# Employee Inclusivity and Inequality in America

## *The promises and perils of shared capitalism*

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### Reflections on shared capitalism

- *The Citizen's Share* by Joseph Blasi, Richard Freeman, and Douglas Kruse, published last year, garnered a great deal of media attention in a time of rising concern over U.S. income and wealth inequality. Their earlier book is *Shared Capitalism at Work* (2010).
- While shared-capitalism practices such as companies sharing profit with workers make for increased productivity, they are not guaranteed to solve the problems of income and wealth inequality.
- Managers and owners are hesitant to give up real control to employees.
- Government policy interventions and higher taxation on top earners may be necessary to address inequality and ensure greater voice for workers. This would be difficult to accomplish, given contemporary American political realities.

Do shared capitalism practices that give employees an "ownership" stake in the companies for which they work—through profit sharing, gain sharing, share grants, or stock options—present a viable solution to address inclusivity and income and wealth inequality issues in America?

There has been increasing interest in the promise of shared capitalism to improve firm performance, increase employee productivity, enhance employee well-being, increase employee voice and participation, and reduce wealth and income inequality. Recent research has found correlations between shared capitalism practices and many of these outcomes, particularly firm performance.

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However, shared-capitalism practices that increase employee financial ownership of the organizations for which they work do not usually fundamentally alter the governance structure and power dynamics inside the firm that really matter for ensuring employee inclusivity and reducing inequality at the firm level. To do so requires greater employee participation and influence over the decisions that determine the distribution of organizational benefits than is currently the norm in the United States.

### The Evidence

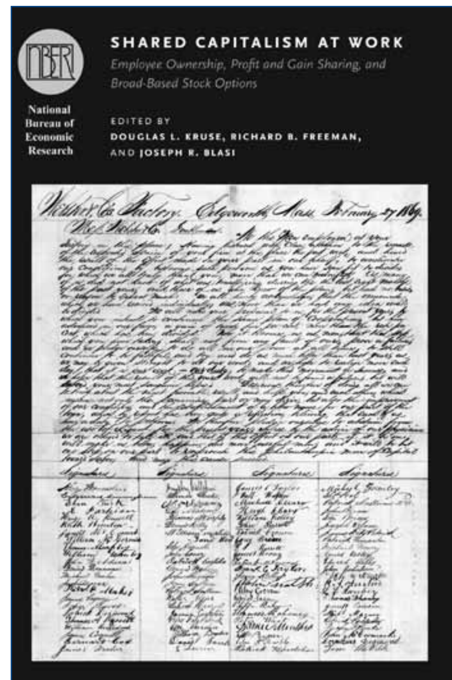
Scholars and practitioners who are interested in exploring the topic of shared capitalism in greater detail should endeavor to read *Shared Capitalism at Work*, a compilation of recent empirical studies by various authors—edited by Joseph Blasi, Richard Freeman, and Douglas Kruse—on employee ownership, profit and gain sharing, and broad-based stock options. The research reported in *Shared Capitalism at Work* is extensive and convincing. Kruse, Freeman, and Blasi summarize this research as suggestive of six primary "takeaways":

- First, shared capitalism is a more significant part of the American economic model than many would have guessed, at least as it relates to the percentage of workers who are covered by these practices.
- Second, greater worker co-monitoring under shared capitalism can solve the classic "free rider" problem that vexes many econo-

mists about shared-capitalism practices.

- Third, one of the most pronounced critiques of shared capitalism has been about the risks associated with workers investing too much of their economic well-being in one firm; however, these risks appear to be somewhat manageable through policies that encourage diversification and practices such as ensuring workers are paid market wages and providing them with company stock that is not financed primarily by their wages or savings.
- Fourth, shared capitalism significantly improves the productivity of employees, which leads to better firm performance.
- Fifth, shared capitalism benefits workers via access to better workplace practices and greater wealth.
- Finally, shared capitalism operates best when accompanied by complementary human resource policies and practices that increase employee participation in decision-making, reduce supervisory monitoring, and ensure that workers are paid at or above the market rate.

