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Employee Ownership and Group Incentives

Fall 2016

Wednesdays 10:20am-1:20pm

Room 003

Office Hours (by appointment): Email to request appointments

SMLR Learning Objectives:

This course is designed to help students attain the following SMLR learning objectives:

IV) Theoretical Perspectives – Demonstrate an understanding of relevant theories and apply them give the background context of a particular work situation.

- Demonstrate an understanding of the practical perspectives, theories and concepts in their field of study
- Evaluate and apply theories from social science disciplines to workplace issues

VI) Application – Demonstrate an understanding of how to apply knowledge necessary for effective work performance.

- Apply concepts and substantive institutional knowledge to understanding contemporary developments related to work
- Understand the legal, regulatory and ethical issues related to their field

VII) Professional Development – Demonstrate an ability to interact with and influence others in a professional manner, and to effectively present ideas and recommendations

- Develop effective presentation skills appropriate for different settings and audiences
- Work productively in teams, in social networks, and on an individual basis

Course-Specific Learning Goals:

Upon completion of this course students should understand:

1. The history of the idea of broad based employee ownership
2. The range of national applications of the idea of broad based employee ownership with a focus on experience in the United States
3. The legal and regulatory foundations of broad based employee ownership
4. How the idea of broad based employee ownership intersects with theories of group incentives
5. Critical perspectives against the idea of broad based employee ownership
6. The range of professional specialties that service the idea of broad based employee ownership – visits from professional groups to illustrate the realm of practice
7. How broad based employee ownership is implemented in the United States – simulation of how employee ownership transactions take place
8. Research uses of broad based employee ownership in the United States with a focus on New Jersey and New York State

Required Texts:

- Beyond the Corporation: Humanity Working. David Erdal, The Bodley Head, London, 2011. Not published in the United States. Week 1 and 2 readings will be made available on Sakai, but students will be expected to purchase either a hard copy (on Amazon or other sites) or a digital copy via Amazon Kindle at this shortlink: amzn.to/Q94qC2 or through Google E Books – [see this link](#) - prior to our Week 3 session. Copies will be held on reserve at Livingston Library.
- The Citizen's Share: Putting Ownership Back in Democracy. Joseph R. Blasi, Richard B. Freeman, Douglas L. Kruse, Yale University Press 2013. Purchase hard copy [here](#) or on Kindle.

Articles

- Selected readings – Listed in syllabus and available on Sakai. Additional readings will be added over the course of the semester

Additional Books for Supplementary Reading:

- Democratic Capitalism, Ray Carey, AuthorHouse, 2004.
- The 3rd Way: Building “Inclusive Capitalism” through Employee Ownership, Upendra Chivukula and Veny W. Musum, The 3rd Way Publishers, 2016
- The Soul of Capitalism: Opening Paths to a Moral Economy, William Greider, Simon & Schuster, 2003

Course Description: This course will explore the contemporary revival of interest in broad based employee share ownership structures. We will investigate the legal and policy frameworks that presently structure employee ownership. We will investigate how broad based ownership initiatives take place in a broad range of corporations from publicly traded, stock exchange firms, to closely held Employee Stock Ownership Plans (ESOPs) and worker cooperatives, and in high technology firms.

We will compare and contrast five specific starting points; five “verbs” for how employee ownership actually takes place in the economy. We will hear from business owners and working people affected by these ideas and we will hear from practitioners who facilitate the process. We will review empirical research on how employee ownership is performing and we will debate both the promise and the limitations of employee ownership as a business strategy and a strategy for motivating employees. We will research the practical uses of broad based employee ownership with a focus on implementation that has taken place within the states of New Jersey and New York.

Grading: The following components will comprise 100% of the grade:

- Mid Term Exam – 30%
- Final Exam – 30%
- Participation – 40%

Further details regarding the participation requirement will be summarized in class.

Approach: This course will make use of weekly lectures, the regular use of film, guest lectures and both large and small group discussion.

Lecture Notes: The PowerPoint slides for the lectures will be posted on the course’s Sakai website.

Participation and Written Work: Participation represents a relatively high percentage (40%) of the final grade. Attendance at lectures and class meetings is critical to the class. Attendance will be taken in class and those not participating will lose points on the participation score. Lecture material will be presented in class that is not covered in the readings and will make up a significant part of mid-term and final exams.

Beginning in week 2, in advance of each Wednesday morning class, all participants are expected to submit through Sakai (submission deadline of 2 PM ET on Tuesday – the earlier the better) two items: 1) **Commentary** – No more than two paragraphs of commentary by you the current week’s readings. Describe what you found provocative or interesting. Your comments may focus on a single reading or on readings as a whole and

2) **Question** - A single question that occurs to you that has been inspired or provoked by the current week's readings be that a single reading or readings as a whole.

