP, control may or may not be shared, depending upon how the ESOP is structured.

Transition Economies

Employee ownership has been used as a mechanism for transitioning from a Soviet-style, centrally-planned economy to a market economy (Al-Saigh, and Buera, 1990; Alperovitz, 1997; Chiu, 2003; Currie, 2005; Doucouliagos, 1990;

Ferrero, 2004; Gibson-Graham, 2003; Gunn, 2000; Kalinowski, and Mizerka, 1998; Kalmi, 1998; Minns, 1996; Thompson and Valsan, 1999). Two issues surround such initiatives: Are they desirable from a social justice standpoint? and: are they economically efficient? Hard to say. Perhaps the most fought-over question of the twentieth century is, "Who should own what?" At one extreme is the view that the State should own everything, eliminating private property rights for everything except a few personal items. (This idea was not new, as various utopian societies were founded upon it.) At the other extreme is the view that the state should own nothing, all property belonging to individuals, and only individuals.

In studying these questions, and prior to coming to a quick conclusion regarding the desirability of one over the other, one might conceptualize a continuum, with large scale collectivism occupying one end (the left) and pure individualism occupying the other (right) end. Occupying the middle is the kind of small-scale collectivism that Mill envisioned, ESOPs, cooperatives, and so forth (Miller, 2003).

In arguing for one or the other, proponents will naturally tend to select from among empirical studies of economic efficiency, such as they are, those studies that support their own philosophical standpoint(s) while ignoring or devaluing others. This rage for bias is reflective of human nature, so the instructor and her students have an opportunity to revisit the principles of scientific inquiry, and evaluate the quality of *pro* and *con* arguments accordingly. With these caveats in mind, and while viewing employee ownership from the broadest possible perspective, students and scholars may be able to construct a balanced model of the roles, existing and potential, this form of capitalism is capable of playing.

Public Policy

Except at the very smallest scale, such as in family businesses, partnerships, S-corporations, in which just a few individuals share ownership of an enterprise, the existence of employee ownership has multiple implications for public policy. The overarching question is—and paralleling the question of who should own what (i.e., state vs. individual)—what is the proper role of government in the production and distribution of wealth?

2.2. Income Inequality, Ownership and Control of Capital

The question of who should own and control capital, and the related question of income inequality, is of concern in established economies as well as those in transition. In the past thirty years employee ownership in various forms has continued to spread across the globe. The shape it has taken has been influenced by national culture (e.g., Caramelli and Briole, 2014), laws, prior history, and contemporaneous challenges.

For example, the creation of the ESOP in the U. S. was the result of a collaboration between lawyer/investor Louis Kelso and Senator Russell Long, both of whom believed that broad ownership of stock enhanced the general welfare (Kelso and Kelso, 1986; Blasi and Kruse, 1993; Blasi, Kruse, Sesil, and Kroumova, 2003; Carberry, 2011; Blasi, Freeman and Kruse, 2013; Conte, 1994; Kelso and Kelso, 1986). Accordingly, the U. S. law[2] that was passed was designed to make it attractive for owners to sell their shares to employees[3].

To the extent that income disparity results from the lack of opportunity for working people to own capital (Kelso and Adler, 1958; Kelso and Hetter, 1967; Kelso and Kelso, 1986), stock ownership (that is, ownership of capital) can mitigate income disparity (Blasi, Freeman and Kruse, 2013).

Retirement Savings

Saving for retirement is a good thing, in order that the elderly do not become indigent and a burden upon society. The question for study then becomes, "What is the best mechanism for providing for retirement?" In the U. S. for example, an ESOP is treated for income tax purposes as a retirement vehicle, but is criticized by some as too risky for the ordinary worker, because employment risk and investment risk are concentrated in one enterprise (*Summers v. State Street Bank & Trust Company and UAL Corporation ESOP Committee*, 2006). On the other hand, ESOP companies that supplement their ESOPs with defined contribution plans can diversify employee wealth (Blasi, Kruse, and Markowitz 2010). If the resulting diversification of retirement assets is sufficient, then all is well and good. If not, then changes to the law may be required. Hence, another question for debate and study is whether employee ownership can accomplish the goal of sufficient retirement savings as well as such mechanisms as Social Security in the U. S., or wage funds in Scandinavia (Langeland, 1993).

