

# The Fit of Employee Ownership with Other Human Resource Management Practices: Theoretical and Empirical Suggestions Regarding the Existence of an Ownership High-Performance Work System

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This article embeds employee ownership within a strategic human resource management (SHRM) framework, and in so doing, aims to redress in part a lack of attention in previous employee ownership and SHRM literatures. The study extends the configurational approach to SHRM to include the construct of the workforce philosophy as the factor that determines the coherence of HRM systems. Companies that have employee ownership as a central element and core HRM practice should do two things in order to ensure that their HRM system is coherent and potentially a high-performance work system (HPWS). First, these firms should propagate the idea that employees deserve to be co-owners and take employees seriously as such. Second, the HRM system should reflect this workforce philosophy: the HRM system should contain HRM practices that mirror the rights that make up the very construct of 'ownership'. The core HRM practices of the 'ownership-HPWS', in addition to employee ownership, are: participation in decision-making, profit sharing, information sharing, training for business literacy and mediation.

*Keywords:* employee ownership, high-performance work systems, human resource management, organizational effectiveness, strategic human resource management

## **Introduction**

This article approaches employee ownership from the perspective of strategic human resource management (SHRM). In contrast with the earlier contributions to this special issue, it moves beyond employee ownership literature and tries to bridge this literature with SHRM literature. SHRM is that part of HRM theory and research that deals with the link between HRM activities, HRM outcomes (e.g. employee behaviours and attitudes like satisfaction, motivation, commitment) and company performance. Employee ownership is defined as the amount of stock in their employing company that employees own directly, or indirectly through some kind of trust – as in employee stock ownership plans (ESOPs) – or through share options. We focus specifically on ‘broad-based’ employee ownership, in which more than half of the workforce is eligible to participate in the plan.

Although employee ownership literature takes note of the importance of the relationship of employee ownership to other HRM practices, it does not take full account of the embeddedness of employee ownership in HRM systems (e.g. Shperling and Rousseau, 2001: 38). At the same time, in the SHRM literature, employee ownership is often not distinguished from other forms of ‘incentive pay’. For example, in Table 1-3 of their book, Becker et al. (2001) compared the HRM practices in firms at both the bottom and the top of the ‘high-performance HR continuum’. In the firms in the top decile, 83.56 percent of the workforce appeared to be eligible for ‘incentive pay’, compared with a scant 27.83 percent for the bottom decile (Becker et al., 2001: 16). However, ‘incentive pay’ is not further specified, so we learn nothing about employee ownership or other forms of ‘incentive pay’.<sup>1</sup> In this contribution, we elaborate on this existing bridge between the employee ownership and SHRM literatures.

The article aims to investigate the tentative construct of the ‘ownership high-performance work system’. The question, then, is what does employee ownership add to a high-performance work system (HPWS)? Is it just another HRM practice that adds to the mix, or is it a potential basis for a different and – maybe – more effective HRM system? As yet, we are not able to give a definite answer to this question but we are able to show under what circumstances employee ownership is more or less likely to produce positive effects on HRM outcomes and company performance. It therefore

presents a perspective for the cross-road problem that this special issue of *Economic and Industrial Democracy* addresses. The 'internal fit' with other HRM practices in the HRM system plays a decisive role, as does the workforce philosophy that is behind the HRM system. The next section discusses these constructs within the light of some relevant SHRM theory, clarifying what we mean by constructs like HRM system, HRM practices, workforce philosophy and internal fit, and how all these constructs relate to each other. The penultimate section integrates the findings from SHRM research with some particularly germane employee ownership research. This results in an SHRM framework for employee ownership: the ownership-HPWS. The final section summarizes our findings and presents our conclusions.