These weekly submissions will be graded on a 1-5 scale and will be included as part of your participation grade. The comments and questions you pose will also be used anonymously to help provoke discussion in the class.

Academic Integrity – (see Academic Integrity Contract at conclusion of this syllabus)

Classroom Conduct: The following are NOT permitted in class:

- (a) cell phones, pagers, and text messaging devices. These should be turned off and put away OUT OF SIGHT (except when responding to PollEverywhere questions.
- (b) laptop computers (except when used for taking notes or responding to PollEverywhere questions)
- (c) napping
- (d) chit-chatting with your seat neighbors
- (e) studying or doing homework for other courses
- (f) arriving at class late on a consistent basis
- (g) leaving class early on a consistent basis
- (h) wandering in and out of class

When you are doing any of these things it is hard to argue you are participating in the class, and points will be deducted from your Participation score.

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Week One: Introductions and Overall Themes

Brief Outline: After introducing members of the class to one another, this session will introduce the broad themes of the course. We will review different frameworks used to describe these ideas including Employee Ownership, Shared Capitalism, Democratic Capitalism and Economic Democracy. Prior to exploring them one by one in later classes, we will introduce the five “verbs” that describe how employee ownership is introduced into the economy. We will review the material in Chapter 1 of one of our required texts *Beyond the Corporation: Humanity Working*. Finally, we will air a new (2015) documentary film on the topic of employee ownership, directed by Patrik Witkowsky of Sweden called *Can We Do It Ourselves?* We will break into small groups to discuss our reactions to the film and assemble a list of discussion topics for our second class.

Required Readings:

- *Beyond the Corporation: Humanity Working*. David Erdal, Introduction, Chapter 1, *Owning a Business and Making it Perform*, pps. 1-25 (PDF of Chapter 1 provided on Sakai – All students expected to obtain hard copy or digital ownership of *Beyond the Corporation: Humanity Working* prior to Week 2 class session).
- *Employee Ownership in America: A Primer for Industrial Relations*, *Perspectives on Work*. Christopher Mackin, pps.1-5

Week Two: Employee Ownership – History of an Idea

Brief Outline: Employee ownership is an idea that has inspired advocates since the dawn of industrialization. Those advocates are drawn from across the political spectrum. We will explore the historical roots of the idea of shared ownership in the workplace reaching back to reform movements for democracy in the workplace as they evolved in the United States and in Europe.

Required Readings:

- Beyond the Corporation: Humanity Working. David Erdal, Chapter 2, *Founders*, Chapter 3, *Predictions* pps. 26-44 All students expected to obtain hard copy or digital ownership of *Beyond the Corporation: Humanity Working* prior to Week 3 class session
- The Citizen’s Share: Putting Ownership Back in Democracy Joseph Blasi, Richard Freeman, Douglas Kruse, Introduction, pps.1-15. (PDF of Chapter 1 provided on Sakai)
- For All the People: Uncovering the Hidden History of Cooperation, Cooperative Movements and Communalism in America, John Curl, pps. 1-6, plus
- *‘An iron chain of bondage’: lessons from the Knights of Labor,* Alex Gourevitch, Our Kingdom, Democratic Wealth, November 29, 2012 - <http://www.opendemocracy.net/ourkingdom/alex-gourevitch/iron-chain-of-bondage-lessons-from-knights-of-labor>

Week Three: Shareholders, Stakeholders and the Idea of Democratic Capitalism

Brief Outline: This session will focus on the alternative conceptions of the corporation. How does employee ownership intersect with the ongoing debate between shareholder versus stakeholder models of the corporation? How do those models compare with calls for economic democracy? We will review the ideas of Ray Carey, former CEO of ADT, Inc., the alarm system company now owned by Tyco International.

Required Readings:

- The Citizen’s Share: Putting Ownership Back in Democracy Joseph Blasi, Richard Freeman, Douglas Kruse, Introduction, pps.16-43
- *Capitalism, the Good and the Bad*, Essay from [Carey Center for Democratic Capitalism](#) web site pps. 1-6
- *Stakeholders, Shareholders and Wealth Maximization*, V. Sivirama Krishnan, *University of Central Oklahoma*, pps. 1-9 – [at this link](#)
- *The Labor Day Lessons of Market Basket*, PBS NewsHour Making Sen\$e of the Economy, Christopher Mackin, September 1, 2014 – pps.1-2 - [at this link](#)

Week Four: The Five Verbs of Democratic Capitalism: Verb 1 – The Benefit - Employee Ownership and Profit Sharing

Brief Outline: This session will explore various methods of sharing equity and profits with employees with a focus on broad-based profit sharing and employee share ownership. We will begin with a showing of the documentary film *We the Owners: Employees Expanding the American Dream* by the Foundation for Enterprise Development.

