Employee Ownership: A Reaffirmation of Shareholder Primacy?

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Abstract
In this paper we explore the norm of shareholder primacy with the aim of identifying its applicability in companies with employee ownership. We pose the following research question: Can companies with employee ownership respond better to the demands of society, or do they instead reaffirm the norm of shareholder primacy? We argue that companies with employee ownership are better positioned to generate a greater benefit for society because compared to other kinds of companies they can achieve a better strategic alignment and their employees have an incentive to care more about their actions, to develop a greater awareness of social identity, and to be more willing to share the benefits that accrue from their improved performance. However, for this surplus value to be transferred to society, at least in part, these companies must adopt corporate governance structures that enable employees to exercise their rights as owners, including participation in company decision-making.
***Keywords:** employee ownership, shareholder primacy, corporate governance, stakeholder management*

It is becoming more frequent for companies to incorporate business models that seek a positive impact on society and the environment, which coincides with the vision in which a company's legitimacy is derived from its social function (Roncancio & Lagos, 2019).[1] Nevertheless, the debate over the purpose of companies remains unresolved, with two opposing positions

1. In this document we use the term company in a broad sense to refer to all types of organizations, both for-profit and non-profit.

facing off. On the one hand, shareholder primacy has been the predominant position over the last few decades (Storey & Salaman, 2017), asserting that a company's managers have fiduciary duties exclusively toward their shareholders (Berle, 1931). On the other, a revised position has emerged, suggesting that a company's purpose is broader than that: it is an economic institution with a social function. Consequently, business decisions must be guided by fiduciary duties that include all of the company's stakeholders (Dodd, 1932). This perspective recognizes that companies have an impact on society, and it follows that their scope of action involves more than just the pursuit of their shareholders' interests (Roncancio et al., 2018). In spite of the ongoing debate over the purpose of companies, a certain consensus has been reached that companies today are better positioned to help solve social problems (Sacchetti & Tortia, 2020). In this sense, society expects them to pursue more than just maximize shareholders profits. Likewise, companies require public trust to legitimize their actions and guarantee their survival (Barton, 2011). Currently companies face a crisis of mistrust: A large portion of society perceives them as unfair organizations that serve the interests of the few; moreover, they are dishonest, corrupt, and have a limited vision and objective for the future (Edelman, 2020). According to the most recent report by Edelman Trust Barometer, published in 2020, global trust in companies reached 58%, and the percentage is much lower in developed countries (35% in Russia; 47% in the United Kingdom; 49% in Japan; 50% in France, Spain, and the United States, to name just a few).

Inequality and high unemployment are not new, but the pandemic brought on by the coronavirus aggravated the conflict between society and companies by heightening the perception that companies are thriving at the expense of society (Porter & Kramer, 2011). In response, new organizational forms have arisen that use the power of companies to benefit society (Roncancio & Lagos, 2019) while continuing to generate profits for shareholders. Shared capitalism includes "arrangements that tie workers' wages or wealth to their own workplace performance, at the level of the work group, the institution or the company" (Freeman et al., 2010, p. 5). Within this framework, employee ownership has gained momentum. One of its main premises is that when employees enjoy the benefits of company ownership, they work more and better, which enhances the company's performance and stimulates economic growth (Aubert et al., 2018).

Employee ownership can come through the initiative of either management or employees (Bartkus, 1997). Employers can give the option of investing in the purchase of company shares on offer (Aubert et al., 2018), or employees can take the initiative with the aim of protecting their jobs (Bartkus, 1997), for example, when they are dissatisfied with bad management (Pierce & Furo, 1990). Ownership can also result from an ideological belief in cooperativism or a negotiation process between labor unions and management (Pierce & Furo, 1990).

Employee ownership implies a two-way trust relationship. On the one hand, the company allows employees to participate in ownership in view of the important role they play, or employees decide to co-own, as a sign of their confidence in the company's future (Poulain-Rehm & Lepers, 2013). Employee ownership has generated the expectation that such companies will have a distinctive purpose and a set of objectives that differ from a conventional one; thus, one line of research focuses on identifying the position adopted in these companies with respect to the pursuit of benefits (Storey & Salaman, 2017).