## **Strategic Human Resource Management and the High-Performance Paradigm**

### *The Configurational Mode of SHRM Theorizing*

This section is about extant SHRM research. It briefly discusses current SHRM theorizing on high-performance work practices (HPWP), high-performance work systems (HPWS) and the meaning of the internal fit of HPWS. It points at some shortcomings in this area of SHRM literature and proposes to counterbalance those by putting forward the construct of the workforce philosophy. HRM systems are usually defined as being composed of several HRM activities, at different levels of abstraction. For example, from abstract to concrete: HRM or workforce philosophy, HRM principles, HRM policies and HRM practices (Colbert, 2004; Schuler, 1992). The workforce philosophy refers to beliefs about the relative role and value of workers. HRM principles refer to the guidelines on how to treat and value people. HRM policies refer to the enactment of these guidelines, and HRM practices refer to the specific tools to execute the policies and to motivate the necessary role behaviours. Employee ownership is an HRM practice, participation in decision-making is another example of an HRM practice. Internal fit refers to the coherence or consistency of the HRM system (e.g. Baird and Meshoulam, 1988; Boxall and Purcell, 2003; Delery, 1998; Huselid, 1995; Wood, 1999).

In SHRM research, several ‘modes of theorizing’ can be distinguished. Examples are the universalistic mode, the contingency mode, the configurational mode and the complex mode (e.g. Colbert, 2004; Delery and Doty, 1996). These modes differ with regard to the level of abstraction, and the interactions they focus on – if any. In the present study, we employ a slightly extended version of the configurational mode – ‘extended’, because we add one level of abstraction that is not usually included in configurational SHRM theorizing, namely the workforce philosophy. We add the workforce philosophy to overcome some of the shortcomings in the SHRM literature on HRM systems and HPWS. The configurational mode is holistic: it focuses on HRM systems as a whole and on system interactions. It also uses ideal types of HRM systems, and assumes equifinality: different HRM systems are assumed to be equally effective, depending on the circumstances. In the present study, we also confine ourselves to two levels of abstraction only: HRM practices and the workforce philosophy. Finally, we specifically focus on the internal fit of HRM systems. We therefore largely disregard other contingencies, such as the organizational strategy, a firm’s administrative heritage and its environment. For our present purposes, we assume these to be constant.

### *Current Research on HPWP, HPWS and Internal Fit*

The coherence of HRM systems is usually referred to as the ‘internal fit’ (or horizontal fit) of HRM practices (e.g. Becker and Gerhart, 1996: 784; Baird and Meshoulam, 1988; Boxall and Purcell, 2003; Delery, 1998; Huselid, 1995; Wood, 1999), and it ‘has been explicit in nearly all work in this area’ (Delery and Shaw, 2001: 175). Delery and Shaw (2001) also asserted that the general idea, also referred to as the synergies or complementarities in, or the internal consistency of, the HRM system is ‘that individual HRM practices must be aligned in such a way that they support and enhance the effectiveness of each other’ (Delery and Shaw, 2001: 175). Becker et al. (1997) called this ‘powerful connections’, in which the entirety of the HRM system amounts to more than the sum of its parts, as opposed to ‘deadly combinations’, which ‘develop when firms adopt HRM policies and practices that might well make sense in isolation but when evaluated within the context of *other* HRM prac-

tices deployed throughout the firm are a recipe for disaster' (Becker et al., 1997: 43; emphasis in original).

Different configurations of HRM systems have appeared in the scholarly SHRM literature, in slightly different contexts, composed of diverse sets of HRM practices, and with various labels attached to them. Usually, two or more HRM systems appear in a study, with one HRM system approaching an ideal-typical and apparently very effective HPWS, and the other(s) the opposite or somewhere in between. An ideal-typical configuration would be one with the highest degree of internal fit (Delery and Doty, 1996: 804). Examples are the 'control' or 'cost-reduction' vs 'commitment' or 'commitment-maximizing' HRM systems (Arthur, 1992, 1994; Walton, 1985); the 'internal' vs 'market-type' HRM systems (Delery and Doty, 1996); the 'commitment', 'market-based', 'compliance' and 'collaborative' HRM systems (Lepak and Snell, 1999); and the 'cost-minimizing', 'paternalistic', 'inducement', 'investment' and 'transitional' HRM systems (Bae and Yu, 2005).

