Pieces of the action:
Ownership, power and the psychological contract

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We thank the Heinz School and the Heinz Foundation for their support during the writing of this paper.  
Paul Goodman provided helpful comments on an earlier draft of this paper.
This essay develops and links two models of ownership: first, a composition model of the dimensions comprising ownership in firms, and a content model specifying the societal, firm, and individual factors that give rise to workers’ motivation to participate in ownership and employers’ motivation to share ownership. Ownership comprises financial participation, including control over residual assets, access to marginal revenues, participation in decision making, and access to financial information; along with sociopsychological factors including social standing, social responsibility, and psychological ownership.

Firm ownership, across financial and sociopsychological facets, is increasingly parcelled out among financial investors, managers and workers. This new distribution of ownership is particularly characteristic of high technology and start up firms, due to the mobility of highly skilled workers, and their consequent power in the employment relationship. We specify how societal factors, firm characteristics, and worker qualities impact the motivation to own and the motivation to share ownership. By focusing on the shifting power balance of highly mobile workers, this treatment of emerging ownership practices provides a theoretical basis for understanding the employment relationship in start ups and high technological firms.

Key words: Ownership, Psychological contract, High Tech

Pieces of the action: Ownership, power, and the psychological contract
“A share in every pot”
Accton Technology (Taiwan)

“Ownership is not a simple concept.”
Arnold Tannenbaum (1983: 236)

Workers in many countries increasingly possess ownership stakes in the firm that employs them (Greenwood & Gonzalez Santos, 1992; Keef, 1998; Nadler, 1998; Gilpin, 1999; Koretz, 1999). Among the top 1000 public traded companies in the United States, for example, the average percentage owned by employees was over 12% in 1991 (Blasi, Conte & Kruse, 1996). This presentation describes the facets of ownership and the societal, firm, and individual factors that promote its changing distribution. Our underlying thesis is that a shift in the balance of power is occurring in employment, particularly in high technology, knowledge-focused, and start-up firms and among high skilled and mobile workers.

A thought experiment demonstrating the veracity of our claim can be conducted by the exercise of filling in the blank: "the _______ is always right!" We suspect that "customer" and on occasion "boss" comes to mind for many readers. However, for those who manage, consult or do research in firms with highly competitive labor markets (e.g., in high technology, consulting, information systems), the answer might indeed be "the worker is (almost) always right." When some workers access the same benefit of the doubt that customers often receive, it signals a shift in the balance of power in the employment relationship, one that is especially associated with the increasing value of knowledge-based assets over physical ones in contemporary firms. This shift is a catalyst for a new look at the exchange relationship between investor/owners and labor.

High technology and start-up firms are at the forefront of the shift in the meaning and functioning of ownership (Shamis & Lewandowski, 1996; MacDonald, 1999; Orwall & Swisher, 1999). New firm start-ups range from 1 in every 12 persons in the United States and 1 in 19 in Israel (contrasting, with fewer than one in every 67 persons in Finland (Business Wire, June 21, 1999). Increasing numbers of
workers join such firms seeking some form of ownership (e.g., equity stakes or stock options), and societal support for expanded ownership has been linked to entrepreneurial activity (Business Wire, 1999). To understand the implications of expanded worker ownership for the employment relationship, this presentation is divided into three parts: (1) it briefly addresses the difficulties inherent in understanding ownership in the context of contemporary employment; (2) it then identifies the two facets comprising the concept of ownership, financial and sociopsychological; addressing how ownership rights are parceled out among stakeholders through varying combinations of access to profits, control, and information and the sociopsychological experiences that go with these; (3) finally, it develops a framework for the understanding how ownership is becoming part of the employment relationship and a basis for congruent psychological contracts between employers and highly mobile, economically valued workers.

**Difficulties in specifying the roles of owner, manager, and worker**

It is surprisingly difficult to specify the roles of owner, manager, and worker in a theoretically sound, broadly generalizable fashion. The terms themselves can be readily defined. Owners are those parties having a rightful legal title to the firm (Hart, 1995). Managers contract with owners to make decisions in their absence regarding how the firm's assets should be deployed, often including the supervision of workers, who themselves are those exerting mental and physical effort in use of those assets on the firm's behalf (Alchian & Demsetz, 1972). However, detailing their roles and functionality is a challenge for several reasons.

First, across nations, the duties, rights, and entitlements owners, managers, and workers possess are determined by societal institutions, including laws and custom. Organizational theory, particularly its models of the firm (e.g., Cyert & March, 1963) rest on assumptions regarding social
institutions such as stock markets, private enterprise as separate from state control or governmental involvement, and limited governmental regulation of employment. These conditions characterize the United States, Great Britain, and Israel, but are less representative of other industrialized countries. The rights and obligations associated with the three roles vary considerably across countries (e.g., in Germany workers' councils have voting rights and can stop the sale of a company, Nutzinger, 1988; in the United States, it is not unusual for outside investors to take over a firm over the objections of its management and workers, Hirsch, 1987).

Another source of difficulty in specifying the roles of owner, worker, and manager is that ownership can take many forms, some of which overlap (e.g., cooperatives where workers are the owners, Berman, 1967; Pierce & Furo, 1990; manager and employee stock-ownership plans, Pierce & Furo, 1990; Rosen, Klein & Young, 1987). In effect, it is often more appropriate to refer to financial investors, managers, and workers, since any and all of these may participate in the firm as owners.