We explore the norm of shareholder primacy to identify its applicability in companies with employee ownership. Our research question is: Can companies with employee ownership respond better to the demands of society, or do they instead reaffirm the norm of shareholder primacy? To answer, we compare the norm of shareholder primacy with employee ownership. In the first place, shareholder primacy posits that shareholders are the only ones who can channel companies' power to benefit society (Tsuk, 2005). The argument is that when efforts focus on maximizing value for shareholders, the company's productivity improves, which serves the highest interest of society in general (Allen et al., 2002), i.e., society benefits indirectly. This position contrasts with that of stakeholder management, which seeks to benefit the other stakeholders directly and intentionally.

We argue that companies with employee ownership are better positioned to generate a greater benefit for society because compared to other kinds of companies, they can achieve a strategic alignment and their employees have an incentive to care more about their actions, develop greater awareness of social identity, and are more willing to share the benefits that accrue from their improved performance. However, for this surplus value to be transferred to society, at least in part, these companies must adopt corporate governance structures that enable employees to exercise their rights

as owners, including participation in company decision-making. The literature suggests that employee owners lack the mechanisms needed to steer the company toward the direct, intentional pursuit of society's benefit. It's likely that companies where employees own a minority of the shares these continue to prioritize shareholder value maximization. This happens because they tend to limit employees' participation in management, particularly in the corporate governance structure, where fundamental changes to company strategy could be made.

This document is organized in seven sections. After the introduction, the second part identifies the main characteristics of the norm of shareholder primacy. The third describes certain concepts that shed light on the main elements resulting from employee ownership. The fourth section looks at the effects of this kind of ownership. The fifth discusses whether companies with employee ownership can respond better to society's demands or whether they instead reaffirm the norm of shareholder primacy. Finally, the sixth presents our conclusions.

THE NORM OF SHAREHOLDER PRIMACY

The Purpose of Companies

At the heart of the debate on the purpose of companies is their possible social role. Shareholder primacy, the predominant position over the last few decades, maintains that company executives have fiduciary duties to their shareholders only and these consist of guaranteeing the return on the investment made by those who put up the company's capital (Berle, 1931). Giving executives greater discretion to consider their fiduciary duties to other stakeholders would increase agency problems and associated costs (Jensen & Meckling, 1976). This line of thinking asserts that shareholders are the only parties who can channel companies' power toward the attainment of benefits for society (Tsuk, 2005). Other theoreticians propose a competing view, whereby the purpose of companies is conceived in broader terms. This revised perspective states that companies are economic institutions with a social service function that takes precedence over the creation of profits for shareholders. This implies that business decisions must be guided by fiduciary duties that consider not only shareholders but all stakeholders (Dodd,

1932). These duties are fulfilled when stakeholders are taken into account in each management decision, and not indirectly by way of the pursuit of maximum shareholder value.

Theoretical Foundations of Shareholder Primacy

The norm of shareholder primacy posits that share value, an indicator that expresses shareholder benefit and company efficiency (Meese, 2002), is the objective of corporate governance systems (Fisch, 2006). According to the concepts of efficiency and rationality in classic economic theory, the ultimate objective of companies is to generate as much wealth as possible for shareholders, while the function of management is to maximize share value as a way to achieve wealth generation.

Different reasons are used to defend shareholder primacy. One is property: Since shareholders are property owners, they have the right to decide the company's purpose, which should be governed with their interest in mind (Matheson & Olson, 1992). By this logic, shareholders own part of the company's assets (Njoya, 2007) and, therefore, these assets should be administered in a way that maximizes shareholder benefits. Thus, when share value goes up on the stock market, the company's productivity is strengthened, which serves the interest of society at large (Allen et al., 2002).

Another reason often marshaled to justify shareholder primacy is efficiency: Companies thrive when their performance aims to maximize profits for shareholders (Friedman, 1953). In this vision, a shareholder-centered system is the most efficient way to produce wealth for all stakeholders (Kiarie, 2006). If the shareholders did not have control, they would demand greater profits to compensate for the assumed risk, which would increase the company's financing cost and, in turn, the production cost for all stakeholders (Boatright, 2006). Thus, shareholders are in the best position to manage the company efficiently because their interest lies in their shares' market value, which happens to be the indicator of the company's overall performance.

