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AN EXPLORATION OF BROAD EMPLOYEE OWNERSHIP AND
RESPONSIBLE STAKEHOLDER MANAGEMENT IN B CORPORATIONS

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ABSTRACT OF THE DISSERTATION

An Exploration of Broad Employee Ownership and
Responsible Stakeholder Management in B Corporations

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As corporate profits, stock valuations and top executive pay reach record levels at the same time that average worker wages remain stagnant and persistently high unemployment devastates many communities, many academics and policymakers are questioning whether the current form of global capitalism is sustainable. The shareholder model that has come to dominate among global corporations privileges the interests of owners over employees, the community and other societal interests. But can alternative models of corporate governance and ownership co-exist that create profitable companies which share these benefits more equitably with employees and other external stakeholders? This dissertation will explore this question by providing one the first rigorous academic analyses of a new corporate standard: B Corporations.

The study elaborates on the concepts of employee ownership and responsible stakeholder management (RSM) and further empirically analyzes the relationships between the two. Three core questions delineate this research. Is a firm that adopts a set of strategic human resource practices that treat employees responsibly, also more likely

to share ownership broadly with its employees? Are firms with broad employee ownership also more likely to engage in responsible external stakeholder management? And does giving employees greater involvement in running the firm enhance the relationship between broad ownership and RSM?

This study relies on a unique sample of 347 private, mostly small-to-medium size firms which have sought B Corporation assessment or certification by the nonprofit B Lab. By investigating a homogeneous sample, this study is able to hold constant key determinants of RSM such as leadership commitment, structure, and culture, and focus on the variation of employee ownership and its relationship with RSM.

The results partially support the hypothesis that broad employee ownership is positively associated with external RSM, in particular with a focus on the environment. While hypothesized as a moderator, employee involvement alone acts as a relevant predictor of external RSM. Further research is needed to differentiate employee / manager / founder ownership, and specify the dimensions of RSM. Additional empirical work should evaluate whether similar relationships hold true in public corporations that have different charters and governance relationships.

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DEDICATION

A ma famille

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INTRODUCTION AND THEORETICAL FRAMEWORK

There are three distinct but related triggers that have motivated this research. The first stems from personal experience: my work for a biotechnology company, Genzyme Corporation now part of Sanofi, where managers and frontline employees had company stock, were strongly involved in decision-making processes, and were truly committed to putting patients first. This made me wonder about the relationships among these elements: employee ownership, employee involvement, and responsible stakeholder management. Second, there is a gap to fill in the literature. Employee ownership – construed as the multiple ways in which employees other than top management own stock in their firm (Kruse, 2002) - has extensively examined the link between employee ownership and organizational performance outcomes, and to some extent employee outcomes that could be qualified under responsible employee treatment (e.g. Kruse, Blasi, & Freeman, 2012). However employee ownership research has – save rare cases such as Erdal (2011) – not looked at whether employee-owned firms are more likely to behave in socially and environmentally responsible ways than peers that do not give most workers a stake in the enterprise. The third motivation comes from emerging models of firms that promote employee ownership as well as broader stakeholder outcomes, such as B Corporations that are experimenting with alternative forms of governance and corporate structure that would allow higher internal and external RSM. Academic research is emerging with qualitative case studies of certified B Corporations such as King Arthur Flour and Dansko that combine employee ownership and proactive stakeholder management (Ali, 2011).

In parallel, more research is needed to uncover the factors that predict stakeholder

management (Freeman, Harrison, Wicks, Parmar, & De Colle, 2010) and corporate social responsibility (CSR) (Aguilera, Rupp, Williams, & Ganapathi, 2007; Aguinis & Glavas, 2012). Scanning both stakeholder theory and CSR literatures for determinants is justified because they are closely connected. Both literatures share an attempt to theorize on the broader responsibilities of firms', beyond those owed to shareholders, which has been the predominant view in economics and management.

In searching for determinants of stakeholder management, broad employee ownership offers a likely candidate for several reasons. First, general ownership structures have been linked to stakeholder outcomes. Institutional ownership geared towards the long-term horizon such as pension funds affect a firm's corporate social performance positively (Johnson & Greening, 1999). Second, employee ownership can potentially be a powerful mechanism to achieve positive employee and organizational outcomes. Extensive research shows that employee ownership programs enhance: employee organizational commitment and identification, employment stability, rate of firm survival, innovation, collaboration within the firm, and overall firm performance (Kruse, Freeman, & Blasi, 2010). While there is little research that examines the effect of employee ownership on external stakeholder management, there are theoretical reasons to expect broad employee ownership to be linked with more responsible stakeholder management.

The theoretical portion of this dissertation develops the rationale for believing there is a strong relationship between broad-based employee ownership and responsible stakeholder management. Employee ownership is argued to stem from particular forms of leadership strategy, organizational structure and culture that are also present in firms

which treat their stakeholders more responsibly. Furthermore subject to internal responsible treatment, employees are better placed to value, experience, and reciprocate as key actors within the firm its external responsible stakeholder management.

The implementation of broad-based employee ownership requires leadership commitment, which itself affects the organizational structure and culture of the firm. While complex and multifaceted, an organization's ownership culture requires – a combination of actual and meaningful ownership, with structures in place to foster open communication of information and employee involvement in making decisions at the job level to help improve performance (Rosen & Rodrick, 2001/2013). Beyond actual programs and policies, what an ownership culture entails are shared perceptions related to trust, responsibility/accountability, and fairness (Rosen & Rodrick, 2001/2013). Such perceptions are also extremely relevant and tied to the notions of trust, responsibility and fair treatment in responsible stakeholder management. Employee-owned firms manage their stakeholders more responsibly because the corporate culture that such firms need to develop relies on the same set of values and practices that support responsible stakeholder management. The relevance of a strong supportive culture to employee ownership is found in more recent work (Kruse, Blasi, & Freeman, 2012).

Another key mechanism to investigate are employee motives. The reasons generally provided for why employee ownership achieves positive outcomes rely mostly on a variety of different theories from economics, and more recently from psychology, and sociology. The agency theory view is predominant and used to explain the incentive effects of employee ownership, whereby the employee becomes a principal (i.e. shareholder) and is also an agent, with financial interests that can thus be aligned with

those of other principals of the firm. Such perspective has value, but may be limited and incomplete as suggested by Pendleton and Robinson (2010). Alternate sociological and psychological theoretical explanations may be more plausible to uncover the mechanisms of employee ownership and would also help explain its effect on a firm's responsible stakeholder management.

This study will leverage an alternative view whereby the employee owner goes beyond seeking - as the shareholder would in an agency theory perspective - financial performance, and maximizing shareholder value. In what sense, might employee ownership be related to broadening the perspective in order to care about the longer-term stakeholder interests, rather than focusing solely on the short-term returns to the firm's shareholders? An instrumental view of stakeholder theory would accept that managing stakeholders is useful as it can achieve long-term value maximization (Jensen, 2002) and thus would still fit well with a shareholder-maximization logic. However employees may have other reasons to consider stakeholders, as suggested by the research on individual and organizational determinants of CSR, which can be broken into instrumental, relational and morality-based *motives* (Aguilera et al, 2007). Further, employees are the *mechanism* through which CSR happens (Aguilera et al, 2007). Indeed employees, both frontline and managerial, often deal directly with stakeholders and are the "real face" of the firm's stakeholder facing relationships.