Tax

Broad ownership of capital. In order to make the sharing or granting of ownership attractive to founders and other owners of large portions of a company, the U. S. ERISA law offers tax breaks, including: (1) the ability to defer capital gains tax on the securities sold to the workers' ESOP; (2) deductibility of principal payments; and (3) deductibility of dividends when used to pay down a loan to an ESOP. Another break, now expired, allowed banks to exclude from

2. Employee Retirement Income and Security Act of 1974 (ERISA).
3. For a history of employee ownership, see Carberry, 2011; Blasi, Freeman and Kruse, 2013. For a discussion of the development of the ESOP in particular, see Blasi, Freeman and Kruse, (2013), Chapter 4 "How It Evolved." See also Blasi, 1988.

taxation 50% of the interest earned on loans to ESOPs. The purpose of these measures was to broaden the ownership of capital.

Tax efficiency. The existence of these breaks raises yet more issues to be debated: If ESOPs are allowed to flourish, would the effect on tax revenues be positive, negative, or neutral? This point is repeatedly debated in the U. S. Congress when it contemplates changes to the tax laws. If negative or neutral, then the issue is whether there is justification is there for the breaks (Scholes and Wolfson, 1990; Mitchell, 1995; Kaufman and Russell, 1995).

Tax fairness. Also, is it the tax breaks that make ESOPs appear to be more profitable than non-ESOPs? If yes, then is there any justification for favoring this sector of the economy over another? If not, then does the enhanced profitability of ESOPs compensate for lost tax revenues by increasing the tax base (Chaplinsky and Niehaus, 1990).

Employment and Labor Markets

An important public policy question is that of employment. (In 2014, it has been perhaps the most prominent domestic political issue in the U. S.) Here again, students should be aware of the question of whether the prevalence of employee-owned companies tends to reduce employment or labor mobility or both (Furubotn, 1976; Rousseau and Shperling, 2003). Recent evidence has shown that following the 2008 U.S. financial crisis, ESOP companies laid off fewer employees than ordinary firms. That is, in response to the economic downturn all firms laid off employees, but employee-owned companies laid off a smaller percentage of their workforces (Rosen, 2013).

Cooperatives. Although layoffs in employee-owned companies tend to be less severe in comparison to conventionally-owned companies, shared capitalism is not a guarantee of full employment. For instance, critics of cooperatives point out that their structure creates a tendency over time for employment to decrease. In order to maximize returns to themselves, existing owners hire non-owners rather than absorbing new members with whom resources must be shared. Eventually, it is claimed, ownership devolves to a single person.

Capital Markets

Supposing that shared capitalism were widespread in a nation's economy, an important question is whether this would have on the allocation of capital. One possibility to be explored is that although employee ownership has the positive effect of broadening the ownership of capital, it could have the negative effect of constraining capital flows. That is, when capital is in the hands of employee owners, who sell it back to their company upon retirement, it may not move freely through an economy. Further, there could be a negative effect on the company itself, insulated to some degree from the demands of outside investors. On the one hand, when shares are owned by managers and employees it can take on the characteristics of "patient capital" that enables managers to make long-term decisions, resulting in superior returns. Alternatively, a captive source of funds might impair the efficient allocation of capital foster an entrenched management, as employee owners are reluctant to take risk.

Productivity and Sustainability

An almost universal empirical question in the study of employee ownership is whether employee-owned companies perform better than conventionally-owned companies. They do—on multiple measures of outcomes (Weitzman and Kruse, 1990; Blasi and Kruse, 1993; Bonin, Jones, and Putterman, 1993; Carberry, 2011; Freeman, 2007; Blasi and Kruse, 1997; Kruse, Freeman, and Blasi, 2010). However, at the firm level of analysis there are several questions to be settled:

Conditions Fostering Shared Capitalism

A persistent question addressed by scholars of shared capitalism is, "What conditions foster the creation of firms that share the fruits of investment with labor?" (Logue and Yates, 2000). A large body of research in shared capitalism is devoted to identifying the conditions that give rise to shared capitalism, the forces that cause employee ownership to either survive or fail, and the actions that governments may take to encourage ownership (e.g., Ben-Ner and Jun, 1996; Bonin, Jones, and Putterman, 1993; Carberry, 2012; Doucouliagos, 1995; Furubotn, 1976; Hansmann, 1990; Kensinger and Martin, 1989; Langeland, 1993; Jones and Kato, 2012; Jones, Kalmi, Kato, and Makinen, 2012; Lavelle, Turner, Gunnigle, and McDonnell, 2012; Mygind, 2012; McElrath and Rowan, 1992; Mikami, 2003; Ognedal, 1992; Pendleton, 2011; Poutsma, Blasi, and Kruse, 2012; Quarter and Brown, 1992; Russell, 1985; Steinherr, 1975; Toscano, 1983; Vanek, 1970; Ward, 1958).

Note that in addressing this question, the student will ineluctably touch upon the topics of industrial democracy, transition economies, income inequality, and ownership and control of capital—in short, every topic discussed in this paper. They are all linked.

Property Rights

The matter of ownership raises the legal question of property and property rights, and the legal structure(s) that regulate those rights. Employee ownership changes the role of property rights in for-profit organizations by eliminating the distinction between labor and capital, and by enabling control by workers of hitherto solely investor-owned assets. In studying and managing employee-owned companies, certain conceptual difficulties arise because the property rights attaching to *individual* ownership do not map directly onto the *collective* ownership of property. Accordingly, the whole question of who owns what, and who has control of it, must be explored before one has an adequate understanding of employee ownership.

ESOPs vs. Cooperatives vs. Conventionally-owned Companies

Ownership may be defined in terms of three rights: the right to information about the thing owned, having the control over the thing owned, and the right to any residual returns from the thing owned (Pierce, Rubenfeld and Morgan, 1991; Pierce, Kostova, and Dirks, 2001; Rousseau and Shperling, 2003). Further, there are rights of *membership*, which cannot be transferred, sold or inherited, like voting rights, which attach to one's age or where one lives; in contrast, there are *property* rights, which can be sold or bequeathed (Ellerman, 1984). Further, rights differ according to legal structure. (Stein, 1976; Steinherr, 1975).

Conventionally- owned. In theory, in a conventionally-owned private firm stockholders (i.e., owners) have complete control over firm assets, have exclusive rights to information about those assets (e.g., financial statements), and enjoy returns generated from those assets, including capital gains. Bankers and other providers of capital may require information from the owners, the extent of which is negotiated between owners and their lenders and investors. Whether this information is given to employees is completely discretionary, as is the matter of sharing control with employees through some form of participation.

In contrast, in a conventionally-owned public firm, regulators require that financial and other information be published regularly, and that the information be consistent with generally accepted accounting principles and other standards for reporting. Control is essentially in the hands of management, not necessarily the investor-owners, and not necessarily to their benefit! (Berle and Means, 1932). Owners have rights to residuals and capital gains. As with conventionally-owned companies, the matter of sharing control with employees through some form of participation is discretionary. (Fama and Jensen, 1983; Ellerman, 1984).

Cooperative. In a cooperative, the distinction between owners, managers, and workers is blurred. Typically, one becomes a member by purchasing a membership share, each share being equal in value. Information is available to all members, who have control over assets. Control is determined democratically.

However, not everyone working in a cooperative is necessarily a member in that in some cooperatives workers are hired who are not members. Non-members have no vote. (Arando, Freundlich. Gago, Jones, and Kato, 2011; Craig, and Pencavel, 1992; Ellerman, 1984; Sen, 1966; de Meza, 1983).

Membership shares are not property in the usual sense because they cannot be sold or inherited (Ellerman, 1984). Shares confer the right to vote (control) and the right to a share of the concern's residuals (profits). Note that each member has just one vote regardless of how much equity s/he has built up in the firm. Even so, equity is not equity in the usual sense: the value of equity is typically computed based on the number of hours worked rather than upon amount invested. Upon separation, members receive their membership share back, plus the equity built up as a result of hours worked (Ellerman, 1984).