A final argument, we can highlight with respect to shareholder primacy is that management has fiduciary duties toward the company and its shareholders and not toward other stakeholders (Smith, 1998). To carry out its function of administering the company, management is given powers that are not unlimited; on the contrary, these powers fall within the so-called fidu-

ciary duties: the duty of care and loyalty. The former implies that executives are obliged to administer the company with the same diligence they would exercise in managing their own business (Roncancio et al., 2018). This means keeping themselves duly apprised of the company's policies and problems, managing the company with honesty, avoiding conflicts of interest, not engaging in illegal activities, and putting all of their knowledge and skill at the company's service (Roncancio et al., 2018). The duty of loyalty means that administrators are expected to seek the company's benefits, i.e., avoid letting their own interests take priority over the company's (Roncancio et al., 2018). It also implies that administrators should avoid situations that cause conflicts of interest and the unwarranted use of privileged information.

EMPLOYEE OWNERSHIP IN COMPANIES

Shared capitalism encompasses a wide range of arrangements that tie workers' pay and wealth to their performance or the company's (Freeman et al., 2010), based on the idea that a better distribution of ownership benefits leads to a stronger performance, while at the same time stimulating economic growth (Aubert et al., 2018). Employee ownership is a kind of shared capitalism becoming more common in companies (Mygind, 2012; Poulain-Rehm & Lepers, 2013), especially in industrialized countries (Kim & Patel, 2017).

Companies and governments have designed different arrangements for employees to have access to ownership. Due to this diversity of forms, the term "employee-owned companies" has been used inaccurately in some cases (Mackin, 2019; Toscano, 1983). For example, it is often used to refer to companies that have some kind of arrangement by which employees can be compensated with a certain percentage of shares, as well as to companies that are 100% employee-owned. Understanding how ownership works can be a good start for identifying an "employee-owned company."

The Company and Ownership

Mackin (2019) proposed two models that help to understand ownership in companies. In one, a company can be seen as property owned by shareholders, who are the residual claimants and therefore enjoy the profits and assume the losses, as the case may be (Mackin, 2019). In this model, the

shareholders' rights of governance with respect to the company derive from their being its owners (Mackin, 2019). In the second model, the company can also be seen as a social institution; the fact that it is more than just property means that it is not governed by property rights but by the personal rights of the members, who, as in the previous case of shareholders, are in charge of delegating responsibilities and authority for the company's administration (Mackin, 2019).

As for its meaning, ownership can be understood from four different perspectives: compensation, investment, retirement benefit, and membership (Mackin, 2019), with employees being able to participate as owners in any of the four. First, companies use ownership as a compensation that generates incentives to mold the loyalty and behavior of management and employees; in this case, it is common to use stock options and other financial derivatives that do not involve a dominant ownership function in the company's governance (Mackin, 2019). Second, in ownership as investment, companies design plans so that employees can participate by purchasing stock, which means that employees, like any other investor, expect an economic return as a reward for the risk assumed (Mackin, 2019). Third, property as retirement benefit is a benefit paid to employees and executives who leave the company; it therefore involves a longer-term horizon than in the previous cases (Mackin, 2019). Finally, ownership as membership, common in workers' cooperatives and professional associations, is characterized by employees' direct participation in company governance as a result of membership rights, as opposed to property rights. This participation allows employees to elect administration boards, which are given the power to choose management personnel and the authority to decide how to invest annual profits (Mackin, 2019).

Although employee ownership can exist in any of the four types of ownership (compensation, investment, retirement benefit, and membership), the debate regarding the benefits and costs of employee ownership revolves around the model that sees the company as property because the conception of the company as a social institution has not been widely accepted (Mackin, 2019).

Definition of "Employee-Owned Companies"

Having defined the meaning of company and ownership, we can look at the concept of "employee-owned companies." As we mentioned before, employees can participate in ownership in different ways, ranging from phantom shares or stock appreciation rights, in which participation in company governance is restricted (O'Boyle et al., 2016), to stock set aside exclusively for upper management (Knyght et al., 2010), to workers' cooperatives where all employees can take an active role in management (O'Boyle et al., 2016).