Quite a few studies have found positive effects of HPWS on HRM outcomes and company performance (e.g. Appelbaum et al., 2000; Arthur, 1994; Becker and Huselid, 1998; Guthrie, 2001; Ichniowski et al., 1997; MacDuffie, 1995; Wood, 1999), although some found clear negative effects (see, for example, Cappelli and Neumark, 2001). However, this strand of research has a number of limitations, for instance: reliance on single respondent data, the use of single items for measuring complex HRM practices, overrepresentation of traditional HRM practices, inconsistency in the inclusion and measures of other HRM practices and replication problems. These limitations have led some researchers to be less optimistic about the high-performance paradigm (e.g. Godard, 2004: 353ff.).

Related to this, and after reviewing the studies mentioned and a number of other studies within this strand of the SHRM literature (Arthur, 1992, 1994; Bae and Yu, 2005; Cutcher-Gershenfeld, 1991; Delery and Doty, 1996; Huselid, 1995; Lepak and Snell, 1999; MacDuffie, 1995; Youndt et al., 1996), a number of structural deficiencies with regard to research on HRM systems became apparent. The choice of HRM practices and their allocation to a particular HRM system is problematic, as is the specification of the relationships between the HRM practices in HRM systems: i.e. what does the internal fit between HRM practices amount to? As an example of what we mean, look again at how the HRM practice 'incentive

pay' has been used in this strand of SHRM literature. Incentive pay has appeared as part of both 'control' (e.g. Arthur, 1994) and 'commitment' HRM systems (e.g. MacDuffie, 1995); however, in control HRM systems there is an emphasis on individual incentives, while in commitment HRM systems there is an emphasis on group incentives. What then is actually the HRM practice here: 'incentive pay' or 'group incentive pay'? And what exactly does 'group incentive pay' mean? Does this include employee ownership? In the same way, training has many different manifestations, as does, for example, participation in decision-making. Are the relationships between these different HRM practices multiplicative, complementary or are these practices substitutes?

### *The Workforce Philosophy Determines the Configuration and Coherence of HRM Systems*

The solution for the lack of theoretical underpinning to why certain combinations of particular HRM practices form a coherent HRM system has been present in the scholarly literature. An organization's HRM practices are partially derived from its HRM policies, which are partially derived from its HRM principles, which are partially derived from the workforce philosophy – 'partially' because of the other contingencies, such as the organizational strategy, or the forms of human capital in the firm. The point is that, ultimately, the HRM practices in the HRM system are closely connected with the workforce philosophy, and this workforce philosophy consists of the values, beliefs and assumptions on which the choice and allocation of HRM practices is ultimately founded.

McGregor's (1985) Theory X and Theory Y could serve as examples of workforce philosophies. Theory X contains negative assumptions about human nature like: 'The average human being has an inherent dislike of work and will avoid it if he can' (McGregor, 1985: 33). A workforce philosophy with assumptions like this is likely to be accompanied by HRM practices aimed at coercing, controlling and directing people, and threatening them with punishment – at least if the HRM system is coherent. HRM practices such as narrowly defined job tasks, relatively low wages based on individual incentives, very little employee influence and intense supervision or control will dominate (see Arthur, 1992, 1994). Obviously, adopting an HRM practice like participation in decision-making would not be

consistent with the rest of the HRM system if the system was predominantly built on a Theory X workforce philosophy. In cases where Theory X is the prevailing workforce philosophy, employees may become disappointed and cynical because of their actual lack of influence. Consequently, the effect on employee attitudes and behaviours could be zero or even negative (see Bernstein, 1976). Clearly, the implementation of an HRM practice like participation in decision-making in such a divergent context would weaken the HRM system by rendering its message to the employees inconsistent.

