

To Own is to Control: Democracy and Ownership

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Abstract: The idea that ownership implies the right to control one's property is firmly embedded in the American ethos. This idea, however, does not appear to apply when employees own the companies they work for. This paper will explore theories of property and ownership to show that rights of control should, in fact, be extended to employees. While the Lockean labor theory of property is shown, ironically, to provide weak support for the right of control, two other theories, David Ellerman's theory of responsibility and a theory of ownership as a form of sovereignty, are shown to provide stronger support. The latter of these then points directly toward rights to democratic control. Democracy, however, is a coat of many colors, and some of its dimensions are explored to provide a sense of the diversity of form it can take. Finally, the dynamic factors of size and inequality within an enterprise will be examined to consider how they interact with democratic practices.

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As John Logue and Jacquelyn Yates write in *The Real World of Employee Ownership*, “Ownership of property and the right to make decisions about its use go hand in hand in American economic thought” (72). Another central component of American thought is that, where a group of people has a shared interest, decisions about that interest should be made in a democratic manner. In the economic realm, owners of a publicly-traded company exercise democratic rights to control by electing a board of directors, a delegation of control similar to electing legislative representatives. However, even this limited form of democracy is generally disregarded when it comes to employee owners.¹ Indeed, only 25% of majority employee-owned companies allow employees to vote in board elections; this number drops to 17% when all companies are included (NCEO 2011).²

Employees, it may be thought, are a special case when it comes to the right to control the object they own. If anything, they may be expected to gain even more rights to be involved in decision-making than outside owners. In fact, employee involvement in decision-making has consistently been shown to have a significant positive effect on the financial performance of the enterprise (see, e.g., Logue and Yates 2001; 2009: 22). However, research shows that employees in employee-owned companies have meaningful opportunities to participate in decision-making less

¹ This paper is primarily concerned with two specific forms of employee ownership, Employee Stock Ownership Plans (ESOPs) and cooperatives. There are other forms of ownership, but these are the ones in which the connection between ownership and control seems most clear. Much of the discussion will be focused on ESOPs, because, with few exceptions, worker-owned cooperatives are already highly democratic workplaces.

² This only includes privately-held companies, which are not required to pass through voting rights. According to the NCEO report cited above, 95% of ESOPs are privately held. The same report indicates that about 30% of ESOPs are majority or 100% owned by the employees.

than half the time (Kruse et al. 2010: 51–2).³

Logue and Yates point out that the notion of employees participating in the management of the firm runs up against a strong tradition of top-down, hierarchical management in American business. In large, publicly held firms with widely dispersed ownership, hired managers may even exercise governance functions, as long as the owners get a good return, giving managers complete control of the company. Employee ownership, however, inverts the pyramid, which is “bound to pose a philosophical challenge to traditional ways of thinking about ownership and management” (Logue and Yates 2001: 74). Thus, regardless of data that shows long-term benefits of employee involvement, the implementation of meaningful measures of democratic control by employees faces an uphill battle.

It should be noted at the outset that various forms of “input” and “participation” do seem to be widely spread in ESOPs, although it is not entirely clear that this is a result of the ownership structure as opposed to the adoption of management techniques generally recognized as valuable for increasing productivity (Logue and Yates 2009: 12). However, there is a significant difference between “input” and “participation” on the one hand, and formal democratic procedures—let alone actual democratic control—on the other. Types of input or participation such as the suggestion box, that can simply be ignored by management, fall well short of control. This is not a function of impact, since clearly a single suggestion by a single worker could, if adopted, have very significant impact. Rather, it is a matter of workers having a sense of authority, at least within a given domain, and the ability to wield it.

The two concepts at the center of this paper, ownership and democracy, are both enormous in terms of their scope and complexity. A thorough discussion of either one requires a book-length

³ As will be discussed below, however, in many cases what counts as “participation” is less than meaningful, democratic participation.

work, so this paper will do no more than provide a sense of the main contours of each. The main interest is in the interaction between ownership and democracy. Ownership is explored first, mostly in the guise of property theory, but in a curious way the discussion returns to ownership in a way that makes use of the distinction between property and ownership. The following section explores various dimensions of democracy in order to provide a sense of the diversity of form democratic practices can take. The last section discusses two particular dynamics of organizations, size and inequality, to consider the implications these may have for democratic practices. The demands of democracy may seem to be demanding, but the pay-off, in terms of better company performance and a better place to work, seems clear.

Ownership and Control

The idea of ownership is extremely common. Indeed, with its cognates “to have” and the various ways of expressing possession, it may be said to permeate our language: I “have” an idea, I put on “my” socks, and so on. Closely associated with ownership, as its object, is the notion of property. The “thing” that I own, that I say is “mine,” is my property. But while property is the object of ownership, it does not describe the thing that is owned. Rather, it describes a kind of relationship between the thing and particular people, or more exactly between people with regard to that thing (Ackerman 1977: 26). The terms “ownership” and “property” clearly refer to different things—one is a condition that pertains to the other—but because they are intrinsically connected the terms are often used interchangeably. Indeed, it could be said that property theory really is *ownership* theory, although it generally goes by the former name.