The changing nature of work gives rise to a related issue. In the early industrialization, centralized factories gave owners almost full control over the results, direction, and time workers contributed (Dickson, 1974). As owners diversified their interests, absentee ownership coupled with centralized work to create managerial roles for controlling the work process and promote surplus production from fixed and expensive capital assets (machinery, power sources, and facilities; Veblen, 1923). Decentralization of work gives rise to self-management reducing the role of management, frequently substituting information technology and accountability systems for direct supervision (Pfeffer & Baron, 1988) and limits the value of non-human assets as factors of production (Coff & Rousseau, 2000).

Ideological factors further complicate the picture. Many organizational scholars are turned off
by explorations of the roles of owners and workers. Historically, consideration of the roles of owners and workers was associated with particular ideological stances—e.g., communism and Marxism (e.g., Braverman, 1972), which don't attract some scholars, and at worst repel others. The challenge is to locate theory regarding the roles of owners, managers, and workers in territory that allows for societal variations, changes in work processes, and multiple ideological positions.

**Defining ownership and its two facets**

Owners by definition are those who have a rightful claim to property (Oxford, 1970). A property right is socially recognized when claims are legally enforceable as well as socially supported and legitimate. Gains from property accrue to owners (e.g., rents) and losses are compensated when due to another's willful negligence. Property rights benefit individuals in the form of the security they give to owners; and they also benefit society by avoiding exploitation or unfair appropriation of property which would create social instability.

A key concept regarding property rights, is that their various components can be split (“split atom of private property,” Coleman, 1990, p. 441 after Berle & Means, 1933), creating partial ownership rights. Thus, for instance the right to benefit from the firm's profitability may be assigned to or shared with managers and workers while investors retain rights of residual control. That ownership is divisible raises important implications for the distribution of ownership rights among workers and managers as well as for the particular dimensions of ownership that are shared.

Scholarly writings on ownership fall into two categories: economists dealing with corporate governance (e.g., Hart, 1995; Schleifer & Vishny, 1997) and organizational researchers focusing on employee ownership in organizational behavior (e.g., Klein, 1987; Rosen, Klein & Young, 1986; Pierce, Rubenfeld & Morgan, 1991) and industrial relations (e.g., Hamner & Stern, 1980). These tend
to converge in recognizing three essential dimensions of ownership: residual control over assets, access to profits, and participation in decision making. Economists further identify access to financial information as a dimension of ownership while organizational behavior researchers pay particular attention to psychological ownership (Pierce et al., 1991). The seminal article by Pierce and his colleagues (1991) identified the pivotal role that various objective forms of ownership (e.g. financial participation, information sharing and participation) play in creating an individual employee or manager's belief in "psychological ownership."

Building on this body of literature, we examine how the nature of ownership has changed with expansion of employee owners in response to increasing significance of human assets to the wealth of the business and the pressure to retain highly mobile employees while motivating increasing worker contributions to firms. Moreover, we address a frequently overlooked aspect, particularly by American scholars, the societal role and social responsibilities that ownership brings particularly in countries where social hierarchies are relatively stable (Landes, 1969). This paper organizes the facets of ownership according to two dimensions, financial and sociopsychological, and examines the impact of emerging business and employment practices on each (Figure 1).

Financial aspects of ownership

There are four aspects to ownership from a financial perspective: residual control rights, profit sharing, access to information and decision making or control. Financial aspects are to some extent shaped by law. Laws regarding corporate governance deal with the ways in which stockholders, investors supplying finance to corporations, assure themselves of getting a return on their investment (Shleifer & Vishny, 1997). Law and politics affect the financial structure of public corporations as much as does economics (Roe, 1990), and the rights of owners vary by country (e.g. weaker in Italy and
Russia, stronger in United States and Britain; Schleifer & Vishny, 1997).

Ownership as residual control rights. An essential feature of ownership is control of the property itself, or in the case of a firm, its assets (Hart, 1995; Pierce et al., 1991). Having the legal and socially sanctioned power to take possession over tools, procedures, client lists, and other assets creates the capacity to control the availability of these assets to others (managers, workers). Control rights permit the sale of assets or the restriction of access to them. Decisions regarding assets in day-to-day organizational activities typically are made by managers and employees hired for the purpose of creating value through use of the assets. However, if the employment relationship breaks down, the owner can walk away with all the non-human assets (Hart, 1995). Control over non-human assets gives employers leverage, since employees are more likely to do what an owner wants if the owner can exclude them from the assets that make them productive.

One constraint on the residual control claim by investors is asset-specificity of intangible resources (Aoki, 1984; Putterman, 1988). Although control over non-human assets can give owners power, even more valuable assets can reside in unique capabilities that firms derive from collective skills of members (Coff & Rousseau, 2000; Leana & Rousseau, 2000). Though no individual worker or manager may control these, neither can owners, who depend on the good will of workers to keep these collective resources intact. Examples of managers in consulting practices who have quit to take jobs with rival firms, and brought a majority of the firm's employees with them are illustrative of the difficulty in controlling residual assets for firms whose central production function involves knowledge work (Leana & Rousseau, 2000).

