

**SHARED CAPITALISM AND CORPORATE  
STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC  
HUMAN CAPITAL PROGRAMS**

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## **SHARED CAPITALISM AND CORPORATE STRATEGY<sup>1</sup>**

Programs of “shared capitalism,” (SC) which includes employee stock ownership plans (ESOPs) stock purchase plans, profit and gain sharing plans and broad-based stock options (Kruse, Freeman and Blasi, 2010), have been employed by firms for decades. While there is abundant evidence that these programs are associated with the financial performance of the firms employing them, it is unclear whether the performance effects of shared ownership are intended by firm managers or are unintended consequences of programs that are instituted for other reasons and without clear performance goals. That is, is the superior performance of employee owned companies a strategic outcome or side effect? There has been virtually no attention to whether shared ownership is (or can be) a part of a corporate strategy whose effects are thoroughly intended and that possesses a strategic logic of its own in helping to focus employee and managerial attention on the firm’s strategic goals. This paper argues for the strategic value of shared capitalism, focusing on these programs as *institutions* that focus the attention and motivation of participants on the broad goals of the firm and the strategies developed by management to pursue them. We present an institutional and resource-based argument and develop testable research propositions.

### **Shared Capitalism**

Shared capitalism, whether realized in ESOPs or other forms of employee ownership (“EO”), has been studied from multiple perspectives<sup>2</sup>. It has been treated

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**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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extensively by sociologists (e.g., Whyte and Blasi, 1984), economists (e.g., Blinder, 1990; Ben-Ner, 1988; Kruse and Blasi 1997; Kruse, Freeman and Blasi, 2010; Doucouliagos, 1990, 1995; Fama and Jensen, 1983), legal scholars (e.g., Ellerman, 1984; Hansmann, 1990), and management scholars (e.g., Conte and Svejnar, 1990; Pierce, Rubinfeld and Morgan, 1991; Pierce, Kostova, and Dirks, 2001; Pierce and Rogers, 2003; Rousseau and Shperling, 2003; Klein, 1987) or a combination of them (e.g., Blair, Kruse, and Blasi, 2000)<sup>3</sup>. In addition, a vigorous practitioner literature exists extolling its virtues (e.g., Rosen, Klein, and Young, 1986; Gates, 1988; Brohawn, 1997; Young, Rosen, and Carberry, 1995; Rosen and Young, 1991; Quarrey, Blasi, and Rosen, 1986). The central question motivating the bulk of this work is the relationship between shared capitalism and firm performance.

A substantial amount of the empirical research has demonstrated that there is a connection between employee ownership and performance. A variety of outcomes have been studied at different levels of analysis. (See Table 1)

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<sup>3</sup> There are several excellent reviews of the employee ownership / shared capitalism literature, including for example, Bonin, Jones and Putterman, (1993); Blasi, Conte and Kruse, (1996); Kruse and Blasi, (1997); Freeman, (2007); and the introduction to the monograph by Kruse, Freeman, and Blasi (2010).

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

Although employee ownership is a multi-level phenomenon, empirical research has tended to focus on a single level of analysis at a time, but not multiple levels simultaneously. The divide between the individual level and the firm level streams is evident in the Table 1. Taken together, though, these studies strongly suggest that shared capital programs enhance or in some way facilitate valuable individual level outcomes, which then translate into positive organization-level outcomes. Note that not every study has shown positive results (Kruse and Blasi, 1997). The existence of null and positive results is a warning that the *shared capital* → *individual outcomes* → *firm outcomes* linkage is a complex phenomenon that is not fully understood. It is important to emphasize also that any empirical demonstration of that linkage would be a monumental undertaking, requiring the collection of data from two levels of analysis—individual-level *and* firm-level—from a large sample of firms. To our knowledge, this feat has been successfully attempted just once (Kruse, Freeman and Blasi, 2010).

Further, the research on ESOPs has demonstrated a linkage between ESOP firms and superior outcomes, especially when combined with participatory management (Quarrey, Blasi, and Rosen, 1986; Rosen, Klein, and Young, 1986; Kruse, Freeman and Blasi, 2010). The findings of numerous empirical studies reveal that the performance of employee-owned companies is, *on average*, superior to that of conventionally-owned firms. The assertion *that* employee ownership is associated with superior performance

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

has been settled, although *how* it affects firm performance is still an open question.<sup>4</sup>

Empirical investigators remain intrigued by this question because the mechanisms linking employee ownership and organizational outcomes operates are unclear. The inconsistency of research findings—some studies find no effect, and a few find a negative effect—raises questions about which mechanisms are at work, and at what level of analysis they operate (individual, group, firm, or industry). Of further interest to scholars is the question that while shared capitalism is associated with firm performance, its effect may be contingent upon an assortment of multi-level factors. This contingency bolsters the idea that the strategic value of these shared ownership programs is not general but is instead specific to firms and dependent on how shared ownership is linked to other firm commitments and assets.