ESOP. Although in an ESOP employees can be regarded as "owners" in almost every sense of the word, the stock that they "own" is actually held in an employee stock ownership trust (ESOT), administered by trustees as fiduciaries. The amount of information employees receive is determined by management discretion, subject to certain legal requirements. The minimum required by law is an annual plan report issued to employee-owners. Many practitioners consider this once-a-year communication to be inadequate. Accordingly, many ESOP companies choose to report to their employee-owners more than just the value of the plan and their individual account balances, and some go so far as to adopt "open book management" that entails providing training and education so ordinary workers can understand the financial statements (Case, 1995; Shipper, Manz, Manz, and Nobles, 2014; Rosen and Carberry, 2002; Rosen, and Rodgers, 2007; Rosen, and Rodgers, 2011; Stack, 1992; Young, Rosen, and Carberry, 1993).

2.3. Management

In the previous section I discussed topics that are concerned with the rightness or ethics or suitability of shared capitalism. In this section, I deal with the practical questions of how and why it works. These are the concerns of managers, management scholars, social psychologists and behavioral economists.

Management - Property Rights

Considering a shared capitalism structure, the student and practitioner alike will want to know which property rights affect effectiveness and efficiency. When workers purchase or are granted stock outright, the usual property rights apply. ESOPs and cooperatives differ, however in significant ways: because employees' shares in an ESOP are held by the ESOP trust (ESOT) employees do not have direct control of them and typically must wait until separation to take full possession of them; further, their shares may be released to them over a period of time rather than in a lump sum. An individual's ownership percentage increases are earned over time. In a cooperative, a worker purchases an ownership share, enfranchising him or her to vote. As the cooperative earns a return, the worker's share accumulates in a separate account. (See Ellerman, 1984) for a full discussion.)

Management – Individual and Firm Economics

When economists study employee ownership, they tend to focus on agency theory (e.g., Jensen and Meckling, 1979), group rewards (e.g., Weitzman and Kruse, 1990), and the question of ownership and control. The claim for the efficiency effects of employee ownership is: because ownership is brought in house, ownership and control are no longer separated. This is especially the case when employees are empowered to participate in decision-making. What has not yet been determined by empirical study is whether efficiency is affected by participation at the task level or at the board level, for example when the right to vote their shares is granted to employees. (See discussion of the employee stock ownership trust above.)

Firm Behavior—Separation of Ownership and Control

When ownership is separated from control, owners (shareholders) inevitably suffer because management is in a position to control the information that shareholders (owners) need to monitor their activities. Further, management can conceal or disguise actions so that shareholders are unaware that they are being taken advantage of (e.g., Berle and Means, 1932; Fama and Jensen, 1983).

Firm Behavior-Agency Theory

According to agency theory (Aldatmaz and Ouimet, 2011; Clark, 1985; Eisenhardt, 1989; Jensen and Meckling, 1979; Ritter and Taylor, 2000), employee ownership is more efficient than conventional ownership because it aligns the interests of owners and their agents, i.e., hired managers—and by extension, hired labor. According to conventional wisdom, in employee ownership, capital and labor become one, and the distinctions among capital, labor and management disappear. Note that in the previous sentence a distinction was made between three stakeholder groups, a distinction not made by Berle and Means (1932) whose discussion largely omits mention of workers. However, the positive view of employee ownership as solving the agency problem is not shared by all (e.g., Mygind and Rock, 1993).

Group Rewards-Shirking

Employee ownership is a group reward (Weitzman and Kruse, 1990) and as such encourages shirking (also called the 1/*n* problem, or social loafing in the terminology of social scientists) (Conte and Svejnar, 1990). Although the *theoretical* debate as to whether employee ownership necessarily leads to shirking has not been resolved, the *empirical* evidence shows that employee-owned companies do perform better, on average, than conventionally-owned companies, and that this effect is more pronounced when management practices some form of empowerment or participation in decision-making. To deal with shirking, some employee-owned companies rely on "communication and participation" programs to instill a culture of cooperation, information-sharing and mutual monitoring.