### *The Importance of the Consistency of the Message Sent by the HRM System*

The HRM system, through the bundle of HRM practices, sends a message to the employees about how they are valued. If the HRM practices in the bundle can be traced back to a single, simple workforce philosophy, a clear and consistent message is sent to the employees about their psychological contracts, so creating conformity in employees' perceptions. Consistent messages make managerial intentions easier to understand and this is important for their credibility, for at least two reasons. First, people have a propensity to accept messages that are close to their current understanding of a situation, so messages that are consistent over time become internalized more easily. Second, it is hard for people to believe inconsistent messages, so it becomes necessary to take more actions – e.g. implement other HRM practices – in order to convey that the intentions are real (see Rousseau, 1995: 42–3).

Inconsistent messages lead to weak situations, while consistent messages create strong situations. Only in 'strong HRM systems', which send consistent messages, can individual mindsets ultimately become a shared and strong aggregate organizational climate (Bowen and Ostroff, 2004).

### *Only Flexible HRM Systems Can Be HPWS*

Firms do not exist in a vacuum. Furthermore, firms differ considerably, or should try to do so, since heterogeneity is a source of sustained competitive advantage (e.g. Barney, 1991). Firms should

therefore have, and generally indeed do have, considerable discretion with regard to the shaping of their HRM system. Firms can and have to adapt the choice and design of HRM practices in the HRM system according to their needs: i.e. their environment, strategy and administrative heritage. With this restriction in mind, the workforce philosophy is viewed as a stable 'organizational anchor' (see Fiol, 2001). Accordingly, an effective HRM system, or HPWS, is composed of a number of 'core HRM practices' that directly reflect the workforce philosophy. This leaves enough flexibility in the specific design of those HRM practices and the choice of non-core HRM practices to remain in keeping with important 'idiosyncratic' and other contingencies of firms, like the 'informal organization' (Truss, 2001) and 'signature processes' (Gratton and Ghoshal, 2005) – at least as long as this does not go against the prevailing workforce philosophy. This distinction between core and non-core HRM practices can also account for the fact that 'some practices may be complements in one plant and substitutes in another' (Appelbaum et al., 2000: 12).

The distinction between core and non-core HRM practices can also be found – more or less implicitly – in other SHRM studies. Osterman (1994), for instance, viewed flexible HRM systems as containing a mix of 'anchoring' and 'supporting' HRM practices (Osterman, 1994). MacDuffie (1995) built on this when he distinguished bundles of HRM practices relating to the 'organization of work and the way work tasks are carried out' from 'those that reflect firm-level human resource policies affecting employees at all levels' (MacDuffie, 1995: 203). He compared the former with Osterman's (1994) 'supporting' HRM practices. Furthermore, MacDuffie (1995) used the term 'organizational logic' to describe 'principles or frameworks for action that indicate preferred directions without dictating particular practices' and interpreted this to be a 'systemic property that exerts a powerful pull toward internal consistency within these bundles and a complementary relationship between them' (MacDuffie, 1995: 199, 200). However, he argued that the actual extent to which this internal consistency and these complementarities exist is a 'matter for empirical investigation' (MacDuffie, 1995: 200). In the next section that is precisely what we do for employee ownership.

## **Employee Ownership in an SHRM Framework**

### *Extant Research on Employee Ownership and its Consequences*

Several reviews of studies of the link between employee ownership on the one hand, and HRM outcomes and company performance on the other hand, have concluded that hardly any negative effects have been found, but at the same time that positive effects do not appear to come about *automatically* (Conte and Svejnar, 1990; Kruse, 2002; Kruse and Blasi, 1995; Sesil et al., 2001). However, there is no straightforward empirical evidence of exactly which conditions are sufficient or necessary for positive effects to occur, and some findings are simply contradictory.<sup>2</sup> One of the reasons for the relative weakness of the results from empirical research on the consequences of employee ownership is that, as yet, the theory behind many of the studies on the effects of employee ownership has been underdeveloped. In particular, no research has been done on comprehensive models of employee ownership and the broader HRM system, although several researchers have focused on combinations of employee ownership with certain specific HRM practices, predominantly participation in decision-making.<sup>3</sup> Nevertheless, there are a number of notable findings.