Marens, Wicks and Huber (1999) developed a rationale to explain why employee stock ownership plans (ESOPs), when combined with participation programs, would create a stakeholder relationship - associated with rights and responsibilities - between management and employees. Marens and colleagues argue that beyond monetary

incentives, ESOPs, one form of broad-based employee ownership, can create strong affective and normative bases for a relationship based on mutual awareness and respect between employees and managers. I connect their arguments, with the multiple motives for CSR advanced by Aguilera et al (2007), as well as with case studies of employee-owned firms such as King Arthur Flour and Dansko (Ali, 2011), to hypothesize that employee ownership programs complemented with participative decision-making processes foster collaboration and trust with employees and certain external stakeholders such as customers, suppliers, investors, and the community. This study articulates further, and extends the rationale of the employee–manager relationship advanced by Marens and colleagues (1999), to the firm’s external stakeholder relationships.

Research in stakeholder management is plagued with issues similar to employee ownership research whereby the antecedents or outcomes exist at different levels (individual, organization, and even society) yet are rarely studied together, with some notable exceptions (in employee ownership see Kruse, Freeman, & Blasi (2010) which studies several key issues simultaneously). The argument about the importance of taking levels into account has been made by Thompson, McWilliams and Shanley (2013) in the employee ownership literature and by Aguinis & Glavas (2012) in the CSR/stakeholder literature.

Thus, a variety of mechanisms and motives at different levels can help explain why firms with broad-based employee ownership would be more likely to manage their stakeholders more responsibly. The hypotheses chapter will articulate more carefully the mechanisms and motives. First, a proper understanding of both fields of responsible stakeholder management and employee ownership is required.

1. CHAPTER ONE - RESPONSIBLE STAKEHOLDER MANAGEMENT

The purpose of this section is to develop a clear definition of responsible stakeholder management. First comes a justification of the stakeholder framework, then a definition of terms, and last, a background review of the different fields that overlap with, but are distinct from RSM.

1.1 Choice of a stakeholder framework

There are three main reasons to choose a stakeholder framework within the broader CSR label suggested by Garriga and Melé (2004) in their comprehensive review of the CSR field. First, a stakeholder approach better integrates the opportunity to think about the interconnection of ethics and business. This approach is at the same time descriptive, instrumental and normative: it corresponds to how managers think about business, how managers can help the firm create more value, and how managers ought to consider their responsibilities towards the firm's stakeholders. A CSR approach can at times reinforce the separation thesis – that business and ethics operate distinctly, whereby managers first focus on the business, and then separately see social responsibility as an add-on to ameliorate the supposedly harsh consequences of capitalism (Freeman & Velamuri, 2008). A stakeholder approach already advocates a holistic approach to management, integrating economic, social, political, and ethical considerations. Furthermore, the stakeholder view starts off with the premise that a firm has a greater likelihood to exist and sustain itself only if it offers solutions that balance the interests of multiple stakeholders over time (Freeman & Velamuri, 2008: 8).

Second, as there is sometimes an overlap between CSR and stakeholder approaches in the literature, it is worth using the most specific term. As Barnett (2007)

pointed out, CSR can be broken down into a social-welfare orientation and a stakeholder-relationship orientation. The former relates to broader social ills that the corporation might address through philanthropic activity by donating resources to major societal ills such as malnutrition, HIV, illiteracy, and homelessness (Margolis & Walsh, 2003). The latter orientation is more focused on the specific responsibilities the firm has towards its stakeholders rather than society very broadly construed (Clarkson, 1995; Freeman & Velamuri, 2008). Third, a stakeholder perspective is most appropriate for an organizational and individual level of study. CSR may apply to different levels (e.g. Aguilera et al. 2007; Swanson, 1995; Wood, 1991), and may be most suited to the institutional level (e.g. Clarkson, 1995: 104). A stakeholder approach tends to relate best with the individual (e.g. managerial) and the organizational levels of analysis (Clarkson, 1995: 104).

A clear articulation of responsible stakeholder management is now needed and presented in the following sub-sections.

1.2 Moving beyond stakeholder theory as a ‘genre’

It may seem a disservice to stakeholder theory to explicitly add the term responsible, as the specification would entail that there is a responsible stakeholder management and a non-responsible one. Freeman (1994) argues clearly that business and values are integrated. Hence the addition of the term “responsible” to stakeholder management might seem redundant. However, the term is meant to better capture the normative component and to differentiate it from other only purely strategic (i.e. instrumental) strands of stakeholder management (e.g. Barnett, 2007; Hitt et al., 2010; Porter & Kramer, 2002) and to specify better what responsibility really is.

This study builds on Freeman and colleagues work while being more clear on the ethical component of stakeholder management. Freeman and colleagues provide a framework for stakeholder theory but they leave the field (intentionally) unspecified. By naming stakeholder theory a *genre*, Freeman (1994) allows the possibility of different normative cores to co-exist under the big tent of stakeholder theory. Thus many versions have been articulated under the stakeholder approach using different ethical theories. The notion of responsibility has been built on the following ethical theories: Kantian (Bowie, 1999; Evan & Freeman, 1988), feminist (Wicks, Gilbert, & Freeman, 1994), modern theory of property rights (Donaldson & Preston, 1995), or pragmatic liberalism using the concept of fair contracts (Freeman, 1994). Freeman, Wicks, and Parmar (2004) even show that shareholder theory is just one version of stakeholder theory, one that focuses on the property rights of shareholders. In his pragmatic stance, Freeman (1994) strongly argues for taking into account the reality of business, its value creation properties, and for realizing that it is in itself not devoid of context, but rather embedded in one that is moral in nature. For a pragmatist, such as is Freeman, the question is less “what is true” but “how should we live” or “how does this narrative allow us to live” (Freeman 1994: 418).

Freeman et al. (2010) state that the responsibility principle is an integral part of stakeholder theory. We need to be willing to accept responsibility for our own actions, or else “ethics understood as how we can reason together so that we can all flourish is likely an exercise in bad faith” (2010: 8). The problem is that Freeman and colleagues do not specify what responsibility really is; they simply mention that an extensive philosophical literature engages in debates about this concept. This may be similar to a narrow vision of the purpose of philosophy and that dominated the first half of the twentieth century,

whereby for logical positivists “any set of principles would do equally well” (Weldon, 1956: 34, cited in Mandle, 2009: 2). In political philosophy, John Rawls showed that philosophical reflection was needed to justify specific conceptions of justice, one that was superior to the dominant utilitarianism tradition at the time, and that not all principles “would do equally well” (Mandle, 2009: 2-3). While providing the opportunity for business to not overburden it with thinking through which moral principles to work from, the pragmatist approach is insufficient. Freeman and colleagues (2010) have been criticized (e.g. Bowie, 2012) for dodging the responsibility question and for defending a pragmatic approach that does not provide clear ethical guidance. For the purpose of this study, we need a firmer ground to stand on and thus propose a definition in the following section.

