

**SHARING IN THE COMPANY:
DETERMINANTS, PROCESSES AND
OUTCOMES OF EMPLOYEE
PARTICIPATION**

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

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ADVANCES IN THE ECONOMIC ANALYSIS OF
PARTICIPATORY & LABOR-MANAGED FIRMS VOLUME 17

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EDITED BY

ERIK POUTSMA

Radboud University of Nijmegen, Nijmegen, The Netherlands

PAUL E. M. LIGTHART

Radboud University of Nijmegen, Nijmegen, The Netherlands



United Kingdom – North America – Japan
India – Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2017

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British Library Cataloguing in Publication Data

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

ISBN: 978-1-78560-966-4 (Print)

ISBN: 978-1-78560-965-7 (Online)

ISBN: 978-1-78714-888-8 (Epub)

ISSN: 0885-3339



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Certificate Number 1985
ISO 14001



INVESTOR IN PEOPLE

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LIST OF CONTRIBUTORS

- Eric C. A. Kaarsemaker* School of Management and Labor Relations,
Rutgers University, New Brunswick, NJ,
USA
- Paul E. M. Ligthart* Institute for Management Research,
Radboud University, Nijmegen, The
Netherlands
- Sanjay Pinto* Cornell Worker Institute, Ithaca, NY, USA
and Rutgers School of Management and
Labor Relations, Rutgers University,
New Brunswick, NJ, USA
- Erik Poutsma* Institute for Management Research,
Radboud University, Nijmegen, The
Netherlands
- Ulke Veersma* Business Faculty, University of Greenwich,
London, UK

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FOREWORD

The series *Advances in the Economic Analysis of Participatory & 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. Although general and specialized journals publish work in this field, many do so only occasionally. *Advances* has been the only annual peer-reviewed periodical that presents some of the best papers in the field in a single volume.

It is my great pleasure to present Volume 17 of *Advances in the Economic Analysis of Participatory & Labor-Managed Firms*. *Advances* has been making frequent use of guest editors. This volume is also ably edited by Erik Poutsma and Paul E.M. Ligthart. Unlike the previous volumes, this volume takes the form of a research monograph (nearly all chapters are written by the guest editors and their collaborators), demonstrating the flexibility of *Advances*.

The scope of *Advances* will also continue to reflect great changes in the realities of participatory organizations over the past 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.

Methodologically *Advances* will continue to welcome papers utilizing diverse methodologies ranging from conventional economic analysis (including both theoretical and econometric studies) to new institutional economics to behavioral economics.

I hope you will find this volume informative and stimulating and that you will consider contributing to the future volumes of *Advances* and sharing information about *Advances* with other interested colleagues.

Takao Kato
Series Editor

SHARING IN THE COMPANY: INTRODUCTION TO THE VOLUME

Erik Poutsma and Paul E. M. Ligthart

This volume of *Advances* gathers recent insights into the determinants, developments, and outcomes of employee share ownership. It focuses on the numerous emerging themes in the literature and tests some of the relationships derived from the literature using several datasets, notably European ones. This volume is different from other volumes because it is more of a monograph developed and edited by us, the guest editors. The result is a coherent set of chapters that discuss the phenomenon of employee share ownership. We primarily discuss employee share ownership from the perspective of strategic human resource management (SHRM) and wish to contribute to the literature from that perspective.

This volume contributes to the literature by exploring the importance of the relationship of employee ownership to other human resource management (HRM) practices while taking into account the embeddedness of employee ownership in HRM systems. We present and discuss the “contextual SHRM model” in which HRM strategy and, therefore, HRM practices are influenced by several environmental pressures, thus indicating the need for several “fits” between HRM and these pressures. In this volume, we address several of these “fits.” Organizations’ HRM strategy is influenced by the competitive and institutional pressures of the product–market combinations and the appropriate technology (PMT dimension) on the one hand and by the sociopolitical, cultural, and legal context (SCL dimension) on the other hand. The PMT dimension represents the economic rationality of national and international

Sharing in the Company: Determinants, Processes and Outcomes of Employee Participation
Advances in the Economic Analysis of Participatory & Labor-Managed Firms, Volume 17, 1–4
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ISSN: 0885-3339/doi:10.1108/S0885-33392016000017001

competition in which demands such as efficiency, effectiveness, flexibility, quality, and innovativeness are decisive factors in strategic choices and, hence, the HRM strategy and policies. This phenomenon is also referred to as the development of “strategic fit” (or “vertical fit”). The SCL dimension reflects the prevailing values and norms and institutional pressures for legitimacy (the acceptance of organizations in the wider society) that shape HR policies and practices, a phenomenon that is also referred to as the development of “environmental fit.” The third pressure, administrative heritage, which is the historical growth and organization of the firm, also has a bearing upon the shaping and structuring of HR policies and practices and is also called the “organizational fit.” The coherence of HRM systems is usually referred to as the “internal fit” (or horizontal fit) of HRM practices. To these four fits, we add “personal fit,” or the alignment between an HRM system, policies, and practices and individuals’ personal traits, attitudes, and beliefs.

