Practices of Freedom-Based Employee Ownership Enterprises, Their Employees and Leaders

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Abstract
The purpose of this chapter is to delineate some of the key practices that the two authors have learned based on over 60 years of experience with freedom-based employee ownership (FBEO). The former was a manager who developed a version of FBEO inside a large hierarchical organization and the later has consulted, studied, and taught about FBEO. Both continue to study and write on these enterprises. From our joint study of FBEO which includes multiple forms of research, we have learned that there is no single practice, but a set of practices that lead to sustainable success. We have also learned that creating and maintaining these practices is no easy endeavor. They are unusual. The tendency is for FBEO enterprises to regress to traditional practices. We have observed well known FBEO enterprises, such as Hewlett-Packard in the United States, the Co-operative Group in the UK, and Fagor Co-op of Mondragon Corporation in Spain, have reversals when they failed to maintain one or more of the practices that brought them to prominence. Furthermore, we have seen start-up FBEO enterprises struggle because they failed to adopt practices that tend to lead to success. Thus, learning the practices that experience and research identify as leading FBEO enterprises to success is crucial. Both mature and start-up employee-owned organizations would benefit from knowing what these practices are, engage in them, and monitor them.
***Keywords:** freedom-based employee ownership*

Many are calling for reform of business—from those who attempted to occupy Wall Street to academics and executives. We suggest one basis of their frustrations is hierarchically controlled organizations in which, put simply, the people on top make the decisions right or wrong. They also get the gains while those on the bottom get the pains.

Some people seem to naively suggest that if the ownership structure is changed by moving to either an employee stock ownership plan, a cooperative or a perpetual trust remarkably improved results will follow. The preponderance of research suggests that sharing ownership alone has little or no impact on organizational success (Young, 1993). To achieve sustainable success requires shared ownership plus, "… a number of interlocking principles and structures…" (Salaman & Storey, 2016, p. 192).

Before addressing practices learned through both experience and research, we would like to offer an alternative business model called freedom-based employee ownership (FBEO), one that includes the needed interlocking principles and structures. Leaders can use it to build a management system that "requires no hierarchical control and provides employees full responsibility, full authority, and full accountability—i.e., freedom in the workplace in addition to a stake in the financial success of the enterprise" (Nobles & Staley, 2017). The resulting culture empowers, encourages, and helps employees to develop their potential and to fully utilize their skills, capabilities, imaginations, and creativity to help achieve stakeholders' objectives, concurrently (Blasi et al., 2016; López-Arceiz et al., 2018; Nobles & Staley, 2017; O'Boyle et al., 2016; Richter & Schrader, 2017; Shipper, 2014). We introduce the term FBEO to differentiate this alternative model from "employee ownership." Some corporations have adopted employee stock ownership plans (ESOPS) to move from defined benefits to defined contributions retirement plans. Others, maybe naively, have adopted ESOPS or some other form of sharing financial success without any changes in such areas as organizational governance, work structure, delegation of authority, or cultural change. Such efforts will not be optimal (Young, 1993). Thus, we will delineate specific practices that experience, and research has found to be essential for successful and sustainable success.

Although much of the research on FBEO is recent, as far back as 1954, Peter Drucker, in his classic book *The practice of management*, described how "self-control" motivates individuals to do their best rather than just enough to get by. In the decades since most, executives and researchers have struggled with minimal success to take advantage of his insight and to solve the many problems caused by hierarchically controlling employees. As will become apparent, a few corporate leaders took a different path. They demonstrated the benefits of "self-control" to produce extraordinary results by building management systems and organizational cultures which emphasized FBEO and relied on "self-organized spontaneous order" instead of the traditional "controlled order." Self-organized spontaneous order, the emergence of order out of seeming chaos, is a process found widely in physics, biology, social networks, and economics. When combined with FBEO, the impact on employee behavior and creativity has been transformative. However, this is not taught in most business schools (Thompson, 2014).

This chapter draws on the experiences of a corporate leader who practiced freedom-based management and an academic who for over 35 years has studied employee-owned companies some of which have practiced FBEO. We begin with examples of FBEO producing demonstrable results in several companies and then highlighting practices that are associated with enhanced outcomes.

At PQ Corporation managers questioned whether a silicate manufacturing plant could be designed for safe operation by one individual per shift—an "outside the box" idea in the chemical industry enamored with economies of scale. After designing just such a plant with the help of CAD-CAM tools, that idea over the next 20 years revolutionized PQ's understanding of customers. They built 30 small new plants around the globe, many across the fence from customer facilities. This improved the flow of information about changing customer needs and interests, and produced what former CEO Paul Staley described as a "laboratory of continual change and product innovation." As one competitor lamented to Staley, "[…] your advantage in understanding customers leaves the rest of us with no option to compete other than cutting prices" (Nobles & Staley, 2017, p. 57):

> At Nucor Corporation employees in a new 250 million dollars high tech continuous roll mill took advantage of their local knowledge and freedom to increase throughput 40% above rated capacity within one year after start-up with no major new investments. By defining and eliminating bottlenecks, a bigger motor here, a larger valve there, employee knowledge and creativity produced a 100 million dollars bonus for Nucor. German engineers were incredulous that ordinary steel workers, many with only high school educations, could improve their sophisticated design by so much. (Nobles & Staley, 2017, p. 57)

At SRC Holdings factory employees worked out how to convert a diesel engine for irrigation systems to operate on natural gas. After calculating that the engine could reduce customer fuel costs by 67% and pay for itself within six months, they helped to come up with a marketing plan because as company owners they were motivated to make their innovation profitable and knew with whom to work (Street et al., 2014).