Shared ownership is a multi-level phenomenon in that although the incentive aspects of these programs act upon individual motivation and effectiveness, their potential influence is more than the sum of individual employee reactions. Individual responses to such plans will also be a function of the various associations of employees, both formal and informal, including their broader professional and social networks. How employees are embedded within broader social groupings influences the points of reference they use in assessing their situations within the firm. Individuals act within larger units, whose contributions to firm performance are complex functions of individual

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<sup>4</sup> For example, Gary Becker and Richard Posner criticize the performance of ESOPs as stemming from their tax advantages to sponsoring firms rather from their effects on workers and suggest that the rationale for such advantages is questionable given available evidence (Becker-Posner Blog, 4/08/07 - [www.becker-posner-blog.com/2007/04/employee-ownership-through-esops-a-bad-bargain-becker.html](http://www.becker-posner-blog.com/2007/04/employee-ownership-through-esops-a-bad-bargain-becker.html)).

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

contributions, technology, market conditions, and other factors. These in turn are aggregated into larger groupings and eventually to the overall enterprise, the performance of which is also dependent upon its history, competitive dynamics, and the broader institutional and economic situation.

The complexity of the situations in which shared ownership programs are attempted is such that standard research designs are infeasible. Consequently, most studies of shared ownership permit different interpretations of findings and thus admit more than a few threats to validity. Yet the sheer number of studies and the consistency of their results suggest a link between shared capitalism and performance that is hard to dismiss. It is reasonable to conclude, then, that employee ownership (when combined with participative management) contributes to firm performance. The explanation most often given for this conclusion is that these programs create an ownership *culture* that in turn leads to superior performance. While this general conclusion is defensible, we believe, along with others (Kruse and Blasi, 1997; S. Freeman, 2007; Kruse, R. Freeman and Blasi, 2010) that it is overly simplistic to argue that the simple adoption of employee ownership programs or continuing stable levels of employee participation in those programs improve firm performance. The census of ESOPs, for example, is in dynamic equilibrium as existing ESOPs are terminated and new ones created (NCEO, 2008). This flux would be hard to predict on the basis of simple adoption rates and participation

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Alternatively, Chaplinsky and Niehaus (1990), and Scholes and Wolfson (1990) argue that the performance of ESOPs is not predicated on tax benefits.

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

levels and suggests that other forces are needed to explain how employee ownership and firm performance are linked.

Our argument takes a different tack: we view shared capitalism as a strategic choice, an investment in an institution—an ESOP for example—a mechanism that *facilitates* the formation and strengthening of a culture—which we define as a set of shared values and beliefs that underlie norms—that advances the firm’s strategy. While employee ownership may have direct effects on employee motivation and satisfaction, its primary influence on strategy implementation and firm performance will be as an enhancement to organizational culture; culture in turn acts as *catalyst*, or *buffer*, or *moderator* (Baron and Kenny, 1986) in that it influences how strongly the resources and capabilities of the firm, as well as the choices of its managers, are tied to its strategic activities and through those activities to the firm’s overall performance results. (See Figure 1.)

Our argument rests on two assumptions. First, we assume that a firm’s culture is formed and reshaped by multiple forces, some of which are capable of being influenced and directed by management action. This assumption does not suggest that management efforts to shape culture are easy or their results predictable. A second assumption is that effects of employee ownership on individual-level phenomena also contribute to intermediate firm-level outcomes related to product and service quality, capital

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

productivity, and human resource deployment strategies, all of which in turn contribute to firm performance.<sup>5</sup>

Given these assumptions, how can shared capitalism enable a company to achieve competitive advantage? We argue that that linking an EO program to the firm's culture can enhance growth, since it can promote shared purposes, reduce the transaction costs of strategy implementation, and reduce implementation conflicts. Using Penrose (1959) as our guide, we discuss the relationship between culture and the quality of the firm—what she called “growth.” We then discuss how shared capitalism can affect firm growth by increasing: (1) the availability of resources; (2) the services those resources provide; and (3) the flexibility with which those resources are deployed.

The discussion to this point has considered how human resource management programs and other firm institutions like ESOPs can serve to catalyze the linkage between strategy, culture, and performance outcomes. To consider this catalyzing function more deeply, we now turn to the task of examining in more detail the role an ESOP might play in managing a firm's human resources to achieve growth.

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<sup>5</sup>Without this assumption, it is difficult to specify how employee ownership enhances firm performance after controlling for aggregated individual reactions. For example, even if we could stipulate that an ESOP has positive incentive effects on employees, it is hard to see how those effects would have strong influences on firm performance without some idea of how collective employee reactions enable the firm to accomplish something that firms lacking such incentives could not accomplish. The often cited linkage of Southwest Airline's employee culture with its capability for rapidly turning around their aircraft for takeoff would be an example of this.

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

**Shared Capitalism, Strategy, and Culture**

Shared capitalism can be used strategically as a catalyst to shape culture and “improve quality” –what Penrose termed “growth” –by influencing the formation of culture, by facilitating cultural change, and by developing strategy-appropriate culture.

