EMPLOYEE OWNERSHIP AND HUMAN RESOURCE MANAGEMENT

A THEORETICAL AND EMPIRICAL TREATISE WITH A DIGRESSION ON THE DUTCH CONTEXT

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SUMMARY

The first chapter introduces the topic of the study, which is employee ownership, or more precisely, a "people management" or "human resource management" (HRM) framework of the effectiveness of employee ownership. The introduction starts with three general and contemporary trends in the Netherlands that might occasion a study on this topic. Firstly, the growing importance of innovation for the competitiveness of companies. Secondly, changes relating to the workforce. These changes are important, since innovation is ultimately always about people: the innovators. And people, in turn, seem to have changed what they want as workers. Nowadays, workers expect recognition, challenging work, more opportunities for working according to capacity and for learning, and to be treated seriously. A third development relates to share ownership in general, which has become increasingly popular in large sections of the population. Developments on the stock market have generally received much media attention too. These three trends justify a study on employee ownership as an HRM innovation.

Employee ownership is defined as the amount of stock in their employing company that employees own directly, or indirectly through, for example, some kind of trust. The study does not directly focus on the "share option" and "worker cooperative" types of employee ownership, nor on employee ownership for which less than half of the total workforce is eligible. Having determined that, Chapter 1 continues to introduce the employee ownership and HRM scholarly literature. It is established that previous reviews of studies on the effectiveness of employee ownership have concluded that the majority of studies found favourable effects of employee ownership on HRM outcomes (e.g., commitment, satisfaction) and firm performance (e.g., profitability, productivity). At the same time, favourable effects appear not to come about automatically. However, the conditions necessary for employee ownership to yield favourable effects are as yet largely unknown. The main aim of this study is to determine what these conditions are. Since employee ownership is an HRM practice, the HRM context is the first contingency that should be dealt with. The present study therefore specifically focuses on the relationships (the "internal fit") between employee ownership and other HRM practices, and provisionally assumes that other contingencies such as the competitive context and the company's overall strategy, various organizational characteristics, and the institutional environment, are equal (i.e., the *ceteris paribus* condition applies).

The problem definition of this study is as follows: *what are the effects of employee ownership, and of the internal fit between employee ownership and the HRM system, on HRM outcomes and firm performance?* This problem definition is subdivided into four research questions: (1) What is employee ownership, and what is the effect of employee ownership on HRM outcomes and firm performance? (2) Where does this effect of employee ownership on HRM outcomes and firm performance come from? (3) What is the HRM system and what is the internal fit between employee ownership and the HRM system? (4) What is the effect of the internal fit between employee ownership and the HRM system on—the relationship between employee ownership and—HRM outcomes and firm performance? Some definitions: HRM systems are composed of several HRM activities, but the present study focuses on only two of these: the workforce philosophy (i.e., the beliefs about the relative

role and value of workers), and the HRM practices (i.e., specific tools to execute HRM policies and to motivate the desired employee behaviour). Internal fit refers to the coherence or consistency of the HRM practices among themselves, and with the workforce philosophy.

Chapter 2 seeks to provide a theoretical answer to the first research question: *what is employee ownership, and what is the effect of employee ownership on HRM outcomes and firm performance?* Themes are explored that have emerged from qualitative employee ownership research. These themes are put into perspective by focusing on the meaning of the construct of "ownership," and it is investigated whether these themes are reflected by extant quantitative research on the effectiveness of employee ownership. Focusing specifically on the internal fit of employee ownership within the broader HRM system, two conclusions are derived from the review of qualitative employee ownership research. Firstly, management's commitment to employee ownership, or **the prevailing workforce philosophy** is crucial for the effectiveness of employee ownership. Secondly, employee ownership cannot be a *stand-alone* HRM practice: it needs to be accompanied by a number of other HRM practices that mirror the rights that make up the very construct of "ownership" in order to reflect that the ownership is *real*. These "ownership rights" are: the right to *use* an asset one owns, the right to its *returns*, and the right to *sell* the asset. These rights are reflected by the following HRM practices, which have turned up in qualitative employee ownership research in several different guises: **participation in decision-making, profit-sharing, information-sharing, training for business literacy, and mediation**. In accordance with previous reviews, it is established that 128 studies on employee ownership and its consequences show that employee ownership has favourable effects on HRM outcomes and firm performance, but that these effects do not come about automatically. However, no clear answer emerges to the question *how* and *under what conditions* favourable effects come about. Since these studies have only sporadically and partially analyzed the above themes, the real conclusion should be that the theory behind much of the quantitative employee ownership research has as yet been underdeveloped.