At Southwest Airlines representatives perform 12 functions collaboratively and spontaneously in self managing teams to dramatically reduce ground turnaround time between flights. The representatives in such functions as pilots, cabin stewards, baggage handlers, caterers, etc., cooperate regularly without management involvement to turn around Southwest planes in half the industry average ground time (Nobles & Staley, 2017). Spending more time in the air generates more revenue per plane and helps to keep freedom-based Southwest profitable in an industry filled with bankruptcies.

At W. L. Gore & Associates, the idea for its highly successful Glide dental floss came from two associates in the Industrial Products Division responsible for fabricating space suits who happened to floss their teeth with scraps of Gore-Tex. Free-flowing communications soon carried the idea to the Medical Products Division where the potential was recognized and commercialized (Shipper et al., 2014).

FBEO played a key role in all these remarkable innovations. We next describe the keystone to making this happen—the leader's skills and mindset. This leader may be a founder or someone who transforms an organization, but there is no substitute for such leadership.

PRACTICE ONE: LEADERSHIP

Shipper and Blasi (2021) postulate that leadership is an antecedent to FBEO enterprise. Experience would support the Dionne et al. (2002) conclusion that there is no substitute for leadership. Furthermore, experience has shown that it takes a leader to create or to transform a FBEO enterprise. It is unlikely that a single form of leadership, such as transformational, will lead to success (Judge & Piccolo, 2004). According to Manz and Pearce (2018), to be a successful leader it takes a complex set of skills to be successful. They describe essential leadership skills as "[...] empowering leadership [...] that leads others to lead themselves" (p. 63), shared leadership defined as "[...] a continuous, simultaneous, mutual-influence process [...]" (p. 77), and socially responsible leadership defined as "[...] being authentic about core values and a higher purpose [...] based on trust between various stakeholders striving toward common goals..." (p. 101).

Examples of leaders using these skills to either create or transform hierarchical to FBEO enterprises will be provided in the following paragraphs. Some were developed by trial-and-error predating Douglas McGregor's (1960) work outlining the principles of Theory Y and some were developed based on those principles. It will become apparent that these leaders believed employees could contribute far more to organizational success if given the opportunities to fully develop and utilize their potentials, and if they shared in the rewards of that success through stock ownership and profit sharing. In short, these leaders had a different mental model of what it takes to lead a successful and sustainable enterprise. This is the essence of FBEO leadership, governing both their conscious and subconscious behavior.

For instance, Nucor former chief executive Ken Iverson said:

> Employees aren't perfect, but if you give them half a chance, they'll usually step up and do the right thing. The average employee in the United States is a lot smarter than most managers will give him credit for. If you really want answers you can use to make the business perform better, ask the people who are doing the actual work of the business. It's that simple. Front-line employees continually amaze me with their capacity to make improvements. (Iverson & Varian, 1997, p. 73)

Southwest Airlines Founder Herb Kelleher's beliefs are captured on a headquarters sign:

> The people of Southwest Airlines are 'the creators' of what we have become—and of what we will be. Our people transformed an idea into a legend. That legend will continue to grow only so long as it is nourished—by our people's indomitable spirit, boundless energy, immense goodwill, and burning desire to excel. Our thanks—and our love—to the people of Southwest Airlines for creating a marvelous family and a wondrous airline. (Freiberg & Freiberg, 1996, p. 158)

Explicitly, Bill Gore acknowledged McGregor's Theory Y as a key "Early Influence" on "The Gore Culture." The basic tenants of Theory Y are as follows (McGregor, 1960, pp. 47-48):

- Work can be as natural as play or rest.
- Employees will self-direct and self-control their activities if committed to organizational objectives.
- Under proper conditions employees will not only accept, but also seek responsibility.
- Most employees have the imagination, ingenuity, and creativity to solve organizational problems.

Collectively, these exemplary leaders have encouraged employees to think and act like owners by aligning their interests and harmonizing their needs with those of the business. To do this successfully they took many steps with no hidden agenda.

One of the first steps they took was the practice of shared leadership. Charles Manz, Nirenberg Professor of Leadership at the University of Massachusetts, describes shared leadership "[...] a dynamic interactive influence process, typically in some kind of team context, where members lead one another to reach group and organization goals" (Shipper & Manz, 2014, p. 28). That practice sat the stage for an environment that encouraged others to engage in self-management and collaboration in conjunction with thinking like a business owner. In the following paragraphs, examples of how this was practiced in FBEO enterprises are provided.

At W.L. Gore & Associates, leadership is a dynamic and fluid process in which leaders are defined by "followership" (Shipper et al., 2014). Future leaders emerge spontaneously as they gain credibility with other associates by demonstrating special knowledge, skill, or experience that advances business objectives; by achieving a series of successes; or by involving others in significant decisions. Gore also labels as "intrapreneurs" associates who invite others to sign up for a new team organized to develop a new business, new product, new process, new device, or new marketing effort (Shipper & Manz, 1993). Leadership is so important at Gore that the words "manage, manager, management," and other derivatives are banned from company documents and visitors are gently reminded not to use them.

At Herman Miller, new projects and products can come from any level in the organization with individuals forming a team to develop the idea by grabbing appropriate representatives. It is not based on title. It is based on who can help drive initiatives towards the goal. These teams are often cross-functional and once the objective is achieved, they disband with members redistributed to new projects (Shipper et al., 2014).

At KCI Technologies, the "GIS product" idea was brought up by computer folks outside the engineering field who said, "Look, I think there is going to be a business line in Geographic Information Systems (GIS)." And one person stepped up and said, "Hey look, let me take this on. I think I can create a business on this and a business line" (Street et al., 2014, p. 262).

At SRC Holdings, CEO Jack Stack turned his insight that "maybe people don't like working for somebody else [...]" to SRC's advantage by emphasizing "[...] shared leadership [...]" (Street et al., 2014, p. 117). At SRC the "employee-owner" philosophy empowers individuals with decision-making discretion and authority. "And although not all employees want the pressure or have the commitment requisite for leadership [...]" (Street et al., 2014, p. 117). Stack estimates that three quarters embrace the chance to be leaders.