Individual Behavior—Investment Decisions
In the case of cooperatives, members are faced with what is essentially an investment decision: whether to invest their financial capital in the cooperative or to earn a return in a savings account. From a purely economic standpoint, the decision rests upon the rates of return available from the two investments, given the same level of risk (Vanek, 1976).

Individual Behavior - Psychological Ownership

Management - Strategy
Traditional economic analysis treats capital and labor as separate factors in production: investors purchase physical capital and hire labor, including managers who direct workers in its use. Wages are paid, and whatever is left over is the capitalists' return on investment. But employee ownership turns all this on its head: the distinction between capital and labor is blurred or erased, and the relationship between managers and employees is changed because both are co-owners, with strong incentives to cooperate. This is different from the situation in which managers are the owners' agents, and workers are subordinate to managers. There is no *us* vs. *them*. Without the distinction between capital and labor, traditional analyses break down. Consistent with this observation, a large body of empirical literature shows that employee-owned companies outperform conventionally-owned companies on a variety of outcomes (Bova, 2011). Traditional neo-classical economic analysis is not equipped to explain why.

Two recent articles in strategy journals have addressed the twin questions of why employee stock ownership plans (ESOPs) tend to outperform conventionally-owned companies, and why some ESOPs thrive while others do not. In their first article, Thompson, Shanley and McWilliams argue that employee ownership is a strategic variable in that it has the potential to make a firm's culture more flexible and adaptable to environmental change, enabling the company to respond effectively to competitive challenges and opportunities (2013). When everyone is in the same boat as it were, there is a strong incentive for all to row in the same direction. A flexible culture is not assured, however; it requires skilled and knowledgeable management (Thompson, *et al.*, 2013).

Subsequently, the same authors expand on their culture argument by pointing out that an ownership culture encourages internal cooperation, thereby resolving conflict over firm goals, which reduces dysfunctional internal competition for resources. The result is an enhanced ability to achieve competitive advantage (Thompson, McWilliams, and Shanley, 2014).

Financial Management

Although much of the discussion regarding employee ownership focuses on such individual–level variables as employee perceptions and attitudes and such firm-level outcomes as productivity, performance, and sustainability, an important feature of an ESOP is that it is a tool of corporate finance. As such, it has the potential to dramatically alter a firm's relationship with—that is, its degree of dependence upon—capital markets.

There are three basic conditions:

(1) **Partial employee ownership in a public company**. In this case, company shares are traded in a public market. The company has full access to the capital markets. Employee owners vote their shares the same as any shareholder. (Exception: if the public company has an ESOP, the ESOP trustees vote on behalf of the employees.) If management has elected to pass through voting rights to employees, the trustees vote in accordance with employee preferences.

(2) **Partial ownership in a private company**. This situation is often a transitional state, where an owner wishes to share ownership with his or her employees, but desires to maintain control. Another situation engendering this structure occurs when an owner initiates an exit strategy, selling the company to the employees in stages. This strategy is often driven by tax considerations. A recent development in the financing of employee-owned companies is passive investment by private equity firms that seek the enhanced returns generated by employee-owned companies, and who are content to concede governance to the employees (See discussion above regarding capital markets.).

(3) **Full (100%) ownership**. When voting rights are passed through, employees have (ostensible) full control of the company (although pass-through rights may be revoked). When voting rights are not passed through, the trustees vote the shares. As fiduciaries, their responsibility is to the owners as shareholders, *not* as employees. Thus, a case may arise where employee owners are terminated, or a division is closed or divested, resulting in loss of employment.

Financial Management

Employee ownership tends to tie capital up within a company, with either positive or negative consequences. On the one hand, when shares are owned by managers and employees it can take on the characteristics of "patient capital" that enables managers to make long-term decisions, resulting in superior returns. Alternatively, a captive source of funds might impair the efficient allocation of capital foster an entrenched management, as employee owners are reluctant to take risk.