1.3 Definition of responsible stakeholder management

Responsible stakeholder management refers to the relationships a firm has with those individuals or groups that affect or are affected by the firm. Why does being affected by someone’s actions give the affected individual or group a legitimate claim? If the firm is affecting the humanity in a person, the affected subject has a legitimate (i.e. moral) claim, no matter what relationship with the firm, or lack thereof, may be. A firm has the responsibility not to harm its stakeholders, and further in the limit of its ability, to improve the condition for its stakeholders. The definition thus includes two separate claims, one of doing not harm that is generally not disputed, while the other of benefiting stakeholders may be more debatable. RSM grounds itself in a deontological justification of perfect and imperfect duties, and the philosophical justification for imperfect duties exists and will be clarified more later but is in itself disputed in ethics. Using the broader

term ‘responsible’ instead of duties or obligations, is a practical choice, that may make more intuitive sense to a broader audience and allows to more simply refer to RSM rather than dutiful or obligatory stakeholder management. The question of who counts as a stakeholder will be addressed in a later section.

How can the framework of obligations be applied to responsible stakeholder management? Others have adopted such a framework using the writings of the philosopher Immanuel Kant (Bowie, 99; Evan & Freeman, 1988). Building on these efforts, this study tries to clarify why this framework is meaningful for the study of employee ownership and responsible stakeholder management.

The counterparts of responsibilities are rights. Determining what kind of responsibilities firms can be facilitated by looking at what corresponding rights stakeholders may have. Human rights tend to be the codification of respecting the humanity in each person. Human rights may not express all that the respect of humanity might entail, but at least they provide clear-cut and baseline guidelines that legitimate institutions have established and agreed upon, such as: equality in dignity and rights, the right to freedom of thought/speech, the right to work, and the right not to be discriminated against, based on the 1948 Universal Declaration of Human Rights. In the context of business, ten principles have been specified by the United Nations Global Compact and cover the areas of human rights, labor, the environment and anti-corruption. In a relationship with its stakeholder – whether a consumer, an employee, a supplier - or the environment - an indirect stakeholder and within which human beings depend to live – the firm has the responsibility to respect the basic human rights or else be considered not upholding its perfect duty. However such rights may provide only a common

denominator, and while universal, may constitute only the baseline obligation that a firm should follow.

Beyond human rights, more extensive philosophical argumentation can be advanced to express what treating the humanity in each person means. Kant's second categorical imperative offers strong guidance in understanding what is meant by respecting the humanity in stakeholders. It states, "[a]ct so that you treat humanity, whether in your own person or in that of another, always as an end and never as a means only" (Kant, 1785). Human beings ought to be respected because human beings have dignity. For Kant, an object that has dignity is beyond price. Human beings have dignity because they are capable of autonomy and self-governance. Autonomy and self-governance are the conditions for responsibility. "A person who recognizes that he or she is responsible should ascribe dignity to anyone like him or her" (Bowie, 1999: 44). A person honors their own dignity by treating another person with respect. Hence, even a regular business person ought to treat his or her colleagues, clients, or competitors with dignity out of respect for himself or herself. There are two parts in the second categorical imperative with respect to negative and positive freedom for persons also called perfect and imperfect duties. One ought "not use them (negatively) as mere means, but also (positively) treat them as ends in themselves" (O'Neill, 1989: 57-59). The first step to respecting humanity in a person requires that a person should not merely be used. With respect to the treatment of stakeholders, that means that a business relationship should at the minimum be neither coercive nor deceptive. Other actions can be qualified as harmful however "[a]ccording to the Formula of Humanity, coercion and deception are the most

fundamental forms of wrongdoing to others - the roots of all evil” (Korsgaard, 1996: 140-141).

The second part of the categorical imperative is that one should treat the humanity in other people as an end, supporting their positive freedom. Hence for a firm, this may entail providing meaningful work to its employee stakeholder. Neither deceiving nor coercing is not always sufficient for treating those in a business relationship with respect. On occasion, firms need to act positively and further their stakeholders’ humanity. This is because we must not only use people but we must also treat them as ends in themselves. This requires that we take some positive action to help a person. Such requirement stems from the second categorical imperative, from Kant’s own writings on the nature of work, and from Kant’s arguments on the imperfect duty of beneficence to help others.

1.3.1 Examples of responsible and irresponsible stakeholder management

For employees, RSM requires upholding the perfect duty, respecting its basic employee rights, avoiding coercion and manipulation, and thus supporting the individual’s negative freedom. This may entail providing the ability for individuals to act independently of determination by alien causes. For example, firms may be benefiting from the employer-employee relationship imbalance whereby employees may be subject to strong labor market shifts, and weak regulations. The firm can address such external factors by providing a living wage (possibly going beyond the strict legal responsibility of respecting a minimum wage), supporting their employment stability, or their outplacement in the case of unavoidable layoffs. Within its business constraints, a firm has also the imperfect duty to benefit its employees where it can – thus supporting its employees’ positive freedom - the autonomy persons have to be a law unto themselves.

This can be done by providing them with flexible work arrangements, and development opportunities for example.

With respect to consumers, perfect duties have been codified into rights, thus providing the minimum foundation for firms to uphold. President Kennedy's Bill of Consumer Rights in 1962¹ clarified American consumers' four basic rights: right to safety, right to choose, right to information, and right to be heard. With the rise of the Internet, a fifth right requires attention: the right to privacy. While seemingly upholding such basic rights, which are sometimes further protected by legal boundaries, firms' tactics may be particularly deceiving in what they portray about their products. McDonald's, for example has a duty not to manipulate its consumers. However the firm deceptively manages to attract younger consumers, who can be more easily influenced to consume without critically evaluating the product and information. It does so by targeting children with attractive happy meals and partnering with almost any entertainment company in a child's life (Jacques, 2014). While the responsibility may be shared with those parents, and McDonald's may try to appear healthy by adding a few healthy items to its menu, the corporation has an imperfect duty to educate its consumers on all of its offering. Ironically, if McDonald's sincerely did educate its consumers on true healthy choices, and uphold consumers' basic rights to safe food for their long-term health, the firm could lose its consumers, and go out of business. For such firm to respect its perfect and imperfect duties could require that it radically change its model as a fast-food chain essentially based on unhealthy ingredients, and addictive marketing that can only promote unhealthy outcomes.

¹ <http://www.cuts-international.org/consumer-rights.htm>, March 2014.

1.4 Who counts as a stakeholder?

The initial notion of being affected or affecting serves as a broad base of stakeholders (Freeman, 1984) but becomes insufficient to ground further responsibilities beyond those a firm has in respecting the humanity in each person or group it affects. If all those who consider themselves “affected” by the firm are considered legitimate stakeholders, then everyone can qualify as a stakeholder, and the term loses its significance. Indeed, the simple act of “affecting” may or may not entail a responsibility. It depends on whether the subject has a legitimate claim. Phillips (2003) helped to clarify stakeholder legitimacy. Freeman’s (1984) definition is too broad and suggests that everybody should be included, and ends up reducing the stakeholder interests to prudential interests by claiming that those whom the corporation affects may someday come to affect the firm’s operation. Phillips (2003) distinguishes stakeholders who are legitimate either through normative or derivative status. He calls some groups stakeholders who have neither legitimacy, non-stakeholders. Phillips helps distinguish between “a relationship with the organization based on direct moral obligation and one based on the power to help or harm the organization” (2003: 25).