For the purposes of this paper, two fundamental problems or questions of ownership can be identified. First is the question of justification: On what basis may I say that something is mine? The second question is that of the rights and responsibilities that may be associated with owning something. For both of these questions the general consensus is that, in the Western world, at least,

the foundations were laid by John Locke, mostly in his *Second Treatise on Government*. In considering the nature of ownership, then, Locke's theory is a good place to start.

Locke I: Labor theory of property

Locke's starting point for his theory of property is the need for subsistence: that "Men, being once born, have a right to their Preservation, and consequently [to the things] Nature affords for their Subsistence" (Locke 1988). However, in order to use objects for our preservation, we must acquire them first—that is, we must make them our property. The way we do this is by applying labor to them, because labor is an extension or application of the "property" each person has in his or her "own Person" (ibid.: II. §27). Because Locke considers "property in the person" to be a natural condition, property rights are considered natural rights. Locke's theory is often referred to as the "labor theory of property," and it remains the fundamental premise of property rights.

The labor theory of property is not, however, without its problems. For example, Locke, a physician and philosopher, undoubtedly did not supply the labor for house he lived in, the carriage he rode in, or even the clothes on his back, yet we may assume that he considered all of these things his "own." The easy answer to this is that he merely exchanged some of his labor—or the representation of labor value stored in the form of money—for the labor of the persons who made the goods he then considered his own. This can be understood as the basis for wage labor, as the owner of labor power (the worker) exchanges a given amount of labor in return for wages, and the wage-payer receives the produce of that labor in exchange for the wages paid. The worker, in other words, alienates his or her labor to the wage-payer in return for money which he or she then uses to acquire their subsistence.

An advantage of employee ownership, then, is that it avoids the alienation of labor. This is particularly true where employees are the sole owners, they may enjoy the full produce, or benefit, of their labor directly, both in wages and in any increase in the value of the enterprise. In a worker-

owned company, then, the answer to the question of justification is clear: They own the produce of their labor, and they own it directly. To say that they own some property does not, however, reveal much about the relationship of the owners to their property. For this we need to consider the rights and responsibilities of ownership, as it is through these that we can best understand what it means to own something.

Locke defines property as such a thing “that *without a Man’s own consent it cannot be taken from him*” (Locke, 1988: II. §193; see also II. §140, where Locke refers to the “Fundamental Law of Property”). Within the context of an ESOP, the condition of consent is met insofar as the law requires a vote by employee shareholders in the case of any decision to sell the company. However, it would be difficult to develop much of an “ownership culture” if all that it comes to is a matter of managers seeking to convince employees that they won’t sell it out from under them without at least giving them the opportunity to have their say. So, clearly, there must be more to ownership than the prohibition against alienation without consent.

One of Locke’s essential points is that the reason for claiming ownership is to be able to enjoy the benefits from the use of it (Locke, 1988: II. Ch V). The ability to enjoy those benefits means that the owner of property must be able to dispose of it (i.e., use it) in the manner he or she chooses.⁴ In other words, fundamental to ownership is the right to control its use. The question of what constitutes control, the limits of that control, and the responsibilities that may be associated with the right to control what one owns, are all questions that are central to contemporary property theory.

Most contemporary theories are, essentially, refinements of Locke’s theory of property as

⁴ It should be noted that Locke identifies specific limitations on property use and accumulation—that others should have left to them “enough, and as good,” and that no one should take so much as to allow it to spoil or go to waste (Locke, 1988: II. §27, 31), although, as Macpherson argues, he then identifies the rise of the money economy as the means by which those limitations may be breached (Macpherson 1962). Locke also argues that those who have plenty have a duty to charity for those who suffer from deprivation (ibid.: I. §42).

natural rights. These take as their starting point the idea that property is a “bundle of rights” (e.g., Pennock 1980: 172). Becker identifies 4,080 possible bundles (Becker 1980: 192) based on a collection of 13 categories. The idea of a “bundle” means that these rights may be severable, and it means that someone may be identified as the owner of some property but for one reason or another not be able to exercise all of the rights associated with that property. So, for example, the owner of a piece of land may lease it to someone to build a factory, but have only limited control over what the factory owner does (for example, a contract may limit the factory owner to certain kinds of activities or, more likely, forbid certain activities). The factory owner might build a factory on the leased land but then lease out the factory itself to an enterprise that actually carries out the operations. The ownership of that enterprise might be distributed among any number of persons, some of whom may not even be aware that they are part owners (especially if their ownership stake is in the form of stock held through a mutual fund).

