Employee Ownership Research and Where It Could Focus in the Future

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This paper is written in a fairly informal manner where I, John Hoffmire, write in the first person. At a later point in the paper, as described below, Frank Shipper adds a significant contribution.

I received the following suggestion from Joseph Blasi to write, for this conference: "…a small conceptual paper of 10 pages, where you discuss your ideas or lay out your frank view/critique/evaluation of employee ownership research and where it needs to go".

To begin my paper, let me make two broad statements. One, I believe there can be a positive causal relationship between employee ownership and corporate performance. But two, I don't believe it is often possible to measure the positive causation, especially in the US. In the US, since S Corp legislation was passed that gives dramatic tax relief to certain types of employee-owned companies, it has become increasingly difficult to pinpoint the cause of improvements made by employee-owned companies. More on this point later.

There are four parts to this paper. The first is a summary of the types of research about employee ownership in the US that I believe to be accurate and helpful. In the second part, I will lay out a number of statements mostly about cooperatives. And, behind the statements, I will share some personal experiences that inform my beliefs.

The third part of my paper is a role play exercise I entered into with Frank Shipper, a long-time employee ownership researcher. In this role play, I take the position of a doubter of some past employee ownership research and the emphasis placed on worker cooperatives in the US. And Frank plays the role of a wise counsellor, acknowledging some of my doubts and expressing optimism that more value can be found in both the past research and in US worker cooperatives than I have been willing to see.

The last section of my paper includes some ideas about, using Joseph Blasi's suggestion to me, where employee ownership research, at least in the US, might go.

Before I proceed any further, here are my apologies. I apologise for not being skilled enough to evaluate past employee ownership research. That said, when asked for my views in the past, I have expressed my thoughts. I further apologise for participating in some of the same kinds of research that I criticise. In many ways, it is my own guilty conscious that has led me to express my views when asked.

In particular, I apologise for signing my name to two pieces of research that were published and implied that there was a positive causal relationship between employee ownership and corporate effectiveness at Huawei (the Chinese technology company). In fact, I think there are very few ways for me to know for sure that employee ownership has helped Huawei.

I should also apologise for using my faulty Spanish while doing part of my research for this paper. I know better than to do this. But I didn't have a lot of better options.

Section One – Review of Academic Research Findings

This is where I state my positive feelings about much of the employee ownership research that has been done in the US. I also share my feeling about the difficulties caused by comparing companies that have tax advantages against companies that do not have tax advantages.

With permission from Corey Rosen, this next section quotes a vast majority of the time from the National Center for Employee Ownership website. The only time when it is not the NCEO writing is when I write in red type.

Notes: Most research on the relationship between company performance and employee ownership has been conducted on publicly held firms due to data availability issues: it is very challenging to collect data on profits and performance on privately held firms.

Correlation is not causation. ESOPs may perform better because only companies that are performing solidly can become ESOPs. That is why studies that compare ESOPs before and after adoption to similar non-ESOPs during the same time period are the gold standard.

Firm Performance

For a tabular summary with links to the main studies on the impact of employee ownership on corporate performance and employee wealth outcomes, see Key Studies on Employee Ownership and Corporate Performance.

S Corp legislation was first passed in 1996, giving tax advantages to S Corp ESOPs in 1998. Most of the studies the NCEO cites are either about research projects that collected the majority or all of their data about companies prior to 1998, or they cited studies about public companies. My criticisms are not about research done on public companies. I am critical of research done that includes S Corp ESOPs that were formed after 1998.

A meta-analysis of empirical studies on employee ownership published in the English language as of 2013 (102 studies representing 56,984 firms) found a small but positive and statistically significant relationship to firm performance ($\bar{r}$ =0.04). Their analysis was based on studies reporting on the effectiveness of broad-based employee stock ownership or employee stock option plans. The findings indicate that firms with ESOPs significantly outperform firms not offering ESOPs. Further, on average, as ESOP participation increases within organizations, so too does firm profitability. This small but robust relationship persists across a variety of conditions.[1]

68 out of 102 studies included in this meta-analysis were from the US. Public and private companies were included. No effort was mentioned in the paper to take out studies of S Corps that were established after 1998. Then again, no mention is made, either that S Corps were included in the studies. Also, no mention was made that tax advantages could skew results of studies.

Taken together, studies conducted in the 1980s and 1990s found productivity increases of up to 4-5%, on average, in the year an ESOP is adopted.[2]

This study was published in 1997. So, my concerns about research done about employee ownership in the US post-1998 are not pertinent.

