

**EMPLOYEE OWNERSHIP AND
EMPLOYEE INVOLVEMENT
AT WORK: CASE STUDIES**

ADVANCES IN THE ECONOMIC ANALYSIS OF PARTICIPATORY & LABOR-MANAGED FIRMS

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OF PARTICIPATORY & LABOR-MANAGED
FIRMS VOLUME 18

EMPLOYEE OWNERSHIP AND EMPLOYEE INVOLVEMENT AT WORK: CASE STUDIES

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Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2018

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British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-78714-520-7 (Print)

ISBN: 978-1-78714-519-1 (Online)

ISBN: 978-1-78714-958-8 (Epub)

ISSN: 0885-3339 (Series)



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FOREWORD

The series *Advances in the Economic Analysis of Participatory and Labor-Managed Firms* was launched three decades ago by Derek C. Jones and Jan Svejnar. Since then, *Advances* has been a leading forum for high-quality original theoretical and empirical research in the broad area of participatory and labor-managed organizations.

It is my great pleasure to present Volume 18 of *Advances in the Economic Analysis of Participatory and Labor-Managed Firms*. *Advances* has been making frequent use of guest editors. This volume is also ably edited by Daphne Berry (jointly with me). Being a book series, *Advances* has an advantage over regular scholarly journals in terms of the nature and scope of what it publishes. Last year we started to take advantage of its flexibility and publish a research monograph. This year we continue to take advantage of its flexibility and publish a collection of real-world examples of employee participation and shared capitalism, which we believe are of great value to scholars, policy-makers, and practitioners of management.

The scope of *Advances* will also continue to reflect great changes in the realities of participatory organizations over the last few decades. Following the disintegration of the Former Republic of Yugoslavia, the principal systemic example of self-management was replaced with diverse forms of participatory systems. In advanced market economies, many firms have been experimenting with new and innovative work practices aimed at promoting employee participation in decision-making in the workplace (sometimes even at the top corporate level) and alternative compensation systems designed to align the interest between labor and management. In addition, a number of significant examples of worker cooperatives have flourished. In transition economies, the collapse of the former USSR triggered widespread experimentation with diverse forms of participation, in particular employee ownership. Finally, with the rise of the East Asian economies (first Japan, then South Korea, and most recently China), the geographical scope of *Advances* started to expand to include East Asia. This volume continues to reflect the emergence of multiple centers of gravity of the global economy.

I hope you will find this volume informative and stimulating and share information about *Advances* with other interested colleagues. Finally, Volume 18 will be my last volume of *Advances* as series editor, and I would like to take this opportunity to thank all past guest editors, publishers, contributors, and readers of *Advances*.

Takao Kato
Series Editor

INTRODUCTION

Daphne Berry and Takao Kato

The field of economics of participation was originally a mostly theoretical study of self-managed firms (a principal example of which is self-management in the former Republic of Yugoslavia) as contrasted to conventional capitalist firms. Following the disintegration of the former Republic of Yugoslavia, the realities of participatory organizations have changed. Many conventional capitalist firms in the advanced market economies began experimenting with management practices aimed at promoting employee participation in decision-making at multiple levels as well as financial participation schemes that are designed to align the interest between labor and management. In addition, there have been a number of highly successful examples of majority employee-owned firms in the advanced market economies. In response to the impressive development of participatory organizations in the advanced market economies, the field of economics of participation has expanded significantly in its scope and methodologies. A variety of applied researchers have been conducting sophisticated econometric studies of such participatory organizations by using unique quantitative data. By now, there is a rich body of rigorous econometric evidence on participatory and labor-managed firms.

With a growing prominence of sophisticated econometric research in a much-expanded field of New Economics of Participation (NEP), it is of particular value to learn about real-world examples of participatory and labor-managed firms in the advanced market economies through extensive case studies. In this volume of *Advances in the Economic Analysis of Participatory*

and Labor-Managed Firms, we present such case studies. We trust that the real-world examples of participatory organizations vividly described in this volume will help researchers in NEP design empirical strategies better; and more sensibly interpret their econometric results. Furthermore, they will help policy makers and practitioners in their efforts to construct better public policy and design management practices.