The bundle of rights theory also means that there may be many different ways of assigning both the rights and responsibilities associated with ownership—that is, many different types of property regimes. Within the context of employee ownership, this poses difficulties for those who argue for extensive rights of control by employees, because it becomes easier for those who are for whatever reason opposed to the extension of those rights to point out that the employees are owners even if their rights are restricted to the minimum required by law. In effect, it means that advocates of greater worker control must resort to arguments based on either principle or performance or both to argue that the employees’ bundle should be larger rather than smaller.⁵

⁵ The degree to which this is a problem is directly related to the extensiveness of employee ownership and the type. Stock options and other forms of equity sharing can be expected to involve very limited ownership rights. ESOPs can be expected to involve more substantial rights and opportunities to exercise control, especially as the portion owned by the employees increases, and worker control should be entire in 100% employee-owned ESOPs (although it may not always be so). It may be assumed that worker cooperatives do not have issues related to the extent of worker control since the cooperative model is based entirely on member control of the enterprise.

Ellerman: Responsibility for produce

David Ellerman (1992, 2004) rightly points out that the factory scenario above leads to significant questions about what “ownership” really means, particularly with respect to responsibility for outcomes. He argues that property rights are connected to an assumption of responsibility, which must have a specific referent in order to make sense:

“[T]he notion of ‘responsibility’ . . . allows the initiation and termination of commodities . . . to be imputed or assigned to persons or parties [artificial ‘persons’]. With that account of the initiation and termination of property rights, the notion of ‘consent’ governs the transfers of these assigned commodities between parties . . . providing . . . a normative theory of property” (Ellerman 2004: 12).

In other words, ownership isn’t really about the right to benefit from the use of some object, but about the assignment of responsibility for the consequences that arise from the use of that object. While some of these consequences may be negative—for example, waste or pollution—really what is important here are the positive consequences in terms of commodities for exchange and net revenues that are produced through that exchange. In other words, the point isn’t about the *right* to benefit, but rather the *responsibility* for those benefits, as well as the costs involved.

Locke II: Ownership as sovereignty

Ellerman’s theory is beneficial in part because it represents movement away from a theory of *property* and more solidly toward a theory of *ownership*. Yet another way of understanding ownership, which can be understood through Locke’s theory (although he does not express it in these terms), is as a kind of sovereignty in which the owner is sovereign with regard to their property. The concept of sovereignty is generally understood as *rule*, but in a sense the concept works well with regard to property, especially to the enterprise, to the extent that “rule” is understood as authority. In an enterprise, the owner can be understood as sovereign insofar as he or she exercises authority within the domain of the company. A corporation can easily be understood by analogy as a kind of state, with its “borders” defined by certain contractual

relationships that delineate the limits of the owner's authority.⁶ As Dahl puts it, "Like a state, then, a firm can also be viewed as a political system in which relations of power exist between governments and the governed" (Dahl 1985: 115).

Just as Locke argues that the people agree to a social contract in order to enjoy the benefits that derive from the establishment of formal political institutions, people can be said to enter into an "ownership contract" in order to enjoy the benefits that derive from a particular economic enterprise. Locke's discussion of the fiduciary function of rule (Locke 1988: II. 149) most clearly aligns his theory of government with a theory of property. Just as, in Locke's argument, the executive and legislature must rule in the interests of the people, the executive and the board of directors of a corporation must rule in the interests of the owners of the corporation—in fact, this is known as their "fiduciary responsibility."⁷

The ruler, in Locke's theory, effectively serves the interests of the people, in a sense guiding the ship of state for their benefit. The ruler is, as Locke puts it, subordinate to the people, so the people are truly sovereign, as their interests ultimately guide the ruler, and the ruler is accountable to the people (and only the people).⁸ A distinction must be made, then, between sovereignty and the exercise of sovereign *power*, for while the people may retain their sovereignty, it is the ruler who exercises the sovereign power. So it is in the corporation, where the executive exercises "rule" in

⁶ It must be understood that the argument being made here is by analogy, and the analogy is not perfect. In particular, where sovereignty is defined as a condition where one rules but is not in turn ruled, it cannot apply to ownership, which, as a legal condition, is always subject to legal constraints. [This reveals that the theory of ownership as sovereignty needs more work.]

⁷ In an ESOP the trustee is considered to have fiduciary responsibility to participants in the plan. In this sense the trustee may be understood as the plan's "ruler," but decision-making with respect to the *plan* is quite different from decision-making with respect to the *company*. The distinction becomes somewhat cloudy in 100% employee-owned ESOPs, however that is not a subject we may take up here.

⁸ For Locke the monarch is subordinate to the legislature, which is subordinate to the public. In my discussion here I simply refer to "ruler" in the singular, which could be understood as the legislature collectively (like a corporate board of directors) or a singular ruler like the monarch. The distinction is not important, but I wanted to assure the reader that I am aware of the distinction.

the interests of the owners, and is accountable to the owners (and only the owners). This is the case whether the owners are employees, non-employees, or both.

Of these three theories of ownership—Locke’s labor theory of property, Ellerman’s theory based on responsibility, and the theory of ownership as a kind of sovereignty—the latter two offer a clearer basis than does the labor theory of property for greater rights to control an enterprise by employee owners. The problem with the labor theory of property is that it only really works in the simplest of cases, where there is a single person claiming ownership. Ellerman’s theory and the theory of ownership as sovereignty are more amenable to distributed ownership, and, in employee-owned enterprises, for employee control.⁹ The question then is the means by which that control may be exercised. This, then, is the point at which we may turn to questions of democratic practices.