A study examined 300 privately held companies that set up ESOPs between 1988 and 1994, comparing each ESOP firm to a similar company of the same size and in the same industry without an ESOP. It found that ESOP firms have significantly higher sales growth and higher sales per worker than matching firms without ESOPs.[3]

Again, this research was done on ESOPs that existed prior to 1998. I am not concerned about research done prior to 1998.

A study conducted in 1986 found significantly higher post-adoption growth for privately held ESOP companies that had participation groups and for ESOP companies in which management perceived higher worker influence (compared to both similar non-ESOP companies and to pre-adoption growth). The study found that ESOP companies had sales growth rates 3.4% per year higher and employment growth rates 3.8% per year higher in the post-ESOP period than would have been expected based on pre-ESOP performance. When the companies were divided into three groups based on how participatively managed they were, however, only the most participative companies showed a gain. These companies grew 8% to 11% per year faster than they would have been expected to grow, while the middle group did about the same, and the bottom group showed a decline in performance.[4]

Similarly, since this research was done prior to 1998, tax advantages for S Corps do not influence the outcomes.

A study conducted in Washington state examining the period 1988-91 found higher sales and employment growth in participatory ESOP companies compared to non-participatory ESOP companies and non-ESOP companies.[5]

As this research looked at data from 1988-1991, the results are not skewed by post-1998 tax laws.

In the early years of ESOPs, the General Accounting Office (GAO) did studies in the 1980s that concluded that ESOPs do broaden stock ownership and that employee ownership does not lead to improved worker productivity or corporate profitability in the absence of worker participation.[6]

Pre-1998 research is not a concern of mine in this paper.

Employment stability and survival

Looking at the universe of publicly traded firms during 1999-2011, firms with employee ownership (a firm reported any employee ownership stock in any of its defined contribution pension plans, including employee ownership in 401(k) plans, ESOPs, and deferred profit-sharing plans in a given year) are linked to greater employment stability in the face of an economic downturn when measured as macroeconomic negative shocks as well as firm-specific negative shocks. They are also more likely to survive the last two recessions.[7]

Since this research focused on public companies, S Corp ESOPs were not a subject of the study.

A study tracking the entire population of ESOP companies over ten years (1988 - 1999) found that privately-held ESOPs were only half as likely as non-ESOP firms to go bankrupt or close and only three-fifths as likely to disappear for any reason.[8]

This study used data from 1988-1994, as well as prior data. I am not concerned, in this paper, with research done prior to 1998.

Park, Kruse and Sesil (2004) used data on all US public companies as of 1988, following them through 2001 to examine how employee ownership is related to survival. They count any ownership of employer stock through an ESOP, deferred profit-sharing plan, 401(k) plan, or other broad-based defined contribution plan (excluding direct stock purchase plans, and plans limited to top managers). Estimation using Weibull survival models shows that companies with employee ownership stakes of 5% or more were only 76% as likely as firms without employee ownership to disappear in this period, compared both to all other public companies and to a closely matched sample without employee ownership. In every category tracked (Merger or Acquisition, Bankruptcy, Liquidation, Reverse Acquisition, Leveraged Buyout, Privatization, Other, and Missing) non-employee-owned firms disappeared at a greater rate than employee-owned firms. The greater survival rate of these companies is linked to their greater employment stability.[9]

This study used only data from public companies.

Researchers compiled a unique data set assembled by the authors that looks at all firms that were publicly traded in 1983 and that had approximately 20 percent or more of their common stock in employee stock ownership plans (ESOPs), profit-sharing plans, or other employee-benefit plans. They compared employee-owned firms to a control sample of firms matched by size and industry and the whole population of non-employee-owned firms tracked by Compustat, in terms of productivity, employment stability, and financial performance, looking at how the firms weathered various crises. They used duration-model analysis to test whether employee ownership is associated with a greater or a reduced "survival" rate (as in whether the firm continued to exist as a separate publicly traded corporate entity with substantial employee ownership). And they compared the stock market performance of employee ownership firms to non-employee ownership firms by analyzing the performance of a hypothetical portfolio of employee ownership firms, compared with a comparably constructed portfolio of control firms. They concluded that the ownership of a substantial block of shares by employees appears to be a relatively stable arrangement; "stabilizing" the firm itself, by making it less likely that the firm will be acquired, taken private, or thrust into bankruptcy. And it appears to achieve this result without cost in terms of productivity or financial performance, and may in fact enhance performance.[10]

Public companies were the subject of this study.