According to Phillips (2003), normative means the organization has an obligation of fairness beyond regular duties and human rights that arise from the participation of such stakeholders in the cooperative scheme of the organization. Derivative legitimacy arises from the stakeholder having an impact on the firm that may need to be accounted for either if a) they harm/hurt the interests of the firm and its other stakeholders and/or b) their interests are considered legitimate by normative stakeholders. Derivative

stakeholders tend to be the media, activists, the environment, competitors, and fall into such groups depending on their relationship with the firm (Phillips, 2003).

Fairness is a useful ethical guideline because the relationship between the firm and its stakeholders may involve voluntary cooperation, where at times there may be an opportunity to free ride on the system. Phillips' (1997) principle of fairness (or fair play) provides an explanation of the obligations due to normative stakeholders:

“Whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of co-operation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free-riding, obligations of fairness are created among participants in the co-operative scheme in proportion to benefits accepted.” (Phillips, 1997: 57).

Articulating Phillips' distinction further, I would specify that moral legitimacy derives from either being a basic stakeholder (owed respect in their humanity whether the relationship is voluntary or not), a normative stakeholder, or a derivative stakeholder that affects the legitimate (i.e. moral) interests of normative stakeholders. This last specification thus denies moral legitimacy to derivative stakeholders for simply being able to harm the firm and its normative stakeholders. Such derivative stakeholders may deserve attention but not one based on a moral claim. For example, the media may have qualms with a company but if such issues are not based on moral reasons, yet harmful to the firm's image, the firm may still decide to respond to control its reputation and limit the effects of this derivative and powerful stakeholder.

My definition attempts to build on the pragmatic approach, whereby an important aspect of responsible stakeholder management will be to work on finding jointness of interests, discuss, and make transparent to normative stakeholders by what values the firm intends to operate. What fairness represents, for example, can be deliberated and

agreed upon (or not) by the normative stakeholders who enter the cooperative value creation process of the firm. RSM may entail a form of ‘corporate democracy’, to which real ownership that includes proper voice allows relevant parties to contribute ideas and support a legitimate process. However, the proposed idea of jointness of interests (Freeman, 1994; Freeman et al., 2010) may be more ideal than real. In some cases, normative stakeholders may have very different interests.

RSM requires three components. RSM starts with an identification of who the stakeholders are, in particular which individual or group is affecting or is being affected by the firm, and further distinguishes between normative, derivative and non-stakeholders. Second, RSM relies on clarifying which principles are to be used for different stakeholders. Basic responsibilities owed to all stakeholders include respect for their humanity. Normative stakeholders (e.g. employees, customers) ought to be treated fairly. The relationship goes in both directions, and stakeholders also have obligations and duties to firm and to other stakeholders (Fassin, 2012). At times general ethical guidelines do not suffice, managers may exhibit certain virtues (e.g. honesty, courage) in order to support responsible reactions and behaviors that they need to create as they relate to stakeholders. A more complete account of the application of virtue ethics deserves elaboration. Last, RSM requires ‘management’ which entails engagement with their stakeholders that can be facilitated by setting up tangible mechanisms, for example processes and programs, to discuss and enact the firm’s responsibility principles.

Responsible stakeholder management may be, and often is, good business, as argued by Bowie (1999), and as supported empirically by the study of the relationship between corporate social performance (CSP) and financial performance (e.g. Orlitzky et

al., 2003), as reviewed in a later section. Since my definition acknowledges part of Freeman and colleagues' (2010) approach that business and values are integrated, RSM generally delivers benefits to the bottom line. The purpose remains to find the jointness of interests between stakeholders without resorting to trade-offs. However, this definition of RSM distinguishes itself from Freeman and colleagues and argues that there may be instances where paying attention to the moral claims of legitimate stakeholders may hurt the bottom line, i.e. may limit profits, at least in the short-term. This may lead to a situation where a trade-off cannot be avoided, and whereby attention to legitimate stakeholders may mean less profit.

1.4.1 The case of non-salient stakeholders

Salience of a stakeholder alone does not ground the firm's duties. At times firm responsibilities can be matched with the legal rights that protect a stakeholder group. However legal protection does not always exist, stakeholders can claim to have legitimacy by advocating for moral rights. They may gain saliency by also putting pressure on the firm – affecting its bottom line or reputation. Stakeholders can achieve salience through different means, either through legitimacy, urgency or power (Mitchell, Agle, & Wood, 1997). For example, car buyers gained power and urgency through the activist work of Ralph Nader. In the 1960s, Nader organized consumers' concerns and became their voice by attracting media's attention, which pressured the automobile industry to uphold consumers' right to safe cars. This eventually led to the creation of a legal right and the 1966 National Traffic and Motor Vehicle Act.

When stakeholders have saliency, there may be an identifiable legal or moral right protecting such stakeholder – and to which the firm has a corresponding responsibility,

and more specifically a perfect duty. In other instances, stakeholders may not have a formal organization to voice their cause or a codified universal right protecting them. In such cases where there is a void, such as with untreated patients, it would be the firm's imperfect duty to alleviate their suffering, especially if they are the only one to have a treatment. In its very summarized form, while a perfect duty required a negative action, refraining from inflicting harm, an imperfect duty requires a positive action to benefit a person. While perfect duties create strong moral obligations and can be enforced by external legislation, imperfect duties are more open to interpretation. Thus the issue of imperfect duties is in itself a challenging one, and much debated in the moral philosophy and the business ethics field. Imperfect duties require more elaborate explanation and that go beyond the focus of this study. However the problem of pharmaceutical firms and whether they have a responsibility to provide free drugs is a recurrent issue to which this thesis can provide an initial explanation.

Firms may have an imperfect duty to make their treatment accessible if the need is critical, and the patient population cannot pay for it. However, such a responsibility needs to be weighed with the firms' responsibilities to its other stakeholders, e.g. its other patients and shareholders. If the firm uses up its time and resources to save HIV/AIDS patients, it may be diverting from its mission to research new drugs in other diseases, and may seriously impact its long-term profitability. Second, the firm's responsibilities are to be shared with other institutions such as the government, and not-for profits. Perhaps providing the drug at no cost or low cost does not constitute an excessive burden on the firm, but beyond the drug itself, a proper healthcare system is required to deliver the drug properly and may not even exist in certain countries. This was the case for enzyme

replacement therapy delivered freely by Genzyme Corporation to individuals affected by the life-threatening Gaucher disease. The firm responded to its imperfect duty as the sole provider of an effective treatment available for this rare condition (Bartlett & McLean, 2003). Such patient commitment conflicted with its commercial imperative but the firm was able to overcome its conflict by partnering with local governments to eventually transition their responsibility. Merck's Mectizan treatment for river blindness provides another example of such imperfect duty (Finegold, Bensimon, Daar, Eaton, Godard, Knoppers, Mackie, Singer, 2005).

The concept of RSM is grounded in an understanding of the broader literature in business and society. RSM differentiates itself from other concepts such as CSR, and CSP, and fits within the stakeholder theory framework while keeping the notion of responsibility central.