Trust and accountability also contribute to SRC's widespread shared leadership. For employees to share their thoughts and ideas openly they must believe that management will respect them, appreciate them and, when deemed advantageous, act on them. Some of the best ideas for changing SRC's remanufacturing processes have come from those who do the remanufacturing.

Employee-ownership is also a powerful force for coordinating employee efforts. At PQ Corporation, a team of PQ plant operators, mechanics, and engineers got together spontaneously to re-examine a proposed project that showed an unsatisfactory return at the original estimate of 1.2 million dollars. Capitalizing on their local knowledge, members found a way to achieve the objectives for one-third that cost. After the facilities were installed, the lead operator dressed in business attire and carrying a briefcase reviewed the project scope and economics with corporate management in Valley Forge and received a rousing ovation for the $800,000 he and his associates saved the company (Nobles & Staley, 2017).

All these leaders in one form or another shared a vision for success with employees to provide business direction and guidance on how to behave in the absence of hierarchical controls. Their mission and aspirations statements varied to fit the business and industry, but the statements of shared values emphasized similar principles such as respect for human dignity, trust, honest, and ethical behavior: teamwork, community, having fun at work, taking risks and learning from mistakes. These shared values are the foundation for socially responsible leadership and for creating an ownership culture. Examples of how this has worked are provided in the next section.

PRACTICE TWO: DEVELOPING AN FBEO CULTURE

The founder or another influential leader lay the groundwork for an FBEO culture by living the principles just enumerated (Groysberg et al., 2018; Hoffman & Shipper, 2018). The leader's comments, activities, and everyday behavior communicate the culture to other members of the enterprise, which are in turn modeled and shared with other members of the organization. If the primary goal is to maximize shareholder value, the culture developed will be internally competitive. In contrast, if the culture is based on the values highlighted here and by others the culture will be one of collaboration and growth (Hoffman & Shipper, 2018).

The power of culture has been underestimated, misunderstood, neglected, or all three by many corporate leaders (Groysberg et al., 2018). In contrast, Edgar Schein (1985), Professor Emeritus at the MIT Sloan School of Management, stated, "Culture constrains strategy" (p. 33), and Peter Drucker, one of the top management consultants of the latter half of the 20th century, is quoted as saying, "Culture eats strategy for lunch" (Morrison, 2014). Thus, underestimating, misunderstanding, neglecting, or all three the enterprise's culture is fraught with peril.

In FBEO enterprises, culture becomes the formal and informal governing mechanism for the enterprise. It transforms how employees think and act compared to those in traditionally managed hierarchical organizations. Instead of coming to work to earn a paycheck, and expecting managers to direct and coordinate their activities, individuals in these companies believe:

- This is our venture.
- If we work hard to make it successful, we will share the benefit, and
- Our job security depends on the enterprise's success.

For instance, at Atlas Container Cooperation, the "[...] organization has a set of interlocking teams. For example, the sales team had to work with the design team, which had to work with the production team, which had to work with the delivery team" (Calo & Shipper, 2018, p. 216). This occurred daily with little to no intervention of management. Without creating an atmosphere of a team of teams as described by McChrystal et al. (2016), Atlas's competitive advantage of being the FedEx of custom cardboard boxes would probably not have existed.

At both Atlas Container (Calo & Shipper, 2018) and W. L. Gore and Associates (Shipper et al., 2014), employee owners fulfill two roles often left to management in hierarchically controlled firms. First, they serve as mentors or sponsors as referred to at Gore.

Paul Centenari, CEO of Atlas Container, emphasized the synergy between culture and mentoring as follows: "If you recruit people who care, and train people, through peers and mentors, you can create a culture where you have people who are engaged" (Calo & Shipper, 2018, p. 204). Second, they intervene to correct those who do not put forth needed effort. Paul describes this process as follows: "[...] if you come in and you don't care, they'll see it and they'll make your life miserable. So, there's a certain self-policing going on" (Calo & Shipper, 2018, p. 200). Sponsoring and mentoring are another way to share leadership. It is also a way to develop future leaders.

PRACTICE THREE: RECRUITMENT AND SELECTION

The word "recruit" appears in the end of the discussion in the prior practice and will appear in the discussion of two other practices. This is an indication of how important the leaders in FBEO enterprises see recruitment. Traditional companies are often passive in their recruitment processes. Their managers do not recognize the adage, "One bad apple spoils the whole bushel (One 'bad apple' can spoil a metaphor, 2022)." FBEO managers are uncompromising in their recruitment processes. They actively try to recruit and hire the best at every level in the organization through enriching the applicant pool by aggressively seeking out the best candidates. For example: Spedan Lewis made recruitment a key focus of HRM in the 1920s. He went to Oxford University and asked for its top graduates. He was convinced that "first class brains" were needed "to make a real difference to any challenging venture" (Cox, 2010). At that time, the thought that a graduate of a prestigious university would go into retailing was unthinkable, but Spedan Lewis persisted and hired a number of top graduates, both men and women, from Oxford, Cambridge and other high-status schools. That practice had been continued at JLP to this day (Shipper & Hoffman, 2020).

If you want the best at every level, you will have to hunt for them. As one leader said, "You cannot build an above average company with average people."