Impact on employees' financial well-being

National surveys[11] show that among employees at private firms both actual layoffs[12] and the perceived likelihood of being laid off[13] are lower for employee-owners than for nonowners (employee-owners are identified based on the GSS variable *ownstock*, which asks respondents if they own any shares of stock in the company where they now work, either directly or through some type of retirement or stock plan). These results are maintained when restricted to employees with more than one year of tenure, and when controlling for tenure, occupation, gender, race, age, and education.[14]

While the NCEO mentions private companies at the beginning of this paragraph, I could find no mention of private companies in the research cited.

Other analysis of this GSS data with controls for job and demographic characteristics finds that employee owners have higher levels of yearly earnings and are more likely to say they are "paid what they deserve" and that their fringe benefits are good.[15]

The research that is referred to through this footnote cites studies that were done of ESOPs. Given the number of studies mentioned, it should be presumed, given that many used data from after 1998, that some of the companies researched were S Corps. Further, 69% of employee owners reported that they had received formal training[16] from their current employers in the past year compared to 42% among nonowners as of 2014 data.[17]

A 1995 study conducted in Washington state matched up 102 ESOP companies with 499 comparison companies in terms of industrial classification and employment size. The median hourly wage in the ESOP firms was 8% higher than the median hourly wage in the comparison companies and the average was 12% higher.[18]

I could not find a copy of this study either at Oxford or on the Rutgers CLEO site.

A study that combined longitudinal Census Bureau establishment data with all ESOP adoptions among publicly traded companies over the 1982 - 2001 period found that employee wages (excluding ESOP contributions) either increased (for small ESOPs) or stayed constant (for large ESOPs) after adoption, controlling for state-level and industry-level wage changes and other company characteristics.[19]

This study uses data from public companies.

Only one of the studies cited above has a potential problem using data from S Corp ESOPs after 1998. Another may also. But it unclear whether S Corps were a subject of the research.

Hoffmire and Blasi Comment on the NCEO Compilation of Research

One of the many good parts about writing this paper for the Oxford Meeting on Employee Ownership Research has been the ability I have had to interact with Joseph Blasi. Professor Blasi acknowledges that one of the studies the NCEO review cites he has co-authored after 1996, and it may include some S Corp ESOPs. He did not quantify this.

In turn, I agree with Professor Blasi that, in the same way that S Corp ESOP tax advantages (and even other ESOP tax advantages) might skew results, all tax advantages in all companies have the same issue for business research.

In addition, I agree with a point that Professor Blasi made to me about the overwhelming evidence over decades about ESOPs. There is no overwhelming evidence they perform worse and a lot of evidence they perform as well as or better, depending on the sample. He and I also agree that, if ESOP firms perform, let's say, just as well as non-ESOP firms, then one could make the case to organize the entire economy with ESOPs. This would be a just and agreeable position to take.

Professor Blasi and I may have a small disagreement about whether S Corp ESOP tax status should affect studies he wrote with co-authors on lower turnover, for example, or on increased loyalty, motivation, and co-monitoring. My position would be that all of these topics could be influenced by paying no corporate taxes. His, if I understand correctly, is that these topics would be influenced less or not at all.

To end this section, I think it is important to acknowledge that both Professor Blasi and I agree that extensive "sorting" that lawyers, investment bankers, retiring owners themselves, and ERISA trustees do before an ESOP is set up may tend to weed out the lower performing firms from the ESOP ranks, and that may skew employee ownership research.

Section Two - Statements about Cooperatives

Here I begin my statements:

Statement 1: Worker cooperatives can be an effective means of employee ownership in certain situations. But, especially in the US, they are not a significant contributor to the employee ownership movement, probably will not be a significant contributor, and should be de-emphasised as legislation is written and new centres are established to encourage greater employee ownership in the country where I was born.

Research about worker cooperatives is generally very positive. I didn’t do an extensive literature review for this paper. Although, I did do an extensive literature review 38 years ago when I finished my dissertation on employee ownership. Very little has changed. For the most part, then, advocates of worker cooperatives were writing research pieces that were very positive about cooperatives. In June of this year, the first 20 research pieces I found while doing Bing searches were very positive.