Blasi, Freeman, and Kruse collaborated again more recently on *The Citizen's Share*, which is accessible to a wider audience and pays detailed attention to the context and historical stakeholder perspectives on shared capitalism, starting from the initial vision upon which America was founded. The authors trace the evolution of shared capitalism through the use of storytelling and pages of quotations from former presidents and politicians, including many supportive statements from the least-expected people. Readers may be surprised to learn about how embedded the ideas of broad-based citizen access to land and capital and employee ownership were for America's Founding Fathers, who saw them as




critical for increasing inclusivity and reducing inequality. The founders viewed widespread inequality as a real threat to productivity, democracy, and republican values and ideas.

Based on the research in *Shared Capitalism at Work*, Blasi, Freeman, and Kruse offer a number of policy recommendations in *The Citizen's Share* that governments could enact to incentivize broad-based employee ownership of companies. The recent publication of both these collaborations on such a broad and important topic has succeeded in raising the profile of shared capitalism in the United States and beyond.

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## Old Wine in New Bottles?

Although it is becoming increasingly obvious that performance benefits might arise from the introduction of shared-capitalism practices, we should all remain somewhat skeptical about the implicit promises of shared capitalism to create greater employee inclusivity at work and/or to reduce income inequality. There is very little evidence to suggest that practices such as profit sharing and employee share ownership would provide sufficient conditions to result in these outcomes.

Shared capitalism, as it is currently being implemented in organizations, can be viewed simply as a set of compensation practices introduced by managers to motivate employees in firms where the benefits of doing so outweigh the costs. These practices are likely to be adopted without allowing employees any real influence, beyond contributing suggestions that lead to improvement in the organization's products or processes. As such, they may be nothing more than old wine in new bottles, consisting of high-involvement human resource policies and practices that predominantly affect productivity and performance, but have little impact on other important outcomes for society.

For instance, as the research suggests, almost one-half of American workers have some form of access to these practices (Kruse, Blasi, and Park, 2010), which have also been shown to be commonplace in the United Kingdom and other developed countries (Bryson and Freeman, 2010). At the same time, prominent economists have declared income inequality to have been increasing in Anglo-Saxon countries over the same time period that shared capitalism practices have grown rapidly (Picketty, 2014). Part of the reason could be that shared-capitalism practices may be exacerbating wealth and wage inequality by covering only those workers who are already paid at or above market wages.

And even if adoption of these practices covers all workers in a firm and benefits those workers compared to similar workers in other companies who do not

have access to these plans, profit-sharing plans and stock options are usually far more lucrative for executives than for other workers within the firm. Moreover, there is evidence that African-Americans and men with disabilities are less likely to be covered by these types of practices (Carberry, 2010). There is a need for more detailed research about the mechanics and implementation of shared-capitalism plans as well as the outcomes of these practices for different groups of employees within and across firms.

### Shared Capitalism Doesn't Lead to Greater Inclusivity

It is also unclear whether shared capitalism practices actually lead to greater employee inclusivity at work, or if these practices are simply implemented as part of a complementary bundle of "high-involvement" human resource systems intended to boost employee productivity and organizational performance. According to the research reported in *Shared Capitalism at Work*, most managers introduce these practices to improve worker productivity or to create greater flexibility in compensation practices (Kruse, Blasi, and Park, 2010).

While the research also shows that firms with shared-capitalism practices are more likely to have adopted other "worker-friendly" human resource policies and practices (Kruse, Freeman, and Blasi, 2010), and shared capitalism appears to be more effective when financial ownership is also paired with greater employee voice and participation (Dube and Freeman, 2010), this does not indicate a causal connection between shared capitalism and greater employee inclusivity. Moreover, this research shows that shared-capitalism practices are associated with higher employee loyalty and lower turnover intentions; however, higher employee absenteeism was also associated with shared-capitalism practices (Blasi, Freeman, Mackin, and Kruse, 2010), suggesting that these practices may encourage greater productivity at the expense of employee burnout.

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### No Greater Control for Employees

The experiment in employee ownership at United Airlines is cited in *The Citizen's Share* as an example where worker financial ownership failed because it was not coupled with greater employee involvement in decision-making and a more participatory worker-ownership culture. The United example illustrates very well that greater employee voice and participation, and ultimately employee financial well-being, is not a necessary outcome or byproduct of worker financial ownership, even where employees have some involvement on the board and hold substantial shares in the company.