The embeddedness of residual assets associated with knowledge work, in the relations among people and interactions between workers and processes makes owner claims to residual assets difficult
to enforce. The changing role that collectively held assets play in a firm's strategic competence raises some doubts regarding the value of residual control. Particularly, where competitive advantage derives from collective resources other than physical assets, residual control can mean little absent a community of workers willing to contribute to the firm. We note that although property rights are central to the concept of ownership, these rights can have very different connotations to “owners” whose vantage points vary from worker, manager, to financial investor. Each may seek different benefits from exercising the control that residual claims promise (e.g., job security, autonomy, or financial returns).

**Rights to profit.** Ownership typically entails a claim on the returns the firm's assets have generated. Access to the firm's profits after its debts and obligations are paid is a second feature of ownership. Firms can raise money without giving the suppliers of capital any real control, as in the case of debt (Schleifer & Vishny, 1997). Nonetheless, raising money by offering investors access to future profits been described as a suitable financing tool when there is insufficient collateral to back credit, or when near-term cash flows are insufficient to service dept payments (Schleifer & Vishny, 1997). As is the case for residual control, claim to the marginal revenue of a firm can at times be difficult to enforce. Managers more directly control profits than do investors, in some cases the clout of large investors is required to induce managers to distribute profits (Hart & Moore, 1994). When employees become legal owners, as in the case of privatization this can occur without employee access to profits (e.g., in Croatia where the banks and state own substantial portions (Goic, 1999). Often the workers' goal of ownership is job security (a form of control) rather than profit or financial growth (Stern & Hammer, 1978; Goic, 1999).

**Rights to information.** Access to information regarding the firm's activities is another facet of ownership (Hart, 1995). Property owners have the right to inspect their property and evaluate whether
users have adhered to the terms of their agreement. Owners of firms are entitled to review corporate records and monitor managerial activities. Competing forces influence owners' access to information regarding the firm's activities. One is the incentive for managers to manage earnings to create and then meet shareholder expectations regarding profitability (e.g., to declare steady growth in profits over time while masking wide fluctuations in earnings). Broad managerial control over information regarding the firm's activities can make it possible for managers to reduce the extent of control shareholders attempt to exercise by filtering the information they receive (Hart, 1995; Lowenstein, 1996). Another is the move toward standardized global accounting practices that limit managerial discretion in reporting financial information. This push for transparency coincides with greater emphasis on open book management within firms, sharing financial data across all levels of management and workers to create common frame of reference in business decisions (Case, 1995; McCoy, 1997). In collective bargaining access to the company books is used by management and unions to justify their negotiating positions (Freeman & Kleiner, 1999; Binkley, 1999). Increasing push for business literacy among workers in both the public and private sectors is also symptomatic of wider availability and use of financial data in motivating productivity, investment and organizational change. A third factor promoting availability of financial information is the coupling of information technology with more sophisticated accounting models (e.g., activity based costing), which makes evaluation of the discrete costs associated with organizational activities possible along with wider distribution of such information (Srikant & Kekre, 1991). Availability of such information can be expected to reduce managerial control over financial data as well as make less unique any claims that owners might have to access such information.

**Participation in decision making.** The authority to make decisions is perhaps the most political and complex aspect of ownership. A capitalist enterprise has been defined as one in which ultimate
decision making authority is external to the group of individuals producing goods and services, residing with the owners of the fixed assets associated with their production process (Putterman, 1982, p. 141). Ownership typically entails a right to influence decisions (Rhodes & Steers, 1981). Equity possession typically carries with it the right to attend the annual shareholders' meeting and to participate in board elections. Nonetheless, it is often the case that owners do not participate in decision making regarding the firm (Klein, 1987; Pierce et al., 1991). When ownership is distributed among a diverse array of investors, stockholders may be less inclined to participate in decision making, allocating this responsibility to managers (Alchian & Demsetz, 1972). This failure to participate also may be a function of low expectations on the part of distributed owners to engage in influence attempts.

Expectations, shared information, and competence are important factors shaping participation in decision making. Equity holders' expectations regarding participation influence their actual participation and in their satisfaction with it (Pierce et al., 1991). Further, where employees have equity stakes, their firm's management need not necessarily encourage their participation in decisions and employees may not expect to participate (Hammer & Stern, 1980). Rhodes and Steers (1981) report greater participative decision making in many worker cooperatives than is typical in conventionally owned firms, though conversion to employee ownership does not necessarily lead to greater worker control (e.g., Hammer & Stern, 1980; Pierce et al., 1991). Participation is greater when financial information is shared with investors and with workers (Berstein, 1979). This sharing, particularly with workers, in related to the level of business literacy they possess. Where workers possess little financial knowledge, they typically do not participate or are ineffective in their attempts to do so (Tannenbaum, Kavcic, Rosener, Vianello & Wieser, 1974; Greenwood & Gonzalez Santos, 1992).

Conclusions. Financial aspects of ownership are increasingly shared with both managers and
workers as well as outside investors. The frequent decoupling of participation, information access and profit sharing suggests that financial ownership can take a variety of meanings above and beyond concern over shareholder value. Residual control rights, as a feature of ownership, are changing in their significance as collective assets such as shared skills and knowledge come to be more economically valuable than physical assets. Rights to share in the firm's profits are increasingly partialled out among a variety of stakeholders and are not a unique claim of financial investors. Participation in decision making varies widely among investors, managers, and non-managerial workers and is linked to the opportunity for and expectation of participation, along with availability of financial information and stakeholder competency in interpreting financial data and making financial decisions.