*(1) The Formation of Culture*

A company’s culture has two origins: the beliefs and values of its founder, and an evolutionary process that retains successful practices and discards unsuccessful ones (Schein, 1985). The culture that emerges from this process comprises for a firm the shared beliefs of its members about how the world works, its shared values regarding what is important to the firm and its members (and what is not important), and shared norms for how to behave, solve disputes, and interact, that are held by the work force (or some critical subset of workers, managers and professionals). The often-heard assertion, “everybody knows that” indicates that everyone is (or is thought to be) in agreement about what is true and what is important. Culture is often defined colloquially as “the way we do things here.”

It is important to distinguish between those aspects of a firm’s culture that are manageable and those that are not manageable. If corporate culture is a persistent and powerful force within some firms, then it must be recognized that many aspects of it will not be readily changeable by managers, or changeable in manageable ways. Shared beliefs and values take years to develop and are not changed overnight by management fiat or short-term actions (Pettigrew, 1987; Beer, 1990; Young, Rosen and Carberry, 1995). To use shared capitalism to change a firm’s culture in a way that is supportive of

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

its strategy, it is necessary to influence those aspects of individual and group activity that can be managed while paying less attention to those aspects of culture that are more persistent and less changeable.

*(2) Changing Culture*

At the beginning of a company's life, strategy and culture are not necessarily distinct from each other, since the beliefs of the founder about how the world works and what is important to the firm's success directly guide strategic choices at the inception of the firm a time when the influence of the founder is strongest. As time passes, however, culture and strategy become differentiated in an evolutionary process. The situations faced by the firm change, in part as a result of the firm's initial success, which may result in a strategy-culture mismatch. The situation changes, yet the culture lives on. The founder and his or her team will face different situations than at the inception of the firm and develop new routines of actions to deal with new challenges. Alternatively, the optimal strategy may remain static while the culture changes inappropriately. Perhaps Enron is a good example of this. Even the values of the firm may change, as new members arrive and bring their own values and beliefs to the organization (Schneider, 1987). Consequently, as organizations mature, culture and strategy may drift apart and can even conflict with each other within the dynamic situation faced by a firm.

While it is impossible to keep culture completely aligned with a firm's evolving strategic situation, some realignment is possible. Yet if the differences between culture and strategy become too pronounced, they can harm to ability of the firm to implement its strategy. Hence the need to change culture. To the extent that beliefs and values are not

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

shared, managers and employees by implication will have broader areas in which conflicts will arise during strategy implementation as individuals respond to problem situations in different ways. These conflicts take time and resources to resolve and reduce the ability of the firm to focus its activities and implement its strategies effectively.

This linkage of managerial action to corporate culture is loose—managerial actions do not translate directly into changed culture but can eventually be influential. Similarly, corporate culture does not directly support strategy implementation, but can incrementally influence it over time. Whether culture is influenced by management action or subsequently influences performance will depend on the range of other factors affecting individuals and the firm at a given time.

Since corporate culture evolves within a firm, it is reasonable to expect that changes in firm culture will be slow to bring about and will often be met with resistance. The reasons prompting a discrepancy between a firm's culture and its strategy are varied. In some cases, such as Wang Labs or Control Data Corporation, industry evolution may render the entire strategy obsolete or questionable. In such cases, it is unclear how changing a firm's culture will help a firm to successfully adapt. In other situations, such as with the airline industry following the attacks of September 11, 2001, environmental changes may increase the costs of a strategy, such as through greater security costs, but not negate the strategy. In such situations, cultural change may allow a firm to adapt successfully. In other situations, cultural change may be needed to stabilize the firm's

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

activities as it matures in its operations and grows larger, such as has happened with firm's moving to make an initial public offering (IPO).

This is not a question of creating a new culture but of shaping a firm's existing culture. Most firms already have a culture, irrespective of the actions of managers, since the people in the firm will have some degree of shared values, beliefs, and norms of behavior. The first issue that managers must consider is whether the culture is supportive or not supportive of the firm's strategy because "culture constrains strategy" (Schein, 1985: 33). For example, is a strong sense of collective shared values in a firm antagonistic to pay-for-performance schemes (e.g., bonus) that put employees in competition with each other?

Managers must also consider whether the culture's influence is strong or weak – whether the collective effect of shared beliefs and values is sufficiently large that it is seen as above and beyond what might be expected from regular interactions with individual employees. A strong and supportive culture may permit managers to undertake actions that competitors cannot match because they require too much employee support. A strong but negative culture could greatly restrict what managers can do, because of the high costs of employee resistance.

***(3) No One Best Culture***

What does it mean for a culture to support a strategy? If a strategic use of shared capitalism is of any consequence, some conditions need to be present so that culture provides sufficient support to a firm's strategy that the catalytic effort is worthwhile. First, the firm's culture needs to be strong (Kotter and Heskett, 1992)– there need be

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

sharing of knowledge, beliefs, and values so that the “culture” is not just nominal and a mere conceptual artifact of aggregating a set of individuals<sup>6</sup>. *Without a strong culture, shared capitalism programs like ESOPs are merely incentive programs and are likely to lack strategic impact.* Second, the content of the culture needs to be open to adaptation (Kotter and Heskett, 1992). By its definition, culture has an inertial and conservative bias to it, since it represents the cumulative sense making activities of individuals regarding a firm’s history. The firm’s culture must make sense out of past experiences with the firm, while also permitting the possibility of growth and adaptation. If the potential for growth and adaptation is not there, then the culture will be inertial and resistant to change, and the economic impact of the firm’s culture will be one of increased rather than reduced implementation costs. Finally, the content of the culture should support the details of the firm’s strategy and not be antagonistic to them. Each firm’s culture is unique: there is no one best culture. For example, it is difficult to see how a firm pursuing an entrepreneurial strategy characterized by significant risk-taking by local managers will succeed if it also possesses an inertial and bureaucratic culture that stymies such efforts. The value of the culture will thus depend on the degree to which the content of that culture supports or opposes the firm’s strategy.