1.5 A categorization of the business and society field

The literatures of stakeholder theory and stakeholder management and corporate social responsibility (CSR), and corporate social performance (CSP) connect in many ways, mainly in claiming that the firm has responsibilities beyond those owed to shareholders. There are many more related concepts that are used in these literatures such as corporate citizenship, corporate responsiveness, sustainability, and corporate responsibility as reviewed by Carroll (1999) and Waddock (2004). Stakeholder theory, CSR, and CSP are probably the most prevalent theories encompassing the different responsibilities of the firm to stakeholders and/or society. Stakeholder theory draws from the field of business ethics, and normative approaches, while CSR/CSP draws mainly from the management field and underlying sociological and psychological theories.

While there is a strong overlap, recent reviews point to scholars' decision to situate themselves either in stakeholder theory (Freeman et al., 2010; Laplume et al., 2008;) or CSR/CSP (Aguilera et al. 2007; Aguinis & Glavas, 2012; Peloza & Shang, 2011).

Garriga and Melé (2004) offer one of the most comprehensive reviews of what they label more broadly the CSR field by mapping the theories into one of four categories: instrumental, political, integrative, and ethical. Each perspective is defined by its understanding of an interaction between business and society, which tends to rely on assumptions that vary, and are often implicit. Instrumental CSR is interested in CSR as a tool for wealth creation, and postulates that is the corporation's sole social responsibility. Representative of this approach is Friedman's view that "the only one responsibility of business towards society is the maximization of profits to the shareholders within the legal framework and the ethical custom of the country" (1970). The instrumental approach has several variants such as CSR as a strategic advantage (Porter & Kramer, 2002) and CSR as a strategy for long-term profits (Jensen, 2000). Political CSR focuses on the political power of the firm in society and its responsibility in accepting social duties and rights. Within this framework, the concept of corporate citizenship emerged in the 1980s, and argues for the intervention of corporations where governments fail (e.g. Matten, Crane & Chapple, 2003). Integrative CSR considers the firm as having to meet social expectations to grow and even exist. Integrative theories evaluate issues management (e.g. Sethi, 1975), the principle of public responsibility (e.g. Preston & Post, 1975), stakeholder management (e.g. Mitchell et al., 1997), and corporate social performance (e.g. Wood, 1991). Finally, ethical CSR understands the relationship between business and society as one embedded with ethical values. Based on 'principles

that express what is the right thing to do or the necessity to achieve a good society', Garriga and Melé (2004: 60) identify normative stakeholder theory, universal rights, the common good approach and sustainable development.

While Garriga & Melé's (2004) overall categorization is very useful in unearthing the assumptions that each broad category adopts, it uses the general label CSR for all the studies, while later noting the specific labels each theory originally went by (e.g. corporate citizenship fits in the authors' label of political theories of CSR, and stakeholder theories in the ethical theories of CSR). An umbrella term such as CSR may be useful for the purpose of an overview perspective (Garriga & Melé, 2004). However, the most frequent distinction in the field occurs along the lines of CSR and stakeholder theory. Furthermore within CSR, the predominant perspective is what Garriga & Melé (2004) label the integrative perspective, whereby CSR corresponds to the firm's relationship in meeting society's expectations (e.g. Aguinis, 2011; Pelozo & Shang, 2011), generally for the purpose of achieving long-term profits for the firm. This concern is combined with the instrumental approach to CSR – and the frequent analysis of the relationship between CSR's outcome-oriented construct of CSP, and financial metrics captured in corporate financial performance (for reviews see: Orlitzky et al. 2003, Pelozo & Shang, 2011). Political CSR does exist but it tends to function at a much more macro level (e.g. Matten, Crane, & Chapple, 2003). Thus the other most dominant perspective in the study of the relationship between business and society is stakeholder theory. While Garriga & Melé (2004) label it as ethical CSR, very few other perspectives exist under this label, and they can be deemed either a normative variant under stakeholder theory (universal rights perspective, common good) or they function at a much more macro level

(sustainable development) than the firm.

The above made the case that the three most common perspectives are: integrative CSR, instrumental CSR (often studied within the CSP-CFP relationship), and stakeholder theory. Keeping this in mind will be particularly relevant when attempting to scan the literatures for the determinants of responsible stakeholder management. The following sections offers definitions of each concept.

1.6 Corporate social responsibility

Tracking which definitions of CSR are used most recently in influential articles gives a clue to which interpretations are most predominant. Davis' (1973) definition is still used and cited in Aguilera et al.'s well-regarded article (2007). Davis' articulation of CSR "refers to the firm's consideration of, and response, to issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social benefits along with traditional economic gains which the firm seeks" (1973: 312). McWilliams and Siegel (2001) tend to build on and simplify Davis' definition, and is the base for Barnett's (2007) innovative article. McWilliams and Siegel "define CSR as actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (2001: 117). As Campbell (2007) pointed out and summarized, both definitions tend to focus on CSR as furthering social welfare, beyond the direct economic, technical, and legal interests of the firm (2007: 951).

Several authors in CSR (Barnett, 2007; Campbell, 2007; Carroll, 1991; Clarkson, 1995) either dissociate the social welfare component of CSR or integrate it with a stakeholder approach. Carroll articulated a definition that is all encompassing, by integrating a stakeholder perspective with the notion of furthering the social good

(through the term philanthropic responsibility). CSR represents the “economic, legal, ethical, and philanthropic responsibilities of a company towards its stakeholders” (Carroll, 1991). For Clarkson (1995), responsibility is clarified for firms when thinking about their stakeholders rather than society as a whole. Barnett (2007) distinguishes within CSR a social welfare orientation and a stakeholder relationship orientation. Instead of focusing on the social good like the rest of the field, Campbell (2007) establishes a perspective of CSR that concentrates on meeting minimum behavioral standards, and below which corporate behavior becomes socially irresponsible. Campbell’s definition is clearly centered on stakeholders: first, firms must not knowingly harm their stakeholders; second, if they mistakenly cause their stakeholders harm, they must work to rectify it (2007: 951).

What stands out in the work of this group of CSR scholars is the clarity one gains when thinking about relationships with a firm’s stakeholders vs. society as a whole. Furthermore, the notion of responsibility or irresponsibility is easier to define, when particular stakeholders can be identified. Thus, my study focuses on a stakeholder approach, while recognizing the relevance of the CSR field, especially when it overlaps with a stakeholder perspective. Before moving on to a review of stakeholder theory and management, the following sub-section on CSP summarizes a concept related to CSR that uses stakeholder theory as its backbone.

1.7 Corporate social performance

Corporate social performance (CSP) is the observable part of stakeholder relationships (Barnett, 2007). It has been the most useful construct thus far in helping to operationalize stakeholder management. CSP incorporates not only the principles of

responsibility, but also the observable outcomes of responsiveness, and processes by which such outcomes are achieved and measured. The construct of CSP is multifaceted and relevant as it encompasses “a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm’s societal relationships” (Wood, 1991: 693). Wood’s definition is most cited when research evaluates the link between CSP and CFP (Orlitzky, Schmidt, & Rynes, 2003; Pelozo & Shang, 2011).