Sociopsychological facets of ownership

Sociopsychological facets of ownership include culture-based beliefs regarding the social position and responsibilities of property owners, and psychological ownership, the degree of possessiveness individuals feel toward the firm. Cultural socialization is a particularly powerful influence on beliefs and practices within societies regarding ownership. These derive from social institutions, such as the forces facilitating or inhibiting firm ownership and the expectations these create (Pierce et al., 1991; Fukuyama, 1995). Cross-national differences in corporate governance, employment practices, and cultural norms provide numerous examples of the effects of social institutions on the cultural concept of ownership. In their aptly titled article "Nobody's grandfather was a merchant," Rajan and Graham (1991) describe how the absence of business experience in the living memory of Russians makes it difficult to perform effectively in both commercial negotiations and in developing well-understood norms and enforceable rules for investors, entrepreneurs, and managers. In another example, self management systems operating in Communist Yugoslavia led people to believe, even after the downfall of
Communism, that those who create value for firms, that is to say, workers, had the right (even exclusive right) to participate in ownership or distribution of assets (Schleifer & Vishny, 1997). In contrast, laws that protect the rights of investors combined with weaker laws protecting labor, have given rise in the United States to broad scale participation in financial markets (Rousseau, 2000). American institutions give a different meaning to ownership (i.e., its desirability and accessibility) than might be found in such countries as France or Mexico where ownership tends to be concentrated in family firms and workers have legally protected job property rights (Landes, 1969; Cadan, 2000; Diaz-Saenz & Witherspoon, 2000). To better understand the different meanings ownership can take, particularly cross-nationally, we examine three sociopsychological aspects of ownership, social standing, societal responsibilities, and psychological ownership.

**Social standing.** Being an owner or a worker can bring with it social standing and a social role. Consider the traditional status of business ownership in France. Social standing is a salient feature of French culture (Cadan, 2000). In effect, "every man has his place in society" (Landes, 1969; p. 28) and, in this context, a firm's survival is maintained and justified as correct performance of a social function. An essential characteristic of French businesses from 19th century to post World War II (Landes, 1969, p. 27) was the fusion of family interests and business strategy, where a firm's continued survival was seen as more important than its growth. The family firm's rationale was not expansion but security, a steady source of income to preserve family status, which could best be obtained through conservative business strategies. To that end, firms in France tended to follow a "live and let live" policy, preserving the social order.

The social standing of owners is to some extent associated with closed rather than open social hierarchies. In many industrial societies, there are real barriers to starting businesses. Government
regulation in France and Germany makes start-ups difficult. When bureaucratic and social barriers limit the number of workers who can become owners, we expect to see more stable social roles associated with worker and owner, low expectations of mobility between these roles, and social norms and mores that reify the distinction between the two (Landes, 1969).

Similarly, being a worker can constitute a distinct social standing from that of owner. An individual's status as a worker becomes a significant aspect of personal identity when reinforced by identification with the labor movement and unionism (Newton & Shore, 1992). Social status as a worker is related to occupational or professional identity, reinforced by a strong craft culture, credentialing, certification system (e.g., journeyman or master status) and interaction with one's occupational or professional community (Tolbert, 2000). Unionism also reinforces identification with the historical and societal position of labor. Defined as the degree of personal identification with unions and labor as a political cause (Gordon, Philpot, Burt, Thompson & Spiller, 1980), unionism is strongly tied to family background, in particular whether the person comes from a pro-union family. It has been associated traditionally with social distance between workers and managers and between workers and owners of capital (Landes, 1969).

Greater social mobility, particularly in movement from worker to owner, is supported by access to capital for new business start-ups and governmental policy and regulation supporting economic development. Cultural norms also influence mobility, particularly those regarding entrepreneurship, where organizational founders are society's heroes, and where people identify themselves with entrepreneurs ("if she can do it, why can't I?"). Ease of social mobility promotes greater "similar to me" thinking with regard to a society's entrepreneurs (McClelland, 1961). Such beliefs can be fostered in regions characterized by high frequency of new start-ups and familiarity with venture capital and
business-centric thinking. To some extent the rise of knowledge workers working independently as contractors might be an example of an integration of worker/owner roles. Interestingly, ownership and worker/professional status do intersect as in the case of physician entrepreneurs and other professionals in private practice (e.g., psychologists, dentists, other social service providers), where occupational and professional identity coincide with ownership models such as a proprietorship or partnership (e.g. Gaynor, & Gertler, 1995).

Social responsibility to the firm, its employees and the broader community, in certain societies, is associated with ownership as a social role. The social norms surrounding ownership vary across societies and indeed all owners need not adhere to prevailing norms. Nonetheless, ownership is a cultural construct as well as legal fact. Norms associated with ownership can influence beliefs about its accessibility and attractiveness, as well as perceptions regarding appropriate conduct associated with the role.

The concept of ownership as stewardship (Donaldson & Davis, 1991) reflects a sense of obligation on the part of owners to respect the interests of other parties from whom their advantages derive. In India, after Gandhi, business owners frequently accept the responsibility of stewardship, entailing an obligation to the broader society. It is not uncommon for the mission statement of Indian firms to commit the company to support social issues such as literacy or the education of young girls (Tijoriwala, 2000). N.R. Narayana Murthy, founder of Unisys, the software company, has committed his company to "compassionate capitalism, sharing wealth with workers and the underprivileged (Dugger, 1999). This compassion extends to the expansion of ownership as a means of social betterment:

"If we want to seed capitalism to the people, we have to practice a lifestyle that does not seem
unattainable...we want more and more people to become entrepreneurs. If the tea stall owner in a small village can say, 'Hey, these guys can do it; so can I," , and get his business into the next orbit, then our job is done." (N.R. Narayana Murthy quoted by Dugger, 1999).