The notion of no one best culture is consistent with the empirical evidence that the mere adoption of an ESOP does not guarantee enhanced performance.

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<sup>6</sup> Among managers of ESOP firms and practitioners like organization consultants who serve them, the term “*participation and communication*” has roughly the same meaning as corporate culture.

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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*(4) Shared Capitalism is a Catalyst*

Management influences culture in support of firm strategies by fostering supportive institutions and their related practices, such as those associated with ESOPs and shared capitalism (Scott, 2007). By establishing clear and objective sets of rules and procedures that link firm goals and operations with employee incentives and compensation, employee ownership programs focus employee attention around core values and activities and link individuals and groups to the goals of the firm and to firm performance. Once established these programs persist and grow and in doing so become routine for employees, even taken for granted. This is the process of institutionalization (Aldrich, 1999: 48-49). As programs become institutions, they provide an objective focus for individuals in the firm that strengthens the link between culture and strategy.

Besides focusing participant attention on firm goals, shared capitalism has several features that can support a firm's strategy. These include: (1) increased efficiency in information sharing and processing and decision-making (Ben-Ner, 1988; Conte & Svejnar, 1990; Bonin, Jones and Putterman, 1993; Fitzroy and Kraftx, 1987 CHECK THISX); (2) increased self-monitoring while decreasing the need for supervision (Ben-Ner, 1988; Conte and Svejnar, 1990, Hansmann, 1990, Bonin, Jones and Putterman, 1993); and (3) increased cooperation among workers [Fitzroy and Kraft, 1987checkthisx]. Seen as an institution, shared capitalism enables management to shape or change culture more effectively and more rapidly than would otherwise be possible in the absence of such a program. It amplifies management's influence and its ability to engage workers more deeply. The financial rewards that such programs offer to

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

participants *complement* or *enhance* the more intrinsic rewards that come from achieving performance goals within an ownership culture—rewards that include increased levels of job satisfaction, personal autonomy, and even group identification.

### **The Role of Strategy**

How do firm strategies differ and what do those differences mean for a fit with the firm's culture and with the requirements of shared capitalism? While there will be myriad differences across firms on the basis of their industries and individual idiosyncrasies, it is possible to talk about generic strategies, since all firms can be seen as trying to accomplish the same purposes economically – maximize profits for their owners.<sup>7</sup> Profits result from the relationships among revenues, costs, and quantities of goods and services produced by firms – specifically the product of the quantity sold and the average difference (or margin) between the firm's prices and its average costs. (Financing issues are also involved but are not relevant to this discussion.) Seen this way, a firm's generic positioning strategy will reflect the nearly infinite ways in which price, cost, and volume decisions can affect efforts to maximize profits for a given firm.<sup>8</sup>

*The imperative to fit with the other strategic choices made by firms suggests that ESOPs and other shared capital programs will be highly contingent in their persistence and performance.* Firms change and as they do, the various employee programs of the firm adjust. This continual need for adjustment is evident in the changing characteristics

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<sup>7</sup> This is a convenient general assumption, since firms actually pursue a variety of performance objectives and consider profit “maximization” in different ways, but it does reflect the general motivation of firm behavior and few large public firms would acknowledge that they were not trying to maximize profits. See Mueller (1989) for a more extended discussion.

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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of these programs across the economy. Employee ownership, ESOPs, broad-based stock options, and related programs display mixed levels of organizational persistence, survival, and success. As noted, the number of company ESOPs in the U.S. has held steady at around 10,000, but the composition of the census of ESOPs constantly changes. This is because companies terminate ESOPs for a variety of reasons, or are acquired (thus terminating the ESOP), or go out of business (NCEO, 2008). Those that exit are replaced by new ones so that the number of ESOPs has remained fairly constant. This activity suggests their contingent nature.

### **The Growth of Firms**

Penrose (1959) makes three points touching on the role that shared capitalism may play in the long-term success of a firm: (1) Firms are collections of resources. (2) It is not the resources themselves, but the services they provide to firms, that affect growth. (3) There will always be unused productive resources within firms.

Penrose defines growth as “...improvement in quality as a result of a *process* of development...in which an interacting series of internal changes leads to increases in size accompanied by changes in the characteristics of the growing object” (p.1). It is possible, then, that a business in which ordinary workers share in firm returns is qualitatively different from conventionally-owned firms because the enactment of a shared returns policy in the firm changes the way workers do their jobs. This would occur by changing the incentives that workers have for their jobs as well as the actions they take while on the job. The claim is thus that workers might try harder in an employee ownership

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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situation, and they might also be more thorough, more careful, and think about

performance issues more than they would in the absence of an ESOP or related program.