Stakeholder theory provides the theoretical framework for assessing corporate social performance (Carroll, 1991; Wood & Jones, 1995). Stakeholders are “sources of expectations, they experience the effects, and evaluate the firm’s CSP performance, and act upon their interests” (Wood & Jones, 1995). In his qualitative analysis of how managers see the world, Clarkson (1995) finds that managers do not think in terms of CSR nor do they interact with all of society; instead they interact with specific stakeholders and can recognize their issues. Waddock and Graves (1997: 303) state: “a company’s interactions with a range of stakeholders arguably comprise its overall corporate social performance record”. Rowley and Berman (2000) even argued more critically for the elimination of the CSP construct, and replace it with the more specific examination of stakeholder actions.

This study will leverage previous work on CSP that has helped to provide an operationalization of the firm’s relationships with its stakeholders. A review of stakeholder theory follows.

1.8 Stakeholder theory/management

Stakeholder theory is a theory of organizational management and ethics. Other management theories also have some moral content, though it is often implicit as Phillips, Freeman and Wicks (2003) point out. A basic question stakeholder theory asks, and to which a variety of answers exist is: *how corporations ought to be managed, how managers ought to act, and how is value created* (Freeman, 1994). The inclusion of the language “ought to” makes ethics an explicit part of stakeholder theory, which was absent in Freeman’s initial work (1984). In his seminal book, Freeman focused solely on strategic stakeholder management: the focus shifted from stockholders to stakeholders, but the approach remained very firm-centric with the ultimate goal of delivering profits, and there is no discussion of responsibility of managers as pointed out by Walsh (2005).

A variety of theoretical perspectives have flourished since Freeman (1984). Donaldson and Preston (1995) helped categorize the field and underscored the normative component of stakeholder theory. Stakeholder theory provides a descriptive, instrumental, and normative understanding of the firm, whereby Donaldson and Preston (1995) argue that all approaches mutually support each other, and the normative provides the critical base for the theory in all its forms. Stakeholder theory is descriptive in nature characterizing the corporation “as a constellation of cooperative and competitive interests possessing intrinsic value” (Donaldson & Preston, 1995: 66). The authors claim that this broader perspective is superior to the input-output model of the firm, whereby relationships with customers, suppliers, investors, and employees are quite linear and not interconnected.

Second, stakeholder theory is instrumental as it tries to develop a framework to process relationships. It explains the connection between the “practice of stakeholder management and the achievement of various corporate performance goals” (Donaldson & Preston, 1995: 67). However, the third label ‘normative’ is critical as the core and fundamental basis of stakeholder theory is normative. Donaldson and Preston (1996) argue that stakeholders have legitimate interests; they are defined as having interest in the firm whether or not the firm recognizes that stakeholders have such interests. And interests of all stakeholders have intrinsic value, meaning that “each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners” (Donaldson & Preston, 1995: 67). A fourth point is that stakeholder theory adopts a broad definition of management: Managers are not considered the only center of corporate control; they share power with other parties that affect corporate policies, such as shareowners and the government.

The concept of a stakeholder is one of the more prominent contributions of business ethics (Boatright, 2006). However it continues to be debated and several researchers disagree with normative stakeholder theory (e.g. Boatright, 2006; Goodpaster, 1991; Heath, 2006). The commonality is that the concern for the interests of stakeholders articulated by Freeman (1984) “has become a widely recognized feature, if not the defining feature, of ethical management” (Boatright, 2006: 106). Stakeholder theory asks two core questions: What is the purpose of the firm? What responsibilities do the managers have towards the stakeholders? (Freeman, Wicks, & Parmar, 2004). Freeman et al (2010) provide their answer to the first question: “A stakeholder approach

to business is about creating as much value as possible for stakeholders, without resorting to trade-offs” (2010: 28). This answer addresses value creation, and the ethics of capitalism by looking at value creation in a broader sense than value created just for shareholders. Freeman and his colleagues answer broadly the second question by stating that managers do have responsibilities beyond their duty to owners, and their role is to adopt a mindset that puts business and ethics together to make decisions on a routine basis.

Other key components of stakeholder theory revolve around *who* counts as a stakeholder, stakeholder salience (i.e. what attributes will make stakeholders salient to managers), *which* interests count, and *how* to balance stakeholders’ interests. A large part of the literature focuses on stakeholder identification and salience. Stakeholder management is based on the simple tenet that a firm affects and is affected by individuals or groups (Freeman, 1984). The narrow definition of stakeholder management is very firm-centric, and focused on stakeholders that are relevant to the firm, i.e. potentially affecting the firm’s bottom line currently or in the future. Broader definitions give moral consideration to those stakeholders that can be affected by the firm even if they do not affect the firm.

The distinction between broad and narrow interpretations of stakeholders was elaborated by Mitchell and colleagues (1997), building on an analysis of almost thirty definitions. The term stakeholder was initially derived from stockholder, illustrating the attempt to put other constituencies of the firm in focus, and to put them on a more equal footing with the shareholders of the firm. A greater number of stakeholder scholars and practitioners tend to focus on a narrow interpretation of stakeholder management

whereby stakeholders are identified as those that affect the firm's core interests, and can thus impact a firm's performance (e.g. Barnett, 2007; Frooman, 1999; Kochan & Rubinstein, 2000). In the narrow sense, stakeholders are identified according to their salience using for example key factors such as power, legitimacy, and urgency (Mitchell et al., 1997). Thus, stakeholders that are affected by the firm but are not affecting the firm – as measured by their salience – may receive little or no consideration.

Freeman's (1984) apparent broad definition may seem to underscore moral consideration, but Phillips (1997) argues that Freeman's approach amounts to no more than "prudential stakeholder theory" because Freeman's explanation for taking into account stakeholders affected by the firm is justified by the fact that stakeholders may have a dormant effect on firm, and that such potential must be taken into account for the firm's future performance.

1.9 Determinants of responsible stakeholder management

There is limited research on the antecedents of stakeholder management and even less on what might be deemed responsible stakeholder management. Even recent reviews of stakeholder theory (Laplume et. al, 2008; Freeman et al 2010) provide relatively little investigation of determinants compared to the volume of the stakeholder theory literature. Five approaches can be used to review the possible determinants of responsible stakeholder management. The first approach reviews the major factors that may be associated with the general behavior of a firm's management, and that can later serve as a means to organize the potential antecedents of RSM. The second, examines the stakeholder literature. The third part scans the broader CSR literature that particularly leverages a stakeholder framing. The fourth approach consists in scanning a subset of the

marketing literature that adopts a CSR, and more recently, stakeholder framework. The last section touches upon the organizational ethical behavior literature in order to connect responsibility with the broader ethical literature.

1.9.1 Key factors shaping a firm's management behavior

Corporate culture, corporate structure, strategy set by leadership, and business context all shape a firm's management behavior (Kotter & Heskett, 1992). The culture represents both the visible and less visible aspects that guide employees' behavior. The visible component is embodied in group behavior norms and can be understood by new employees. The less visible level includes shared values that are held by most people in a group, and tend to persist over time even when group membership changes. Structure includes the systems, policies, and plans that make up the formal organizational arrangement. Structure may be called the 'formal' organization that differs from the informal 'organization' represented by culture (Kotter & Heskett, 1992). Strategy emanates from leadership, which articulates and implements a logic for how to achieve movement in some direction. Finally, the business context includes the competitive and regulatory environment that can influence the firm's managerial behavior.