One might ask, how can a movement that has presently created approximately 9,000 jobs across 900-1000 worker cooperatives in the US be received so positively? (Source of statistics: Democracy at Work Institute). As of April 2023, 133,103,000 people were working in the private sector in the US. (Source: US Census Bureau). The percentage of jobs in the worker cooperative sector is one out of about every 14,000.

Part of the reason for the very positive research has been, as employee ownership researchers know, the fact that there has been more success with worker cooperatives in the UK, Spain, Italy, and France.

The United Kingdom

In the UK, worker cooperatives, if you choose the early 1970's as a start point, when worker cooperatives numbered around 20, and you measure to more or less the present, when there are around 400, the total number has increased approximately 20 times. This is significant.

Spain

In Spain, there are differences in opinion about how many worker cooperatives there are or were. I believe the second set of statistics below are potentially more accurate. According to one source, there were somewhat recently 2100 worker cooperatives employing 51,000 people in Spain. (Source: Virginie Pérotin, 2020 – although her information came from 2012). Presently, the Coceta website says there are: 17,300 workers cooperatives employing approximately 313,469 employees. The discrepancy between the numbers supplied by these two sources may be partly caused by the existence of Spanish worker cooperative employees working outside of Spain. In any case, given that Mondragon is headquartered in Spain, and given that Mondragon reported in its 2022 annual report that it had 85.3 percent of its 70,000 employees working in Spain, it is clear that there are more than the 59,700 Mondragon employees working for cooperatives in Spain.

France

In 2022, France had 2666 worker cooperatives with 29,754 employee members. While I might have my facts wrong, it seems that there were 65,552 total employees at these firms. I am assuming that the difference between total employees and member employees is accounted for by the fact that some employees are not members of the cooperatives.

Italy

For Italy, the numbers are large, but hard to find. Virginie Perotin quotes the number of firms at 25,000. Although, as this number was compiled, there may have been definitional problems about what makes up worker cooperatives, social enterprises, and social organizations.

Other Countries

There are also a number of countries which have less similar traditions to the US that have plentiful worker cooperatives. Many of them, including Malaysia and India, which have higher percentages of employees working in their worker cooperatives than do the average European countries' companies, have a long tradition of cooperatives that are employee-owned.

Here is a table I have borrowed from Geert Reuten. It was published in 2016 and has an extensive set of notes that I have also added below the table. Some of the statistics have been updated as recently as December 2016.

Country	Amount employment	% labour force	Relative rank, top 10	Absolute rank, top 10	Continent
Italy	1 017 663	3.9	1	2	Europe
Malaysia	524 713	3.5	2	4	Asia
Sweden	96 552	1.8	3	11	Europe
India	6 845 701	1.4	4	1	Asia
Spain	230 000	1.0	5	7	Europe
Argentina	177 568	0.9	6	8	S-America
Costa Rica	18 021	0.8	7	21	N-America
Iran	162 287	0.6	8	9	Asia
Paraguay	18 939	0.6	9	20	S-America
Uruguay	9 345	0.5	10	35	S-America
Colombia	117 622	0.5	12	10	S-America
Bangladesh	268 556	0.4	14	6	Asia
Brazil	291 046	0.3	17	5	S-America
China	650 000	0.1	26 [a]	3	Asia

[a] Of the dataset countries with a 2016 labour force >30 million, the UK ranks relatively 18th (0.3%) and absolutely 12th (94 049); Vietnam 24th (0.1%) and 14th (51 066); France 25th (0.1%) and 17th (27 330); Japan 32nd (0.04%) and 18th (25 373); USA 33rd (0.03%) and 13th (55 140); Turkey 39th (0.01%) and 32nd (3556). In the same category Thailand has no worker cooperatives, and there are no worker coops data for Ethiopia, Germany, Indonesia, Mexico, Nigeria and the Russian Federation.

SOURCES: AMOUNT EMPLOYMENT: CICOPA (2017a), ANNEX 1, PP. 101–110. UNDERLYING % LABOUR FORCE DATA: WORLD BANK, LABOUR FORCE, TOTAL (https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?view=chart (SHOWN EXCEL, DATASET COUNTRIES 2016) (LAST UPDATED 16 DECEMBER 2020)).

Analysis of the Cooperative Data

Note that the statistic directly above for the total number of employees working for worker cooperatives in the US is not consistent with that cited by the Democracy at Work Institute. But, since both statistics show much lower numbers than other countries as a percentage of population, my conclusions are not altered.