This diversity of forms has led to formulate different definitions to describe companies where employees participate, which can cause confusion in discussions of this type of ownership (Knyght et al., 2010). Common definitions consider the number of employees participating in the stock-ownership plan set up by the company; for example, some definitions include the participation of at least one employee (Sengupta et al., 2007); others, the majority of non-management employees (Robinson & Zhang, 2005); and still others, the participation of all employees (Knyght et al., 2010). Some authors observe that ownership plans are wide-ranging and differ from one country to another (O'Boyle et al., 2016); moreover, few ownership arrangements manage to include 100% of the employees and, in many cases, the right to participate requires employees a minimum period of affiliation (Knyght et al., 2010). For this reason, the suggestion is made to use the term "employee-owned companies" when at least 50% of employees participate in the ownership plan (Mygind, 2012; Pendleton, 2001; Toscano, 1983), or at least when there is a plan in place for this to happen (Toscano, 1983). Given the different ways employees can participate in ownership, the term "employee-owned companies" continues to spark controversy; consequently, it is recommended to exercise caution when generalizing about this kind of ownership (Knyght et al., 2010).

Arrangements for Employee Ownership

Companies make use of a wide range of arrangements to enable employees to co-own. While arrangements can vary depending on the regulations in each country (O'Boyle et al., 2016), we can classify them into two groups. The first consists of company-designed employee ownership plans. Their main characteristics are: the way to acquire stock (purchase and performance-based

compensation); the price at which stock can be purchased (at a discount or at market price); the voting rights that employees acquire as shareholders (limited or full voting rights); the possibility of reinvesting profits from their stock (allowed or not allowed); and the type of participation in the plan (voluntary or mandatory) (O'Boyle et al., 2016). Depending on the company-designed plan, employees can obtain different percentages of co-ownership, up to 100% (Knyght et al., 2010).

In the second group, company stock can be bought by an employee trust for subsequent distribution, in part or in full, to each employee; thus, shareholding can be individual or collective (Knyght et al., 2010). The Employee Stock Ownership Plan (ESOP) is one of the arrangements used, with or without leverage. In the former case, a loan is taken out, guaranteed by the company, to buy stock, which then goes into an employee-owned trust (Bartkus, 1997). The trust has full control of the stock until the loan is paid off with company profits, and as this happens, the shares are transferred from the trust to the employees (Bartkus, 1997). In an unleveraged ESOP, however, shares are distributed directly to the employees as performance bonuses or employees are allowed to buy stock directly (Bartkus, 1997). In addition, employees can participate in ownership in the form of cooperatives or other such associations. In this type of organization, members have total ownership and exercise control democratically (Knyght et al., 2010).

THE EFFECT OF EMPLOYEE OWNERSHIP

Some studies have looked at the possible effects of employee ownership on different aspects of a company. Overall, the evidence suggests that this type of ownership can have positive and negative effects (Aubert et al., 2014). A positive effect on employee behavior has been documented, which can translate into benefits for companies. However, with respect to companies, two positions have emerged: One that argues that employee ownership has a positive impact on performance because employees behave better (Aubert et al., 2014; O'Boyle et al., 2016), and the other that asserts that employee ownership can have negative effects on performance due primarily to inefficient corporate governance structures (Aubert et al., 2014; O'Boyle et al., 2016). In the following sections we present both perspectives.

Benefits of Employee Ownership

Previous studies mention that stock ownership by employees produces positive effects in their behavior (Aubert et al., 2014), which can boost company performance. The role that ownership plays in this dynamic can be understood from three perspectives: intrinsic, instrumental, and extrinsic (Klein, 1987).

The intrinsic perspective affirms that employee ownership, by itself, can change employees' attitudes toward the company and work itself (Klein, 1987), making them willing to serve the company's interests and not just their own (Davis et al., 1997). Thus, employee ownership can strengthen their commitment to the company as well as their job satisfaction (Klein, 1987; Pierce & Furo, 1990). Other studies suggest that this kind of ownership also encourages employees to participate in other activities within the company, while reducing turnover (Aubert et al., 2014). Likewise it contributes to greater cooperation, mutual monitoring, lower levels of turnover, and absenteeism (Aubert et al., 2018), along with greater motivation and cohesion among employees (Pierce & Furo, 1990).