*(1) Collection of Resources*

Penrose's (1959) view is that a firm is not a price-and-output decision-making entity, but a collection of resources. A firm may choose to offer many products, and not necessarily at profit-maximizing, equilibrium levels. For Penrose, new products can come about in different ways. Some new products are combinations of resources and capabilities that are combined by the firm in new ways, resulting in novel combinations of common ingredients. For example, the OnStar service of GM combined a set of technology products and support services to facilitate mobile communication within cars. A new product could also be an existing product applied to a new use or sold to a new market segment. Penrose (1960) discusses the former in her study of the Hercules Chemical Company and its shift to non-military chemical products after World War II. Examples of the second sort of new product could include product shifts from military to civilian markets (e.g., the introduction of the Hummer vehicle) or shifts due to changes from domestic to international markets (selling retail insurance products in East Asia).

Resources available to a firm include entrepreneurship (what Penrose called "enterprise"), physical capital, access to financial capital, access to raw materials, work-in-progress, finished goods, and labor. The perspective that has come to be known as the resource-based view of the firm emerged in part as a reaction to the homogenous view of firm resources that had been common in economic analyses. In particular, "labor" was often seen as a homogenous input, varying only by amount, even though it is well known

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

that there are different categories of labor—administrative vs. production workers, for example – and significant variation in experience and knowledge and capability among workers in a category. Labor is seldom perfectly fungible within firms or within industries. This variability across firms is crucial for an understanding of the possibility of competitive advantage for firms. Further, expanding this view to allow for differences in the nature of a firm’s resources, it is possible to account for differences in growth across firms.

*(2) Services, Not Resources*

Penrose’s second point is that it is not the quantity of resources possessed by a firm, but rather the *services* those resources provide either to actors within the firm or to ultimate consumers that will most determine the extent of firm growth in a given situation. For example, an arc welder that has not been properly maintained will experience more downtime, will produce more errors, and have a shorter useful life. Thus the monetary resources ‘saved’ by withholding maintenance are offset by the reduced services provided by the unit, with the effect that growth is stymied. Further, the effectiveness and efficiency of that capital asset is a function of the interaction of the machine with its operators. Consequently, the quality of the service that the operator provides in the form of maintenance is an important factor, along with the number and quality of labor hours available for maintenance, in enabling the resource to be productive and contribute to firm growth. After allowing for the quantity and availability of resources, the question then becomes one of assessing the quality of the services provided by physical and human capital.

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

*(3) Unused Resources*

Penrose's third point is that a firm will always have some unused resources, due to the inherent indivisibility of resources, and consequently the impossibility of allocating them with complete efficiency. This is the lowest common multiple problem. The object is to allocate resources so that none sit idle waiting to be combined with other resources. A mundane example concerns the host who is planning a backyard cookout. Hot dogs are sold in packages of 12, while hot dog buns are sold in packages of 8. How many of each food product should the host purchase so there is none left over, assuming that each hot dog is served in a bun<sup>9</sup>? Similarly, a specialized machine or person may stand idle for a time when unneeded or during periods of changeover to different production settings. Unless a firm is able to grow and thereby employ its underused resources full time, the effect is that resources will remain idle and unable to contribute to growth. In the arc welder example, productivity is a function of the quantity and *quality* of labor hours necessary to keep the unit functioning.

The presence of unused resources is likely necessary, since critical resources are unlikely to be sufficiently fine-grained to adapt easily to all possible uses to which the firm may wish to put them. The implications of these slack resources are mixed, however. As Penrose argues, they do represent an inefficiency problem and a potential drag on firm growth. However, if the firm's resources ever were fully utilized, then it would be very difficult for the firm to adapt to environmental changes that required a

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<sup>9</sup> The lowest common multiple is 24 ( $12 \times 2 = 3 \times 8$ ). My Aunt Mary (her real name) had a similar problem at holiday dinners—exactly matching the right amounts of turkey, mashed potatoes,

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

redeployment of resources to new purposes. This is akin to the argument of Schumpeter (1916), who saw the availability of slack, if need be from a venture capitalist, as critical if innovation was to occur in a market. This suggests that the problem for firms is not the presence of unused (or underused) resources but rather what uses the firm is able to make of such underutilized resources to improve its performance.

**Shared Capitalism, Strategy, and Growth: Research Propositions**

To this point we have described how organizational culture is formed, argued that culture can be modified (albeit with difficulty), asserted that there is no one best culture, and concluded that shared capitalism can facilitate cultural change in support of organizational strategy—a “process of development” leading to “improvement in quality”—that is growth.

We now offer propositions to test these assertions, using as our criteria for organizational performance Penrose’s three conditions for growth. We employ her characterizations of the firm to suggest how employee ownership has the potential to intensify the moderating effect of culture on the strategy→performance link and thereby sustain growth in a way as to confer a competitive advantage on the firm. By this we mean that the effects of employee ownership can be: 1) valuable to the firm (in that it exploits an opportunity or reduces some threat); 2) scarce in its availability to competitors; and 3) difficult for competitors to imitate, i.e., to confer competitive advantage (Barney and Hesterly, 2009).