A similar concept is promoted by Catholic commentators on modern firms (Tropman, 1995; Gates, 1996) where owners are encouraged to take worker needs into account in their decisions as well as to broaden the benefits of ownership, particularly property rights, that workers access. In France, owners have special social obligations toward their workers, and workers expect owners to obtain certain perquisites (e.g., new investors who would try to remove family business owners from powerful position can meet social opposition from the workers themselves). Social responsibility of owners is commonly associated with highly relational psychological contracts of employment (Rousseau & Schalk, 2000).

While esteem for owners creates greater incentive for people to aspire to the role, there is a paradox. A societal view of ownership as social responsibility often occurs in conjunction with societal barriers to mobility and pressure to offset inherent inequity (Cowherd & Levine, 1992) or to justify it based upon merit (Suppes, 1977).

**Psychological ownership.** Generally speaking, psychological ownership is defined as a "a cognitive state where an individual feels as though the target of ownership (or piece of that target)" is his/hers" (Dirk, Cummings, & Pierce, 1995). This state is a subjective experience and can mean that the possession becomes part of the extended self (Belk, 1988). Feelings of ownership can extend to almost anything including our reputation, our work, and other people (James, 1890; Dirk, Cummings & Pierce, 1995). Of course it also extends to organizations.

Psychological ownership is linked to financial ownership as well as sociopsychological
experiences (Pierce et al., 1991) and we conceptualize it as overlapping the two domains (see Figure 1). When the firm is the target, psychological ownership has been postulated to shape employee commitment to the organization as well as motivation to perform (Pierce et al., 1991). It can motivate a worker to monitor the work of others to stimulate their efforts, regardless of whether personal income is affected. Higher levels of psychological ownership among workers is linked to how philosophically committed a firm is to employee ownership. This commitment affects organizational practices and increases when multiple aspects of ownership (equity possession, participation, information sharing, etc.) are bundled together (Klein, 1987). Both the aspects of ownership involved and the reasons behind the adoption of ownership plans that involve workers appear to impact the perception of psychological ownership (Klein & Hall, 1988; Pierce et al, 1991).

Quasi-ownership: Substitutes for ownership. The psychological experience of ownership can occur without actual legal ownership. Our discussion of the facets of ownership suggests that the concept of ownership has a broader connotation than simply legal title. When access to marginal revenue is allocated to managers or workers without a corresponding equity stake in the company, it is construed as a sort of "quasi-ownership" (Hart, 1995). Although legal ownership of firms may be increasing, firms and workers may seek some of the benefits associated with ownership without actually creating legal claims. Typical "substitutes" for ownership include participation in decision making, profit sharing and shared information access. Though legal title might not exist, profit-sharing itself can create a sense of psychological ownership (Pierce et al., 1991). Participation also can occur without any particular ties to equity stakes (Heller, 1998) and can foster psychological ownership (Pierce, et al, 1991). In the case of Saturn Corporation, a division of General Motors, worker participation in production planning accompanies wide sharing of financial information across all organizational levels, a
set of practices referred to as "Ownership for all" (Bennett, 1999).

**Conclusion.** Sociopsychological aspects of ownership are shaped by societal culture, particularly through institutions influencing social mobility, such as the availability of capital, governmental support for or interference with new business start ups, and beliefs regarding the social roles of owners and workers. Activation of these sociopsychological facets of ownership is a function of the availability of ownership opportunities. The more restricted and concentrated the access to ownership is in a society, the more likely it is to perpetuate strong differences in the role of owners and workers. Psychological ownership can extend to workers where mechanisms promote worker commitment to the firm, including but not limited to financial participation. In the next section we will examine the factors that give rise to these expectations, particularly the role of the labor market and individual bargaining power.

**Ownership, power and the psychological contract**

Having described the facets of ownership, we now examine how a redistribution of the ownership is factoring into the employment relationship. The allocation of ownership from investors alone to include managers and more recently employees influences the terms of the employment agreement and concomitantly the psychological contracts of employees and employers. Our thesis is that ownership is increasingly subject to a bargaining process between employee and employer as a function of the nature of the employment relationship, the marketability of the worker, and the nature of the firm itself (e.g., start-up, knowledge-oriented). In this section we develop a series of postulates regarding why employee ownership stakes are increasing in firms, why investor/owners are motivated to share their stakes with workers, why workers might be motivated to access ownership stakes and
resultant impact of these factors on the employment relationship. Note that we will refer to "the worker" in our argument while stipulating that this can include managerial workers (Figure 2).

