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Advances in the Economic Analysis of Participatory and Labor-Managed Firms
Volume 11

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Tor Eriksson
Editor

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FOREWORD

The series *Advances in the Economic Analysis of Participatory & Labor-Managed Firms* was launched 25 years 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 periodical that presents some of the best chapters in the field in a single volume.

It is my great pleasure to present Volume 11 of *Advances in the Economic Analysis of Participatory and Labor-Managed Firms* which marks the first volume in this series to be produced by Emerald. It is also the first volume since I took over the editorship from Derek Jones. I would like to take this opportunity to express my deepest debt of gratitude to Derek for his outstanding editorship.

Advances has been making frequent use of guest editors. This volume is also ably edited by Tor Eriksson. The selection of Tor as this volume's guest editor symbolizes profound changes in the nature and scope of mainstream labor economics in recent years with the rising influence of European labor economists, in particular in the growing fields of behavioral economics and new institutional economics (Tor is among a few labor economists in Europe who have been making significant contributions to mainstream labor economics consistently over the past two decades or so). It is my hope that *Advances* increasingly reflects such recent changes and welcomes chapters utilizing diverse methodologies ranging from conventional economic analysis (including both theoretical and econometric studies) to new institutional economics to behavioral economics.

The scope of *Advances* will also reflect great changes in the realities of participatory organizations in the past two decades or so. 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.

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

INTRODUCTION

This volume of *Advances in the Economic Analysis of Participatory and Labor-Managed Firms* comprises nine original research chapters and a short comment.[1] The chapters cover a broad range of topics: from share ownership plan membership to determinants and performance outcomes of adoption of high performance work and pay practices, to changes in traditional participatory organizations. Geographically, the chapters span over a relatively wide range: from Northern Europe, a southeast European transition economy, Israel, Korea, Japan to an international corporation with operations in at least four continents.

Employee share ownership has grown in importance in many countries in recent years as companies introduce them hoping that they will contribute to the alignment of the interests of the firm and its employees. The first chapter in this volume by *Alex Bryson* and *Richard B. Freeman* analyzes employees' decisions to join the employee share ownership plan in a multinational firm. Although the plan is financially attractive to the great majority of the employees, far from all of them choose to join.

The study finds that participation varies greatly with demographic and job characteristics (job tenure and job autonomy) and location (country). Differences in information do not explain the observed differences in participation. Overall, the analysis demonstrates that the participation decision is not chiefly driven by pure economic incentives, and that behavioral economics responses notably coworker effects, are helpful in providing a better understanding of its determinants.

Common to the three next contributions is the focus on the adoption and consequences of new work organizations which imply a higher degree of involvement and decision-making authority of the employees in the firm.

Following the rapid spread of innovative work practices like teams, quality circles, job rotation, employee ownership, and involvement schemes, a research literature concerned with the effects of these practices on worker and firm outcomes has been built up. The growing body of evidence is, however, almost exclusively based on studies of data from firms and employees in advanced market economies, whereas investigations from developing countries are rather thin on the ground. The chapter by *Derek C. Jones* and *Srecko Goic* makes a valuable contribution by examining worker as well as firm outcomes exploiting a detailed data set from a Croatian manufacturing firm. The analysis of the Croatian firm is also interesting because it is one of the few studies to examine work organization in a former communist country. Furthermore, the specific Yugoslavian legacy with self-managed firms under communism is an additional reason for why a study of a Croatian firm should attract the attention of scholars in this field.

The key results of their analysis is that of the several innovative work practices adopted by the firm, offline teams not only have an especially strong positive effect on workers' effort, but also on the involvement and job satisfaction of the employees. The mutual gains for both the firm and the workers are particularly strong when offline teams are used together with financial incentives. An interesting finding of the study is the observed gender differences: women feel that they less empowered than their male colleagues, and women are also less willing to engage in peer monitoring. This is noteworthy as it is likely to be the main mechanism through which the new work practices give rise to enhanced firm performance.

Empirical studies of the performance impact of financial participation programs make use of either objective or subjective impact measures. In their study, *Panu Kalmi* and *Christina Sweins* use both and contrast them using a matched firm-pair comparison methodology. Moreover, they examine the quality of subjective data collected from single, well-informed respondents with those from several, but less informed respondents.

The two main findings of their analysis are that objective impact measures are smaller (and frequently insignificant) than the subjective impact measures, and that the correlation between the objective and subjective measures is in general positive for the well-informed respondent (personnel fund chairperson), whereas it is negative, albeit often insignificant, for the less informed respondents. The latter result indicates that it is better to use a single, well-informed respondent as data source, despite the potential single respondent bias associated with this approach.