While the intrinsic perspective helps us understand that ownership by employees produces positive changes in their behavior, it fails to explain the possible effects of this new behavior, or how and why these changes come about. These aspects are addressed in the instrumental and extrinsic perspectives. The former posits that employees' satisfaction and commitment come from their participation in decision-making and perceived control over their work, while the latter argues that employee ownership motivates only when it brings tangible economic benefits (Klein, 1987); motivation thus results from employees' expectations regarding cash flow, not regarding their rights of control. In this sense, employees see ownership as an investment from which they expect to receive dividends and gains in share value (French, 1987).

Both the instrumental and the extrinsic perspectives have been identified in different studies. With respect to the instrumental perspective, Knapp (1988) contends that ownership increases employees' interest in having control; by this logic employee ownership should lead to more democratic companies (Rosen, 1989). In this sense, some companies that include employees in ownership use democratic structures and processes in their governance. For example, John Lewis Partnership, a 100% employee-owned retailer with successful operations in the United Kingdom and other countries, has three

governing authorities: the president, the association council, and the association board, which includes employee representatives. It also has a tiered structure of committees emanating from each branch, passing through each division and culminating at the corporate level; the aim is for the administration to be accountable to all of its associates (Storey & Salaman, 2017). In this way, there is a genuine commitment to sharing power, knowledge, and compensations through corporate governance that has built-in controls and counterweights (Storey & Salaman, 2017).

Controlling and participating in the company is a right that employees ought to have when they own it (Blasi, 1988); hence, the combination of employee ownership and appropriate employee participation in management should enhance the company's performance (Rosen, 1989). Numerous studies show that the employees' new behavior, brought about by their participation in ownership, leads to better performance (Freeman et al., 2010; O'Boyle et al., 2016). These results are grounded primarily in agency theory, which suggests that employee ownership creates the right incentives to align the objectives of shareholders and employees in a way that allows for the mitigation of agency problems resulting from the separation of ownership and control (O'Boyle et al., 2016). Recently, the debate over the benefits of ownership has focused on determining whether the proportion of ownership is related to the incentives; specifically, questions have been raised as to whether a low percentage of employee ownership is enough to adjust the interests of shareholders and employees (O'Boyle et al., 2016).

Other authors, however, have found that employees who participate in ownership do not always set out to control the company. For example, French (1987) showed that ownership was associated with less desire for control by employees because they saw ownership plans as an investment that was not about taking control. The practical value of an ownership plan for employees is limited insofar as, in many cases, they are not willing to assume the responsibilities that shareholder activism entails. In the same way, even though companies, at least those listed on the stock exchange, are obliged to offer employees the right to vote, in most cases employees who sign on to an ownership plan are a minority of the ownership structure, which impedes their participation in company decision-making (French, 1987). Some studies have shown that, due to these limitations, employee stock ownership

plans have no effect on company performance and value creation, either for shareholders or other stakeholder groups (Poulain-Rehm & Lepers, 2013).

As for the extrinsic perspective, on the basis of the theory of property rights the argument is that employees are more likely to invest specific human capital when they receive residual rights by sharing in company profits (Wang et al., 2009). Moreover, contract theory has been used to propose that when employees participate in ownership, they have the incentives they need to boost company performance since improvements will enhance the share price and their variable compensation will rise (O'Boyle et al., 2016).

Costs of Employee Ownership

The literature also provides evidence that suggests a negative effect on company performance when employees participate in ownership. Some studies point to the difficulty of distributing ownership benefits among employees with different skills; the more skilled ones would receive less than their fair share, while those with less skills would receive more (O'Boyle et al., 2016). These differences can give rise to conflicts that might affect performance (Hansmann, 1996).

Other studies conclude that employee-owned companies have problems with collective decision-making (Jensen & Meckling, 1979; Mygind, 2012; Tirole, 2001), because employees might be more interested in earning higher salaries and other benefits at the expense of shareholders (Jensen & Meckling, 1979). It has also been documented that employee ownership can increase risk aversion (Berk et al., 2010; Sanders, 2001). Since employees own a significant part of the company's capital, if they participate in company decision-making, they might act conservatively with an eye to maintaining stability, which could limit the company's growth (Berk et al., 2010; Sanders, 2001).