Corporate culture in particular has a powerful effect on individuals and on firm performance, and the influence of culture may be even greater than all the factors that have been the subject of organizational and management literature (Kotter & Heskett, 1992). In four distinct studies, Kotter and Heskett (1992) demonstrated which particular features of corporate cultures led to firm performance. Top performers combined the following three key features: strong cultures, strategically appropriate cultures, and adaptive cultures. Another key finding among top performers related to the quality of

leadership, which was marked by genuine care about the legitimate interests of the firm's key stakeholders, categorized as employees, customers, and stockholders (Kotter & Heskett, 1992). While responsible stakeholder management was not an outcome the researchers explicitly focused on, it is interesting to note the importance of leaders' genuine (vs. purely instrumental and uncommitted) care for stakeholders' interests in positively influencing firm performance.

Kotter & Heskett's work points to the relevance of a certain type of culture and the role of leadership, and eventually structure to enable responsible stakeholder management. We can argue theoretically, that culture will indeed be very important as it contains the values that can partly guide employees' behavior. The role of the leaders in shaping the culture, and further setting the strategies and structure for the firm will also be critical. Certain strategic goals may be in conflict with RSM. A narrow focus on short-term performance may conflict with stakeholder long-term interests. The structure in place can itself enable or hinder individuals from acting responsibly. For example, if a purchase manager experiences the conflict between high goals for performance, which may entail sourcing parts at the best price, she may disregard other factors such as responsible labor and safety practices.

1.9.2 Determinants of RSM in the stakeholder literature

A scan of the stakeholder literature also reveals possible antecedents of responsible stakeholder management. To be considered an antecedent of RSM, a factor must influence one or more of the components of the RSM construct: identification of legitimate stakeholders, the obligations owed to normative and derivative stakeholders, and finally the tangible practices used to manage stakeholders responsibly. However to

capture a broader net of possible determinants, I first seek out determinants of key components of overall stakeholder theory/management, without requiring that these components be strictly geared towards responsibility.

Two key components of stakeholder management are – the identification of stakeholders, and balancing stakeholder interests for Freeman and colleagues (2010). Indeed, a major part of the stakeholder theory literature revolves around stakeholder identification and salience as supported by Mitchell's et al. (1997) extensive review of the literature. Other components of stakeholder research relate to stakeholder satisfaction, engagement and the overall stakeholder relationship. A review of theoretical and especially empirical work finds that managers, culture, firm strategy, and business context affect stakeholder management. This is in line with Kotter & Heskett's (1992) framework for factors affecting a firm's management behavior – though with specific attention to managers, and much less on culture.

Since stakeholder management is after all also a managerial theory (Donaldson & Preston, 1995), it is not surprising to find that managers do influence stakeholder identification and prioritization. Many studies evaluate and support the overall role that managers play in stakeholder identification and salience by looking either at managerial actions (Eesley & Lenox, 2006), hierarchical level and role (Parent & Deephouse, 2007), and commitment – especially top management's commitment (Weaver et al. 1999). Further research evaluated the role of managerial characteristics (Brenner & Cochran, 1991) with particular attention to the impact of managers' perceptions (Mitchell et al. 1997; Buysse & Verbeke, 2003), intuition (Harvey & Schaefer, 2001), and values (Agle et al, 1999) on stakeholder identification and relative importance.

Culture, strategy, and context have also been studied, albeit to a lesser extent in the stakeholder literature. Organizational culture impacts how stakeholders are considered. Jones et al. (2007) argued that firms that are more “self-regarding” will value power more than other attributes. On the other hand, moral legitimacy will be highly valued by “other-regarding” stakeholder cultures. A firm’s strategy will also affect how the firm views the relevance of its stakeholders. For example, environmentally proactive firms have a broader understanding of important stakeholders (Buysse & Verbeke, 2003). Business context can be captured by various factors. Time is one such component as stakeholder perception and importance is a dynamic concept (Mitchell et al, 1997). Organizational business cycles in particular may affect the importance of stakeholders (Jawahar & McLaughlin, 2001). In certain organizational stages certain stakeholders would be more important based on their ability to satisfy organizational needs. Stakeholder attributes themselves (power, legitimacy, urgency) impact whether stakeholders will be identified and considered important (e.g. Harvey and Schaefer, 2001; Mitchell et al, 1997). External environmental factors such as competitive hostility, turbulence, technology, and market growth moderate stakeholder orientation (Greenley and Foxall, 1996).

Moving on to evaluate outcomes related to stakeholder management beyond identification and salience, it is important to assess the quality of stakeholder relationships, and stakeholder satisfaction. If long-term mutually beneficial stakeholder relationships need to be developed then one of the most important factors should be trust. Though theoretically important, trust has featured little in stakeholder research. Ogden and Watson (1999) find trust to be an important ingredient in developing stakeholder

relationships. Drew and colleagues (2003) find that open communication is also important for developing good stakeholder relations. Strong, Ringer and Taylor (2001) conducted an exploratory study into stakeholder-firm relations and assessed the role of trust in stakeholder satisfaction. Customers, stockholders, and employees of financial institutes were surveyed to assess management behavior that led to their satisfaction. The important factors for stakeholder satisfaction across stakeholders groups were: timeliness of communication; honesty; and completeness of information. All these factors connect to employee involvement and voice mechanisms –and this study will elaborate on further.

Combining different factors, O'Higgins (2009) identifies four key stakeholder configurations that combine a number of stakeholder management components along instrumental and normative dimensions: Skeptical, Pragmatic, Engaged, and Idealist. O'Higgins (2009) evaluates organizational purpose, stakeholder identification and salience, stakeholder management, key performance metrics, and boundaries between firm and stakeholders. A stakeholder orientation along the normative/instrumental dimensions will predict how the firm will handle CSR, defined as the firm's approach to and role in society.

While focusing on the descriptive and instrumental aspects of stakeholder management for the empirical evaluation, and purposefully leaving aside the evaluation of the 'complex' normative, Ali (2011) found features and determinants to proactive stakeholder management that may overlap with RSM as well. In his comprehensive qualitative study of six organizations, Ali (2011) found that higher levels stakeholder engagement lead to higher levels of proactive stakeholder orientation. Ali's (2011) inductive findings of the features of proactive stakeholder management fit fairly well

within the four broad factors of a firm's behavior as articulated by Kotter & Heskett (1992): leadership, culture, structure, and business context. The creation and maintenance of proactive stakeholder organizations relies on worldviews and beliefs of the owners and top leadership, a strong mission statement (a key component of culture), people management policies and formalized processes – such as surveys – to elicit stakeholder input and engagement (Ali, 2011). The self-organization of stakeholders, which constitutes a key dynamic feature of proactive stakeholder management (Ali, 2011), may fit within what Kotter & Heskett (1992) qualify as the business context, and one that comprises a dynamic interaction between the firm and its stakeholders.

1.9.3 Determinants of RSM in the CSR literature

The CSR literature - especially where the research focuses on the relationships between the firm and its stakeholders - provides additional theoretical and empirical support for the possible antecedents of responsible stakeholder management. It is surprising that the extensive reviews of either CSR literature (e.g. Aguinis & Glavas, 2012) or of stakeholder theory/management (Laplume et al. 2008) tend to exclude each other as there is in reality a lot of overlap and redundancy. At times, seemingly uncomfortable with having a net cast too wide under the term 'social responsibility', the CSR literature leverages the stakeholder language in order to make the 'social' more identifiable (e.g. Carroll, 1979; Wood, 1991, Aguinis, 2011). Waddock and Graves (1997: 303) even claimed that "a company's interactions with a range of stakeholders arguably comprise its overall corporate social performance (CSP) record." Stakeholder theorists claimed even more forcefully that stakeholder actions could replace the construct of corporate social performance (Rowley & Berman, 2000).