Dimensions of Democracy

Just as Logue and Yates point out the connection between ownership and control in the American ethos, Robert Dahl has pointed out a persistent tension in American thought between property and democracy (Dahl 1985: 2). The essential basis of this conflict is that property is understood as a consequence of the exercise of liberty, which is an expression of individual autonomy, while democracy is a social practice that, in theory at least, is an expression of the will of the people as a whole (or, at least, of the majority). From one side, democracy appears to threaten autonomy and property by seeking to impose limits on liberty and control the use of property. From the other perspective, democracy, which rests on a basic premise of fundamental equality, is threatened by property, which establishes inequality. Dahl argues that the conflict is more rhetorical than actual, and is dressed “in the recut garments of an out-moded ideology in which

⁹ If combined with the latter two, the labor theory of ownership could provide a strong basis for an argument for employee ownership. However, I will leave that discussion for another paper.

private ownership was justified on the ground that a wide diffusion of property would support political equality” (Dahl 1985: 68–9, 73).¹⁰

One important point that often seems to get lost in discussions of enterprise democracy is the diversity of forms that it can take. It doesn’t take much, however, to realize that “democracy” is one of those common terms that people often have strong ideas about but that evades easy definition. In fact, Gallie includes it as among a set of what he calls “essentially contested concepts,” which includes those ideas about which there exist fundamental differences in interpretation such that different versions cannot be reconciled with one another (Gallie 1955-1956). The term itself comes from the Greek as a conjunction of “demos,” or people, and “kratos,” or rule. In other words, in a democratic system, the people rule. As Held points out, there are many different ways of interpreting both the term “people” and the term “rule” (Held 1996: 2–3). The purpose of this section is to identify some of the elements that may be taken into account when considering any kind of democratic system.

A number of different dimensions can be identified. In his work *Models of Democracy*, Held identifies no fewer than 12 different models (although some are variants of other models), which serves to demonstrate the diversity of perspectives.¹¹ Not all of these various dimensions are relevant to the discussion here, so I will limit our consideration to those that have a direct bearing on a consideration of the kinds of democratic practices that are most likely to arise in democratic enterprises. These include questions of form (representative, direct or assembly), function (governance or operational), purpose (directive or advisory) and institutionalization (formal or

¹⁰ At the same time he acknowledges that “If property is distributed in a highly unequal fashion, a conflict will tend to arise between democracy and property rights” (Dahl 1985: 101). He expands on this further in a later work (Dahl 1998: Ch 14).

¹¹ He also acknowledges excluding some additional models that he sees as theoretically valuable, such as anarchism, although he doesn’t explain his reasoning for including some but excluding others (Held 1996: 7).

informal).

In addition, it should be noted that, while regimes of rule are often referred to as either democratic or non-democratic, in fact it is more appropriate to understand democracy as a scalar entity, so that a system may be described (based on both system design features as well as actual practice) as either more or less democratic as opposed to either democratic or not—which is not to deny that some regimes really aren't democratic at all. Finally, any particular institution (for example, an enterprise) can include a number of different forms and levels of democratic practices without encountering contradiction or conflict. Indeed, I would suggest that, particularly in large organizations, this is the norm: Consider a traditionally capitalized corporation that includes formal representative democracy at the level of its governance insofar as shareholders elect the board of directors; formal assembly democracy at the management level where top management meets periodically to make decisions on a consensus basis; advisory assembly democracy at the level of middle management as top managers meet with middle management to get input; and while the lowest level employees are “ruled” autocratically in terms of their relations with management, they engage in democratic practices informally by collaborating with one another in ad-hoc decision-making.¹² In order to consider how democratic practices might contribute to an ownership culture in an employee-owned firm, further exploration of these various dimensions of democracy is necessary.

Form: Assembly, representative, and direct democracy

Robert Dahl, in his work *On Democracy*, distinguishes between assembly and representative democracy (Dahl 1998: 103–13). The difference is fairly obvious: In assembly democracy, all eligible

¹² For reasons that will be discussed below it would be a great stretch to refer to such an enterprise as democratic in anything but a very limited sense, but the point is to recognize that elements of democratic practices can exist even within traditionally capitalized firms. Indeed, it is on the basis of the presence of these kinds of practices that Verba, Scholzman and Brady explain higher levels of political engagement by people who are in managerial positions where they work (Verba et al. 1995).

members¹³ of the association¹⁴ gather together to discuss issues and make decisions. This means that the members are not only sovereign, but they exercise their sovereign power directly. In a representative system, members' exercise of their sovereign power is limited to the act of electing (or recalling) representatives; their representatives then exercise sovereign power as fiduciaries.