The importance of the workforce philosophy, or management's commitment to employee ownership, for example, has been demonstrated by a number of studies (e.g. Culpepper et al., 2004; Gamble et al., 2002; Klein, 1987; Klein and Hall, 1988; Long, 1982; Rosen et al., 1986). Also, several HRM practices have been included in the research, with differing results. As indicated earlier, this mostly relates to forms of participation in decision-making, but also to, for example, information-sharing (e.g. Freeman et al., 2004; French and Rosenstein, 1984; Kalmi, 2002), and profit-sharing (e.g. Brown et al., 1999; Freeman et al., 2004; Wilson and Peel, 1990). One study (Freeman et al., 2004) included a bundle of HRM practices as one variable, an 'HRM index'. Overall, however, the theory behind most of these studies lacks a sophisticated explanation of why specific practices would be important in relation to employee ownership, and what would be the added value of employee ownership, or what would be the added value of combining these other HRM practices with employee ownership. This lack of theoretical sophistication is reflected in the relatively weak empirical findings.

*The 'Ownership High-Performance Work System'*

Following McGregor's (1985) Theory X and Theory Y, Young (1991) introduced what she called 'Theory O', with the 'O' referring to 'ownership'. As the first feature of successful employee ownership companies – i.e. companies that apparently applied this Theory O – she referred to 'commitment by the top' (Young, 1991). That is, in successful employee ownership companies the prevailing workforce philosophy is one in which the relative role and value of employees relates to their co-ownership. In successful employee ownership companies, employees are seen as worthy of their co-ownership of the company and they are taken seriously as owners. This should be reflected in the other core HRM practices in the HRM system, which therefore relate to the rights that make up the very construct 'ownership', that is: the right to use an asset, the right to its returns and the right to dispose of or sell an asset (e.g. Furubotn and Richter, 1998: 77; Putterman, 1996). Table 1 shows how these ownership rights translate into various organizational practices.

As Table 1 shows, in order to be effective, an HRM system with employee ownership as a central element and core HRM practice should also include the following HRM practices: participation in

**TABLE 1**  
**Translation of Ownership Rights into Organizational Practices**

<b>Ownership Rights</b>	<b>Corporate Governance Practices</b>	<b>HRM Practices</b>
Use	<ul style="list-style-type: none"> <li>● Voting rights</li> <li>● Shareholders' meetings</li> <li>● Board membership</li> </ul>	<ul style="list-style-type: none"> <li>● Participation in decision-making</li> <li>● Information sharing</li> <li>● Training for business literacy</li> <li>● Mediation</li> </ul>
Returns	<ul style="list-style-type: none"> <li>● Dividends</li> <li>● Share price</li> </ul>	<ul style="list-style-type: none"> <li>● Profit sharing</li> </ul>
Sale	<ul style="list-style-type: none"> <li>● Simply decide to sell shares</li> </ul>	<ul style="list-style-type: none"> <li>● Participation in decision-making about employee ownership</li> <li>● Sharing of information with regard to employee ownership</li> <li>● Training for business literacy to understand and be capable of the above</li> </ul>

decision-making, profit sharing, information sharing, training for business literacy and mediation. The relationships between these core HRM practices are partially conditional, and partially multiplicative. An employee cannot be a real owner if he or she has no say, if he or she does not share in the returns, if he or she has no information about the business or does not understand the information that is being shared – i.e. the employee owner must be ‘business literate’ (Rousseau and Shperling, 2003: 558). Furthermore, real ownership is impossible if there is no way of solving conflicts fairly. The presence or absence of these core HRM practices determines whether or not the HRM system consistently sends the message that employees deserve to be owners and that they are taken seriously as such. An HRM system with employee ownership as a central element and core HRM practice is ‘strong’ only if these five other core HRM practices are present as well. This leaves the employee ownership firm with sufficient discretion to adapt the choice of non-core HRM practices and the specific design of the core HRM practices to its specific needs (e.g. different manifestations of employee ownership, participation in decision-making and the other core HRM practices). To sum up, the presence of the other five core HRM practices, reflecting that management is serious about employee ownership, is a necessary condition for this HRM system to be an ‘ownership-HPWS’.