A distinguishing feature of many of the new high involvement work practices is delegation of decision-making authority to individual employees. Increased discretion of employees to organize their work is often considered to be a central mechanism through which the new work organizations yield performance gains. In his chapter in this volume, *Jaime Ortega* examines whether the firm's decision to delegate authority to its workers is affected by the employees' bargaining power and labor market regulations. The point of departure of the analysis are two theoretical perspectives yielding different predictions: the bargaining approach which implies a positive relationship between bargaining power and discretion, and an efficiency wage model which predicts that stronger labor regulations and employee bargaining power are associated with less discretion given to workers.

The empirical analysis is based on data from the European Working Conditions Survey from 2000 (covering 27 EU countries) and information on labor regulations (at the country level) and regional/national unemployment rates from two additional sources. A key finding is that there is a negative relationship between unemployment levels and discretion. This contradicts the efficiency wage story but is consistent with a bargaining model where employees like to have more discretion. Although the results concerning the labor regulations are less unambiguous, the important message from them is that labor regulations do not only influence firms' employment decisions but also how they organize work within firms.

The three following chapters deal with remuneration of workers and consequences thereof.

The first of these is concerned with the productivity effects of profit sharing, employee ownership, stock option and team incentive plans on firm productivity. Traditionally Korean firms have subscribed to the East Asian model of industrial relations, with long-term employment, seniority-based pay, and internal promotion systems. However, in recent years this appears to have been subject to changes, as a growing number of firms have adopted stock options and team incentive shemes. The study by *Takao Kato, Ju Ho Lee* and *Jang-Soo Ryu* use panel data on publicly traded Korean companies to examine the productivity impacts of the new as well as more traditional remuneration schemes. In short, they find that profit sharing and team incentives lead to considerable increases in productivity, whereas stock options and ESOPs seem not to be associated with improvements in productivity.

Mikko Mäkinen's chapter deals with the performance impact of a specific form of financial participation scheme: employee stock options. As in many other countries, their use has also increased significantly since the late nineties in the Finnish manufacturing and ICT sectors which he studies. Unlike financial participation programs like ESOPs or bonus schemes, there is relatively little research on how employee stock options or managerial equity ownership affect firm performance. Mäkinen contributes to this small literature by analyzing high-quality firm panel data (from 1992 to 2002), which allow him to estimate stochastic production frontiers and to examine the link between the firm's use of stock options (distinguishing between broad-based programs and targeted to particular employees) and the technical efficiency of the firm.

The statistical analysis provides little support for the notion that stock option schemes reduce technical inefficiency and hence contribute to improved firm performance. Rather, the estimation results show that broad-based option programs increase inefficiency in the manufacturing sector. In the information and communication technology sector the marginal effects of option programs do not differ statistically from zero. It should be noted, that in contrast to the few earlier studies, the current one is based on data that spans over a full business cycle and is comprehensive in terms of coverage (that is less likely to be plagued by selection problems).

Tsuyoshi Tsuru's contribution is concerned with industrial relations in Japan before and after the so-called lost decade, the prolonged recession the analysis and experiences of which have recently become of interest to a wider readership than only economists focusing on the Japanese economy. More specifically, Tsuru addresses three questions: what has happened to union wage premia and to union voice effects (job separation rates and job satisfaction), and has there been a change in non-union workers' attitudes to unionization of their workplaces?

For these purposes he carries out a series of econometric analyses on data from two identical surveys conducted in 1992 and 2007, respectively. The results of these exercises suggest that there have indeed been notable changes in Japanese industrial relations and that these are not merely due to counter-cyclicality in union effects. Thus, it is found that while there were no union wage premia in 1992, they do exist 15 years later, but only for male employees. Likewise, there was a decline in the propensity for voluntary quitting and in job dissatisfaction, and again exclusively for males. Finally, support for unionization has increased among nonunion workers. These findings imply that unions have exercised their bargaining power to maintain and increase their wage levels at the same as employment in the unionized firms has been declining, and that the Japanese unions seem to largely neglect the interests of the female employees.

The next two chapters are concerned with recent challenges facing participatory organizations that were originally created in response to criticisms of capitalist corporate organizations: the worker-owned cooperative and the kibbutz.

Roger A. McCain's theoretical analysis extends models of participatory firms in a number of ways. First, it introduces multi-criterion decision making into an otherwise standard model of worker-owned cooperatives. Second, the analysis also accounts for "community cooperatives," which are cooperatives with broader interests than those of the owners. Moreover, McCain makes a distinction between layoffs and other separations in the models of the participatory firm.

The chapter provides a discussion and comparison of three forms of cooperatives: worker-owned firms with closed and open membership, respectively, and the "community cooperative," which is a hybrid cooperative/nonprofit firm. The latter differs from the two former ones in that it can have incentives to abate externalities. Whether it does, depends on the power of good intentions in politics.