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cranberry sauce and gravy—as she added seconds and even thirds to her plate. At least that is the story she told us.

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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*(1) Availability of Resources*

One way in which shared capitalism can enhance the link between culture and growth is by augmenting *firm-specific human capital*, created when workers, enjoying the wealth created by shared capitalism, are more likely to remain with a firm and acquire a broader set of firm-specific skills. Because these skills are firm-specific, one would expect average tenures of employee owners to be greater than those of employees in comparable firms. Long-tenured workers with firm-specific skills represent a valuable resource contributing to firm growth. These considerations suggest the following propositions:

***Proposition A1: Employees in ESOP companies possess a greater proportion of firm-specific skills than employees in comparable firms.***

***Proposition A2: Average tenure of employees in ESOP companies is greater than that of employees in comparable conventionally-owned firms.***

The strategic value of teamwork is well known; further, the power of employee ownership to engender teamwork is a recurring claim in employee ownership practitioner literature (e.g., Young, Rosen and Carberry, 1995). In recruiting employee talent, the opportunity to work in a team-oriented culture can be a major selling point for individuals who are attracted to a team environment. Team players—workers who are more likely to share information, cooperate with fellow workers, and engage in mutual support—are a valuable human resource. These and other similar work behaviors have been termed characteristics of an “ownership culture” (Young, Rosen, and Carberry, 1995).

***Proposition A3: ESOP firms supporting an ownership culture attract a greater proportion of team players than comparable conventionally-owned firms.***

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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A major criticism leveled at ESOPs is that it exposes employees to increased risk in that their employment income as well as their retirement income is vested in a single enterprise. This claim is refuted by evidence that almost all ESOP firms supplement their ownership plans with 401(k) or similar retirement plans that are *not* invested in company stock (e.g., Thompson, 2003; Kruse, Freeman and Blasi. 2010; Blair, Kruse, and Blasi, 2000; ) however this line of argument is outside the scope of this paper. Of greater interest here is the attraction that this risk may have for risk-seeking individuals or those with an entrepreneurial bent. There is some evidence to suggest that such individuals are drawn to employee-owned companies, thereby providing the lucky firms with individuals who spark and nurture innovation.

***Proposition A4: ESOP firms supporting an ownership culture attract a greater proportion of risk seekers than comparable conventionally-owned firms.***

Information sharing and flexible communication patterns can contribute to firm growth by reducing decision-making time and increasing effectiveness. An ownership culture emphasizing mutuality of interests can encourage employees to share rather than hoard information, and to communicate across the organization's departments.

***Proposition A5: The rate and extent of information sharing, and the frequency of diagonal and horizontal communications are greater in ESOP companies than in comparable conventionally-owned firms.***

***(2) Services Provided by Resources***

The general linkage between the establishment of an ESOP and subsequent firm performance is certainly of interest, but of comparable interest is the need to consider the individual and group level mechanisms through which ESOPs and related institutions would influence firm strategic action and performance. As noted above, firm growth is a

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

function of an “interacting series of internal changes lead[ing] to increases in size accompanied by changes in the characteristics of the growing object.” (Penrose, 1959: 1) Here we suggest that those changes are manifested in (1) individuals’ perceptions of a firm’s particular shared capitalism program, (2) attitudes toward the institution of shared capitalism in general and in the firm, and (3) behaviors like self-monitoring, organization citizenship, Accordingly, changes within individuals resulting from the effects of shared capitalisms programs can lead to positive firm outcomes.

***Proposition S1: Changes in employee perceptions, attitudes, and behaviors occur more rapidly in ESOP companies than in comparable conventionally-owned firms.***

A further interest is in demonstrating that individual and group outcomes are themselves associated with performance results. This suggests a general logic of expectations that individuals would react to the institution of ESOPs in predictable ways, due to the link between the gain to individuals from ESOP gains and the motivation of individuals to work harder and smarter to achieve those gains.

Shared capitalism not only catalyzes the kind of culture that attracts firm-specific human capital capable of contributing to competitive advantage, but also enhances management’s ability to extract extraordinary value from those human resources by facilitating and enhancing group functioning.

***Proposition S2: Individual and group behaviors combine to produce firm outcomes more rapidly in ESOP companies than in comparable conventionally-owned firms.***

Group effects from ESOPs are equal in importance to individual effects. If ESOP participants do see a potential for gain from firm results, they may also expect that group performance results will contribute to firm results. That would lead individuals to devote

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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greater efforts to work group activities following an ESOP. They would also likely become more sensitive to issues of group cohesion as being indicative of the likelihood that their groups would function sufficiently well that changes in group outcomes and firm performance from increased effort and coordination at the group level could be anticipated. If the functioning of ESOPs stimulated increased sensitivities to group process and performance, they could also be associated with increased perceptions of inter-group interactions (Tajfel and Turner, 1979), as the linkages between group and firm outcomes become clearer. These considerations suggest the following propositions.