- The Citizen’s Share: Putting Ownership Back in Democracy Joseph Blasi, Richard Freeman, Douglas Kruse Ch. 2, “Examples,” 59-64, 75-108; Ch. 4, “How it Evolved,” 159-166; Ch. 5, “Evidence,” 167-194.

- Employee Ownership at Southwest Airlines
- Case Study: W. L. Gore

Week Five: The Five Verbs of Democratic Capitalism: Verb 1 – The Benefit - Employee Ownership in Public Companies and High Tech Settings: The Use of Stock Options

Brief Outline: This session will look at a sector of the economy that has used broad-based employee shares in a meaningful and substantial way, namely, high tech firms, many in Silicon Valley, that have revolutionized business and markets in recent years.

- In the Company of Owners. New York: Basic Books, 2003, Joseph Blasi, Douglas Kruse, and Aaron Bernstein.Ch. 1, “It All Began with Shockley,” 3-30; “How High Tech Firms Share the Wealth,” 79-104.
- Case Study: Google.

Week Six: The Five Verbs of Democratic Capitalism: Verb 2: To Take

Brief Outline: In this session, we will introduce the first verb of democratic capitalism, to “Take.” This segment will focus on the dramatic efforts of Employees and managers in Argentina in 2001 who in the face of massive plant closings converted their businesses overnight into democratic employee-owned firms. We will begin this segment with a viewing of an award winning documentary called “The Take” that explores how this novel effort took place. We will discuss the film and the readings listed below that summarize positive and negative data concerning this initiative in Argentina a decade after its launch.

Required Readings:

- *The Case of Argentina: Recuperated Factories and the Multitude*, Derek Merrill, Variant, Vol. 2, Number 21, Winter, 2004, pps. 11-12
- *When Work is a Crime*, Naomi Klein in The Silent Change, Esteban Magnani, 2009, pps. 21-23
- Beyond the Corporation: Humanity Working, David Erdal, , Chapter 4 *Creative and Inventive*, Chapter 5, *Decisions, Decisions*, Chapter 6, *The Discreet Charm of the Employee Owner* pps. 62-88
- Film: (In class) The Take, Klein Lewis Productions.

Week Seven: The Five Verbs of Democratic Capitalism - Verb 3: To “Start” Cooperative Ownership and the Case of the Mondragon Cooperative Corporation

Brief Outline: This session will introduce Verb 3, to “Start”. We will review how employee ownership takes place as a deliberate planned strategy for start-up enterprises. We will review the American experience and we will review the largest and most successful grouping of employee owned firms, referred to as the Mondragon Cooperatives, located in the Basque Region of Spain.

Required Readings:

- What is a Worker Cooperative?, U.S. Federation of Employee Cooperatives, pps 1-2
- Worker Cooperative Toolbox, Northcountry Cooperative Foundation, 2006, pps. 1-22
- *Evergreen Cooperatives Forge an Innovative Path toward High-Quality Green Jobs*, Common Dreams.org, April 17, 2010, pps.1-5
- *Mondragon: Notes on History, Scope and Structure*, Fred Freundlich, Hervé Grellier, Rafael Altuna, Dept of Strategy, Organization & Entrepreneurship, Faculty of Business, Mondragon University, Oñati, Spain, October, 2011, pps. 1-17

- *Spain's astonishing co-op takes on the world*, The Telegraph, February 16, 2011, pps 1-3
- Film: (In class) The Mondragon Experiment. BBC.

Week Eight: The Five Verbs of Employee Ownership: Verb 4: To “Negotiate” How Unions Have Used Employee Ownership as a Tactic in Collective Bargaining

Brief Outline: This session will explore how select high profile cases of employee buyouts in the manufacturing, retail food and transportation sectors in the U.S. have fared over the past thirty years. We will consider both failed and successful cases.