H R Management

When all employees are owners, the relationship between the human resource department and employees changes in that the distinction between management and ordinary employee is blurred. Human resource personnel are more like peers than agents executing management's policies. Another difference is that employee ownership makes it easier for management to remove barriers to cooperation: when everyone perceives that they are in the same boat, as it were, and especially when everyone is able to participate in decision-making, cooperation is enhanced. This topic, and the topic of employee ownership have been ignored in the H R literature, and so are ripe for research, study and discussion.

Management - Organization Behavior

A large proportion of shared capitalism research, particularly empirical studies, focus on the effect of shared capitalism on individual perception, attitudes, and behavior. The two major goals of employee ownership research are to explain firm behavior and individual behavior. Economists, sociologists and legal scholars have tackled the first question as we have discussed above**,** while I/O psychologists and management scholars have tackled the second question.

Management. At the firm level, employee ownership has been shown to be associated with reduced absenteeism, turnover, and tardiness.

Scholars exploring individual behavior under shared capitalism have produced a considerable amount of empirical research, most of which demonstrates a positive relationship between employee ownership and such individual level variables as satisfaction, organizational citizenship behavior, and the like. What remains to be answered, however, is how these individual-level attitudes convert into firm performance. (Thompson, et al**.,** 2013**)** Many attempts both theoretical (Caramelli, 2011; Bowles, and Gintis, 1993; Ben-Ner and Jones, 1995; Caramelli, and Briole, 2014; Hallock, Salazar, and Venneman, 2003; Logue, and Yates, 2000; Paul, Ebadi, and Dilts, 1987; Ritter, and Taylor, 2000; Westenholz, 1999) and empirical have been made to answer this question, but so far the answer has eluded scholars (Winther, 1999). (See reviews by Blasi, Conte and Kruse, 1996; Bonin, Jones and Putterman, 1993; Carberry, 2011; Freeman, 2007; Kruse and Blasi, 1997; and the introduction to the monograph by Kruse, Freeman, and Blasi, 2010).

The empirical literature reporting the effects of employee ownership is extensive, mature, and conclusive: employee ownership has positive effects on both firm-level and individual-variables. A review of that literature is beyond the scope of this paper, and would be redundant because several excellent reviews of empirical work already exist (e.g., Carberry, 2011; Weitzman, Kruse, 1990; Kruse, Freeman, and Blasi, 2010).

For the students of employee ownership and their instructors, this literature could form the basis of an entire semester of study and discussion. Individual papers provide multiple occasions for discussing the construction of causal models, multi-level causation, the advantages and disadvantages of various research designs, the practical problems of sampling and drawing inferences, and other material related to investigating a complex phenomenon. Further, although employee ownership can be studied from the perspective of OB, even a passing glance at the literature reveals that the topics discussed in this paper are intimately related, and that one cannot focus on just one topic and expect to have grasped the entirety of employee ownership.

Management - Compensation

Compensation policies furnish rich opportunities for study and discussion. Viewing employee ownership from the perspective of compensation, teachers and students will want to confront the question of the effectiveness and perceived fairness of employee ownership (Brennan, 2005). To illustrate: this author, during a visit to an employee-owned company saw a printed sign (in the restroom!) intended to be inspirational. It read:

"*XYZ Corporation – Employee Owned*."

Fraud and deceit. But someone had scratched out the word "Owned" and had handwritten the word "***Financed***." It is such mistrust and misunderstanding that communication and participation programs, including open book management, are designed to address. On the other hand, the mistrust is often justified—employees are used as last-ditch sources of financing to buy out disenchanted or deceitful owners. Citing such spectacular failures as Enron, United Airlines and the Tribune Company, critics of ESOPs have claimed that they are unethical because they put employee's income and wealth at risk (e.g., Rosen, Case and Staubus, 2005; *Summers v. State Street Bank and Trust and UAL Corporation ESOP Committee,* 2006). A counter-argument is: any human institution is vulnerable to abuse, and that an ESOP is no more likely to invite the depredations of the dishonest than other forms of organization.

Motivating potential. Another consideration is the motivating potential of compensation that is so closely linked to firm performance (Kurtulus, Kruse, and Blasi, 2011). Relative to that point is the matter of identifying (1) the ideal proportion of compensation-at-risk to total compensation or (2) workers' perceptions of their economic insecurity (Blasi, Kruse, and Markowitz, 2010).