The meaning and value of a job is changing

Worker mobility through both job loss and voluntary career moves has become increasingly characteristic of the employment relationship in industrialized countries, a trend agreed to both by those who view it as an enduring shift in the labor market (Cappelli, 1999) and those who do not (Jacoby, 1999). Widespread abrogation of the practices associated with seniority systems is one primary consequence. Seniority-based practices make jobs more valuable to workers over time. As the US Supreme Court defines it, a 'seniority system' is a scheme that "allots to employees ever improving employment rights and benefits as their relative lengths of pertinent employment increase" (quoted in Gordon & Johnson, 1982; p. 256). Historically, seniority systems have motivated workers to contribute more than the present value of their compensation in anticipation of higher wages over time (Lazear, 1981). The movement away from the seniority system creates need for alternative means to motivate extra-contributions from workers over and above their current pay, particularly among newer firms and those seeking growth opportunities in highly competitive markets. Where highly skilled workers have the opportunities to create their own start up firms and become owners themselves, retaining and motivating them to produce high contributions is particularly challenging. One result of mobility among high skilled workers is a shift in the power balance between firm and worker (Arthur, Inkson & Pringle, 1999).

The issue comes down to this: How to create appropriate incentives for retention and productivity in turbulent environments when workers have attractive alternatives? To create worker willingness to give surplus value to the firm, one option is offer them a share of the profits (quasi-
ownership--reaping some of the benefits that owners have) or an equity stake (actual ownership). Profit sharing works where a firm has profits to share and can be realized in a relatively short-term (e.g., quarterly or annually, e.g., MacDonald, 1999). Such profits are not always available, particularly in start-ups. Companies with a higher variability of profits are most likely to implement both profit-sharing and employee stock ownership plans (Kruse, 1996). Where workers have attractive alternatives to continued employment, ownership in the form of equity or option packages provide a basis for increasing their attachment to the firm. Mobility and the presence of attractive alternatives to current employment increase worker power in the employment relationship and the likelihood of obtaining ownership rights in the firm.

1. At the individual level, workers who have power in negotiating the employment agreement are more likely to access ownership rights.

Firms that are comprised of large numbers of highly mobile workers face a need to institutionalize such ownership arrangements, rather than face the equity issues associated with one-on-one idiosyncratic employment agreements. In such cases we would expect widespread offering of ownership rights to employees in firms characterized by highly mobile workers. These ownership rights are likely to be offered to non-mobile workers as well as a means of avoiding inequity (see Gerhart & Milkovich, 1992) and fostering a collective sense of organizational identification (Figure 3).

2. At the level of the firm, the likelihood that workers access ownership rights increases with the proportion of highly mobile workers.

Collective ownership rights are expected to enhance both worker retention as well as productivity.

Why should owners be more willing to share control with workers? We have argued that in part they do so when the firm's success depends on highly mobile workers. But mobility alone is not
necessarily enough to warrant sharing ownership, if alternative incentives to stay can be created (e.g., retention bonuses). Owners, however, may be more willing to share ownership when ownership is for certain reasons less valuable. First, where residual control over assets declines in value because non-human assets constitute only a small portion of the business's value (e.g., professional services, knowledge work). Second, ownership can be less valuable if held by investors alone where significant competitive advantage is derived from complimentary assets. A firm's economic value increasingly encompasses intellectual, relational and human assets. For example, it resides in stable relations with clients, customers and workers: Good will brings repeat business (Reichhold, 1996; Fichman & Goodman, 1995) between a firm and its workers (greater flexibility in times of change; Leana & Rousseau, 2000), and among the workforce itself (ease of coordination, greater familiarity and shared learning; Goodman & Leyden, 1992; Goodman, 2000). In effect, such resources operate as complimentary assets. Complimentary assets are those which when held together create value. Such assets are typically believed to be best suited to common ownership (window and house, the lock and key, engine and chassis, clients names and their addresses). When significant portions of a firm's assets cannot be separated from its workers skills and collective work practices, broader distribution of ownership makes it possible to retain complementary assets and access their economic value.

3. The likelihood that workers access ownership rights increases with the economic value of their skills and knowledge to the firm.

The economic value gained by making workers with critical skills and knowledge owners derives form enhanced productivity which utilization of complimentary assets including organization-specific knowledge and enhanced coordination (Coff & Rousseau, 2000).

Greater number of start-ups and creation of an ownership culture
The attractiveness of ownership status to workers is a function of how accessible that status is and how valued are the returns that status is expected to bring. Broad access to ownership status in a society is affected by the ease with which new start-ups can occur. Societal mechanisms promoting entrepreneurship include absence of legal restrictions (or conversely the presence of legal support and governmental encouragement (Fukuyama, 1995), availability of capital (Schleifer & Vishy, 1997), and supportive cultural values such as need for achievement (McClelland, 1961) or wealth acquisition (Chambers, 1997). The rise of small start-up firms, especially in high tech areas offering options and equity stakes to attract talented workers is a result. In the United States, observers have described the emergence of an ownership culture, combining five practices (ESOPs, pay for performance, open-book management practices, and stock options, Chambers, 1997). Although possibly a "pop trend", this culture is manifest in such commitments founders make to workers that "your stake here is expanded beyond an employee's stake and likewise will be compensated as an owner when we reach where we are going" (Chambers, 1997). Start-ups founded with such messages provide strong initial conditions that are likely to be sustained into later phases of the firm's human resource strategy (Baron, Burton & Hannan, 1996; Hannan, Burton & Baron, 1996).