The chapter “Employee Ownership and High-Performance Work Systems in Context” presents the rationale for employee ownership and elaborates the above SHRM perspective as the book’s core theme. It explores the contextual model in which employee share ownership is embedded in an SHRM system. This model theoretically develops the possibility of an internal fit of employee share ownership with the SHRM system and suggests a specific configuration of core HR practices that produces the expected outcomes when combined with employee share ownership. The chapter also highlights the importance of employee perceptions and reactions (i.e., psychological ownership) as mediators for possible outcomes. In addition, it emphasizes the importance of a workforce philosophy that employees deserve to be owners and pursuant to which employees are taken seriously with respect to the configuration of the system and its outcomes.

The chapter “Which Companies Adopt Sharing Arrangements and Why?” focuses on the determinants of employee share ownership. First, we discuss the relationship between financial participation and other individual incentives. Second, we draw attention to the emerging theme of the relationship between investment in training and financial participation. Third, we address the theme of the relationship between financial participation and other forms of participation in decision making. Fourth, we address the theme of peer monitoring and financial participation. Fifth, we discuss the role of broader HRM configuration in the development of financial participation. Sixth, we address the important theme of country differences in the adoption of sharing arrangements. A relationship is discovered between employee share ownership and human capital investments, individual incentives, involvement practices, and human resource management practices. That relationship is affected by country differences. We find that the bundling of employee share ownership and involvement practices is significantly associated with a higher investment in training. In this way, employee share ownership can be considered part of the high-involvement management practices that boost competitive advantage.

The chapter “Who Participates in Share Plans and Why?” addresses the question of who participates in share plans and why. It investigates the differences in share-plan participation among employee groups and why these differences exist. The chapter concludes that because of monitoring difficulties, employers tend to focus on high-level personnel when allocating or offering shares. Attempts to retain valuable personnel may result in inequality between groups in terms of their access to and participation in share schemes. Highly educated personnel have a higher likelihood of participating and receiving benefits. There are also indications that men have a higher chance of participating and receiving benefits than women do. Additionally, there are signs that both participation and benefits are related to income. In other words, broad-based employee share schemes tend not to minimize inequalities. Instead, they seem to increase the gap between high- and low-paid employees, despite the possibility that share schemes and profit sharing increase the wealth of lower-paid employees compared to those who do not have access to such schemes.

The chapter also challenges the widely held view that commitment and involvement are associated with participation in share plans. It finds that employees may have financial or instrumental reasons for participation and that they do not have an ownership orientation. The attitude of instrumentality, not commitment, has an important influence on participation. Additionally, we challenge the view that ownership may be related to psychological ownership and thus favorable performance outcomes. One key element in creating an association between (i) participation and (ii) commitment and (iii) psychological ownership and performance outcomes is how employees perceive a plan. Are they knowledgeable about the plan? Do they view the plan as useful? If these factors are addressed, participation increases, psychological ownership is developed and performance improves.

The chapter “How has Employee share Ownership Evolved in the Global Context?” takes an international comparative approach to the subject. It investigates the variance in the adoption of employee share ownership and stock option arrangements across countries. More specifically, it investigates the influence of multinational enterprises (MNEs), industrial relations factors, HRM strategies, and market economies on the adoption and spread of such arrangements across countries. The chapter concludes that industrial relations factors provide limited explanations for the variance in adoption by companies in their respective countries. MNEs and HRM strategies are important drivers of adoption. A market economy does not moderate the influence of MNEs on adoption, which suggests that MNEs universally apply arrangements across borders. This chapter also highlights the institutional perspective of certain HRM practices and outlines the diversity of institutional arrangements that may influence the nature of financial participation. It highlights varieties in arrangements in Europe and beyond based on the existence of distinct, institutionalized national financial-participation frameworks. To a large extent, these frameworks determine the nature and incidence of broad-based schemes.

The final chapter “Firm Foundations for Democracy? Worker Ownership and Control in Advanced Capitalism” by Sanjay Pinto presents a macro analysis of the differences in adoption of share schemes in a number of countries. The chapter highlights the existing patterns of broad-based worker ownership and control in contemporary advanced capitalism and considers future possibilities for expanding democracy within firms. It discusses worker ownership and control arrangements in relation to different theories of the firm and shows how these arrangements map onto different national systems. It compares Germany, which is characterized by worker control without ownership, and the United States, which is marked by worker ownership without control, and explores three pathways through which broad-based worker ownership and control might be deepened and more strongly coupled in the future.

FUTURE RESEARCH DIRECTIONS

Taking stock of the research on employee share ownership and our proposed HRM-employee ownership-fit model, we discover a few important gaps in research. In general, the research tends to adopt a firm perspective instead of an employee perspective. Because people and their perceptions and reactions are key to the outcomes of employee share ownership research, we focus on these reactions and their influence on the nature and effectiveness of sharing arrangements. We may also focus on the relationship between employee share ownership and workforce characteristics. A second gap in the literature relates to our fit model: we propose to investigate possible configurations of HRM practices that may interact with employee share ownership. Although research has already revealed the importance of other participative practices, recruitment and selection, training and appraisal, and development practices may also be relevant for the outcomes of employee share ownership. A third gap relates to other fits from our model such as the fit of employee share ownership with the overall strategy and competitive context, the firm’s administrative heritage, and its institutional environment. In this volume, we find that country context is important for how employee share ownership is framed and viewed, potentially determining both acceptance and outcomes. A fourth gap relates to research into the dynamics of employee share ownership, particularly the implementation and development of plans. Our journey in the field employee share ownership research has been inspired by many, especially the fellows of the Beyster Symposium and the Kelso Workshops. We hope that the reader will be inspired to answer the above call.