# EMPLOYEE OWNERSHIP: A NEW MANAGEMENT APPROACH

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## INTRODUCTION

Presently, there is a trend toward employee participation in enterprise decision - making and revenue sharing. Employee ownership is one of the fastest growing trends in American and European business and employee - owned companies are often more productive and successful in creating jobs and lowering costs than conventional firms.

This paper critically explores the different employee ownership and decision sharing plans and reviews the reasons for their rapid expansion. In addition, the advantages and disadvantages of such a system and its socioeconomic importance are examined.

The main advantages of such a management approach are : creation of incentives and increase in productivity, reduction in strikes and other labor disturbances, a better distribution of income and wealth, and the implementation of democratic principles in work - places.

However, difficulties may arise due to the opposition of capital owners and management executives because the decision - making will be based primarily of labor representatives. In addition, the smooth operation of such a system requires a spirit of mutual responsibility and cooperation among the employee - owners which may not exist. Also, the possibility of allocating extensive benefits to workers, bu their elected managers, may present problems for further enterprise expansion.

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Perhaps the most important long run advantage of workers' ownership and participation in decision - making might be a reduction of income inequalities. In that way, extreme solutions could be avoided and the achievement of the «mean» or moderation in wealth accumulation could take place, as Solon, Aristotle, Fourier, Saint Simon, and other philosophers advocated. Thus, an effective democratic system where the two principles, equality of opportunity and liberty would prevail[1].

It seems that the main macroeconomic problem of stagflation is the result of wage rigidity, that is, the practice of paying workers a predetermined income regardless of what they produce. This maintains employees' money income at high levels and stabilizes aggregate demand, as John Maynard Keynes advocate in the 1930's, but in perpetuates inflation without solving the problem of unemployment.

In this case, production units would increase prices to cover rising labor costs and try to lat - off expensive workers instead of hiring new ones. From that point of view, a strong profit - sharing or bonus system with a low component of base wages would ride out severe economic fluctuations, stabilize prices and raise employment and output. In such a system, employers would be reluctant to fire employees in recessions and eager to hire more in economic upswings. Employees' real income would continue to increase with rising incentives and productivity, a more equitable distribution would prevail, and many discretionary countercyclical measures of the government would not be needed.

## SHARE ECONOMY AND ESOPs

One of the main problems of economic policy in our day is how to break the dilemma of unemployment and inflation or how to reduce the joblessness of a certain percentage without triggering inflation and tecession. The new system of a share economy may provide a viable alternative. In such a system, which is related to the notion of profit - sharing, incomes would be determined by enterprise performance.

Instead of relying on contracrtual fixed wages per hour or week, remuneration would be based on a portion of company revenues, say 70 per-

1. Aristotle, *The Athenian Constitution* 2Π, 1 - X, with an English translation by H. Rackham (Cambridge, Mass. : Harvard University Press, 1952), pp. 36 - 37.

cent, leaving the remaining 30 percent revenue, for hiring new workers and introducing advanced technology.

New workers would be hired as long as they make additional contributions to revenue. In case of recession, revenues would fall, but wages would remain a fixed proportion of revenue and productive workers would keep their jobs. The payment of losses, averaged out among a large number of workers, would be small, and job security would be preserved. Thus the economy would approach full employment with more workers hired. The link between employment and inflation would be broken and policy makers would notresort to low growth measures to avoid inflation [2].

Along similar lines, new labor contracts may provide a two - tier pay scale, according to which newly hired employees would receive less pay than long timers or senior workers, as applied in United and American Airlines. However, this measure may not prevail for long, because it may create frictions among co - workers.

The system of chare economy is criticized in that it does not provide for labor - saving, cost - efficient technology and tends to reduce real wages in the long run as the productivity per worker will decline under labor - intensive methods of production. It is argued that it is a native scheme which resemples the ancient agricultural system of sharing revenues from farm production, known as sharecropping, which did not prove successful in innovations and modernization at the times of its application.

However, the argument that the sharing economy system would deprive the economy from innovative investment and high productivity is not persuasive. This is so, because the remaining percentage of revenue, after the payment of wages, can be devoted for new capital investment which normally in corporatos modern technology. Finally, there may be some flaws in the share - economy model but a similar system works well and successfully in Japan, where workers are paid a share of revenues instead of fixed wages. However, the Japanese succes is also attributed to the family - type relationship of workers and enterprises, as well as to foreign trade surpluses.