The reality is that the proportion of shares employees hold in most companies is either too small or too widely dispersed to give employees much control. Therefore, unless the introduction of these practices allows employees real influence over managerial decision-making and governance of the organization, it cannot be seen as much more than another employer-led solution to the "labor problem." Even in the case of United Airlines, where employees had a majority ownership, management and shareholders still ultimately gained more when the company started to perform better, but workers did not (Blasi, Freeman, and Kruse, 2014).

### Shared Capitalism: Part of an HR Toolkit

In summary, shared capitalism may simply be part of a high-performance or high-involvement human resource system toolkit that incentivizes employee productivity and performance, reduces turnover, lowers the employer's risk in raising the compensation of employees, and reduces monitoring costs. In the case of United Airlines, worker ownership was introduced to generate concessions in wages and benefits. It is rarely introduced with the express intention to share a greater proportion of organizational

benefits with workers relative to other stakeholders.

Whether shared-capitalism practices improve organizational performance or not is definitely an important question that merits research attention; thus, the concerns raised here may not amount to anything more than fodder for a normative debate. However, if the ultimate promise of shared capitalism is that it has the potential to increase employees' inclusivity and participation in the economic and political activity of their workplaces, to democratize firms by providing meaningful employee input into decision-making, and/or to decrease inequality in society, it is difficult to be convinced by the current research in this area that shared-capitalism practices can serve these ends. To do so requires greater employee input and oversight over the distribution of organizational benefits within the organization.

## The Political Economy of the Firm

Understanding the internal political economy of the firm is critical. *The Citizen's Share* is a bit too quick to dismiss the notion of managerial power. Cases such as Enron, WorldCom, and Lehman Brothers highlight that managerial power is very real, even in firms where there is broad-based employee ownership. Most of the policy recommendations made in *The Citizen's Share* about establishment of government incentives to encourage firms to adopt broad-based employee ownership do not fundamentally change "who gets to decide what" inside investor-owned organizations, or correct the (im) balance of power that would affect managerial decision-making.

Managers (and owners) are hesitant to give up real control over internal firm governance and decision-making to employees for a variety of reasons. One reason is the fear it will ultimately reduce the proportion of the firm's wealth that managers (and shareholders) will receive. If the managerial power perspective holds weight, it is unlikely that inequality within firms will be reduced very much by adopting incentives to encourage broad-based employee ownership, and it will likely have a fairly negligible impact on inequality at the societal level. Given that executives and senior human resource managers make the decisions about the compensation practices for employees within the organization, what incentives do they have to choose systems that actually redistribute wealth from themselves to the employees?

The common answer to this question is that it is not a zero-sum game. As meta-analytic research cited in T*he Citizen's Share* indicates, the size of the economic pie may increase (i.e., the performance of the organization can improve) from 2 percent to 5 percent through the introduction

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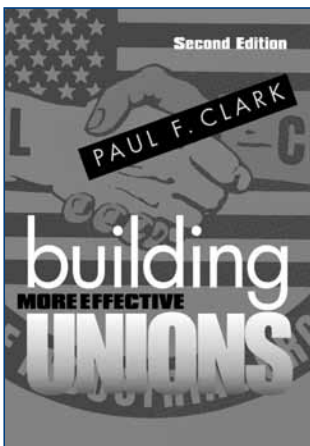


### *Building More Effective Unions, Second Edition*

Paul F. Clark
Cornell ILR Press, 2015. 228 pp.

*From the publisher's description …*

Paul F. Clark believes union leaders should take advantage of the valuable discoveries made in behavioral science to make their organizations more effective and, in *Building More Effective Unions, Second Edition*, he offers an accessible and straightforward account of how they can do so. This new edition provides an updated discussion of important lessons behavioral science holds for labor organizations. It also provides new examples of how unions and their leaders have benefited from putting the principles outlined in the first edition into practice.