After you have a good prospective employment pool, selecting the right person is both difficult and critical. FBEO tend to expend incredible time on this process. For example, at Equal Exchange, a company of about two hundred employee-owners:

> [...] every potential new worker-owner goes through a three-stage interview process and the hiring process is not considered complete until after the review process and the new hire has been on the job for three months. Once hired the employee is matched with a mentor and is on probation for one year. There is approximately a 5 to 10 percent new employee turnover during the first year. After the first year, all worker-owners vote on whether to offer the employee worker-ownership status (i.e., the chance to join the cooperative).
>
> Before the vote, the mentor and the employee's supervisor circulate written statements on behalf of the candidate. With rare exceptions only those new employees who have fared well reach this point. New hires that have been poor employees, or seem ill-suited for the co-op, are generally weeded out by this time. (Harris et al., 2014, pp. 163-164)

The John Lewis Partnership and the Mondragon cooperatives use internships to get to know prospective employees before offering them permanent positions. One of the criteria often used during the selection process at FBEO enterprises is "attitude." They look for both a can-do attitude and an ability to work collaboratively with others. A major account manager at HCSS explained the screening process for attitude as follows:

> Some get weeded out in those 90 days. [During the interview] they may say all the right things like, "Oh, I'm loyal to customers. I have a good at-

> titude. I'll go the extra mile." Until you get them over there and let those guys [other employees in the support department] determine that, you don't really know. If you ask our customers, "What's the biggest thing here?" it's the support, your attitude, your attitude towards support. And if someone comes in and they don't have that, they don't come close to making 90 days. (Roche & Shipper, 2014, p. 216)

One other thing that occurs in FBEO enterprises, but not in controlling firms is that hiring decisions are done with heavy input from the front-line employee-owners. This is another way leadership is shared in FBEO enterprises.

PRACTICE FOUR: TRAINING AND DEVELOPING, STEP ONE TO HELPING EVERYONE TO DEVELOP AND UTILIZE THEIR POTENTIAL

Although all companies spend money on training and developing; FBEO enterprises tend to spend more than controlling oriented firms because they realize that investing in their employees is good for business. For example, the John Lewis Partnership (JLP) spends over 50% more than its competitors on employee development (Shipper & Hoffman, 2020). Despite of the additional expense or maybe because of the additional investment, JLP outperformed major competitors such as Debenhams, House of Fraser, and Marks & Spencer on return on sales in 2019 (https://craft.co/john-lewis-partnership/competitors).

Rich Armstrong, president of The Great Game of Business, Inc., refers to the investment in training and developing after investing in recruiting and selection as doubling down (Street et al., 2014). It makes good since the half-life of knowledge keeps decreasing in all segments of the economy, and if employees are going to remain competitive, companies must invest in their intellectual development.

Investing in employees' intellectual development has an important, but less obvious effect. Such investment was recognized as essential for a "just and admirable society" in the Northwest Ordinance of 1787 that established the conditions for admittance of additional states (McCullough, 2019, p. 12). Such investment is an important practice for a just and admirable FBEO enterprise. Stack and Dahl (2019) argue that an employee-owned company can extend its influence by decreasing the wealth and income gaps for workers. Their position has been supported by research (Boguslaw & Schur, 2019; Boguslaw & Taghvai-Soroui, 2018; Walsh et al., 2018).

One of the more common ways of training and developing in FBEO enterprises is mentoring. This was previously discussed under developing a culture because the practice is seen as one of the most powerful ways to acculturate new hires. At W. L. Gore & Associates, it is referred to as sponsoring. No one is hired unless someone volunteers to sponsor the individual. Successful sponsoring is considered an indicator that the sponsor maybe ready for a larger leadership role. Leaders are also expected to be sponsors (Shipper et al., 2014).

Step two to helping everyone to develop and utilize their potential will be discussed as part of Practice Seven which focuses on combining employee development and risk taking. Employee development prepares them to make the possible probable and risk taking makes the probable reality. Although we speak of different practice and steps, in successful FBEO enterprises they occur concurrently.

Next planning for succession and leadership development will be discussed. Leadership development is a special form of employee development. Its importance to successful FBEO enterprises will become apparent and that is why it is discussed as a separate practice.

PRACTICE FIVE: PLANNING FOR SUCCESSION AND LEADERSHIP DEVELOPMENT

Planning for succession and leadership development are essential for FBEO enterprises for at least two reasons. First, the next CEO in such organizations almost always come from inside the organizations. One time, Herman Miller selected a new CEO who was an outsider. He lasted only three years (Shipper et al., 2014). A speculative reason given for his short tenure was he did not understand the culture. Maybe, Drucker's famous saying quoted earlier could be expanded to "Culture eats strategy and CEOs for lunch." A second reason is planning for succession facilitates a smooth transition. As Christine Perich remarked after becoming CEO of New Belgium Brewing, "Many companies don't plan for succession, so it ends up being a reaction to another event rather than a well thought out transition" (Dahl, 2015).

A third reason is that most promotions to all levels of leadership will be made internally in FBEO to avoid people who do not fit the culture. For example, Hamdi Ulukaya, Chobani's founder and CEO, told the following story about his attempt to hire a CEO:

> I decided to hire another CEO, because I thought I wasn't going to be able to do this. One executive had run some big companies and had a nice suit and a spiffy ride, and he really wanted the job. We met in a diner, and the way he interacted with the waitress was so rude. This is what I grew up hating, people who think they're better than everybody else. In that moment, I knew I wasn't looking for a CEO. (Lagorio-Chafkin, 2018)

This event occurred in 2010. Hamdi, as he is called by most, is still the CEO in 2021. Therefore, developing leadership skills is important, since internal promotion at all levels is the norm in FBEO enterprises.

In pursuit of leadership development, many of the FBEO enterprises use some form of employee input in this process including 360 feedback (Calo et al., 2014). The use of employee feedback is seen at W. L. Gore & Associates as way of developing a "community of purpose" (Calo et al., 2014, p. 92). When leadership development is done well and succession occurs in FBEO enterprises, there is no surprise, and the change is not disruptive (Dahl, 2015).