Another variation of employee decision making is intra - preneurship», which is a new concept of innovative management used to keep up the competitive

2. Martin Weitzman, *The Share Economy* (Cambridge, Mass. : Harvard University Press, 1984), chs. 9, 10.

spirit into economic units. In this context, the main idea is that employees become entrepreneurs while on the job. Large corporations want to keep talented and productive employees, who also want to inject excitement and urgency into other w dull jobs. Through intrapreneurship, large industrial concerns, such as Texas Instruments, Exxon, DuPont, Ford, A.T. & T., Control Data, and 3M Company, permit technical personnel to generate new ideas and to convert then into business successes. To promote new inventions and to commercialize then or to turn then into innovations, large enterprises provide equipment and money to finance such ventures. However, it is difficult to induce employee - innovators to undertake additional risk, as they face resentment from other employees. Such resentment though, can be mitigated through training and cooperation.

The system of employee sharing in enterprise decision - making, which incorporates many advantages of capitalism and socialism, is gradually spreading in many countries, including the United States, the European Common Market, Japan and even China, Hungary and primarily Yugoslavia. Thus, in more than 6.000 American companies, more than 10 million enployees and workers have shares of ownership and are under Employee Stock Ownership Plans (ESOPs). It is expected that in some 15 years more than 18 milliom workers, which is the size of the present labor unions, would be , would be under such ESOPs plans, compared to only half a million in 1976.

Among the American companies which are or expected to be under such plans are : Peoples Express (which expanded dramatically in a short period of ime, from 1.219 full time employees m March 1983 to 3.962 in December 1984), Frontier Airlines, Pan American World Airways, Eastern Airlines, Parsons Corporation (an international engineering and construction firm), Phillips Petroleum, U. S. Sugar Corporation, Weirton Steel (the largest 100 percent employee owned company in the nation), Rath Packing, Ran River, Con Mill Corporation, Atlas Chain Co., G. M. in New Lersey, National Can Corporation and many more small and large firms. The U. S. government offers generous tax breaks to companies that issue stocks to their employees through ESOPs' up to 25 percent of their payroll per year. Also, lenders to ESOPs' do not have to pay income taxes on half of the interest they collect.

A new economic tendency or necessity, which appeared recently with more force in the United States and other market economies, is that of bailing out or rescuing troubled enterprises by providing and rescheduling state loans or through capitalizing and controlling problematic firms. Such firms include Lockheed, Chrysler, Continental Illinois, Amtrak, Eastern railroads and Conrail, Home Savings Bank in Ohio, Old Court Savings and Loan Association in

Maryland and probably other auto, steel and airline companies, as well as banks with problem loans to Argentina, Mexico, Brazil, and other debt nations. This phenomenon is familiar in other countries such as Italy, during the Mussolini era and later, Britain, France, Germany, Spain, Greece, Turkey, and emven Japan, where the gonverments struggle to keep moribund enterprises alive to avoid extensive unemployment. As long as the state preserves complete or partial control on such firms, these rescue operations tend to be institutionalized and introduce a modern form of socialism coming from the very heart of capitalism[3].

However, with the introduction of a share economy and the employee ownership of enterprise, such gonvernment interventions and undesirable controls such can be reduced or eliminated.

As a matter of fact, a number of public or semi - public enterprises are in the process or have been denationalized and are transferred totally or partially to the workers and employees working for them. For example, in England, Britoil, British Sugar, Ferranti, Jaguar, Cable and Wires, British Airlines, and British Gas, among others, and possibly Conrail in the United States, are included in this category.

A major advantages of owner - ship - transfer from public or private companies to the people working for them is the concept that the employees work for their own firms and that higher productivity would lead to higher remuneration. Also, strikes and other labor disturbances, as well as unemployment, could be limited. Another serious reason of creating ESOPs' is to avoid hostile takeovers by other mpanies. In our day, such takeovers are spreading at alarming proportions in the United States and else where, especially for firms facing financial difficulties. Other firms use leveraged buyouts, that is they borrow money from lending institutions or government agencies and buy or absorb small and even larger companies to monopolize the market. Thereafter, frequently they reorganize their operations and lay-off large numbers of employees to reduce labor cost.

With employee ownership such problems can be avoided. However, the employee owners should keep their shares for a minimum number of years which would be predermined, or until retirement so as to maintain their interest in the well - being of the company for which they work.

3. John Kenneth Galbraith, «Taking the Sting Out of Capitalism» New York Times May 26, 1985, Section 3, pp.. Fl, 27.

## SOCIALIZATION and EMPLOYEE DECISON - MAKING : THE CASE OL GREECE

It would seem that a widespread application of the system of employee ownership and decision - making in Greece is difficult at the present time. However, it can be considered seriously for a number of private and public or semi-public 'nterprises, especially for those which approach bankruptcy. In such cases, workers and employees can be the owners of the economic units they work for to preserve their jobs and improve performance. Moreover, existing enterprises can offer part of the ownership to the employees in the form of shares for companies with stocks in the Athens Stock Exchange or in the form of partial ownership or parthership in firms without stocks. Perhaps the system of employee ownership may be more succesfull in small and medium size enterprises which constitute the large majority in Greece.