"*Building More Effective Unions* provides some very useful frameworks for looking at factors that motivate workers' participation, and it offers some very practical suggestions about how organizational environments can be influenced."—*Journal of Industrial Relations* (reviewing the first edition)

"*Building More Effective Unions* provides us with a splendid account of the multiple facets of unions' activities and opportunities for union restructuring."—*Transfer* (reviewing the first edition)

"*Building More Effective Unions* succeeds at linking behavioral research findings to the practical problem of increasing participation. It will therefore prove useful to academics studying this pervasive problem and union practitioners working to improve their organizations."—*Industrial and Labor Relations Review* (reviewing the first edition)

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of broad-based employee ownership and other shared-capitalism practices (Doucouliagos, 1995). Moreover, additional tax breaks given to organizations that introduce broad-based employee ownership can create even greater benefits for the organization. However, while the size of the pie may indeed increase with the introduction of these practices, there is no guarantee that those gains will be shared with employees in greater (or even equal) proportion to the managers and/or owners, which is ultimately what is required to reduce wage inequality.

Granted, this depends on the philosophy and values of the owners-management within the organization. Not all owners or managers are completely self-interested, but we also know that not all owners-managers are as "enlightened" or as long-term oriented as Bill Gates. And how many entrepreneurs and managers run firms that become as successful as Microsoft, Google, Southwest Airlines, or Procter & Gamble after the adoption of broad-based employee ownership (or because of the adoption of broad-based employee ownership), so that even as their proportional ownership share declines, their personal wealth skyrockets? Are the success stories of these "enlightened" owners and managers artifacts of a particular time, industry, market, organizational culture, or leader? Even if this type of manager and organization is more commonplace than classic economic theory would suggest, these questions have not yet been systematically explored.

With the exception of worker cooperatives and unionized organizations, in the United States owners and managers are the ones in most firms who get to decide how employees will be compensated, with little to no input from employees themselves. The situation becomes even trickier when employees benefit from shared-capitalism practices compared to other workers at other companies that do not have these same practices. As a result, employees who have some ownership may be quite happy with the system—which is good—yet these same employees may still not benefit as much as the organization's owners, executives, or managers, meaning that there will be very little impact on current levels of inequality. To summarize, the governance structure and power dynamics within the organization are what really matter for determining the distribution of any organizational gains from increased employee productivity due to the implementation of shared-capitalism practices.

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## Policy Recommendations

Policy recommendations that encourage greater broad-based employee ownership and profit-sharing plans start the important conversation about how to address some of the toughest societal problems such as income and wealth inequality. However, this is not sufficient. With unionization rates at an all-time low, policy interventions may also be required that impose greater income taxation for top earners, cap executive compensation, create other avenues for greater employee co-determination over compensation, and develop incentives to encourage the proliferation of organizational forms with a different configuration of property rights, such as worker cooperatives.

However, increased taxation may not be a viable option, and government regulation of the governance and compensation activities within firms would likely face even more strenuous opposition in liberal market America than many of the less radical ideas presented in *The Citizen's Share*. Thus, the authors' suggestions provide a reasonably good starting point.

In particular, their policy recommendation to reduce capital constraints on broad-based capitalism firms, such as cooperatives and B-corporations, deserve greater exploration. These organizations serve as alternative examples of governance structures and property-rights arrangements that operate within the boundaries of the current capitalist system. However, these alternative organizational forms are not well understood by management scholars, practitioners, the public, or policymakers. These organizations also have their own unique set of problems and so should not be viewed as the panacea for greater inclusivity and equality, either.

*The Citizen's Share* also makes an interesting suggestion about development of a "baby bond" for all newborn citizens to give them a capital stake, which would also benefit workers who are employed in public and nonprofit organizations, but this recommendation diverges from the idea of employee ownership of the firms for which they work.

*The Citizen's Share* is well-written and thought-provoking, and *Shared Capitalism at Work* provides one of the most comprehensive and important set of empirical works on the topic to date. While shared capitalism is not a silver bullet for solving inclusivity and inequality problems in America, the Founding Fathers would have wholeheartedly agreed with the principle, and would have been pleased to see how Blasi, Freeman, and Kruse adapt their vision for relevance in the 21st century.

*The Citizen's Share* concludes by stating that citizens must ultimately be the ones to ensure that property does not end up oppressing liberty in the United States by championing these and other related policy ideas. However, there is also a collective action problem that must first be resolved for them to be able to do so.

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