Chapter 3 therefore investigates the following (second) research question: *where does this effect of employee ownership on HRM outcomes and firm performance come from?* According to psychological ownership theory and reflection theory, the above set of ownership rights, partially represented by the above-mentioned *core* HRM practices, roughly do three things: they help fulfil certain human motives (e.g., efficacy, self-identity, and having a place), they are instrumental for reaching certain personal goals (e.g., money, status, challenge), and they improve employees' relative (power) position. This happens through the meaning that is propagated by the workforce philosophy and reflected by the core HRM practices, namely that employees deserve to be owners and are taken seriously as such. Employees relate this meaning to their self-identity. If the employee ownership and the broader HRM system indeed lead to an enhancement of employees' self-identity, employees are persuaded to perceive themselves indeed as real owners. The stronger the HRM system in the sense that it consistently sends the message that employees deserve to be owners and that they are taken seriously as such, the more likely it is to trigger a state of psychological ownership in individuals. In this *strong* situation, individual mindsets ultimately produce a shared and strong aggregate organizational climate: an ownership culture.

Chapter 4 finalizes the HRM framework of the effectiveness of employee ownership by developing answers to the third research question: *what is the HRM system and what is the internal fit between employee ownership and the HRM system?*; and the fourth research question: *what is the effect of the internal fit between employee ownership and the HRM system on—the relationship between employee ownership and—HRM outcomes and firm performance?* The chapter starts with a discussion of some extant strategic HRM research and describes several ideal-typical *coherent* HRM systems that have emerged in this strand of research. It is argued that extant strategic HRM research has a number of shortcomings that lead to confusion as to exactly what it is that different HRM systems represent and what determines their “internal fit.” These shortcomings relate to the differences in labels and interpretations of HRM systems and the HRM practices therein, the somewhat arbitrary selection of HRM practices, their rather arbitrary allocation to HRM systems, and the largely unspecified relationships among HRM practices in HRM systems. In order to deal with these shortcomings, it is proposed to use the construct of the “workforce philosophy”—the beliefs about the relative role and value of employees—as the factor that determines the make-up of consistent HRM systems.

The better the alignment of the HRM practices in an HRM system with the workforce philosophy, the higher the internal fit of the HRM system, and the stronger the message the HRM system sends to the employees, which ultimately leads to a strong organizational climate. This does not necessarily lead to rigidity. On the contrary, a distinction is made between *core* HRM practices and non-core, *supporting* HRM practices. Particularly the latter can be used and adapted according to an organization’s specific circumstances and needs. In order for HRM systems with employee ownership as a central element to be effective, the core HRM practices should reflect a workforce philosophy that propagates that employees deserve to be owners, and in which employees are taken seriously as such. Such an HRM system therefore contains—next to employee ownership—the aforementioned core HRM practices that reflect the rights of which the very construct of “ownership” is composed: participation in decision-making, profit-sharing, information-sharing, training for business literacy, and mediation. An ownership culture is the most likely to come into being in a “push model” in which all of these core HRM practices are present.