Assembly democracy and direct democracy are often conflated, but are not, in fact, the same thing, as direct democracy can be exercised in ways that don't require assemblies.¹⁵ For example, a ballot initiative that establishes or repeals a law is an exercise in direct democracy from which assemblies are conspicuously absent. So, since direct democracy can be clearly differentiated from both assembly and representative democracy, it seems to represent a third form.

Although some criticize the representative model as insufficiently "democratic" [could use some citations here], this is not necessarily the case. Ideally democracy would involve the highest possible level of participation by the greatest number of people exercising power directly, so assembly democracy would, on its face, seem more democratic. In practice, of course, none of these models lives up to the ideal. But what this means is that, practically speaking, there is no reason why any of these three forms of democracy would necessarily be considered any less democratic.

Function: Governance and management

With few exceptions, any association will distinguish between two basic levels or domains of decision-making: Governance and management. Within the context of a state, governance

¹³ The point about all "eligible" members is an important one, because democratic theorists tend to challenge the democratic legitimacy of associations in which large portions of the members are not able to participate. [need citations here]

¹⁴ I follow here Dahl's use of "association" to reflect the various types of associations that may be governed in a democratic fashion, whether they be nations, businesses, or community groups.

¹⁵ Actually, representative democracy can at least in theory involve assemblies (by which I mean not just the assembling of representatives, but public assemblies), in which the representatives act in a public forum in which members are allowed to participate in deliberation, but only the representatives actually vote.

applies primarily to the legislative function, which determines policies and sets rules, and operations applies to the executive function, which carries out the directives determined by the legislative branch. Within an enterprise, the legislative function is fulfilled by the board of directors, and the CEO is in charge of operations.¹⁶ There is no particular reason why a system that incorporates democratic practices at one level must also implement them at the other, or why an association must include both to be considered democratic, although an association that includes democratic practices at both levels will generally be considered more democratic than one that has them only at one.¹⁷

Both governance and management are obviously important to the success of a firm, but it is worth considering whether it is more important for the development of an ownership culture to organize one or the other along democratic lines. On the one hand, it is at the managerial level that most employees encounter decision-making, and it is at this level that their input would have more day-to-day impact on their work. To the extent that one of the principal justifications for democracy is that people should be able to take part in decisions that affect their lives, it would seem that managerial decision-making has a stronger claim to importance. At the level of operations, rather than governance, democratic practices are more likely to be a regular part of people's work-life, and it is more likely to have a significant impact on their relations with other people in the workplace. Democratic management is also more amenable to the assembly form, even within a large enterprise, as decision-making can be broken down into discrete units so it can take place at, for example, the workgroup level. Democratic governance, especially in large firms, is more likely to seem remote, and employee apathy may arise as a serious concern, making managerial democracy

¹⁶ An exception would be in a small enterprise that is entirely managed by a single person—in which case it bears at least some resemblance to an absolute monarchy.

¹⁷ What may be obvious but should nonetheless be noted is that an enterprise with weak democratic practices at both levels may be considered lower in the scale of democraticness than one with very strong practices but only at one level.

a more attractive choice for those seeking to implement democratic practices. Democratic management can also more easily be implemented gradually, with greater experimentation as to form and structure.

Managerial democracy within a traditional system of governance can be seen as tenuous, however, existing only at the mercy of top managers or the board of directors. Decisions at the operational level that might be seen as questioning or undermining the authority of corporate management may be considered a threat and either overridden; in extreme cases, employees may find their democratic practices taken away from them.¹⁸ As Dow notes, democratic decision-making only at the operational level “can always be revoked,” even if employees do exercise de facto control because the cost of such revocation may be costly in the short term. Therefore, what matters is the ultimate authority, that which “cannot be revoked by anyone else” (Dow 2003: 6).

Strong arguments can also be made in favor of democratic governance. Indeed, it is here that the functions of ownership are most clearly performed. To return to Locke’s discussion of sovereignty, he refers to the legislature, not the executive, as the “Supream Power” (II. §149). This is because the legislature sets the rules that the executive must follow. The argument for democratic governance within a employee-owned enterprise, then, is fairly simple, familiar, and direct: In any traditional corporation, shareholders elect the board of directors, who are beholden to the people who elect them. If employees are the shareholders, employees should elect the board of directors. In companies in which they are not 100% owners, they should have a collective right to elect board members in proportion to their share of ownership. Arguments against democratic governance call into question the efficacy of democratic practices and the ability of employees to be masters of their own fate. The best response to this is Dahl’s statement, “If democracy is justified in governing the

¹⁸ I experienced this myself, in my very first job out of high school: The unit I worked for, in a non-profit organization, made some decisions the management didn’t approve of, and found its system of democratic management dismantled and traditional “rule” imposed.

state, then it must *also* be justified in governing economic enterprises; and to say that it is *not* justified in governing economic enterprises is to imply that it is not justified in governing the state” (Dahl 1985: 111).