***Proposition S3: Group cohesion, group performance, and inter-group communications are greater in ESOP companies than in comparable conventionally-owned firms.***

Another way in which shared capitalism can free up the potential in a firm's human resources in support of strategic initiatives is in cultivating effective conflict resolution. Changes in strategy inevitably mean that some individuals and groups will lose resources, influence, and status, and will fight to keep them. Yet when firm outcomes directly and dramatically affect individuals equally, employees may be more open to abandoning win-lose negotiating approaches and to pursuing mutually rewarding strategic goals cooperatively.

***Proposition S4: The use of integrative conflict resolution approaches in firms sponsoring shared capitalism and fostering an ownership culture is greater than in conventionally-owned firms.***

A major criticism of ESOPs and other forms of shared capitalism is that as group rewards, they are vulnerable to social loafing, (also called shirking, or the  $1/n$  problem). The inevitable outcome, it is claimed, is loss of efficiency. The contrary claim is that an ownership culture encourages mutual monitoring and support that counteracts the

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

tendency to shirk. These phenomena are often referred to as “working harder” or “working smarter.” This effect may be manifested not only in actual behavior, but perhaps more importantly in how employees *perceive* the effort and productivity of their coworkers.

***Proposition S5: Firms adopting shared capitalism and fostering an ownership culture experience greater mutual monitoring, and less social loafing and shirking than comparable conventionally-owned firms.***

***Proposition S6: Employees in firms adopting shared capitalism and fostering an ownership culture will perceive greater effort and productivity on the part of coworkers.***

These same perceptions pertain not only to individuals, but also to groups as they view and assess each other’s performance.

***Proposition S7: The adoption of an ESOP by a firm will be associated with greater levels of perceived group performance across relevant groups.***

***(3) Flexibility of Resources***

Insofar as shared capitalism has the potential to inspire employees to link their personal fortunes to a particular company, it may engender two outcomes of strategic value. The first is *cooperative behavior*, whereby workers are amenable to working more than one job or performing a variety of tasks, or adapting to new tasks. This spirit of cooperation gives managers flexibility in the allocation of human resources. This flexibility addresses the unused resources problem described by Penrose (1959), and so may result in competitive advantage. Rather than viewing unfamiliar tasks as “not my job,” employees may be more willing to take on challenging, daunting, or even unpleasant tasks to contribute to group performance. An example might be a situation in which some workers are idle while waiting for another crew to finish its work. In a

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

culture encouraging mutual support, the waiting crew would chip in and help the working crew get the job done faster.

***Proposition F1: Firms adopting shared capital programs will display greater flexibility in allocating human resources than in comparable conventionally-owned firms.***

***Proposition 2: Firms adopting shared capital programs and nurturing ownership culture will have greater levels of job-sharing, cross-training, and job rotation than in comparable conventionally-owned firms.***

***(4) Growth: Firm-Level Outcomes***

Consideration of the potential strategic advantage to firms of adopting an ESOP does not require a choice between entrepreneurial goals of quantity or operational quality. Rather, our concluding propositions aver that firms adopting an ESOP will excel relative to their competitors on one or both of these dimensions. Specifically, following adoption of an ESOP, firms will outperform their competitors on market share or product performance, expressed in terms of product ratings, consumer reputations, or a related measure.<sup>10</sup> These considerations suggest the following propositions:

***Proposition G1: Firms adopting ESOPs will outperform their competitors in market share.***

***Proposition G2: Firms adopting ESOPs will outperform their competitors in product quality or product reputation.***

**ESOPs and Size, Industry Characteristics, and Sustainability**

Inasmuch as shared capitalism is a strategic variable operating at several levels, we bring our discussion to a close by considering relationships between shared capitalism and industry-relevant variables. The questions is whether, and to what extent, firm size,

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

its technology, the growth characteristics of its industry, and the sustainability of shared capitalism within an industry affect the likelihood of ESOP adoption and subsequent termination.

**Firm size:** How will these growth considerations be associated with differences in firm size? Research suggests that the effects discussed above will vary in an inverse curvilinear manner with firm size (Zenger and Marshall, 2000). The graph is in the shape of an inverted letter *U*, like so:  $\cap$ . Below some firm size, an ESOP will be too expensive to implement relative to the overall firm budget and will not offer sufficient benefits above what are possible through group management approaches, since employees will see how their work affects firm performance without the aid of the ESOP. As the firm get very large, however, it will be difficult for employees participating in an ESOP to link their immediate efforts and outcomes with overall firm performance. If this is the case and the firm is too large and bureaucratic, then the ESOP becomes less of an incentive-laden institution and more of a perquisite that is taken for granted and not linked to firm results.

**Industry Characteristics:** There are numerous industry characteristics that may prove influential in understanding the role of ESOPs and firm performance. For example:

- *Capital Intensiveness:* A first characteristic would be whether the industry was capital or labor intensive. If labor is less important for industry production

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<sup>10</sup> It is important to specify performance following the adoption of an ESOP to avoid the confusion of a firm that performs well for some other reason and then adopts an ESOP, which would make the ESOP correlated with performance but reverse the causal direction.