Since I have also been relying on Virginie Pérotin for many of my statistics, I might as well quote her directly, as well: “What is not widely understood is that most firms actually are very small. Among the firms that have at least one employee, around 90 per cent have less than 20 employees in the UK (93.7 per cent) the US (89.6 per cent) and France (90.4 per cent) and less than 10 employees in Spain. Large firms are very rare. Only 0.3 percent of the firms that have employees have 500 employees or more in the UK and the US, 0.2 per cent in France and 0.1 per cent in Spain. (Source 2020)

Since my space is limited in this paper, I won't try to analyse the reasons for why cooperatives in the US and Western Europe are generally small. But I will conclude that, mostly because of their smallness in total employment and in their ability to produce many scalable businesses in the US, they are not statistically meaningful and thus should no longer be emphasized – both from a research perspective and from a legislative/community development perspective. I do not feel the same about Western European worker cooperatives. While they are relatively small, in general, as individual corporations, because of their larger numbers and scalable prospects, they should continue to be prioritized in research, legislation, and community development.

My Own Experiences with Cooperatives

I promised to share to share a few of my own experiences with cooperatives in the US. I began my employee ownership career with a set of cooperatives in Woodland, California. While doing my undergraduate work at the nearby University of California, Davis campus, I worked for two summers with the Farmworker Service Center. We successfully set up two agricultural cooperatives in the Sacramento Valley that employed hundreds of people.

To make a long story short, after providing jobs to people who had been displaced by the mechanization of the Yolo County tomato harvesting process, the cooperatives split up into smaller and smaller farms. Through this process they became unsustainable because they were too small once they split up into many mostly family-owned farms.

My other close-up experiences with worker cooperatives came more than a decade later when I was hired to do feasibility studies on home health worker cooperatives in Lawrence and Lowell, Massachusetts. I recommended against proceeding with the cooperatives after doing extensive interviews, financial analysis, and competitive reviews. There was almost no way these cooperatives could have succeeded given the very low profit margins available and the very stiff competition that existed in these communities at the time. Instrumental to my conclusions of non-feasibility were interviews with managers of similar existing worker cooperatives in the home healthcare industry in Boston, and Waterbury, Connecticut. These managers were very wary of what they were trying to accomplish and told me of troubles that were happening at a similar venture in Washington, DC.

This is not to say that amazing results could not be achieved in cooperative home healthcare businesses in New York, Philadelphia, and Rural Wisconsin. But, after I had recommended that the cooperatives not go forward in Lowell and Lawrence, a decision was made to go ahead anyway. The rationale was that, if grant money was available, why not try.

The two cooperatives failed almost immediately. Not much later, the efforts in Boston, Waterbury and Washington failed.

Looking back, what seemed to drive the decisions to try and scale businesses in places where cooperative viability did not exist was an ideological commitment. I am not saying that strong ideology is bad. But I do wonder whether workers' and managers' careers and families were given priority in these situations. A desire to push a model seemed more important than the people involved, at times.

Role Play with Frank Shipper

Partly to curb my own inclination toward negativity toward worker cooperatives in the US, I want to turn now to communicating the results of my role play with Frank Shipper. In fact, this is a somewhat different role play. We didn't sit face-to-face. We didn't even talk over a teleconference. Instead, we exchanged about eight emails by the time we completed the role play), emails that started with Frank sending me some of his latest publications on employee ownership/cooperatives.

My responses to Frank's research were to question why he could not be more critical of cooperatives, given their general lackluster performance in recent years, especially compared to the growth of ESOP firms across the US and the expansion of EOT companies in the UK. Frank's responses were these. First, I would like to thank John for asking me to participate, and second, I would like to apologize for not being there, in Oxford, in person. The material that I sent John was two articles on Mondragon and its coops.[20] The first one, looked at Mondragon's overall operating processes. My colleagues and I found Mondragon to be more flexible than what we had been led to believe by the literature. The second one examined Eroski, the largest Mondragon coop – a supermarket chain. Its ability to transform itself into an online retailer during the pandemic was remarkable. Neither article was intended to assess the success or lack of it for coops in the US.