Finally, the most incisive criticism of companies that allow employee co-ownership comes from studies that underscore that employee ownership is often used the wrong way by managers to guarantee strategic corporate control (Rauh, 2006). For example, in companies traded on the stock exchange, managers who fear they might be replaced adopt strategies to push back against the discipline of the financial market (Shleifer & Vishny, 1989). In this sense, it has been shown that employee ownership is used as a mechanism for

managers to dig in against possible hostile takeovers (Atanassov & Kim, 2009; Bertrand & Mullainathan, 2003; Brown & Caylor, 2009; Cronqvist et al., 2009; Pagano & Volpin, 2005). Since employees associate takeovers or mergers with downsizing, it is highly unlikely that they will vote against management in a takeover process (Aubert et al., 2014), because, as a compensation for their participation, management can offer them higher salaries and less intensive control (Atanassov & Kim, 2009; Bertrand & Mullainathan, 2003; Cronqvist et al., 2009). All of these scenarios generate a dinosaur effect on potential buyers (Aubert et al., 2014; Blasi, 1988; Brown et al., 2006; Gordon & Pound, 1990; Rauh, 2006).

As of the result of management entrenchment through the use of employee ownership, corporate governance becomes deficient due to possible collusion between employee owners and management (Aubert et al., 2014). This can affect the company in a negative way. Some studies have documented unfavorable reactions by financial markets to the implementation of an employee ownership plan (Chang, 1990; Chang & Mayers, 1992; Conte et al., 1996). Other research has found that companies that establish employee ownership have more trouble raising capital because the market associates them with higher risks given the potential for inefficiencies in their governance (Dow, 2003; Mygind, 2012).

DISCUSSION

Employee ownership is tied up with a system of rights and responsibilities that can be better assessed by society (Nussbaum, 2004; Sen, 1999). In this sense, employee-owned companies can have greater concern for the well-being of society at large for a number of reasons.

First, strategic alignment. Companies gain a competitive advantage when they are able to carry out this process properly (Chenhall & Langfield-Smith, 1998). For this to happen, different key components must be integrated: strategies, leadership, culture, processes, people and systems, among others (Weiser, 2000). The aim being to generate the same level of commitment to the company's purposes and objectives at all levels (Ghobadian et al., 2007). Strategic alignment is approached from two perspectives: vertical and horizontal. In vertical alignment the intention is to get employees to understand the company's objectives and their own role in achieving them (Chenhall &

Langfield-Smith, 1998). In horizontal alignment the purpose is to articulate the needs and interests of customers and other external actors with the company's internal dynamics (Labovitz & Rosansky, 2012). In employee-owned companies, employees' direct or indirect participation in governance bodies facilitates the alignment of interests between employees and other shareholders (Ginglinger et al., 2011). In this way, sustainability objectives, now aligned, can also count on the support of the highest decision-making levels.

Second, employees' responsibility in production. Employees cannot overlook the consequences generated when they carry out an activity (McIntyre, 2011); while shareholders are the ones who put up the capital for the company to function, employees should not surrender to shareholders their own responsibility for the time they spend working (Burczak, 2006). According to the labor theory of property, employees are the ones who, through their physical and mental labor, participate in the production of goods and services; consequently, they are also responsible for their consequences (Ellerman, 1992). In the case of shareholder-owned companies, employees who participate in ownership assume before society at large the responsibilities of their role as employees, but also as shareholders.

Third, social identity. According to social identity theory, people seek to improve and maintain a positive social identity (Aberson et al., 2000). Belonging to an organization enables individuals to define themselves in terms of that organization (Mael & Ashforth, 1992). Employees are aware of and sensitive to the sustainability of the organization they belong to, which motivates them to make a greater effort to create and strengthen a distinctive image of the organization with respect to sustainability (Farooq et al., 2019). For employees in general, belonging to an organization that generates a benefit for society is a source of pride; in the case of employee owners, however, their dual role of employees and shareholders gives them a heightened level of identification. Several studies have pointed to this dynamic as an important element in the quest for sustainability (Farooq et al., 2019).