Internal and external equity. Besides the perceived fairness of treatment of employees by management, employees' fairness perceptions are also affected by perceptions of internal and external equity (Wallace and Fay, 1988; Lawler, 1990). For example, an employee who is entitled to share in the fortunes of his or her employer might at the same time receive a below-market wage. Although total compensation may be greater than a counterpart in a conventionally-owned company, in making equity comparisons do workers tend to focus on wage only, or the total compensation package?

Shared risk. Students and teachers might be interested in exploring the concept of *shared risk* (e.g., van der Dennen, 2005; Thompson, Shanley, and McWilliams, 2013). Shared risk is an extension of deprivation theory (Stouffer, 1949), which predicts that social movements form when members of group feel deprived and become aware that others in the group are similarly deprived. Similarly, when each member in a group endeavor has something at stake, and the actions of others in the group determine the fate of that stake, the situation is one of shared risk. Examples are: a sports team, combat, and the sailors in *Moby-Dick.* In each case, group members depend upon each other for survival and success. In that sense, employee ownership entails shared risk.

Management - Organizational Culture

Organizational Communications

In order to achieve the goals claimed for employee ownership—increased employee involvement, mutual monitoring and support, and increased productivity, many ESOP companies invest time and money in "communication and participation" programs. These are essentially internally driven organizational development interventions, designed to increase awareness of the ESOP, understanding of how share ownership works, and ultimately to generate the productivity and profitability potential in employee ownership. The *importance* of these efforts is evident in, for examples, awards for the best program given by The ESOP Association at their annual conference for the best program of the year.

Open Book Management

Closely allied with communication and participation programs is the practice of open book management (OBM) (Stack, 1992). OBM is based on the philosophy that workers, when they understand how their individual efforts contribute to the performance of their company, will tend to work more effectively and efficiently. Accordingly, financial information is freely shared with employees; but most importantly, employees are *trained* how to read and interpret financial statements. This practice is greatly empowering, leading to the benefits that go with empowerment.

3. Summary

The motivation for this paper is to build on Hill's (2000) assertion that the cooperative form of industrial organization is missing from business textbooks because the legal structure of cooperatives does not fit into conventional forms. My additional contention is that cooperatives and other forms of shared capitalism are multifaceted phenomena, and so cannot be understood from conventional business school perspectives. Hill's observation is that business textbooks take the conventional forms of industrial organization for granted, and proceed to expound course material from that point, whereas shared capitalism takes many forms. Further, the mere existence of shared capitalism challenges unexamined assumptions, familiar practices, long-standing legislation, and embedded cultural norms. To fully understand shared capitalism, one must examine it from multiple perspectives that schools of business, with their established departments, are not structured to do. Should it be taught in the management department in a course on human resource management or organization behavior? In advanced accounting classes, to study the idiosyncrasies of employee ownership accounting? In finance classes, to learn how employee-owned companies firms have a unique relationship to the capital markets? There is no easy fit with established departments.
To aid the instructor who wishes to undertake the teaching of shared capitalism, I have briefly (!) identified a sampling—surely incomplete—of some perspectives from which to study shared capitalism. It must be kept in mind that the theoretical and empirical studies referred to herein represents a small sample of a growing literature.The shared capitalism literature divides neatly into two broad perspectives: the first being a philosophical inquiry into the desirability of shared capitalism in addressing the needs and desires of humankind. This approach might be characterized as dealing with moral first principles, or worldview. The second perspective focuses on how shared capitalism functions in practice, and whether it is effective at achieving desirable goals and efficient in doing so.

3.1. A Final Word

Kudos to the instructor who ventures to study and teach employee ownership. It is challenging enough to break out of the confining conceptual frame of just three legal forms (proprietorships, partnerships, and corporations), then again to undertake examining a bewildering array of ownership-related topics. To add to the challenge, each topic begets issues to be debated, and conclusions to be drawn, further increasing the amount of material to cover. But because employee ownership is an important part of the business environment, regardless of the proportion it occupies within the total economy, it should not be ignored.

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