The cultures of high technology firms in particular appear to facilitate employee ownership. Stable careers in a single firm can be disadvantageous for high tech workers where a "too-long stay" in a single firm signalling lack of up-to-date skills and marketability ("dead wood"). Seniority systems are not likely to be effective, where long-term employment has strong disincentives. However, firms may seek to increase the survival time, if not long-term retention of workers to reap the productivity gains that come from even moderate degrees of stability. A firm seeking to remain competitive in such a labor market might attempt to increase the duration of its employees' tenure, not necessarily for the entire
career, but for a middle range interval, through use of stock options vesting after a pre-set time on job. Doing so can make their present job more valuable to workers for some period time.

A striking consequence of the ease of start-up in some industries and the concomitant mobility of highly skilled workers on whom firms depend is the pressure to sell a relatively new business to outside investors before workers leave to start their own businesses (Shperling, 1999). Giving employee options substitutes for the economic value they would gain in starting their own businesses, as well as potentially providing the basis for investment capital if they elect a new business start up.

4. Employers in start-ups are more likely to grant workers stock ownership and options where those workers have greater opportunity to form their own start-ups, but are less likely to do so where workers have less opportunity to form start-ups.

Where start ups are easier to form and knowledge workers and their collective resources constitute the firm's assets, it is increasingly likely that ownership will largely reside with those workers. Why workers typically have not banded together and rent the physical resources they need to form a business, as opposed to investors hiring workers to start a business for them is an interesting question. The fact is of course that in some professions such a medicine and other personal services (architects, accountants) people do just that. With the rise of knowledge-based industries, such a practice appears to be increasingly likely. Knowledge workers building collective resources together form a basis for a firm whose ownership structure reduces the distinction between workers and owners.

Erosion of trust in the long-term.

We have made a case for why owners should be willing to share their stakes with workers. Now the issue is: Why workers should be willing to accept risk and to participate as owners? Trust, particularly lack of it, plays an important role in the expansion of ownership status. Trust promotes the
capacity to contract between worker and firm. However, varying degrees of trust are expected to give rise to different kinds of employment arrangements. The greater the trust, the more likely it is that the agreement will be longer-term and involve implicit features difficult to enforce outside the dynamics of the particular relationship, (Rousseau, 1995). The lower the trust, the more likely it is that the agreement will be highly explicit, particularly with regard to performance conditions and financial terms (Rousseau, 1995; Rousseau & Tijoriwala, 1999).

Particular employers may no longer be trusted to adhere to commitments regarding the future. Market volatility and a previous history of layoffs mean that many firms have difficulties in making credible commitments to workers regarding the future. Erosion of the seniority system means that workers demand compensation today rather than deferring it over the long-term under the assumption of continued employment (and the upward sloping wage curve seniority brings). Dynamic markets give rise not only to contingent pay but contingent work and workers, with greater flexibility in joining and hiring, quitting and firing. Looser attachments between firms and workers have changed the contributions each expects of the other (e.g., Cappelli, 1999; Levesque & Rousseau, 1999). Undercapitalized firms or those facing volatile markets are reluctant to promise seniority benefits to workers who themselves are dubious about the value of such promises. However, stock ownership and option agreements provide a legally enforceable contract that the employment relationship often otherwise lacks.

Trust on the part of employees appears to largely be based upon the extent to which the firm (or its agents, executives, managers, and supervisors) have the worker's interests at heart as indicated by past behaviors and reputation. In contrast, trust of employees by employers is often tied to the level of competence workers are believed to have (Mayer, Davis & Schoorman, 1995). Thus, we would
expect that the role of trust in shaping whether the employment agreement includes aspects of ownership depends on whose vantage point is considered.

5. Trust in employer will be negatively related to worker demands for ownership.

6. Trust in employees will be positively related to employer offers of equity stakes.

Availability of information regarding the firm can form a basis for trust in the employment relationship, particularly as a means for justifying changes in the employment relationship (Rousseau, 1995, 1996). Extending access of firm to financial data from senior managers to lower level workers is a tactic for promoting greater worker trust in management (Case, 1995). Since information and residual control can be separated, we expect that wider dispersion of financial information in the firm can enhances worker trust in the employer, independent of equity participation in the firm. However, the impact of available information is expected to be moderated by business literacy and broader competence of the workforce to interpret financial data (Case, 1996).

7. Financial information made available to workers increases their trust in their employer, and this trust is greater where worker financial competence is high than where it is low.

Worker ownership, like many other human resource practices, works best when bundled with supporting practices (MacDuffie, 1995; Ichinowski, Kochan, Levine, Olson & Strauss, 1996), such as shared financial information. Unfortunately, studies examining employee equity stakes, information sharing, and participation in decision making, and their impact on the organization have included one aspect of ownership but not others. This is problematic since there is reason to believe that these facets interact with each other. Brown, Fakhfakh and Sessions (1999) observe that share ownership by itself reduced absenteeism by 14%, while it plus profit sharing reduced absence by 11% and profit sharing alone reduced absence by 7%. Ownership seem more powerful than profit sharing in reducing absence,
best if introduced first and other second. Coherent combinations of practices reinforce a consistent message regarding organizational goals, values, and the quality of the employment relationship. The effect of bundling worker ownership with supporting practices is expected to be enhanced trust and greater productivity.

8. Worker ownership will increase productivity where financial information is available to workers, where their financial competence is high, and where trust is high. Worker ownership will have little effect on productivity where financial information is not available, where worker financial competence is low, and where trust is low.