Fourth, better performance. Employee ownership can increase employees' commitment to the company. If we consider that performance results from employee commitment (Bourne et al., 2013), then it follows that employee-owned companies perform better. In this sense, the meta-analysis by O'Boyle at al. (2016) showed that companies co-owned by employees perform better regardless of the type of sampling, the measurement used to determine per-

formance, the type of company (traded on the stock market or not), or the kind of ownership plan. The fact that they achieve better performance could imply that these companies are better positioned to generate a greater benefit for society. And if we factor in the responsibility for the consequences of their work and a greater pursuit of social identity among employee owners, these companies will not only be better positioned to benefit society, they will also have greater willingness to include in their strategy a vision that goes beyond merely maximizing shareholder value.

Nevertheless, even though these conditions make it easier for employee ownership to produce a greater impact on society at large, employees need to exercise their rights as company shareholders. Three fundamental rights derive from ownership: the right to control the company; the right to receive profits generated by the company; and the right to enjoy the appreciation of the company's assets (Mygind, 2012); naturally, these rights apply in the case of employee owners. When it comes to the rights to profits and the appreciation of assets, there is little discussion because employee owners generally receive them; company control, however, is still an open discussion.

The key for a company with employee ownership to generate value for shareholders as well as society at large is employee involvement in corporate governance. In theory, employees can exercise their right of control directly, by participating in decision-making, or indirectly, when they are represented on governance bodies (Boatright, 2004). For employee ownership to produce benefits for the company and for society, company management must be willing to share decision-making with lower-level employees (Bartkus, 1997).

One study has shown that employee participation in company governance can help to maximize value in different ways. The combination of the employee and shareholder roles brings high-level management closer to other sectors of the company, which improves information transfer (Zolezzi, 2004). For example, the fact that employees, through their representatives, can learn about the company's true situation generates greater commitment and cooperation in difficult times (Freeman & Lazear, 1995). Furthermore, a clear understanding of the company by the employees reduces the asymmetry of information, which in turn can curtail opportunistic behavior by management (Smith, 1991). In this sense, employees, through their representatives, can provide governance bodies with more accurate information about their actions (Acharya et al., 2011). Finally, employee representation on governance

bodies facilitates the alignment of employee and shareholder interests (Ginglinger et al., 2011).

In spite of the evidence that points to benefits for the company when employees are allowed to participate in corporate governance, in practice it is clear that company-initiated employee ownership plans do not bring about significant changes in company control and structure (Bartkus, 1997); in fact, they actually increase control by management (Rosen, 1989). For example, in the United States, the law that regulates employee ownership has minimum vote requirements for unlisted companies, unlike for listed companies (Rosen, 1989). Likewise, in the case of a leveraged ESOP, it is common for the trustee to depend on management to obtain any information (Dye, 1985); this trustee is often a company employee (Blasi, 1988). In addition, most ESOPS are structured to reduce the impact of the employee vote: Employees are only allowed to vote in certain situations, which undermines the significance of their influence on decision-making (Bartkus, 1997).

Employees also need to be willing to share the decision-making responsibility (Bartkus, 1997). Although they might well have legal control in co-owned companies, their property rights as shareholders do not increase their participation in decision-making because employee shareholders seldom make use of their right of control to get involved in corporate governance (Boatright, 2004). In most cases, these employees, in accordance with Klein's extrinsic perspective (1987), are more motivated by cash-flow expectations that by rights of control; consequently, they see ownership as an investment that yields benefits in the form of dividends or share price increases (French, 1987).

Another line of thinking suggests that employee shareholders' participation in corporate governance is inefficient because their economic horizon does not align with that of the investments (Jensen & Meckling, 1979). Some authors have suggested that employee participation in governance bodies interferes with decision-making (Jensen & Meckling, 1979; Mygind, 2012; Tirole, 2001) since employees focus more on earning better salaries and other benefits at the expense of shareholders (Jensen & Meckling, 1979). The argument is also made that employee participation in corporate governance leads to greater risk aversion in company policies (Berk et al., 2010; Sanders, 2001).