Probably the best known example of an organization that distributes resources according to the principle "from each, according to ability, to each according to need" is the kibbutz. The Israeli kibbutzim has, as is documented in the chapter by *Raymond Russell, Robert Hanneman* and *Shlomo Getz*, in recent times undergone fundamental changes: paying members different salaries, asking members to pay individually for their consumption, privatization of services and adoption of more business type governance. Their analysis has three aims: to examine the determinants of this transformation at the level of the kibbutz, to investigate the extent to which the changes have improved the economic and membership problems, and to test sociological theories of organizational transformation.

The statistical analysis of the data from a panel of 249 kibbutzim during years 1995 to 2004 documents that the kibbutzim primarily adopted the new structure in response to economic and demographic problems. In accordance with theories of organizational inertia and deinstitutionalization, the transformations to new types of kibbutz were not, however, found to have been followed by improvements in the financial situation of the kibbutzim, nor in their membership development.

Finally, one of the pioneers in the analysis of worker-owned firms, *Jaroslav Vanek*, in a short note discusses the differences democratic firms can make for globalization and international trade.

NOTE

1. The submitted chapters were evaluated by anonymous referees, for whose help and advice I am deeply grateful. Owing to their relatively small number, I have chosen not to list them in order to maintain their anonymity. Many thanks also to the Series Editor, Takao Kato, for his help and support in the production of this volume.

Tor Eriksson
Guest Editor

CONTENTS

TO JOIN OR NOT TO JOIN? FACTORS INFLUENCING EMPLOYEE SHARE PLAN MEMBERSHIP IN A MULTINATIONAL CORPORATION

Alex Bryson and Richard B. Freeman

1. INTRODUCTION

Ownership of shares by employees in their own firm has grown substantially in the advanced world. In the past two decades, it increased in Britain (Pendleton, Whitfield, & Bryson, 2009), the United States (Kruse, Freeman, & Blasi, 2010), and in many EU countries (Pendleton, Poutsma, van Ommeren, & Brewster, 2005; European Federation of Employee Share Ownership, 2009). By 2004, one-fifth of British workplaces had share ownership plans covering one-third of private sector employees (Bryson & Freeman, 2010). In the United States in 2006, an estimated 18% of workers had shares in their own firm, some held through collective employee stock ownership plans, some bought through employee stock purchase plans that give employees a discount on shares, and some through their 401k retirement savings Plan money. In addition to owning shares, 9% of US employees had stock options with the firm. Taking account of the overlap, 24% had an ownership stake through shares or options (Kruse, Blasi, & Park, 2010, Table 1).

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Table 1. Rates of Joining Share Plan by Demographic and Personal Factors and by Job-Related Factors.

	Mean Membership	Monthly Contributions (US$), Members Only
Whole sample	56	153
Country		
UK	56	152
USA	45	155
South Africa	34	71
Australia	75	169
Demographic factors		
Age (years)		
<25	28	101
25–34	56	134
35–44	63	179
45–54	64	161
55+	58	159
Sex		
Male	61	179
Female	51	121
Ethnicity		
Black	32	64
Not black	60	160
Qualifications		
Degree	63	182
No degree	51	130
Professional qualifications		
Yes	58	180
No	56	147
Household circumstances		
Not married/living as married	47	136
Married, no children living at home	62	150
Married, children living at home	62	174
Personal factors		
Risk scale (1,10)		
1	54	96
5	55	137
10	43	195
Sociability scale (0–7)		
0	51	131
3	57	183
7	50	257

Table 1. (*Continued*)

	Mean Membership	Monthly Contributions (US$), Members Only
Job-related factors		
Occupation		
Senior manager	82	254
Middle manager	65	187
Lower manager	47	129
Operational/delivery	46	106
Support	58	137
Technical	72	191
Sales	77	181
Payment method		
Hourly	35	99
Salary only	57	147
Salary plus bonus/commission	78	210
Supervisory responsibilities		
Yes	68	183
No	50	132
Contracted weekly hours of work		
<35	56	127
35	56	149
$>35<40$	59	160
40+	53	155
Company tenure ≥ 4 years		
Yes	68	156
No	44	147
Close supervision scale (1,10)		
1	65	168
5	50	130
10	28	93
How easy to monitor others scale (1,10)		
1	48	106
5	54	148
10	49	157
% family income from ShareCo earnings		
$<80\%$	55	151
80%+	57	156
Worked for company acquired by ShareCo		
Yes	60	158
No	54	149

Note: N varies from 2,725 to 2,783. Contributions are converted to $US using exchange rates at the time of the survey. Monthly contributions are the mid-point in banded data.