PRACTICE SIX: TAKING RISKS AND LEARNING FROM MISTAKES

In hierarchically controlled firms, risk taking is frowned on and if mistakes occur harsh punishment often follows including career derailment and determination. In contrast, risk taking is supported by the worker-owners in FBEO enterprises. In an open-ended survey in one such enterprise, the number one behavior that the "worker-owners" wanted leaders to increase was encouraging risky efforts (Shipper & Manz, 2014). In such enterprises, collaborative risk taking is an exercise in shared leadership, but it will occur continuously only if making mistakes is tolerated. The business value of employees learning from mistakes derives from three factors.

First, mistakes are integral to human growth. Tiger Woods developed into the world's greatest golfer by trying new techniques, perfecting those that worked, and learning from those that did not (Nobles & Staley, 2017). Second, this builds trust between employees and management reflecting the reality that nobody is perfect. As Ken Iverson said, "You have to have a strange and monstrous ego to think you never make bad decisions. We tell our employees that we do make bad decisions" (Preston, 1991, pp. 87-88). Finally, mistakes and failures play a critical but often unappreciated role in human creativity. Thomas Edison went through more than 1,000 filaments before "seeing light" and Henry Ford's first two car ventures failed.

Leaders at HCSS believe that a lack of tolerance would stifle creativity and the entrepreneurial spirit of employees who fear negative consequences for their decisions. Second a company's negative attitude towards failure inadvertently encourages employees to hide their mistakes, "[...] often it is not the initial mistake that jeopardizes viability [...] but the long-term consequences of a cover-up when an employee fears sanctions" (Roche & Shipper, 2014, p. 223).

HCSS analyst Melissa confirmed that Mike walks his talk. After accidentally sending 2,000 messages to customers saying their maintenance fees had not been paid, she rushed to tell her supervisor Tom and CEO Mike. Rather than yell at her, Tom immediately emailed customers apologizing and explaining how the mistake happened during testing. In the end, the company collected almost $10,000 from overdue clients and installed a password system to help prevent repeat mistakes (Roche & Shipper, 2014).

At Herman Miller, the company statement of "What we believe" includes: "Curiosity and exploration [...] are two of our greatest strengths. How do we keep our curiosity? By respecting and encouraging risk, and by practicing forgiveness. You can't be curious and infallible. Everybody makes mistakes; we ought to celebrate honest mistakes, learn from them, and move on" (Shipper et al., 2014, p. 138). Former CEO Max De Pree (1989) provided a role model when a superintendent for an almost completed construction project noticed the structure was too tall and had to cut eight inches off the tops of all columns. Instead of disciplining the superintendent, De Pree chrome plated two column tops to display in his office as reminders, "[...] that no one is perfect" (p. 4).

When asked how Nucor handles someone who goofs, former president David Aycock responded without hesitation, "You give 'em something new to do! Because they're the only damn people in the company who dared to take any risk! I'm talking about personal risks" (Preston, 1991, p. 147).

W.L. Gore & Associates emphasizes the "waterline" principle to guide risk-taking. Only if pursuing a project that could sink the company does it need to be widely discussed appropriately across teams, plants, and continents before associates can go ahead. Otherwise, an associate is encouraged to take risks.

A successful FBEO enterprise keeps innovating. When Bill Gore was asked by a puzzled interviewer about how innovation worked at Gore, he replied with a grin, "So am I. You ask me how it works? Every which way" (Street et al., 2014, p. 74). He also admitted that he did not know the number of innovations the company was working on at that time. His response indicated that he was happy that the number was so large that he did not know it and he did not feel a need to know the number.

Hamel (2007) makes the argument that innovation is the most important organizational issue. FBEO enterprises use alternative forms of structure and processes to set people free to innovate and be rewarded for it. Matt Ridley, British businessman and author, states vigorously, "Leave people free to exchange ideas and back hunches, and innovation will follow" (Myhrvold, 2015).

FBEO enterprises must go beyond ambidextrous (there is considerable literature on that), it must become multi-dextrous. That is a way to become a highly innovative organization. Only those that are such will be sustainable. For example, Gore began by producing coated wire. It expanded into four divisions—electronics, fabrics, industrial and medical. Each division has produced innovative products. Its second core principle is, "Encourage, help, and allow other associates to grow in knowledge, skill, and scope of activity and responsibility" (Shipper et al., 2014, p. 268). Within Gore this principle is referred to as freedom. It allows new ideas to bubble up regardless of whether the envisioned product fits within that division. For example, Glide dental floss came from the fabric division, and Elixir Guitar Strings came from the medical division.

The half-life of products and services continues to decrease. To remain relevant an enterprise must reinvent its products, services, and processes. By reinventing the processes such as leadership, governance, culture, recruiting, selection, development, etc. the enterprise can build a system that continuously supports and reinforces innovation. The mantra of the 1980's was Continuous Improvement. The mantra of the 2020's must be Continuous Innovation. The enterprise must be set up to cultivate innovation from frontline workers and others as well as the R&D lab. Controlling organizations stifle innovation; FBEO enterprises encourage, support, and reward innovation.

PRACTICE SEVEN: COMBINING EMPLOYEE DEVELOPMENT AND RISK TAKING, STEP TWO TO HELPING EVERYONE TO DEVELOP AND FULLY UTILIZE THEIR POTENTIAL

Risk taking and employee development go hand in hand since inadvertent riskiness can be minimized when people are knowledgeable. As was observed at HCSS:

> The attitude of each employee to never settle for what they already know creates a culture where everybody is constantly learning new things to ensure that they are up-to-date with their skills and their abilities to deliver high quality performance for the company. This dynamic self-perpetuates as employees recruit candidates with similar attitudes and abilities. At the same time, the organization supports new initiatives by paying for employees to go to conferences, training programs, and certifications. Once these outside programs are completed, employees teach what they have learned to colleagues. HCSS tries to encourage employees to think, "How can I enhance not just my own value but also that of everybody else?" (Roche & Shipper, 2014, p. 220)

In HCSS employees also tend to "create their own jobs." They may have been hired for a specific task, but their job definition will change over time without any change in their title. As their skills improve, they can spend more time solving other issues, or they may discover some other tasks that they like to do or for which they have a natural talent. KCI Technologies offers a year-long formal mentoring program in which new hires are paired with more senior employees. Beyond that formal training, development programs are considered a cornerstone for growth of intellectual capital (Street et al., 2014).