Shipper's Final Comments

John is correct that in general coops have not had much of an economic impact on the US economy. However, some have been successful. For example, Equal Exchange has grown from sales of $7 million in 2000 to $88 million in 2020[21]. That is an average annualized growth rate of about 14% per year. Beyond its financial impact, Equal Exchange has been an exemplary of fair trade in the US. Fair trade sales in the U.S. grew to 994 million euros in 2017 ranking it third behind Germany and the United Kingdom with sales of 2.01 billion and 1.33 billion euros, respectively.[22] The point of this paragraph is not to say that coops are the answer, but to say that alternative solutions other than ESOPs may be the better solution under certain circumstances. This position parallels Elinor Ostrom's plea to not accept a single policy prescription as the answer.[23]

John is correct that the studies that compared ESOPs that had tax advantages to companies that did not have such advantages could be misleading. If the criterion variable in the study was a financial measure such as return on total assets, the probability of the results being misleading would be higher than if the criterion variable was an attitudinal variable such as loyalty, or motivation. In the conclusion to the review of research of ESOPs, the first section of this paper, John and Joseph agree that much of the research finds that "… they perform as well as or better..." compared to non-ESOPs. A broader statement of this conclusion on ESOP research was made in 2021 by Dudley and Rouen. It reads as follows:

"The benefits of employee ownership are proven; unlike new policy proposals or novel ESG (Environmental, Social, and Governance) models, decades of evidence back them up."

Employee Ownership "…can accomplish something that many other inequality solutions struggle to: helping more people build wealth through the accumulation of assets."

"…employee-owners have higher wages and net worths, receive better benefits, and are less likely to lose jobs to cuts and outsourcing during a downturn, compared with workers who don't have ownership stakes in their organizations."

"…the model has been shown to benefit not just workers but also owners."[24]

In academic terms. The preponderance of research on ESOPs strongly suggests that such firms outperform non-ESOP firms on many criterion variables.

In addition, Pete Stavros, Partner and Co-Head of Global Private Equity at KKR, is conducting what could be interpreted in academic terms as a series of pre-post ESOP conversions experiments. A 2023 article reported, "Stavros said the firm has exited about nine of these deals now, noting, 'they are among the best.' He said the exits have returned anywhere from 3 times to 10 times the capital that KKR invested." This was achieved while "Over 60,000 non-management employees have been awarded billions of dollars in total equity value through these ownership programs since 2011, the firm said."[25]

Thus, additional support is accumulating that converting a company to an ESOP is financially wise. Non-financial measures such as quit rate went down, and engagement scores climbed sharply. These conversions consisted of other forms of support which will be discussed latter. John then wrote back to Frank saying, "I think the current academic research agenda is not exactly right."[26]

And Frank kindly replied citing from his (Frank's) review of employee ownership, "From this review of theory and reviewing the research, an open systems perspective appears as an appropriate way to build upon what has been done. Prior work would suggest that there are antecedents, supporting practices, and outcomes. As additional research is done, new variables could be added to this framework."[27] Frank went on to state, "I hold little hope that the traditional kind of academic research is going to reveal a model of how antecedents, supporting practices, and outcomes work together in an integrated way to initiate, develop, and support an employee-owned enterprise with a high engagement culture. It will take a large databank and high-level modelling that considers reciprocal and curvilinear relationships. In addition, it will take considerable time and effort, The current standards for promotion and tenure of individuals and accreditation standards of academic institutions are too short-term focused for such an effort to be attractive to many. A think tanks such as the National Center for Employee Ownership may be able to pull it off.[28]

Since that reply I have been reading Elinor Ostrom's book on ***Governing the Commons: The Evolution of Institutions for Collective Action***. To reach her conclusions, she and her associates researched and coded 5000 case studies of effective management and governance of common-pooled resources.[29] She was interested in common-pooled physical resources (CPRs) such as fish, forests, and pastures. She mentioned cooperatives as similar in practice to those in her sample.[30]

Organizations today must effectively manage and govern a common pool of intellectual capital. For example, a high-tech company builds teams by first selecting a leader. The leader is then responsible for recruiting a representative for each major function (e.g., management, research and development, production, marketing). A cross-functional team is assembled before the project is initiated. This requirement is seen as a check on the project's viability. If a complete team cannot be assembled, the project is analyzed as to why that has happened. The reason can be the product is not marketable, or that the firm does not have the capital, physical, or human resources to support it. If the roadblock can be resolved, the team proceeds with the project. For a team to be successful, it is felt that it must pool the intellectual capital of its members in an interactive not a linear manner. In doing so, problems such as a well-designed product that is too expensive to produce for the market can be avoided.