The global Great Recession following the financial meltdown in 2008 has roused much interest among scholars, policy makers, and the public regarding the possibilities of alternative ways to structure economic organizations. One of such alternatives is shared capitalism in which workers become significant stakeholders in the firm through diverse financial participation schemes, including employee ownership, profit-sharing, gain-sharing, and broad-based stock options (Kruse, Freeman, & Blasi, 2010). Perhaps, the most powerful form of shared capitalism is worker cooperatives, making ordinary workers majority owners of the firm, and responsible for corporate decision-making. Among such employee-owned firms, Mondragon is frequently considered the most successful example around the world. In spite of such prominence of Mondragon, rigorous research on Mondragon firms is relatively limited. In particular, we know little about how Mondragon has been coping with the aftermath of the financial meltdown in 2008. To this end, two case studies of Mondragon firms by scholars who are intimately familiar with Mondragon are much-needed additions to the literature.

The first chapter by Saioa Arando and Iñaki Arenaza Bengoa provides a detailed and revealing account of the final years of Fagor. The closure of this iconic cooperative in Mondragon in the Fall of 2013 raised some doubt about the viability of the worker cooperative model. The chapter first presents the relevant backdrop in detail that led to the closure of Fagor and argues that it was mostly caused by severely deteriorating market conditions and had little to do with the worker cooperative model. The remainder of the chapter describes an intriguing triage process following the closure of Fagor which succeeded in minimizing the negative impact of the closure on Fagor workers. We hope that the chapter will generate further interest in research on this important yet less researched subject. Particularly promising are comparative studies. For instance, the authors argue that the closure of Fagor was largely due to market conditions and had little to do with the worker cooperative feature of the firm. A comparative study in which Fagor is compared and contrasted to a reasonably comparable conventional firm will be of great value. In addition, the triage process following the closure of Fagor involves extensive cooperation from other firms in the Mondragon group, such as permanent transfer of workers from Fagor to other group firms. Such extensive cooperation

among group firms to assist a group firm in financial distress is not unique to Mondragon. For example, Japanese Keiretsu is known to engage in similar intra-group cooperation to assist a failing group firm (see, for instance, Kato, 2001). Another comparative study of intra-group cooperation to help a troubled group firm between Mondragon and Keiretsu will be of great interest.

The second chapter by Aitziber Arregi, Fred Freundlich, and Mónica Gago uses unique data from a survey of employees at ULMA Architectural Solutions (UAS), another worker cooperative in the Mondragon group. While the literature on cooperatives has paid significant attention to whether cooperatives outperform or underperform their conventional counterparts, there is little direct evidence that bears on the channels that helps explain why cooperatives and conventional firms may differ in performance. Recently, Arando, Gago, Jones, and Kato (2015) provided evidence on such a channel – employee-owned firms also use more extensive employee involvement programs, and complementarity between employee ownership and employee involvement produces better performance. This chapter provides novel evidence that workers with a stronger sense of participation; involvement; and empowerment at the shop floor; a stronger identify with the shop floor; and a better sense of communication at the shop floor are more likely to hold a more positive perception of UAS as a whole and its worker cooperative model. As such, the chapter offers important credence to the recent literature pointing to the importance of complementarity between employee involvement and empowerment in the workplace and employee ownership. We hope that the same survey will be repeated at UAS so that the unique cross-section data used by the authors can be extended to become panel data. Such panel data will enable researchers to account for unobserved heterogeneity of workers.

The first chapter by Saioa Arando and Iñaki Arenaza Bengoa vividly illustrates how a producer cooperative in Mondragon responded to the Great Recession. The third chapter by Marc Street, Vera Street, Thomas Calo, and Frank Shipper investigates the factors that made Mid South Building Supply (MSBS) able to survive the Great Recession. MSBS has been a 100% employee-owned company for nearly half of its 50-year existence and is part of the hyper-cyclical construction industry. Although a quarter of firms in the industry disappeared during the Great Recession, MSBS remained strong. The authors used a mixed method study to examine practices that allowed MSBS to survive and thrive. The authors found that MSBS employees and management have great pride in their company, and in particular their ESOP, believing employee ownership results in exceptional customer service and aligns management interests with employee interests. Creativity in the face of declining construction business during the recession resulted in employees turning to remodeling as a source of revenue. The authors describe other

attributes associated with employee ownership that helped MSBS, and which, by extension, may help other firms. They propose that practices such as shared leadership, recruitment, selection, training, compensation, incentives, work teams, employee involvement, and information-sharing in combination appear to increase the survivability of employee-owned companies during recessions. In addition, planning for lean periods through savings and investments and by remaining debt-free helped MSBS during the Great Recession.