## **Summary and Conclusions**

This article develops an existing link between the employee ownership and SHRM literature. In the SHRM literature, employee ownership is usually not distinguished from other forms of incentive pay. Employee ownership theory, on the other hand, has been underdeveloped up to now in that it has largely ignored SHRM theory and research. This study contributes to both literatures by bringing them together.

We opened the article with a discussion of some relevant SHRM research, particularly from the configurational strand. This strand of SHRM literature deals with HRM systems and system interactions. Several ideal types of coherent HRM systems have emerged in the literature, some of them effective HPWS and some not – depending on the circumstances. This research contains a number of shortcomings, however, particularly with regard to the choice of HRM

practices in, and their allocation to, various HRM systems, and also with regard to assumptions about the relationships between HRM practices in 'coherent' HRM systems. Extending the configurational approach to SHRM theory and research, by including the workforce philosophy as the groundwork of HRM systems, appeared to be helpful in partially overcoming these shortcomings. In coherent, 'strong' HRM systems, the presence of certain core HRM practices directly reflects the workforce philosophy. These HRM systems therefore send a strong and consistent message to the employees. At the same time, this leaves firms with sufficient discretion to adjust the specific design of the core HRM practices and the choice of non-core HRM practices to their needs.

Empirical research on employee ownership and its consequences shows that management's commitment to employee ownership is a major factor influencing the effectiveness of employee ownership. The importance of a number of HRM practices has also been suggested by various studies. These findings, combined with the findings from SHRM research outlined earlier, have led us to contend that two things determine whether or not an HRM system with employee ownership as a central element and core HRM practice is also an 'ownership-HPWS'. First, the workforce philosophy should propagate the idea that employees deserve to be co-owners, and managers should take them seriously as such. Second, this should be reflected in the presence of five other core HRM practices, which mirror the rights that make up the very construct of 'ownership'. These core HRM practices of the ownership-HPWS, in addition to employee ownership, are: participation in decision-making, profit sharing, information sharing, training for business literacy and mediation.

Employee ownership research up to now still leaves a number of questions open. We contend that the SHRM framework of employee ownership we have described yields a robust conceptual model that could enable employee ownership research to make progress towards answering those questions.

## Notes

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1. Thanks to Joseph Blasi for pointing this out.
2. For example, compare the results of McNabb and Whitfield (1998) with those of Addison and Belfield (2000), and then compare both with Conyon and Freeman (2001)! Or the associations that Kato and Morishima (2002), Kruse et al. (2004) and McHugh et al. (2005) found with those found by Raschke Grand (2004).
3. Examples are: Cable and FitzRoy (1980), Craig and Pencavel (1995), Doucouliagos (1995), Jones and Svejnar (1985), Quarrey and Rosen (1986), US General Accounting Office (1987), or, more recently, McHugh et al. (2005), and Robinson and Wilson (2006). Actually, research on the specific combination of employee ownership and participation in decision-making is maybe an exception in that there are thorough theoretical studies on the interaction effects of these HRM practices (e.g. Ben-Ner and Jones, 1995). However, the empirical evidence for the contention of the existence of positive interaction effects is remarkably weak. The following is what Douglas Kruse, one of the leading experts on employee ownership in the US, said about this to the first author in an email on 27 February 2005: 'Given all the theory about how PDM and EO should interact, I was quite surprised myself when I saw how few findings there are on this.'

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