

High performance management in the American employee-owned sector

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Let me start by congratulating Yuri Igorevich Treshchevsky and his colleagues on the 40th Anniversary of the Department of Economics of enterprises and Entrepreneurship Activities. That's a notable milestone and the subject of the Department's teaching and research is of even more importance today than it was in 1963 when it was founded.

Yuri Igorevich asked me to talk about "High performance management in the American employee-owned sector"

Although Frederick W. Taylor's "Scientific Management" remains America's most important contribution to management theory and practice, in the last twenty-five years it has been increasingly challenged by a series of management theories which can be grouped together as "high performance management." The Taylorist practice was subdividing work into the smallest practical units, of having engineers determine "the one best way" to perform any work task, of creating an almost military authority structure in industry, of separating totally management from actual production. These Taylorist practices give way, in high performance management, to multi-skilling for rank-and-file employees, non-managerial employee involvement in decision making, teamwork, sharing of information about the business, a much flatter hierarchy in management, and some form of involvement for most or all employees in the financial results of the enterprise through bonuses, profit sharing, or ownership.

In essence, high performance management focuses on mobilizing the knowledge and skills of employees to improve business performance without increasing investment. These improved results stem primarily from

two factors: (1) a reduction in scrap and rework and an improvement in quality in production, and (2) the reduction in direct supervision.¹

These “high performance” practices have been the subject of wide experimentation in the United States. It is estimated that about 80% of the Fortune Magazine 500 – the 500 largest publicly traded companies in the US – have tried at least some of them or are currently seeking to implement them. They received official governmental support under both Ronald Reagan and Bill Clinton from the Federal Department of Labor.

Similar practices began earlier outside the United States, especially in Japan, Germany, and Sweden. American managers have seen themselves to be playing catch up, in particular with the Japanese.

The impact of high performance management in the United States, however, has been limited by the fact that all the improvement in company performance come from employee input while most of the benefits flow to outside shareholders. While intrinsic benefits of participation clearly do exist for employees, extrinsic benefits – particularly a share in profits from input – seem to be vital to the continued success of high performance programs. It should be noted that the European Union both is developing a general mandate for employee involvement in European-chartered corporations and is investigating a general system of employee financial participation in enterprise results.

In the United States the employee-owned sector provides a laboratory for analyzing the impact of high performance management. In the U.S, nine million people are estimated to participate in 11,000 broad stock ownership plans or employee stock ownership plans.² Of these, perhaps 3,000 firms with about 2 million employee owners offer meaningful employee involvement and substantial employee ownership – key components of high performance management.

¹ In the post-war period, the United States has distinguished itself from its Western competitors in having more supervisory employees relative to production employees than Germany or Japan.

² National Center for Employee Ownership 2002. There are also an estimated 36 million more are enrolled in 10,200 other company plans for employee stock ownership. Most of this larger group own employer stock through stock options, stock purchase plans, and 401(k) matching grants, and they, as well as the majority of employees in ESOP pension plans, cannot be considered owners in the sense of collectively holding a controlling stake in the enterprise or having the ability to participate meaningfully in the governance and management of the firm.

Unlike companies owned by outside shareholders, in employee-owned companies the benefits of improved performance accrue to the employees through the value of their ownership stake as well as whatever profit sharing system is in place. Thus high performance strategies are more likely to be successful in employee-owned companies and to have a positive impact on company performance. At least that is our hypothesis.

The empirical evidence

How have high performance management methods worked in employee-owned companies?

Over the last 20 years there have been about 25 studies that look at various aspects of high performance management in employee-owned companies in the US as well as several in Japan³ and Western Europe.⁴ A few found no relationship. However, the overwhelming majority found support for the hypothesized positive impact of high performance management in employee-owned companies.

While I am not going to walk through the results of all those studies, let me hit some high points.

In a study of employee-owned companies in Washington State matched with similar non-employee-owned companies, Peter Kardas and his collaborators found that employee-owned companies with employee participation outperformed both employee-owned companies without participation and outside-shareholder-owned companies with participation.

In our own Ohio study of companies with employee stock ownership plans, we found strong and significant correlations between a work-unit/shopfloor index of participation and manager-reported assessments of operational and financial performance.⁵

The presence of nonmanagement board members, whether elected or appointed, was also significantly correlated with management reports of operational improvement and improved profits relative to other firms in the same industry.

³ Jones and Kato 1993 and 1995.

⁴ See especially Conyon and Freeman 2001 and Pendleton.

⁵ Logue and Yates 2001, 93-96.

Free flows of financial information (“open book management”) and other communication about the business and employee training to use the employee involvement system and to understand the business information communicated had an additional positive impact on measures of performance when combined with employee participation.⁶

Just how participation translates into performance is a little mystifying, but some light has been shed on the question. Most simply put, participation, combined with communication and training, can address the “line of sight” problem for employee share ownership in large enterprises, showing workers how their individual efforts connect to the bottom line. Otherwise you have the same “principal-agent” problem you have in companies owned by outside shareholders. Effective participation also creates a systematic process for developing, evaluating and implementing workers’ ideas for better management of the enterprise. And it can help to overcome the disillusionment that follows unrealistically high expectations that often accompany the introduction of employee ownership.

Our Ohio data indicate that organizational development of participation, along with increased business information and the training to understand and act on the information is strongly (and significantly) related to increases in employee interest in decision-making, and interest in decision making is a fairly good predictor of economic performance.⁷

What are the results of this improvement in economic performance?

There is considerable evidence that employee owned enterprises are more likely to create decent work than are conventionally-owned enterprises. Studies comparing matched samples of employee-owned and conventional firms in the United States, for example, have found that employee-owned companies had higher average values in their pension plans, higher wages, and higher total compensation.⁸ Such studies have also found that participatory employee-owned firms are more likely to create conditions in their communities that support the values of decent work –

⁶ Logue and Yates, 148-54.

⁷ Logue and Yates 2001, 144-148 and Yates 2000.

⁸ Kardas, Scharf, and Keogh 1998.

more employment⁹; more stable employment¹⁰; and better health and well-being.¹¹

Those are substantial results and worthy of our consideration in the future.

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This presentation draws on the discussion paper, “Productivity of Employee-Owned Enterprises and Cooperatives,” being prepared by John Logue and Jacquelyn Yates for the Cooperative Branch, International Labour Organization, Geneva.

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⁹ Kardas 1994.

¹⁰ Kruse and Blasi 2001.

¹¹ Erdal 2001/02.

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