Nearly two decades prior to the 2008 financial meltdown, Japan experienced her own financial meltdown. In the ensuing years many Japanese firms that are known for their early adoption of participatory management practices faced rising competitive pressure often resulting from the rise of other East Asian economies. The fourth chapter by Arghya Ghosh, Takao Kato, and Hodaka Morita, using qualitative data from their longitudinal field research at two manufacturing firms in Japan, documents that Japan's celebrated employee involvement program has been declining in recent years. The chapter then argues that the weakening employee involvement may be caused by the rising product market competition. The literature on the incidence of the HPWS and employee involvement often considers product market conditions as a possible determinant of the incidence of the HPWS and employee involvement. The authors provide the first plausible account for why the rising product market competition causes employee involvement to weaken. In so doing, the authors pay attention to the firm's innovation strategy and its interplay with its product market conditions, and show that the rising product market competition can cause the firm to shift its innovation strategy from the bottom-up grassroots innovation strategy in which employee involvement plays an indispensable role to the top-down engineer-oriented strategy with limited room for employee involvement. The authors derive this novel and potentially important insight from their extensive field research. A rigorous econometric test of their insight will be a promising future research area.

Minsun Ji's chapter (Chapter 5) on taxi driver organizing in Denver examines the labor-empowerment potential of taxi driver cooperative and union partnerships. The research examined the extent to which such a partnership might advance the interests of the drivers and help to revive interest in the labor movement. Ji's use of narrative inquiry, surveys, and interviews afford her an in-depth look at the dynamics of the relationships between two union – taxi driver collaborations and the establishment of two worker cooperatives. With little understanding or training provided, the drivers had little concept of worker cooperatives or cooperative principles. Some drivers viewed the cooperative as a tool to allow them to maximize their own economic fortunes by leasing their cooperative taxi licenses to other

drivers at high rates. With strong feelings of individualistic ownership, these taxi drivers were not supportive of new labor organizing efforts or other associations of drivers being established. Ultimately, because neither the union nor the taxi drivers prioritized the development of a sense of solidarity or class power during the establishment of their arrangements, neither of them developed; when competing interests developed, the partnerships unraveled.

In Chapter 6, Janet Boguslaw and Sarah Taghavi-Soroui use data from a study supported by the W. K. Kellogg Foundation and the Rutgers School of Management and Labor Relations that seeks to understand the impacts that employee ownership can have on the wealth accumulation of low- and moderate-income employees. Data gathered from interviews with management staff, plant managers, company documents, and employee data, are used. This case study examines how and which structured elements of an employee stock ownership plan company may contribute to building economic security and asset wealth for the lowest wage employees of a firm. Employees from the JEBA Co. are able to accumulate assets that likely would never have been possible to accumulate at their pay grades. The chapter examines how the ESOP model contributes to build financial, human, and social capital. The case highlights areas where the ESOP structure can particularly contribute to develop an asset accumulation strategy that not only helps the lowest income workers to gain assets but also helps to reduce wealth inequalities between the highest and lowest income employees.

The seventh chapter by Daphne Berry and David Fitz-Gerald reveals the results of a study of the context in which the 100% employee stock ownership plan company maintains not only an insider-only board of directors but one with non-officer employees as members. As Carris Reels' owner, Bill Carris, prepared to sell his reel manufacturing company to his employees, he considered the values he wanted the company to live by into the foreseeable future. He drafted a vision statement called the Long Term Plan which outlined his strategic goals for the company and his vision of its organizational culture. The plan discussed goals for sharing ownership, and profits, shared decision-making, and holding equality and fairness at work and in life in high regard. With employees represented on committees at all levels of the organization, and despite trends toward including outsiders on company boards of directors, Carris Reels instead includes democratically-elected representatives from within non-officer employee ranks on its board. Formal and informal interviews with employees, observation, and reviews of archival documents provide data for this in-depth look into the values and culture of this representative democratic employee-owned business organization.

In the final chapter, Thomas Calo and Frank Shipper use a descriptive case study to investigate Atlas Container Corporation's practices of egalitarianism, democracy, mutuality, and transparency. In their ethnographic study, the authors used interviews, observations, archives, and other documents to identify the human resource policies and practices of Atlas, a small cardboard manufacturing company that is owned by its 200 employees. The authors propose that these distinctive practices differentiate Atlas from other companies in the industry and contribute to its success. Blue- and white-collar workers share decision-making, although this may take longer than authoritarian decision-making. Calo and Shipper use a literature review to assess the relevance of High Performance Work Practices to the practices at Atlas, finding evidence of seven of the identified practices. They propose that those practices, coupled with shared leadership, contribute to the success of Atlas, even in the face of growing competition.

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