The specific form that democratic governance takes may largely depend on the size of the enterprise, and assembly, representative and direct methods can all be used together. In small enterprises of, for example, a couple dozen employees, governance could easily be conducted through periodic assemblies, say monthly or quarterly, perhaps with an elected or randomly chosen “steering council” or board of directors that meets more frequently. Mid-sized companies of a couple of hundred employees might have annual assemblies—much like major corporations have annual stockholder meetings—and an elected board of directors. Even large corporations with an elected board of directors could perform some functions through ballot, thereby implementing a measure of direct democracy.

ESOPs provide a further area in which democratic practices may be implemented, because they are required to engage a trustee to oversee the plan itself. The administration of the plan, then, is something different from either governance or operations. Trustees may be corporate officers or independent, and may be directed by the board of directors. In some ESOPs the company forms an ESOP administration committee to advise and evaluate the trustee. Members of the administration committee may be appointed by management, elected by employees, or a combination of the two. However, according to Corey Rosen of the National Center for Employee Ownership, it is “rare” for members to be elected by employees (Rosen 2011). Because the trustee is responsible for administering the very medium through which employees hold ownership of their company, that they have no means by which to hold the trustee accountable seems remarkable.

Purpose: Advisory or directive

In discussions of ownership culture and the role of employees in decision-making, some authors discuss what they call employee “participation,” which includes a variety of practices ranging from the provision of a “suggestion box” to formal decision-making. It is not difficult to recognize that these are fundamentally different kinds of participation. The use of a suggestion box is clearly advisory, as it is only meant as a guide to some other party that, in fact, makes the final decision. Formal decision-making, in contrast, is directive in that decisions made are binding, or direct action in a particular way. A distinction can be made, then, between input, which is advisory, and decision-making, which is directive.

It is unclear to what extent democratic practices that are advisory may be understood as properly democratic, as they may take on democratic forms, including deliberation and even a vote, but if the impact of such action is uncertain, then democracy could be understood as merely a veneer that masks a traditional authoritative system. This is not to suggest that such input is meaningless—in fact, it may be very valuable to the organization. But it is tenuous, as advice need not be followed.

Directive democracy must be formalized in a way that advisory democracy need not be. Significant questions that arise in this regard include those of membership (i.e., who has a right to cast a vote), decision rule (majority, super-majority, or consensus), particular conditions for voting, etc. These are the procedural rules for democracy and, for some, the principal question that arises with respect to democracy is the specific content of these rules. Any number of factors will come into play in making decisions about the specific, formal structure of a democratic system, and anyone implementing democratic practices would do well to consider them carefully.

Institutionalization: Formal or informal

Associated with the question of purpose—that is, whether democratic practices are advisory or directive—is the question of the degree to which they are formalized, or incorporated into a

system of decision-making. Advisory forms of participation may be formal—a good example is the kind of non-binding resolutions legislative bodies pass from time to time—or informal, like the suggestion box. It would be difficult to sustain a claim that, in a traditional, hierarchically organized enterprise, informal practices of decision-making constitute a democratic practice, except to the extent that they may be advisory. Therefore, while there may be many valuable forms of participation that help employees feel like they have input, all that would be required is a single instance of a manager choosing to ignore or override that input to erode employees' sense of its value, and their engagement would be likely to decline substantially.

Informal practices may be considered democratic, however, within an isocratic context—in other words, where the members of the enterprise see themselves and relate to one another as equals. When all are equally empowered, informal, ad-hoc democratic decision-making at the operational level may, to some degree and within defined limits, be the norm. The equality of members of the group must be nearly absolute, so the existence of a hierarchy—whether formally defined or informal—would reduce any claim this sort of ad-hoc procedure might have to being democratic, as long as any member of the group has greater authority than any other. As a result, this requires a fairly small setting, although that could be within a workgroup within a larger organization. This sort of ad-hoc democracy, where people interact with one another on the basis of equality, could be understood as the kind of democracy-as-norm that Wolin discusses in his essay “Norm and Form” (Wolin 1994b).

Democracy can also be understood as informal in the kind of “fugitive democracy” Wolin discusses in an essay by that name (Wolin 1994a). This is a kind of democracy in which the voice of the people (or members of the association), normally silent, becomes visible and definitive.¹⁹ This

¹⁹ Recent events in Tunisia, in the overthrow of authoritarian rule, may be recognized as precisely this sort of assertion of democracy.

sort of democracy might go by the name of insurrection, although in some ways it could be recognized as having important influence over decision-making not as any particular practice, but as a kind of a threat. This perhaps sounds more sinister than it really is: After all, the threat of a walk-out or strike is, in a sense, an assertion of power by employees in opposition to the authority of managers. However, it is unlikely that any enterprise would want to consider insurrection as the means by which employees may develop a sense of ownership.

Dynamics of Democracy and Ownership

In this section we will examine some of the ways particular elements of an enterprise might affect the form or strength of democratic practices within it. Two are especially important: size and the distribution of ownership rights or, in other words, the degree of inequality. Other factors that are likely important, but will not be addressed here include the nature of the work, the range of skill levels within the company, the steepness or flatness of any pre-existing hierarchy, whether it was publicly or privately held prior to conversion (assuming 100% employee ownership), and the relationship of the prior owner(s) to the continuing enterprise.