Readings:

- The Deindustrialization of America, Barry Bluestone and Bennett Harrison, Chapter 8, *Reindustrialization with a Human Face*, pps. 255-262
- Participatory Employee Ownership: How it Works, John Logue, Chapter 2, *Doing the Deal*, pps. 27-50
- *United It Was Not, An Analysis of the United Airlines ESOP*, Unpublished Essay, Christopher Mackin, pps. 1-5
- *Newspaper Union Accepts Givebacks Ahead of Sale*, Associated Press, May 30, 2009, p. 1
- Beyond the Corporation: Humanity Working, David Erdal, Part 3, *Humanity in Partnership*, Chapter 11, John Lewis: Partners at Work, pps. 145-161

Week Nine: The Five Verbs of Democratic Capitalism: Verb 5: To “Buy” (Part 1) - How Does Employee Ownership Happen in the Mainstream Economy? The Buying and Selling of Privately-held Businesses – Emphasis on Employee Stock Ownership Plans or ESOPs? --

Visiting Lecturer: Michael Keeling, President, ESOP Association of America, Professor Joseph Blasi, Rutgers University

Brief Outline: This session will explore the experience of the most statistically significant cohort of the employee ownership field. That cohort is the 7,000 plus enterprises, collectively employing over 11 Million Employees that have come about as a consequence of the adoption starting in 1974 of Employee Stock Ownership Plan (ESOP) legislation. We will introduce basic conceptual foundations as well as the statistical highlights of ESOP's.

Readings:

- *Employee Ownership: The Road to Shared Prosperity*, Christopher Mackin, The Nation Magazine, Volume 292, Number 26, June 27, 2011, pps.1-2
- *Whose Pie? And Why ESOP's?*, Senator Russell Long (D-LA), United States Congress, Congressional Floor Statement, November 17, 1983, p.1
- Congressional Record, Proceedings and Debates of the 97th Congress, Tuesday, May 12, 1981 – *Expanded Ownership Act of 1981*, pps. 1-3
- An Overview of How ESOPs Work, Corey Rosen, National Center for Employee Ownership, Chapter 1, pps. 1-9
- National Center for Employee Ownership, *The Employee Ownership 100*, pps. 1-5
- Beyond the Corporation: Humanity Working, David Erdal, Chapter 12, *Leadership*, Chapter 13, *Lining up the Arrows*, pps. 162-195

Week Ten: The Five Verbs of Democratic Capitalism: Verb 5: To “Buy” (Part 2) – How Do Employees and Managers Actually Buy a Company through an Employee Stock Ownership Plan or ESOP

Brief Outline: This session will examine how employees and managers actually acquire companies. Managers and employees typically will not have the personal cash resources to buy successful companies and will use bank loans to complete the purchase.

Readings:

- U.S. Department of Labor, Employee Benefits Security Administration, What You Should Know About Your Retirement Plan, *Chapter 1: Types of Retirement Plans*, p. 1
- Participatory Employee Ownership: How it Works, John Logue, Chapter 3, *Setting Up the Employee Owned Company*, pps. 51-62
- Beyond the Corporation: Humanity Working, David Erdal, Chapter 14, *Governance and Power*, Chapter 15 *A Thousand and One Ways of Structuring Ownership*, pps. 196-213

Week Eleven: Organizational and Ownership Cultures: Part 1 – Building a Culture of Trust – Part 2 – Sharing Decision Making Power

Brief Outline: Examines the research evidence on the relevance of participation and education within employee owned firms. Explores curricula used within Employee owned firms to teach about the concept of Employee ownership

Readings:

- Beyond the Corporation: Humanity Working, David Erdal, Chapter 14, *Governance and Power*,
- Beyond the Corporation: Humanity Working, David Erdal, Chapter 15 *A Thousand and One Ways of Structuring Ownership*, pps. 196-213
- Beyond the Corporation: Humanity Working, David Erdal, Chapter 16, *Culture*
- Harvard Business School Case: King Arthur Flour, pps. 1-18

Week Twelve: Employee Ownership and Workplace Motivation

Brief Outline: What motivates employees at work? Broad based employee ownership involves a partial shift from a wage and benefit model of employment to the idea of including all members of the firm in the risks and rewards of ownership. How prominent are economic motivations in explaining the success or failure of employee ownership? When ownership is broad based, what risks are present for “shirking”? What other motivations does shared ownership bring to the workplace experience?

- Journal of Applied Psychology: Employee Stock Ownership and Employee Attitudes: A Test of Three Models, Katherine Klein
- Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing and Broad-Based Stock Options, Douglas Kruse, Richard Freeman and Joseph Blasi, *Worker Responses to Shirking under Shared Capitalism*. (pps. 77-103)
- British Journal of Industrial Relations. Do Broad-based Employee Ownership, Profit Sharing and Stock Options Help the Best Firms Do Even Better? Joseph Blasi, Richard Freeman and Douglas Kruse

Week Thirteen: The Future of Employee Ownership: Public Policy and the Battle of Ideas

Brief Outline: Examines how democratic capitalism “fits” within the contemporary public policy discussion around economic ideas. Reviews pending legislation and policy programs that incorporate democratic capitalist ideas.