SRC Holdings trains employees to become "businesspeople." To start, company financial records are made an "open book", and everyone is educated in "financial literacy." The goal is for employees to own and understand the "numbers" driving their respective business units as well as SRC Holdings. At SRC

> [...] employees who grind crank shafts don't just have the important technical skills to do the job; they also know how their actions affect other elements of the organization. And perhaps most importantly, as employee-owners they understand how it affects the bottom-line and why it is in their own best interest to take charge and be accountable for better outcomes. Because of this, there's not a lot of finger-pointing at SRC if something goes wrong. (Street et al., 2014, p. 118)

In SRC all employees have the opportunity and encouragement to explore career moves across the company, even to the point of changing job disciplines if they so desire. This benefits younger employees who often do not know what they want to do for a career, and gives more experienced employees a chance to change function or responsibilities. CFO Dennis Sheppard observed, "You're limited only by your own creativity and your own desire and willingness to work for what you want" (Street et al., 2014, p. 115).

PRACTICE EIGHT: OPEN COMMUNICATIONS

In traditional firms, it has become fashionable to speak of open communications. In one such company, individual performance was tracked by a computerized system. The company had decided to introduce autonomous teams. When the teams asked to see their performance as recorded, they were told emphatically, "No!" Skinner (1974), the foremost behavioral psychologist of the 20th century, would call this extinction reinforcement. In other words, management was sending unknowingly a message to workers that performance should be decreased.

In contrast, FBEO enterprises practices open communications in multiple ways. For instance, at Herman Miller, the team assembling a product like an Aeron chair can see an electronic scoreboard that tells everyone whether production is ahead, on, or behind schedule and other production information (Wozniak, n.d.).

Another way that FBEO enterprises practice open communications is through open book management developed by Jack Stack, CEO of SRC Holdings (Case, 1996). As owners all employees are given access to company financial records and are trained to understand how to interpret those records. The importance of that education cannot be overstated. For open book management to be an interactive and engaging activity the worker-owners must understand the numbers even when they are presented as ratios. To reenforce, the numbers and to ensure the success the numbers are reviewed frequently with the worker-owners. Jack Stack insists that team meetings be held every week to go over its operating statements (Street et al., 2014).

At Nucor, Ken Iverson has declared, "Tell employees everything or tell them nothing. Otherwise, each time you choose to withhold information, they have reason to think you're up to something. We prefer to tell employees everything. We hold back nothing" (Iverson & Varian, 1997, p. 67). At Herman Miller, Max De Pree would say, "An inclusive system requires us to be insiders. We are interdependent, unable to be productive by ourselves. Interdependency requires lavish communications. Lavish communications [...] (provide) the opportunity to understand" (De Pree, 1989, pp. 58, 60).

At KCI Technologies, CEO Niemeyer explained operation of the open communications with this words: "One thing about it, and it may be our management style, is that our people have a tendency to speak up. And when they do speak up, they speak up without fear of repercussion. So, it's not as if they're worried about saying something in a meeting or to me or to the president and all of a sudden seeing the Grim Reaper come and fire them" (Street et al., 2014, p. 261).

W. L. Gore portrays its organizational structure and communication pattern as lattices. Bill Gore elaborated, "Every successful organization has an underground lattice. It's where the news spreads like lightning, where people can go around the organization to get things done" (Shipper et al., 2014, p. 279). In Gore, Bill emphasized, "Direct lines of communication—person to person—with no intermediary done" (Shipper et al., 2014, p. 278). Similar communications were found in the other freedom-oriented organizations we examined.

The ability to foster open communication should not be taken for granted. In most, if not all the companies, the employee-owners are provided training and tips on how to communicate openly. For example, at one the employees are advised to ask questions in the open meetings beginning with "I don't understand why [...]" rather than "What were you thinking when [...]," or some other less genteel opening guaranteed to put the respondent on the defensive. Providing such training and tips helps to instill an open-communications culture.

Open communications can have its limits. Gore policy calls for protecting proprietary knowledge by sharing only on a "need-to-know" basis. When CEO Terri Kelly became curious about a new laminate while visiting Shenzhen, China, the development engineer kept dodging her questions. He finally smiled and asked, "Terri, do you have a need to know?" Kelly laughed and responded, "You're right, I'm just being nosy" (Shipper et al., 2014, p. 275). Stories like this about the openness to question even the CEO, when shared across Gore help to sustain its open culture.

The practice of open communications helps to motivate employees to:

- To self-manage and collaborate on their activities.
- To communicate openly and freely.
- To do their best every day since anything less would be stealing from colleagues.
- To continually generate ideas for improvement.
- To develop their capabilities so their future contributions can grow.

PRACTICE NINE: EMPLOYEES SHARING PROPERTY RIGHTS TO COMPANY RESOURCES

By definition, FBEO enterprises share property rights to the company resources whether the enterprise is an ESOP, cooperative, perpetual trust, profit sharing, or some other form of employee ownership. There are, however, other ways to share property rights with the employee-owners. Two examples follow.

At PQ Corporation, management distributed property rights of $25,000 per year of capital funds to hourly associates to spend as they felt appropriate. Former CEO Stan Silverman described their shock at the first distribution, "You mean you actually want us, and not management or the engineering department, to decide where to spend this money? [...]." He observed after multiple distributions, they spent the funds "[...] as if they were building a garage on their house. Every dollar is wisely spent!" (Nobles & Staley, 2017, p. 15).