Chapter 5 discusses the sample and data collection, and develops the measurement scales of the variables mentioned in the final conceptual model (Figure 4.1). Chapter 6 discusses the results of the quantitative analyses. The independent variables are first of all the previously mentioned core HRM practices. The participation in decision-making variable is split into two variables, in line with the outcomes of the factor analyses: participation in management, and participation in governance. Participation in management refers to decision-making processes regarding issues that are internal to the firm, while participation in governance refers to decision-making processes regarding issues that are partly beyond the firm (e.g., issues that are dealt with in collective bargaining agreements). Employee ownership is measured as a dummy variable. Next to the measurement scales of the individual HRM practices, a summated scale of the HRM system as a whole (without employee ownership) is developed with the scales for the individual HRM practices, as well as a proxy of this HRM system variable that measures the workforce philosophy. Finally, two methods are applied to measure the internal fit between employee ownership and the broader HRM system. In the first method (“fit-as-moderation”), a model in which the product of the employee ownership and HRM system variables is included as a moderating variable is tested. In the second method (“fit-as-mediation”), a model with the HRM system variable as a mediating variable is tested. The dependent variables are psychological ownership, affective commitment, and continuance commitment. Psychological ownership is also a mediating variable, partially mediating the effects of employee ownership and the HRM system on commitment. A number of control variables (such as education and gender) are included in the analyses as well.

Employee surveys were conducted in ten firms. Most of the firms operated in the professional services sector. The small number of firms precludes quantitative analyses of firm performance indicators so the empirical part of this study is limited to analyses of certain HRM outcomes. Nine of the firms were Dutch, one was from the U.S. Eight firms had employee ownership, two did not. The main conclusions from the empirical research are the following. An initial analysis, comparing people working in a company with employee ownership with those working in a company without employee ownership, shows that the former score significantly higher on psychological ownership and affective commitment, but not on continuance commitment. Psychological ownership indeed mediates the effect of employee ownership on affective commitment. Subsequent analyses of the data from companies with employee ownership show that employee ownership only leads to higher affective commitment through increases in psychological ownership of employees, and that this effect is present and becomes stronger if the internal fit with the broader HRM system is higher. Overall, this corroborates the study's theoretical contentions.

Having said that, the effect sizes are not incredibly impressive, and the results of the analyses differ depending on which operationalizations of variables are used. In general, the effects are weaker or absent in analyses with the workforce philosophy proxy and in analyses with the fit-as-mediation method. The hypotheses regarding continuance commitment were rejected. Chapter 6 describes a number of other issues regarding the analyses as well, such as the (relatively weak) power of the significance tests. Other limitations of the study are discussed in the final chapter, Chapter 8.

Chapter 7 gives a digression on the Dutch context in order to put the study's findings into perspective. The cases are described, and it is established that the qualitative findings do not contradict any of the quantitative research results: the cases largely behave as expected, with the companies with the highest scores on the internal fit of their HRM systems with employee ownership also having the highest levels of psychological ownership and affective commitment. An analysis of the views and attitudes of a number of Dutch opinion leaders, organizations and institutions shows that the institutional context might explain the relatively low incidence of employee ownership in the Netherlands compared to other countries. However, this low incidence of employee ownership contrasts sharply with the predominant attitude in the Netherlands regarding ownership more generally. Also, the government has since at least the latter half of the twentieth century promoted the accumulation of property, particularly real estate through home ownership, and it has also implemented various innovation policies.

Chapter 8 summarizes and concludes the study. It is contended that this study presents a relevant and innovative contribution to the scholarly discourse regarding employee ownership and regarding HRM, on the one hand and to the practice of employee ownership and HRM on the other. Firstly, the study has refined both employee ownership theory and HRM theory. This represents an important step towards more rigorous empirical research on employee ownership, and on HRM systems more generally. Secondly, the general and contemporary trends indicated at the start of the study show that HRM innovations are not a luxury but a necessity, and that employee ownership seems a particularly apt HRM innovation. The present study has made this claim much more concrete. The study shows that employee ownership is likely to have a number of favourable effects in terms of HRM outcomes, and it also shows practitioners what to consider when implementing employee ownership, particularly concerning the broader HRM system. Finally, the study serves as a source of information for policy makers, as it deals with a concrete set of instruments to create a more favourable climate for (knowledge) workers that offers full scope to human potential that has as yet been unused.

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