Readings:

- *Occupy by Analogy: A Conversation with Christopher Mackin*, The Straddler Magazine, Summer, 2012, pps. 1-7
- *Inclusive Capitalism for the American Workforce*, Richard Freeman, Joseph Blasi and Douglas Kruse, Center for American Progress Policy Report, pps. 1-4, 22-28 – Full report at http://www.americanprogress.org/issues/2011/03/pdf/Employee_productivity.pdf

Week Fourteen: Final Exam (In Class)

Version: 081116

Academic Integrity Contract

(To be signed and turned in at the first class)

All members of the Rutgers University community are expected to behave in an ethical and moral fashion, respecting the human dignity of all members of the community and resisting behavior that may cause danger or harm to others through violence, theft, or bigotry. All members of the Rutgers University community are expected to adhere to the civil and criminal laws of the local community, state, and nation, and to regulations promulgated by the University. All members of the Rutgers University community are expected to observe established standards of scholarship and academic freedom by respecting the intellectual property of others and by honoring the right of all students to pursue their education in an environment free from harassment and intimidation. Please see <http://policies.rutgers.edu/PDF/Section10/10.2.11-current.pdf> for details regarding the Student Code of Conduct. Please see http://academicintegrity.rutgers.edu/files/documents/AI_Policy_9_01_2011.pdf for details regarding the Academic Integrity Policy.

Similarly, all students and faculty members of the academic community at the School of Management and Labor Relations should uphold high standards for personal conduct, ethical behavior, and professional integrity. In the area of academic integrity, students are expected to refrain from cheating, fabricating information, plagiarizing, inappropriately denying others access to material, and facilitating others in academic dishonesty. Please see <http://policies.rutgers.edu/PDF/Section10/10.2.11-current.pdf> (pp. 24-28) for detailed descriptions of each type of action.

Any of the following acts, when committed by a student, is an act of academic dishonesty and decreases the genuine achievements of other students and scholars. Academic dishonesty includes, but is not limited to, any of the following:

Plagiarism/False Representation of Work

- Quoting directly or paraphrasing portions of someone else's work without acknowledging the source.
- Submitting the same work, or major portions thereof, including presentations, to satisfy the requirements of more than one course without permission from the instructor.
- Using data or interpretative material for a report or presentation without acknowledging the sources or the collaborators.
- Failing to acknowledge assistance from others, such as help with research, statistical analysis, or field data collection, in a paper, examination, or project report.
- Submitting purchased materials such as a term paper as your own work.
- Copying or presenting material verbatim from any source without using quotation marks.
- Copying from any source and altering a few words to avoid exact quotation, without the appropriate documentation or by using improper documentation of the source.
- Rewording the major concept found in a source but then omitting documentation or improperly citing the source.
- Submitting as one's own any work created by someone else (e.g., paper, project, speech, video, exercise, etc.) without crediting them. Large duplication of someone else's work should be avoided unless you obtain express permission from both the instructor and originator of the work.
- Fabricating or misrepresenting data or information
- Forging signatures

Cheating

- Copying work on examinations.
- Acting to facilitate copying during an exam.
- Sharing answers through technology or in written or verbal form when such interactions are prohibited
- Using prohibited materials, such as books, notes, phones, or calculators during an examination.
- Working with another student on an assignment when such collaboration is prohibited.
- Stealing or having in one’s possession without permission any materials, or property belonging to or having been generated by faculty, staff, or another student for the course.
- Willfully offering to do another student’s work so they may represent it as their own
- Assisting another student in cheating or plagiarizing
- Doing another student’s work, excluding collaborative learning assignments or joint assignments approved by the instructor.
- Answering PollEverywhere participation or quiz questions when not physically present in the classroom

Engaging in any of the above behaviors can result in an F on the examination or project, an F in the course, denial of access to internships, suspension for one or more semesters, or permanent expulsion from the School of Management and Labor Relations at Rutgers University.

I, _____ understand the Policies on Academic Integrity and the Student Code of Conduct at Rutgers University and the School of Management and Labor Relations. Furthermore, I understand the consequences of unethical behavior.

We all share a responsibility in creating an ethical environment. I resolve to uphold and support high standards for ethics and integrity at Rutgers University. If I see, hear, or observe violations of ethics and integrity I will report them to my instructor, Department Chair, or Dean.

Student Signature: _____ Date: _____

Student Name (Please Print): _____

Rutgers University ID: _____