At Nucor, general managers of the plants for which each is responsible have the right to invest up to one million dollars per year in capital resources without higher approval. These managers share the rights with the employees. As general manager, Joe Rutkowski at the Darlington, South Carolina plant, described the process, "Headquarters doesn't restrict what I spend. I just have to make my contribution to profits at the end of the year. My department heads (and) the people in the control rooms all spend thousands of dollars without anybody's approval. All of us can make that kind of decision, because all of us stand behind our decisions. We're accountable for getting the job done" (Nobles & Staley, 2009, p. 38).

One traditional organization started a quality circle program. The circles worked through identifying, analyzing, and proposing solutions to problems. The first round of solutions required small-scale funding for implementation. All the teams were told that there was no allocation in the budget to fund their solutions even one with a payback period of three months. You can imagine what happened to participation in the program. In another traditional organizations, the company had implemented autonomous teams. The president was thrilled because, in the first year, the teams were responsible for generating millions of additional dollars in profits. A large all-hands meeting, the president was recounting this success. A worker at the end of the presentation asked what our share is. The president responded that was their job to generate profits. Again, imagine what happened to the program.

Fred Herzberg (1966), in his groundbreaking studies, found that salary was more frequently a dissatisfier than a motivator. In addition, he observed that achievement, recognition, the work itself, responsibility, and advancement were more frequently motivators than dissatisfiers.

When employees share property rights with managers, the financial rewards that they receive are linked to the motivators. Enterprises that have multiple practices for sharing financial success with their workforce is going to have more engaged one than a controlling oriented firm.

PRACTICE TEN: AVOIDING LAY-OFFS UNLESS COMPANY SURVIVAL IS AT RISK

At W.L. Gore & Associates, the mutual commitment between associates and the enterprise is spoken of frequently. Associates commit to contributing to the company's success and enjoy the freedom to make their own commitments instead of having others assign projects or tasks. In return, the company commits to providing a challenging, opportunity-rich work environment that is responsive to associate needs and concerns—including concern for job security. For example, when Gore agreed for P&G to take over marketing for Glide dental floss, it was understood that no associates would be laid off. Although the announcement came as a shock to some Glide team members, they were quickly working on a transition plan confident that any associates not needed for future manufacturing or selling would be absorbed into other fast-growing Gore businesses (Shipper et al., 2014).

At Nucor Steel, the position on layoffs is "employees should feel confident that if they do their jobs properly, they will have a job tomorrow" (Iverson & Varian, 1997, p. 21). It is positioned within a broader philosophy of sharing everything with employees. The impacts of seasonal and cyclical business slowdowns are shared by employees working only two or three days a week and getting paid accordingly. Individuals also exhibit flexibility by working on lower priority activities such as cleanup and plant maintenance during slow periods. Former CEO Iverson also emphasized that there is no guarantee of job security, "Nothing's written in stone. We'll lay people off if it is a matter of survival" (Iverson & Varian, 1997, p. 14). In controlling firms, layoffs seem to be one of the first options considered when business contracts. In FBEO enterprises lay-offs are one of the last options considered during contractions as has been seen in this example. Other examples of how layoffs are handled follow.

Like many aspects of FBEO, this Nucor position has produced unexpected benefits. One plant manager struggling through an industrial depression reduced the work week for employees to three days and gave them rights to the plant's limited cash flow along with the challenge to come up with new ideas. Those employees invented and patented the best (prefabricated) steel roof that money can buy and sales skyrocketed. That same plant a short time later installed a $14 million addition to manufacture steel decking, a product so superior to the competition's that first-year profits paid off the investment (Preston, 1991, p. 143).

At Herman Miller in 2003, a drastic sales drop threatened company survival and forced management to drop the tradition of life-time employment. CEO Mike Volkema and the North America president met personally with all workers to tell them what had forced the 38% lay-off and shut down of a Georgia plant. One laid off worker was so moved by their presentation that she told Volkema she felt sorry for him having to personally lay off workers. Later Volkema published a "new social contract:"

> We are a commercial enterprise, and the customer has to be on center stage, so we have to first figure out whether your gifts and talents have a match with the needs and wants of the commercial enterprise. If they don't, then we want to wish you the best, but we do need to tell you that I don't have a job for you right now. (Shipper et al., 2014, p. 138)

Keeping your employee on during a contraction when the economy begins to expand. A FBEO enterprise can increase the number of hours back to normal and avoid the costs of recruiting, selection, training, and developing. This maybe one reason why research has shown the FBEO come out of recessions faster than controlling firms (Kurtulus & Kruse, 2017).

THE BOTTOM LINE: FBEO HAS POWERFUL INFLUENCES ON ORGANIZATIONAL EFFECTIVENESS

By this point it should be clear that FBEO produces many fundamental differences that motivate employee behaviors rarely seen in traditional organizations. Four impacts on organizational effectiveness are worth highlighting before closing:

1. FBEO revolutionizes an organization's ability to identify and act on economic opportunities. This results from the interactions of several factors:

- First, as Nobel Prize winning economist F. A. Hayek (1944) stressed that economic problems/opportunities "arise always and only as the consequence of change" (p. 545).
- Second, these cultures encourage employees to focus outward on customers, competition, and the marketplace—rather than upward on management. That shift in attention regularly exposes employees to external changes offering potential opportunities.

- Third, the combination of employees (a) thinking like business owners, (b) self-managing and self-coordinating their activities, and (c) taking risks positions an organization to test the attractiveness of potential opportunities and to take advantage of profitable ones in a timely fashion.
- Fourth, information, knowledge, and learning opportunities are widely shared and encouraged, thus eliminating information asymmetry, a key barrier to identifying and acting on economic opportunities.