Size

Size is probably the most important factor to consider with regard to the form of democratic practice. Simply put, in an organization with thousands of members, it would be difficult—although not impossible—to function as an assembly, certainly not in operations and only with some difficulty in governance. Clearly, forms of direct democracy could be practiced through ballots, but in all likelihood these would be fairly limited, and mostly only with respect to governance. That said, as was discussed above, the establishment of small workgroups would make it possible for employees to meet together for operational decision-making. For the most part, democratic practices would need to be formalized, written into the “constitution” of the enterprise and understood as part of its institutional structure.

By the same token, in a small organization of only five or six members, it would be difficult to enact a representative system. Informal, ad-hoc decision-making may be the order of the day, at least at the operational level. Functions of governance typically must be formalized, but this can still be practiced in a direct manner in assembly form.

Most employee-owned firms fall between these two extremes. In this case it will be a matter of careful consideration of the different models in order to determine the best balance of the different elements. From the perspective of developing a strong ownership culture, it seems clear that providing more opportunities and giving employees a stronger role in decision-making will be better.

Equality/Inequality

Equality is generally understood to be one of the foundational concepts of democracy.²⁰ What is involved here is usually referred to as formal equality, sometimes expressed as equality before the law or equal rights. We are familiar with this notion of equality in such ideas as one person-one vote, so that, at the ballot box, each person's vote counts the same, no matter who they are. However, as has been noted briefly above, much study has been done to identify the ways in which other forms of inequality may undermine formal equality, particularly as it affects people's access to resources to support their preferred candidate or position, as well as to levels of knowledge or understanding of the political system and feelings of political efficacy (e.g., Macpherson 1973: ch 1; Verba, Schlozman, and Brady 1995; Dahl 1998: ch 14; Katznelson et al. 2002: ch 1).

²⁰ There is no consensus on this. In contrast to the view expressed here, for some, democracy is a matter of the presence of particular procedures or decision-making rules [need citation]. This is, I believe, a minority view and I would argue that even that perspective is premised on an assumption of equality with respect to those procedures or rules. That said, even such an advocate of democracy as John Stuart Mill supported what was called "plural voting," by which certain members of society—namely, those who had graduated from particular universities—would have two votes for Parliament [cite]. This measure was, in fact, in force in Britain until the 1940s.

As with the dimensions of democracy discussed above, the issue with equality, given minimally democratic procedures, is a matter of degree: The greater the equality, the more democratic the system will be. Measuring the degree of equality, however, is not a simple matter. Equality may be measured across a number of dimensions, including economic status, power, and status. Factors related to identity such as gender, race, ethnicity, age, religion, or sexual preference, may have a strong impact on people's position with respect to these dimensions.²¹ Formal equality may mask substantive inequality, and it may make that inequality difficult to address. In particular, because financial, political and social status are usually intertwined to a great extent (i.e., those with higher status have more power and more money), those who benefit in some way from this inequality are generally in a position to maintain it, and they may use the fact of formal equality to justify a system that provides unequal rewards.

From the perspective that democracy demands at least formal equality, the democratic nature of the modern corporation may be questioned because, when it comes to voting, not all shareholders have an equal voice: Voting rights are allocated not by individuals, but by shares held. Therefore, formal equality is violated because some people's votes carry more weight, in a formal sense, than do others'. What is apparent from this is that it isn't *people* who own the company, but *capital*. People own the capital, but their ownership of the company is always one step removed (in effect, *they* don't own it, their *money* does). Formal equality exists in the sense that each *share* of ownership carries equal weight, but because individuals can own multiple shares, those individuals cast multiple votes. Control, in other words, is allocated by level of investment. In the logic of capitalism this makes sense, because it means that those who have invested more and therefore

²¹ Much has been said about issues of equality as pertains to these identity factors, but even these proceed from an assumption of fundamental equality or, as Thomas Jefferson put it, that "all men are created equal." The issue of equality comes up to the extent that people who either identify themselves or are identified by others as having certain attributes feel that their condition in life is in some way determined by their identity.

bear more of the risk of the enterprise have more control.

This does not, however, make as much sense in an employee-owned company, particularly with respect to the development of an ownership culture. A fundamental assumption of capitalism is that those who provide capital do so for one and only one reason: Because they expect that the value of their investment will increase as a result of the functioning of the firm.²² But while increasing the value of their holdings might be a factor for employees who own a firm, other factors are also important, including job security and a feeling of ownership in the place where they work—in other words, an ownership culture. “Risk,” in the traditional model, means that one may lose the funds invested. In an employee-owned firm, not only may invested funds be lost, but also one’s livelihood, one’s friends, and the value of firm-specific skills developed over time. Thus, risk is not simply based on the level of investment, but is more equally spread through the enterprise: Everyone has something significant at stake.²³