Ostrom came up with eight design principles apparent in long-enduring CPR institutions. They are listed in the left-hand column of Table 1. By the way, she won a 2009 Nobel Prize in Economics for this work.

Table 1
Listings of Design Principles for Long-Enduring CPR Institutions, and High-Performance Work Systems (HPWS) Practices

Design Principles for Long-Enduring CPR Institutions[31]		High-Performance Work Systems Practices	
1.	Clearly Defined Boundaries	1.	Multiple forms of leadership including visionary, moral, shared[1]
2.	Congruence between appropriation and provision rules and local conditions,	2.	Recruitment/Selection/Staffing
3.	Collective-choice arrangements	3.	On-boarding/Acculturation
4.	Monitoring	4.	Training & Development
5.	Graduated sanctions	5.	Participation
6.	Conflict-resolution mechanisms	6.	Mobility (Upward)
7.	Minimal recognition of rights to organize	7.	Job Description[2]
8.	Nested enterprises for CPRs that are parts of larger system.	8.	Appraisal
		9.	Job Security
		10.	Incentive Rewards

The right-hand column was developed as a teaching aid based largely on high-performance work practices that have been identified by research. I wanted students to be able to identify the unique high-performance work practices (HPWP) in which each company engaged that they were studying. In addition, I wanted them to be able to compare across companies to see common and distinct HPWPs.

Obviously, there is not enough time or space to explain each principle or attribute. They are put forth to broaden future research on what it takes to create a highly successful employee-owned enterprise. Another list proposed by Pete Stavros for supporting employees is "financial literacy, tax advice and education, as well as a way for employees to voice ideas and concerns…" Later in this paper John puts forth a list that contains additional attributes that should be considered. There are undoubtedly other lists of what it takes to make a highly successful employee-owned enterprise, but there is little research done to identify which ones can contribute the most and how various ones may act synergistically with others. Thus, that should be a focus for future research.

I started my career by studying companies and people quantitatively. That is how I was trained. But I have learned that most statistical analysis is based on studying the mean even if it is a moving mean as it is in a regression equation. In addition, averages can hide both good and bad outliers. Thus, I would suggest that research should focus on the highly successful employee-owned enterprises. Focusing on the average will only produce average outcomes. This is similar to how Ostrom derived her list of design principles for long-enduring CPR institutions[32]

Introduction to Hoffmire's Final Comments

[1] Leadership is not commonly included as one of the practices of HPWS, but it has been hypothesized to be a critical factor in shared entrepreneurship and found to be a critical factor in organizational research.

[2] There are at least two schools of thought on job descriptions. First, there is the traditional school that maintains that job descriptions should be tight. This school of thought is sometimes called Taylorism. It is often reinforced by work rules in a union contract. Some will defend it because it reduces role ambiguity, and thus, may reduce role stress. It is also defended due to the perceived legal protection offered by tightly defined jobs. Another school of thought on job descriptions comes from the job enrichment literature. This literature maintains that tight job descriptions lead to jobs that are stressful because they are boring. In addition, the proponents of job enrichment perceive tight job descriptions to stifle creativity. Both schools maintain that their perspective increases productivity. The proponents of tight descriptions argue that tight job descriptions increase productivity because everyone know precisely what is expected of them. The proponents of job enrichment maintain that by allowing employees to contribute ideas as well as labor will lead to increase productivity. In other words, the former is often seen as advocating for employees to work harder and the latter, for employees to work smarter.

In light of Frank's advice, I would like to end my paper by suggesting some positive steps the employee ownership researchers' community could take in addressing the new needs of employee owners, practitioners, NGO leaders, and those who help government leaders make decisions about legislation concerning employee ownership. All of these actors want to see employee ownership grow. I think the role of employee ownership researchers is, for most of you, to help this process.

<u>Conclusions and Suggestions for Future Research</u>

You notice in my introduction to this section, that I want researchers to help employee ownership to grow. I believe there are very few unbiased employee ownership researchers. All whom I know are in favour of employees owning companies if a certain set of HR practices are in place. I have rarely, if ever, seen that any employee ownership researchers working on US issues have written anything negative about employee ownership if a certain set of HR practices are in place. I don't think this is a problem. And I don't think there are any ethical issues at play. I simply believe there are better ways to spend research and advocacy dollars than to continue to promote worker cooperative research/legislative efforts/community development.

In addition, even though I understand the difficulties of stripping out tax advantages that might influence any corporate research, I am also not in favour of more employee ownership research about comparing S Corp ESOPs and non-ESOP companies' performance.