Other studies have argued that employee representatives in governance bodies have a limited role as independent managers because their constituents still depend on upper management and therefore cannot easily contra-

dict its decisions (Gharbi & Lepers, 2008). Finally, employee representation in governance bodies increases the likelihood that employees will participate or be used in blocking takeovers on the market. Different studies have shown that employee ownership is used as an entrenchment mechanism by management against potential hostile takeovers (Atanassov & Kim, 2009; Bertrand & Mullainathan, 2003; Brown et al., 2006; Cronqvist et al., 2009; Pagano & Volpin, 2005), and that a potential alliance between managers who represent employees and shareholders destroys value at the shareholders' expense (Noamene, 2014).

The problems that arise when employee participate in ownership and then in corporate governance can be handled with certain concrete measures. For example, companies should implement employee ownership plans only when there is strong conviction to do so, and employee shareholders will be given access to relevant information so that they can exercise their right of control over the company (Pierce & Furo, 1990). Companies like John Lewis Partnership generate trust not only through shared ownership; they also make use of their culture, bylaws, principles, and values to keep management from focusing exclusively on maximizing shareholder value (Storey & Salaman, 2017), which translates into a strong corporate social responsibility strategy where the key element is how profit is earned, not how much or how to distribute it (Storey & Salaman, 2017).

Furthermore, companies should promote a culture of ownership among employees so that they take an active part together with management in making company decisions (Pierce & Furo, 1990). Different studies have shown that shareholder activism can have a positive impact on company performance and behavior. Shareholder primacy is clearly the hegemonic position, and yet there is nothing to keep activist shareholders, who are becoming more and more aware of the problems that humanity is facing, from promoting different ways of acting that align more closely with what society at large expects (Remacha, 2017).

The way employee shareholders participate in company decision-making and shareholder activism should be reviewed in the context of traditional strategies that allow employees to participate in corporate governance—such as participatory management, employee shareholding, and employee representation on the board of directors—since there are doubts about the effectiveness of these strategies (Boatright, 2004). For this to happen, it is

important to properly understand the interests of both shareholders and employee shareholders, and how these interests can be pursued without affecting those of the other stakeholders (Boatright, 2004).

CONCLUSIONS

One of the main premises of shared capitalism is that when employees enjoy the benefits of ownership in the company where they work, they work more and better; this boosts company performance while also stimulating economic growth (Aubert et al., 2018). Employees can co-own in different ways, ranging from phantom shares or stock appreciation rights, in which participation in company governance is restricted (O'Boyle et al., 2016), to stock set aside exclusively for upper management (Knyght et al., 2010), to workers' cooperatives where all employees can take an active part in management (O'Boyle et al., 2016).

To understand the impact on society at large of employee ownership, it is important first to address the definition problem, i.e., how to know when a company is "employee-owned." Since companies and governments have created a wide variety of ways for employees to have access to ownership, the term is often used inaccurately (Mackin, 2019; Toscano, 1983): Companies that have some arrangement that gives employees access to ownership are confused with companies that are 100% employee-owned. The definition must be clarified in order to correctly understand the effects of employee ownership (Knyght et al., 2010).

We analyze empirical evidence about the benefits and costs of employee ownership. We show that employee owners seldom have the mechanisms they need to steer the company toward the pursuit of a direct and deliberate benefit for society. In companies with minority employee ownership, it seems especially likely that the maximization of shareholder value continues to predominate. We conclude that this can be explained by the fact that companies with minority employee ownership limit employees' participation in management, particularly in the structure of corporate governance, which is where fundamental changes to company strategy could be made. In general, employee ownership is used as an entrenchment mechanism by management (Aubert et al., 2018), not to add a distinct purpose to these companies.

Lastly, we believe that employee ownership provides the right incentives to align the objectives of shareholders and employees; it offers a way to deal with agency problems arising from the separation of ownership and control, leading to greater value creation. In this sense, companies that allow employees to participate in ownership will be better positioned to transfer, at least in part, these improvements in performance to society at large, so that the pursuit of societal benefit is not an indirect consequence of seeking the maximization of shareholder benefit; instead, it is a direct and deliberate outcome. We contend that, compared to other kinds of companies, those with employee ownership can achieve a better strategic alignment and incentivize employees to care more about their actions, to develop a stronger awareness of social identity, and to be more willing to share the benefits that accrue from their improved performance.

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