Societal legitimacy of workers as owners

The legal and cultural supports for workers to access ownership in the firms vary significantly across nations (e.g. Landes, 1969; Fukuyama, 1995; Business Wire, 1999). A host of societal forces can undermine the legitimacy of worker ownership, including though not limited to regulations constraining business start-ups, weak property rights or enforcement of corporate governance arrangements, and closed social ladders where business leaders with strong ties to government (cronyism) constrain competition. We postulate:

9. Societal legitimacy of worker ownership is positively related to worker motivation to seek ownership opportunities in firms.

Negotiating a mutually understood employment agreement

Related to the formation of trust and coherence is the emergence of a shared understanding regarding the psychological contract underlying the employment relationship. We have argued that shifting distribution in the facets of ownership creates new forms of employment relations. In our opinion, this signals a change in the nature of the assumptions workers and employers are making.
Commentators have noted widespread shift in employment assumptions, particularly pertaining to increases in trust, shared control, and interdependence in the industrialized world over the past 150 years (Miles & Creed, 1995). We have noted that the redistribution of ownership has been uneven, with employers preferring to share ownership with some workers and not others. However, the basic assumptions regarding the employment relationship, where competitive advantage is closely tied to the assets embedded in human beings and collectively shared may be different.

Traditional thinking regarding the employment arrangement is reflected in economics. Economists make the fundamental assumption that both managers and workers are inclined to shirk (to deliberately violate the terms of their employment agreement) unless sanctions are in place (including threatened loss of valued incentives; Alchian & Demsetz, 1972). A psychological perspective on the employment relationship operates from a very different set of premises. It recognizes that another factor can also be behind the failure to fulfill the terms of the employment agreement, a lack of shared understanding regarding its actual terms. Lack of shared understanding is particularly likely where changes (environmental as well as personal) can give rise to the need to re-interpret as well as renegotiate the agreement (Rousseau, 1995).

A psychological view suggests based upon empirical evidence that people typically are motivated to keep their commitments, as they understand them (Rousseau, 1995). In effect, a good deal of behavior that economists read as "shirking" is viewed as incomplete or miscommunication and misunderstanding by organizational researchers. At issue is how congruent are the parties’ understandings. Rather than focus primarily on how to create sufficient sanctions to keep people from breaking agreements, a psychological perspective suggests that there is value in increasing the potential of the parties to achieve common understandings and, when needed, to renegotiate these to mutually
acceptable conditions.

Congruence of beliefs in the terms of the employment agreement is critical to actual performance to expectations. To maintain this congruence over time, a basis for on-going communication and re-negotiation in the face of change is needed. The distribution of facets of ownership provides a basis for such a process.

10. Sharing equity stakes will increase the degree of agreement between employers and workers regarding the terms of the employment contract, that is to say, their psychological contract with the other will be more congruent, than where ownership is not shared.

11. Shared financial information will increase the degree of agreement between employers and workers regarding the terms of the employment contract, that is to say, their psychological contract with the other will be more congruent, than where financial information is not shared.

Consistent with the bundling argument presented above, combining several aspects of financial ownership is likely to give rise to coherent messages and mutual understandings regarding the employment agreement.

12. Coupling equity stakes with shared financial information will enhance the degree of agreement between employers and workers regarding the terms of the employment agreement over and above the effects of either facet of ownership alone.

13. Coupling equity stakes with shared financial information and participation in decision making will enhance the degree of agreement between employers and workers regarding the terms of the employment agreement over and above the effects of either facet of ownership alone.
Implications. Successful start-ups and enhanced firm growth require workers to generate value for the firm at a level greater than their current compensation. Why should workers invest more in the firm than they are paid to do? The traditional answer to this question has been the upward sloping wage curve of a seniority based incentive system. As turbulent environments and changing expectations regarding employment lead to shorter tenure with firms, seniority-based pay no longer adequately answers this question. Reallocation of ownership rights is an alternative, particularly among highly skilled, highly mobile workers. Employers prefer to share ownership rights with certain workers over others, based on the worker's (perceived) competence, marketability, and potential for starting up his or her own firm. Moreover, workers are expected to increasingly demand ownership in the context of employment. Bundling ownership rights with financial information, participation in decision making and other supporting practices can enhance the productivity through creating employment relationships based upon high trust and shared psychological contracts between employer and worker.

A Look to the Future

Pressures to expand employee ownership, particularly among highly mobile, skilled workers with employment opportunities derive largely from the resource dependence high technology and knowledge-oriented firms have in relation to their workforces (Ingram & Simon, 1994). Whether this trend in high technology and knowledge-oriented firms spills over into other sectors is largely dependent upon how legitimate worker ownership is in the broader society (consistent with trends previously observed for other innovations such as flextime, Ingram & Simon, 1994). We predict that those firms expanding ownership to their workers are “early adopters” of an innovation in employment that has significant potential for changing the relations among owners, managers, and workers in the future.
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Figure 1: Composition Model of Ownership

Financial Ownership
Access to residual control
Profit sharing
Access to information
Participation in decision making

Psychological Ownership
Legitimacy
Social construction of ownership (meaning)
  • responsibility
  • standing/status
Socio psychological Facets
Figure 2: Societal, Worker and Employer Factors in the Allocation of Ownership

ER = Employer
EE = Employee
Figure 3: Firm Level Effects

Firm Level

- Shared

Motivation to Share

Concern for

% Mobile Workers