2. FBEO eliminates the dissonances experienced by attempts to apply improvement ideas in hierarchically controlled environments. For decades managers attempting to reduce control, empower employees, and share responsibility in hierarchically controlled organizations have encountered countervailing forces such as

- Covert game playing.
- Incentives setting people into competition with each other.
- Divisions seeking to improve local performance to the detriment of firm objectives.
- Leaders being perceived by team members as a supervisor in sheep's clothing.

FBEO avoids all such dissonance by eliminating the need for hierarchical control and relying on self-organized spontaneous order to replace the traditional controlled order. It resolves the agency theory dilemma in non-employee-owned companies where the interests of the owners and the employees are not aligned. In an employee-owned company, they are.

3. FBEO resolves the impossibility of controlling how people think. Psychologist Viktor Frankl (1962), a Nazi concentration camp survivor, observed that while his captors enjoyed greater physical liberty, Frankl possessed greater freedom because he could develop his own awareness, think, and envision the future. The Nazis could restrict Frankl's mobility, but could not take away his freedom to dream even by torturing him and destroying his family in the gas chambers. Former Nucor CEO Dave Aycock made a similar point, "You can't manage people [...]. If you could get into your employees' minds,

you could manage'em, but you can't get into their minds. People are free in their minds, and you can't manage a free mind" (Preston, 1991, p. 88).

And Douglas McGregor (1960) pointed out how humans possess an internal control mechanism that can negate any management attempts to externally control them.

This rarely recognized reality has become increasingly costly as the nature of work has shifted more and more to "knowledge workers" —e.g., engineers, scientists, programmers, technicians, lawyers, teachers, and doctors whose value derives primarily from their knowledge and analytical abilities rather than physical skills and energy. It is not possible to hierarchically control or manage such employees. Managers can attract their attention and passion to enterprise issues only by earning commitment to organizational objectives, aligning their interests, and harmonizing their needs with those of the enterprise, and creating stimulating and satisfying working environments—precisely what FBEO accomplishes!

4. FBEO positions organizations to take full advantage of human capabilities. SRC Human Resources Director Keith Boatwright recognized this when he noted, "I will be better for having been part of this company [...] (In other companies) even though you might be productive and do good things, you will not necessarily be a better person" (Street et al., 2014, p. 113). Two factors influence this:

- First, as Hayek (1944) observed, "freedom" nurtures natural human virtues that have been unintentionally extinguished by hierarchical control such as independence, self-reliance, risk-taking, and willingness to cooperate voluntarily.
- Second, as Max De Pree (1989) pointed out, freedom builds a "covenantal" relationship between employees and their enterprises in place of traditional legal contracts. Солженицын (1978) commented on the value of that shift:

> A society based on the letter of the law and never reaching any higher, fails to take advantage of the full range of human possibilities. The letter of the law is too cold and formal to have beneficial influence on society. Whenever the tissue of life is woven of legalistic relationships, this cre-

ates an atmosphere of spiritual mediocrity that paralyzes men's noblest impulses... (pp. 17-18)

CONCLUSION

There are two parts to our conclusion. The first is a traditional summation of key principles drawn from the practice of FBEO in highly successful enterprises. Second is a call to action. The advantages for the enterprise, the employees, and society of FBEO have been well documented in this chapter and others (e.g., Blasi et al., 2016; Boguslaw & Schur, 2019; Nobles & Staley, 2017; Shipper, 2014). Yet, its wide spread adoption has not happened. In the call for action, recommendations are made on how to implement FBEO.

SUMMATION

FBEO is built on a foundational leadership paradigm shift from "hierarchical control" to "freedom and self-organized spontaneous order" based on these principles:

- Articulate a compelling long-term vision for success.
- Align long-term individual and business interests.
- Harmonize individual and business needs.
- Emphasize freedom, self-responsibility, authority, and accountability.

We urge leaders to abandon hierarchical control and shift to FBEO because it is the right thing to do, and it increases organizational ability to survive and thrive in a global marketplace that demands innovation and responsiveness. Hierarchically controlled organizations can do neither well. FBEO has been used for decades by extraordinarily successful firms, but the power of this unique system of management is just becoming recognized. This chapter provides a model and practices learned through experience and research that others can use to become the dominant companies in their industries. The shift will not be easy in the short-term, but the long-term benefits can be immeasurable. As has been said by many, if it were easy, everyone would be doing it.

CALL TO ACTION

Thousands of executives and managers have visited or studied some of the FBEO enterprises used as examples in this chapter. Some of them are well known for being leaders in their industry, but the number of companies adopting these strategies is limited. Andy Grove, former CEO of Intel,[1] said, "[...] most companies don't die because they are wrong; most die because they don't commit themselves. They fritter away their valuable resources while attempting to make a decision. The greatest danger is in standing still" (Grove, 1996, p. 152). The challenge for most is to change their practices and their companies' practices. Do not ask others to change if you are unwilling to change. Our empirical studies of leadership change have found that small improvements by a manager will lead to large changes in performance of the work unit (e.g., Shipper et al., 2007). The same old practices will not result in improvements. "Insanity is doing the same thing over and over again and expecting a different result," is misattributed to Einstein (Einstein & Calaprice, 2013). Regardless of who said it, the truth is that leaders who continue to do the Same Old Stuff should not expect improvements. Thus, a secondary, but equally important purpose of this essay has been to call people to take a different path and adopt the ten practices outlined, and by doing so develop additional FBEO enterprises.

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1. During Grove's tenure as CEO, Intel had a strong ESOP. The current stock price was displayed electronically above the door that workers entered and exited the plants that were visited by one of the authors in the 1980's and 90's.

and Judy Redpath in 1994 and Iverson's book, *Plain Talk* (New York: Wiley, 1997) for this chapter. For Southwest Airlines, we used conversations that Frank Shipper had with Dave Parker, former CEO of Southwest Airlines, and *The Southwest Airlines Way* by Jody Hoffer Gittell, professor at Brandeis University (New York: McGraw-Hill, 2003).

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