

The Court's Views On Employee Ownership Research

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In its June 2006 decision on *United Airlines*, the Court of Appeals decision refers to some of our research findings on employee ownership out of context.

Judge Posner says "As for the notion that having a stake in one's employer will induce one to be more productive, the evidence for such an effect [see "Motivating Employees with Stock and Involvement," NBER Website, Apr. 25, 2006, <http://www.nber.org/digest/may04/w10177.html> ; Joseph Blasi, Michael Conte & Douglas Kruse, "Employee Stock Ownership and Corporate Performance Among Public Companies," 50 *Indus. & Lab. Rel. Rev.* 60 (1996)] is weak and makes no theoretical sense."

This summary of the employee ownership research is not a full statement of what we know and it needs to be supplemented, because, as it stands, it can be misunderstood. First, in the main article which the Court quotes from the *Industrial and Labor Relations Review*, we indicated that the evidence on ESOPs to that point was quite positive. We specifically summarized studies up to 1996 on ESOPs in the following way:

Of the combined cross-sectional estimates (comparing ESOP and non-ESOP firms), 85% have indicated higher productivity for the ESOP firms, with 19% of these estimates significant at $p < .05$ and an average estimate of 6.2% higher productivity. Of the combined estimates of ESOP adoption (comparing pre- and post-adoption performance relative to non-adopters), 82% are positive and 17% are significant at $p < .05$, with an average estimate of 4.4% increased productivity following adoption. While only one individual study found significant productivity effects of ESOP adoption (Kumbhakar and Dunbar [1993] found 1.8-2.7% higher productivity for each year that an ESOP has been in existence), meta-analyses of signs and significance levels reject the null hypothesis that the overall pattern of productivity results on ESOPs reflects a true underlying relationship of zero (Kruse and Blasi, forthcoming) [subsequently published as NBER working paper 5277 in 1995]

Because many of these articles did not measure such things as corporate culture and employment practices, the research up to that point made it hard to specify what it was about employee ownership that really explained its performance effects. In the new research offered in this article, we were not able to resolve this issue at the time.

Second, our *Industrial and Labor Relations Review* article took up again the issue of what explains the performance of firms with employee ownership. While we repeatedly said that "there is no automatic connection between employee ownership and firm performance" in that article, we again said that one had to look more closely at corporate culture and employment practices to figure out what about employee ownership might explain performance effects. So we wrote:

By the same token, the conclusion that there is no automatic connection between

employee ownership and firm performance suggests that firm-specific factors such as employee relations climate, human resource policies, and workplace governance structures may play an important role in determining whether employee ownership has positive effects.

Perhaps the Court misunderstood our point of view. What we were saying here was that the evidence suggested that if one could measure employment practices and corporate culture, we would expect that "employee relations climate, human resource policies, and workplace governance structures might play an important role in determining whether employee ownership has positive effects. We were making what we thought was an obvious point: no corporation has just employee ownership, rather every corporation has employee ownership and some employee relations climate, human resource policies, and workplace governance structures. Measure everything and you could perhaps shed more light on how employee ownership worked.

Third, since 1996 we have been able to measure "employee relations climate, human resource policies, and workplace governance structures" and we have found that -- as we expected in the 1996 article -- these practices do explain the performance effects of employee ownership. Moreover, the interaction of certain practices and employee ownership are associated with positive performance. For example, in our 2006 National Bureau for Economic Research piece with other co-authors ("Motivating Employee Owners?") to which the Court also refers, we concluded that "employee owners who participate in employee involvement committees are more likely to exert peer pressure on shirking co-workers." (NBER Working Paper 10177 in 2003)

Fourth, precisely to work at resolving this question, between 1999-2007 we have been involved in a six year assessment of these issues funded by the Russell Sage Foundation and the Rockefeller Foundation at the National Bureau for Economic Research. The data-set assembled for this study included 41,000 employee surveys in hundreds of work sites and companies of various sizes and industry groups. Our conclusions were just presented at a conference at the Russell Sage Foundation in New York City on October 6-7, 2006. We were able to more carefully test the assertion made in the *Industrial and Labor Relations Review* article that it was "employee relations climate, human resource policies, and workplace governance structures" that explained the positive affects of employee ownership. Indeed, this is precisely what we found. Specifically, we found that the interaction of employee ownership and other forms of shared capitalism with other corporate policies is associated with positive workplace performance. ("Creating A Bigger Pie: The Effects of Employee Ownership, Profit Sharing, and Stock Options on Workplace Performance" Richard Freeman, Joseph Blasi, Chris Mackin, Douglas Kruse. October 1, 2006) Moreover, we have cited several economic theorists in these studies to indicate that group incentives can make theoretical sense under the right conditions.

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