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

relative to capital, then it is less likely that ESOP and related shared ownership programs will greatly enhance performance.

- . *Industry Growth:* If the industry context is mature and not characterized by significant growth, it is difficult to expect that a shared ownership institution, even if implemented perfectly, can overcome such constraints.
- . *Variability of Industry Growth:* It is important not just that there is growth potential for an ESOP to unlock, but that growth be predictable, since the more uncertain the industry growth, the less plausible it will be for employees to link their efforts to firm results via an ESOP.

**Sustainability:** A different potential direction for research concerns the conditions under which the performance effects of ESOPs and shared ownership programs will persist or be competed away. The intuition is that as a firm introduces an ESOP in its industry, it will have the largest performance effects, as the firm obtains the benefits of the program while its competitors have not recognized the effects of the program and taken steps to imitate it. As competitors imitate the program, the ESOP will diffuse throughout the industry and competitors will obtain comparable benefits to those of the initial adopter. This means that on a relative basis, the performance effects to the initial adopter will diminish. Once ESOPs have fully diffused in an industry, they would be little or no competitive advantage for adopting firms<sup>11</sup>.

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<sup>11</sup> For a study of the diffusion of the divisional “M-form” organization structure and the effects of diffusion on performance, see Armour and Teece (1978).

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

---

*Proposition ICI: In a given industry, early adopters of shared capital programs will experience the largest performance effects, but those effects will diminish as competitors imitate these programs.*

**Strategic Advantage and Shared Capitalism—A Final Thought**

While it is necessary to argue that ESOPs and related programs of shared capitalism can lead to significant increases in firm performance – that they can be valuable to firms, that is insufficient for an argument about strategic advantage. Based work by Barney (2001) and Peteraf (1993), strategic advantage from such programs must be examined in terms of: (a) significant performance increases relative to competitors and (b) sustainable performance differences from competitors that both persist for a firm and that are costly for competitors to imitate. When ESOPs and related programs have such attributes, they can be said to be of strategic value and thus form part of a firm’s strategic human capital assets. While research on the strategic value of ESOPs is limited (Pugh, et al., 2000), examples of firms that benefit strategically from such programs are easy to find, with popular examples of Wal-Mart and Southwest Airlines coming to mind. The form of ownership is an asset that enhances the value of other resources such as human capital and organizational capabilities.

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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**Table 1**

<b><u>Individual Level</u></b>	
<b><u>Outcome</u></b>	<b><u>Authors</u></b>
<b>Satisfaction</b>	Greenberg, 1980 Hammer, Stern and & Gurdon, 1982 Long 1978a. 1978b, 1980, 1982 Kruse, 1984 Tucker, Nock and Toscano, 1989 Buchko, 1993 French and Rosenstein, 1984 Russell, Hochner, and Perry, 1979
<b>Would Take the Same Job Again</b>	Russell, Hochner, and Perry, 1979
<b>Organizational Commitment / Identification</b>	Hammer, Stern and & Gurdon, 1982 Keef 1994 Long 1978a. 1978b, 1980 Oliver, 1984 Rhodes and Steers, 1981 Russell, Hochner, and Perry, 1979 Long, 1982 Tucker, Nock and Toscano, 1989 French and Rosenstein, 1984 Oliver, 1990
<b>Motivation, ESOP Satisfaction</b>	Goldstein, 1978 Kruse, 1984 Long 1978a. 1978b, 1980 Rhodes and Steers, 1981 Russell, Hochner, and Perry, 1979 Long, 1982 Buchko, 1992, 1993 Klein and Hall, 1988 Rosen, Klein, and Young, 1986
<b>Perceived and Desired Influence Under Employee Ownership</b>	Goldstein, 1978 Hammer, Stern and & Gurdon, 1982 Kruse, 1984 Long, 1979, 1981. 1982 Rhodes and Steers, 1981 Russell, Hochner, and Perry, 1979 Sockell, 1985 Hammer and Stern, 1980

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

<b>Firm Level</b>	
<b>Turnover, Absenteeism, Tardiness, Injuries</b>	Buchko, 1992, 1993 Hammer, Landau and Stern 19XXX Kruse, 1984 Rooney, 1992
<b>Sales, and Sales per Employee</b>	Bell and Kruse, 1995 Bloom, 1985 Dunbar and Kumbhakar, 1992, 1993 Kruse, 1988, 1992, 1993
<b>Return on Assets, Market Return</b>	Bell and Kruse, 1995 Conte, Blasi, Kruse, and Jampani, 1996 Park and Song, 1995 U. S. GAO, 1986
<b>Tobin's Q, Value Added</b>	Bell and Kruse, 1995 Kruse, 1993
<b>Profitability</b>	Mitchell, Lewin and Lawler, 1990 U. S. GAO, 1986

**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPS AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
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**SHARED CAPITALISM AND CORPORATE STRATEGY: A RESOURCE-BASED  
EXAMINATION OF ESOPs AS STRATEGIC HUMAN CAPITAL PROGRAMS**

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**Figure 1**