On the other hand, the employee-owners in Greek firms should accept proportional reduction in wages when the nterprises do not perform well. In other words they should share in responsibilities as well. This can be ashieved by revenue sharing ; that is, by receiving certain proportion of revenue (50 to 70 percent for example) as a salary depending on the labor or capital intensive process of production of the firms in question. Alternatively, a system of remuneration similar to that in Japan can be applied, which has proven to be successful for sometime now. That is, to have the workers and employees take half or one-third of the expected wages and receive the rest from the net revenue or surplus of the enterprise in which they work. At the same time, they will participate in decision-making and the more interested in the firm's performance.

Transfer of ownership to employees may be gradual or immediate, by buying or accepting total ownership of the related private or public interprises. Here, the Greek government can play an important role in facilitating such a transformatior by providing loans, tax advantages and other benefits, as happens in other countries, inclunding the United States. In such cases, the employees would elect their represantatives and managers for a number of years, 4 years for example, through democratin voting, so that they will direct, instead of being indirected, in policy decisions concerning wages, prices, investment, new technology and other business matters. However, the employees should be free to choose their managers and not be patronized by government supervisors or members of political parties.

In this context, Law 1365/1983 in Greece provides for a public or semi-public enterprises under consideration for socialization, including the Public Power Corporation (ΔΕΗ) Organization for Telecommunifations of Greece (OTE), Organization of railways of Greece (ΟΣΕ), Olympic Airlines, and banks and other consists of :

1) The Representative Assembly of Social Control (ΑΣΚΕ), which has a advisory function and is composed of 27 members (9 appointed by government, 9 by the employees and 9 by other affelcted social organizations and local autorities, for three years).

2) The Executive Board of 9 members, 6 of which are government-representatives and 3 employee-representatives.

3) The General Manager, who is appointed by the majority of the Executive Board, 2/3 of the membrers of which are appointed by the Government[4].

These new measures of socialization are not much different from the previous ways of management and controls of the nationalized or public and semi-public enterprises. The Representative Assembly of Social Control has only advisory capacity and the Executive Board is controlled by the government. The related ministry of the government can nullify any decision which is not in line with its policy and use financial controls to implement whatever policy it awants. All these measures and especially the control of the executive boards, throuhgh the appointment of government or party patrons and the direct or indirect appointments of the managers of the public enterprises by the government make a employee management weak and ineffective.

As a result, bureaucracy, ineffiliency and operational deficits, associated with public enterprises, would continue to exist and the Greek taxpayers and consumers would bear the financial and poor services burden in the years to come. A real denationalization or socialization of the economy might come from a transfer of decision making to the employees in a democratic manner. That is, in a way that employees would be the protagonists and not just observers of their own economic destiny. Furthemore, they could appoint or lay-off their manages and determine prices, wages investment, and technological innovations. However, in order to avoid excessive increases in salaries and wages above the productivity levels by the employee-elected managers, certain limits an be determined by the

4. Dimitris Papadopoulos, «Sygritiki Analysi ton Oron Kratikopoiisi kai Kinonikopoiisista plesia tis Elinikis Pragmatikotitos, (Comparative Analysis of the Terms of Nationalization and Socialization in the Framework of Greek Reality), *Monthly Bullettin of the Commercial and Industrial Chamber of Thessaloniki*, December 1984, pp. 158-61.

national plans or the overall governments economic policy. Thus, full employment with limited or no cost—push inflation can be pursued [5].

WORKERS'SELF- MANAGEMENT : THE CASE OF YOYGOSLAVIA

Yugoslavia was the first country to introduce a nationwide system of workers' self-management and decentralized decision making after World War II. In this system, decentralization and labor management are the two pillars of the economy. The long - term aim is to change the nature of ownership of the means of production and the ensuing «disempowering» or withering away the state. Individual capitalism and monocentric state capitalism are gradually replaced by a polycentri social system, which can be characterized by worker-managed enterprises, market-incentive socialism and a decentralized social self-government.

The mains organs of worker self-management are the basic Organizations of Associated Labor (BOAL's) which act like work-units or departments into the enterprises. Such BOAL's approve decisions on income distribution, investment and other related matters. They may delegate certain powers to workers' councils (self-management bodies) or executive committees of 3 to 11 members (management boards), which may be elected for no more than two years and no more than two consecutive terms. In addition, members of the executive committee may be relieved at any time by the workers' councils.

However, in this particilpatory democratic system of self-management there appears to be an oligarchic type of influence similar to business firms under capitalism. In many cases, executives have greater influence than workers in critical decisions. In many occasions, government or party representatives are supervising decision making or are the executives and decision-makers themselves. On the other hand, directors of firms, who have little secutrity of tenure, usually approve wage increases at the request of workers, a fact that leads to cost-push inflation. From that point of view, the system may be more successful if the «Illyrian Firms» in Yougoslavia follow the practice of the «Nipponese Firms» in Japan, allowing fluctuations in wages according to the performance of the enterprises and therefore to workers' productivity.