Before I go forward, I know that tenure matters. What I am about to suggest will probably not aid researchers at universities to get tenure. I do believe, though, that all universities will benefit over the long term by trying to have more impact. And the types of research I am about to mention should have more impact than the type of research that has typically been done on employee ownership in the US.

I understand that some readers of this paper do not do, and do not want to do research on employee ownership in the US.

For those of you who do want to do research on ESOPs in the US, given the positive orientation you take toward employee ownership, I think you could harness yourselves to the US movement by answering questions that address the following topics arranged in the following ways:

Technical issues	Explain equity allocation to the lay person
Data development	Calculate what the total number of dollars of employee wealth that has been created in sold ESOPs during certain periods. Terminated ESOPs discovered by using the form 5500 could be used for this research. What data is available from the M&A networks about size of transactions by year? How many majority buyouts? How many section 1042 transactions? How many S Corp ESOPs? What percentage of deals are seller-financed and why?
Financial literacy and ESOPs	Is training sufficient for employee owners who are gaining a new source of wealth? For ESOPs with many low-income employees, is employee ownership an avenue to teach personal

	financial literacy in conjunction with open book management?
Why is employee ownership more likely to appear in certain industries? Is this part of the answer to the previous question? Is it possible to develop majority ESOP ownership in tech companies?	Supermarkets, engineering companies, consulting and construction firms, and defence contractors Traditional strategic buyers and private equity firms have a difficult time estimating the risks in backlogs of work that the kinds of firms just mentioned possess. Or is the heavy capex requirement that many tech companies face going to forever create a bias against majority ESOPs in these firms?
Are there alternatives to cooperatives that maintain some of their strengths and lose the one person one vote component and the cash out of employees on a book value basis?	Could an academician develop a simplified employee ownership structure where every employee owner has their own account not regulated by ERISA, and that would be cashed out at book value?
Stock options and like plans	Explain how stock option plans work and don't work. How does accounting treatment work? What are the disclosure requirements? What percentage and what types of equity plans are broad-based? What is happening in the stock option market?
Government relations	Do certain types of legislative changes create types of outcomes?
Geography and ESOPs	Is it true that owners in small cities who form ESOPs do not want to see their neighbors fired as private equity firms and strategic buyers come in and purchase companies? Does the location of ESOP advisors make a difference in the distribution of employee ownership companies across the nation?
Motivations on the parts of sellers to create ESOPs	Is a desire by sellers to remain with the business a significant part of why ESOPs are implemented?
Employee ownership structuring for economic development purposes	Could academicians develop a simpler means to create employee ownership in industries like haircutting? Perhaps by rolling up barber shops?
Employee ownership legal structures that are ESOP-like?	Could academicians create less burdensome ESOP-like structures outside of ERISA for smaller companies?
Employee Ownership Trusts often look a lot like profit sharing	Why is this a good thing? And why does the sustainability that Employee Ownership Trusts bring to employee ownership perhaps outweigh the

	greater economic opportunity that ESOPs sometime bring to employee owners?
ESOPs have created a great deal of wealth per employee owner as compared to Employee Ownership Trusts	Why is this? If a researcher backs out the tax advantages of ESOPs, is there something about the big payout of ESOPs that makes this form of employee ownership preferable to Employee Ownership Trusts?

To conclude, let me leave you with some random thoughts. For those of you working in the US, go and ask practitioners such as Ken Serwinsky, David Binns, and Tony Mathews what they think the research priorities of academicians should be. Others of you might check with the leaders of important trade associations, NGOs, and community groups working on employee ownership about what research should be undertaken.

Some of the individuals I just mentioned, one being Ken Serwinsky, have data that could be very valuable to you.

Could you see yourselves focusing less on worker cooperatives, corporate governance, democratic workplaces, and egalitarian values if by doing so you could help the employee ownership community grow beyond the threshold of 2 percent of employees being owners in any country?

Would one of you be interested in looking at the option of having ESOPs in high growth and high price earnings industries buy companies in farming and nursery industries? This way, you could help us address one of the contradictions of employee ownership which is that, for those of us interested in wealth and income inequality issues, it is difficult to see ESOPs addressing the fact that winners in the US employee ownership community are today most likely to be employees in certain industries. The accompanying issue is this. Is there philosophy that could be developed which would encourage more wealthy employee owners to want to buy companies in less profitable industries so as to create greater equality?

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