The issue of inequality arises in employee-owned firms, then, in two ways: In the hierarchical structure of most companies, not only is power concentrated at the top, but also financial reward. In the typical ESOP, shares are allocated on the basis of tenure and earnings, which means that those at higher levels in the hierarchy, who have been around longer and who earn more, also are allocated more shares. When it comes to governance, in most ESOPs in which elements of democracy have been implemented (for example, pass-through voting for directors), voting proceeds on the same basis as in traditionally capitalized firms—that is, on the basis of shares held. Thus, the inequality lower-ranked employees experience in operations is replicated

²² That this isn’t always the case isn’t important, but we can acknowledge other possible reasons. People might invest in a firm because they want to help a friend, or, especially in the case of “social enterprises,” the firm engages in some particular activity that the investor sees as socially, rather than simply financially, valuable. Of course, in some cases, large investors may provide capital for enterprises they know will lose money in order to take advantage of tax loopholes.

²³ Workers also risk losing the value of firm-specific knowledge. See Dow’s discussion of the “quasi-rents” employees expect from certain kinds of decisions they make, including where to live (2003: 14).

with respect to governance, and, rather than providing a mechanism whereby it can be addressed, inequality is reinforced.²⁴ This poses a problem for the development of an ownership culture, because it limits the degree of control that one is supposed to experience as a consequence of having an ownership stake. Indeed, these problems lead Dow to argue that most ESOPs should not be considered labor-managed firms, even when owned by a majority of the employees (2003: 81).

In response, it could be said that within the hierarchical structure of a typical mid- or large-sized company, each level enjoys about the same degree of ownership because those lower in the scale have greater numbers. Therefore, managers might be wary of a one person-one vote rule, because this would introduce a different kind of inequality whereby lower levels, which are typically more populous, have more power than the higher levels. The history of democracy is replete with arguments of this sort, expressions of the dangers of the “unwashed masses” and “unruly mobs” of the lower classes, and this same history has generally shown that, for many reasons, the threat to the well-being (and property) of elites has failed to materialize. Within the context of the firm, two elements in particular would mitigate these concerns: First, much has been written about the kinds of collective action problems that larger groups face in comparison to smaller groups (e.g., Olson 1965). The second (which is acknowledged in the collective action literature) is the advantages in information, expertise and communications that senior managers enjoy. In organizations with unions these advantages would largely be erased. However, the primary concerns of the union would likely be those things about which unions are most often concerned: Work rules, wages and benefits. While it is true that managers might see this as a threat, it is only a threat insofar as it would lead to reducing the kind of inequality that is understood to be a threat to democracy and, as a result, to the ownership culture of a firm.

It should be noted that the problems of inequality arise with respect to governance and not

²⁴ Two recent essays by Buchele, et al. (2010) and Carberry (2010) examine this question in detail.

necessarily with respect to operations. There may be a variety of ways in which democratic practices at the operational level can work to instill a sense of ownership that would otherwise be missing or weak on the basis of inequality at the governance level. However, the discussion above about the relationship between operations and governance is still relevant here, because as long as employees at lower levels feel that their operational democracy is limited in scope they will have less of a sense of ownership.

Before concluding, it should be noted that worker cooperatives are largely immune from the problems of inequality discussed above. This is because the cooperative is formally owned by an association of which employees comprise the membership. Capital is, in effect, rented, so it does not have an ownership stake and therefore does not exert control. This does not mean that cooperatives are immune from challenges in developing an ownership culture or engaging in democratic practices. While much has been written about problems of apathy and managerial control in the mega-worker cooperative Mondragón (Cheney 1999), inequality can arise even within smaller settings based on such things as tenure or simply character traits. Within smaller organizations, the effects of personality are magnified, and conflict between two individuals can doom an entire organization—although this is true not only of cooperatives, but of any small organization, even one that is traditionally structured.

Conclusion

Studies have shown that the success of employee ownership depends, in significant ways, on the development of an ownership culture, or a sense of ownership among employees, within the company. As I have shown, to own something means that one exercises control over it, either because of responsibility for its produce or because ownership rights are like sovereign rights. If employees are owners, then, they must be able to exert control. This requires meaningful measures by which employees have opportunities to participate in decision-making, to feel that their voices

are not only heard, but that their interests are taken into account and acted upon. Informal opportunities for participation or input, while valuable, are not sufficient. In order for employees to *feel* like they are owners, they have to be able to *act* like owners, which means that they must exercise a measure of control over the enterprise in proportion to their degree of ownership. For the most part, this means formal, democratic practices in which decisions are binding, and firmly established within the institutional structure of the enterprise.

The specific form these democratic practices may take, however, may vary. A variety of dimensions of democracy have been discussed to demonstrate the range of possibilities. In addition, it was acknowledged that democracy is not a binary concept, but that it may be present in varying degrees in any system. Various factors may affect the “democraticness” of a system, especially an organization’s size and the degree of equality or inequality within it. Inequality appears as a particular concern, especially within the ESOP model where inequalities within the corporate hierarchy may be replicated, even reinforced, by inequalities in ownership.

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