It would seem that this is a unique system of self-management and social hXner-

5. Nicholas V. Giannaris, *Greece and Yougoslavia: An Economic Comparison* (New York : Praeger, 1984), ch. 3 : and his, The Economics of the Balcan Countries : *Albania, Bulgaria, Greece, Romania Turkey, Yugoslavia* ( New York : Praeger 1982, ch. 4.

ship and the Yougoslav economy may be considered as a laboratory and of experience for other countries, which operate under the market or planned economic systems. There is no doubt that there are serious difficulties in the system's implementation, but they may be considered in part as the unavoidable birth pains of this unique experiment[6].

The Yougoslav system, of workers self-management can be used as an example for the measurement of labor productivity to see the efficiency of such a model. For the calculation of labor productivity growth, the following equation in a logarithmic form was used :

$$\log (Q/L)n + \log (Q/L)o + \eta \log (1 + q)$$

were Q is output, L is labor, q is productivity growth, and $\eta$ is time in years.

The results, that is the annual increase in output per worker or the growth in labor productivity, were 4.0 percent in the 1960s and 1,7 percent in the 1970s, which are not satisfactory compared to other countries, such as Greece with 8,8 and 3,5 percent productivity, respectively. In the early 1980's, labor productivity declined further, primarily because of the worldwide recession. Perhaps, the supervisions and controls of workers councils and enterprise management by government and party representatives are responsible for low productivity.

On the other hand, a regression of average labor productivity (Q/L) on investment (INV) for Yougoslavia (1959- 1980) presents the following results :

$$Q/L = a + b\ INV = 439{,}2 + 0.40\ INV \qquad R^2 = 0.869$$

This means that a 1-unit change in investmenrt (INV) is associated with a change of 0.4 units of labor produlctivity (Q/L), which is a relatively good results.

Furthemore, a multiple regression analysis for Yougoslavia again indicates that »exports» (EXP) is a better explanatory variable for labor productivity than is jnvestment (INV), while inflation (INF) is negatively related to labor productivity [7].

6. Nicholas V. Giannaris, «Greece and Yougoslavia, op. cit. p. 84.
7. Statistical data from Organization for Economic Cooperation and Development, (OEC), National Accounts, various issues; and United Nations, Yearbook of National Accounts Statistics, various issues.

Thus,

$$Q/L = 0.55 + 0.37\ EXP - 0.23\ INF + 0.20\ INV$$
$$0.58\ (\ -\ 0.01)\ (0.22)$$

$$R^2 = 0.958, \qquad D.W. = 1.38$$

The figures in parentheses represent the t-values.

The regression results indicate that correlations of average labor productivity with exports, inflation and investment were high. The cofficient of determination was close to one ($R^2$ = 0.970). However, the Durbin - Wstson statistic (DW) at a 5 percent level of significance was not high enough to signify the nonexistance of serial correlation, and the results should be interpreted with caution.

## CONCLUIDNG PEMARKS

In recent years, a remarkable development in industrial organization appeared in a number of countries, concerning employee ownership and enterprise decision making. In cooperation with capital or under a system of workers self-management workplace democratic decisions aim at increasing productivity jobs and improving welfare. Although ESOPs and other self-management groups grow at the expense of the traditional labor unions, they do not seem to raise questions of replacing the owners of property or the state. On the other hand, laborunions, with dwindling power, become unable to protect jobs and improve real wages, especially in cases of recession. Instead, they quietly support or at least do not oppose the expansion of employee ownership and labor participation in decision making.

The fast growing model of share economy and self - management may provide a viable alternative to the dilema of unenployment and inflation. To stimulate work incentives and to increase productivity, many countries encourage employee ownership, revenue sharing and self - management. In the United Srtates ESOPs are rapidly growing with the support of the government. In England, Greece, and other countries a denationalization process transfers economic power from the state to the employees or other social groups. In Youtoslavia workers' councils exercise self-management for many years, although with serious dificulties. Japan, the European Common Market, Hungary, China, Romania, and a number of other market and planned economies use various forms of Workers' participation in decision making and revenue of profit sharing. Such trends of ownership diffusion in employees and workers may lead to, what Joseph Schumpeter called «people's capitalism».

Although there are many problems in implememting such a system, the ur' gency for abetter distribution of income and wealth, the need for full employment without inflation, and the growing involvement of an educated labor force may necessitate a universal adoption of employee revenue and decision sharing.

Finally, this new management may prove to be effective in narrowing the gap between economic and political powers and help increase cooperation among countries with dirfferent economic systems.

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