However, one of the distinctive features of the CSR literature is that it is less firm-centric, and evaluates other levels than the organization when examining antecedents and consequences of CSR: such as the individual level (e.g. Turban & Greening, 1997) and the institutional levels (e.g. Campbell, 2007). Another distinctive feature is that the CSR literature tends to be ‘anormative’ as it does not take a stance on what responsibilities the firm has towards its stakeholders. The CSR literature relies instead on ‘stakeholder expectations’ (e.g. Aguinis, 2011; Aguilera et al. 2007). The absence and even denial of the need for a normative framework is in line with positivist science (Buchholz & Rosenthal, 2005). While the CSR literature may want to sidestep the debate of what is responsibility (e.g. Aguinis, 2011; Crouch, 2005), it still offers useful insights into the relationships between different factors and potential RSM.

Aguilera et al (2007) offer a very helpful framework that identifies CSR actors at different levels as well as the variety of their motives, in contrast to the single-level approach of most CSR research (Aguilera et al. 2007, Aguinis & Glavas, 2012). RSM too need not be solely focused on the organization-level as the stakeholder theory/management literature tends to be. Indeed, RSM can be affected by factors at multiple levels, individual, organization and institutional. For example, within the context of their work, employees may have one-on-one responsible relationships with individuals or groups. The firm as a whole will have different types of relationships with its stakeholders. Finally the firm can be affected and affect RSM at institutional levels, such as firms belonging to a fair trade network, or an industry association that is particularly scrutinized for its practices such as the oil, toy, or textile industry.

At the individual level, employees can be both motivated (based on their values and needs), and the prime actors in RSM through their direct relationships with stakeholders. The employee level tends to be overlooked in the stakeholder theory/management literature. However the individual level of analysis is relevant. Potential applicants, for example, may be attracted to a firm because of the way they perceive other stakeholders are treated (Turban & Greening, 1997). A firm treating its stakeholders fairly signals to potential applicants how they may themselves be treated. Individuals may be more attracted to firms that fit their values (Bansal, 2003). Employee perceptions of CSR and organizational justice (Rupp et al, 2006) affect their motivation to engage in activities related to RSM. Furthermore employee psychological needs (Aguilera et al. 2007) also offer insight into motives beyond self-interest that are relational and moral. As actors, employees make decisions about how to treat stakeholders every day. For example, a salesperson may keep her promises to customers, or a purchase manager may select a supplier that respects international labor organization rights over one that doesn't.

The organizational level is the most studied -- e.g. constituting 57% of CSR articles in management between 1970 to 2011 (Aguinis & Glavas, 2012). Antecedents of CSR can be insider groups – mainly owners (shareholders) and managers, and outsider groups (mainly consumers). Considered organizational actors, top management teams have been found to make decisions based on their cognitive biases and personal values (Cyert & March, 1963). While acting as individuals, top managers have an effect on organization-level outcomes. A review of the effect of managerial characteristics was already provided in the stakeholder section. Reiterating some of those key points, the

CSR literature also pays attention to managerial characteristics. Managerial commitment to responsible practices influences meaningful social programs at the firm level (Weaver, Trevino & Cochran, 1999). Stewardship theory (Davis, Schoorman, & Donaldson, 1997) finds that organizational actors bring their personal morality-based values into the firm, which may go beyond economic interests or self-fulfillment.

The representatives of the firm itself have motives to act responsibly. While compatible with instrumental motives, RSM may not happen if the firm's leadership, practices, and culture do not embed a sense of responsibility. Bansal and Roth (2000) find three distinct but often overlapping reasons for firms to engage in ecological responsiveness: competitiveness, legitimacy (in the legal sense), and social responsibility. The distinct sense of responsibility tends to come from a set of organizational actors that can be traced to the individual, such as leaders for example – as expressed above. Owners may also have moral motives to engage in RSM – as the example of majority owners at Ford reveal. Motivated both by an instrumental concern to pre-empt future regulation but also by a concern for the common good, majority owners at Ford have expressed a commitment to utilizing the world's resources sustainably (Howard-Grenville & Hoffman, 2003).

Ownership type can affect RSM. Institutional ownership and top management equity (Johnson & Greening, 1999) may support stakeholder long-term interests. Family-owned business may also have different motivations from unrelated shareowners, and be able to express attachment to certain core values. Mars Company is still 100% family-owned, and has been considered to be responsible to its employees, and its community.

Mars Company is on the list of the 100 Best Companies to Work For² which assesses the key criteria of a great workplace such as trust, pride, and high-quality relationships.

Empirical evidence lends support to the effect of family ownership on a firm's CSR along several dimensions compared to non-family firms (Dyer & Whetten, 2006), on specific dimensions of CSR such as community social responsibility (Niehm, Swinney & Miller, 2008), and proactive environmental strategy (Sharma & Sharma, 2011). Finally, state ownership can, in certain instances, be also more attached to care toward the community and operating with responsible practices (Finegold, Ali & Winkler, 2011).

Organizational structures that are more open to relationships with society may tend to be more sensitive to stakeholders. For example, the inclusion of outside directors broadens the focus beyond the exclusive interest of shareholders (Johnson & Greening, 1999). In the same vein, exposure to stakeholders can make the firm more sensitive to the needs of stakeholders. Kotter and Heskett (1992) posited that placing employees in positions that had a direct interface with consumers, made these employees care more about consumers. Whether such care is instrumental or sincere was not clarified. However contact with stakeholders is likely to make employees more aware of the responsibilities owed to them alongside the economic value that can be potentially gained. The result is likely to depend on the framing of what the stakeholder represents, and how important they are.

Finally, at the institutional level, country, regulation, third party norms, and type of industry and its capacity for collective action through employer associations, can all

² <http://www.greatplacetowork.net/best-companies/worlds-best-multinationals/profiles-of-the-winners/1546-25-mars>, April 2014.

affect a firm's RSM. Belonging to a certain community, or choosing to adhere to a community of like-minded firms such as B Corporations can in turn increase the firm's ability and acknowledgement of RSM practices, in a virtuous feedback loop – where the firm is evaluated on how it treats its stakeholders, and further learn how to improve on its way to do so. These factors matter, but can be considered as control variables rather than significant causes that affect a firm's behavior.

1.9.4 Determinants of RSM in the marketing literature

The marketing literature also provides very useful clues as to the relevance of the stakeholder approach, and how RSM in particular may be relevant. Hult, Mena, Ferrell & Ferrell (2011) trace the history of the conceptualization of CSR, and stakeholder approaches in marketing over the past 40 years. They show that the field may have captured the relevance of a broad stakeholder approach vs. a strict consumer focus very early on even if it used other terms e.g. 'publics' (Kotler, 1972). Kotler (1972) argued that marketing considers all of its publics, not just the consuming public. Kotler said that "[a] management group has to market to the organization's supporters, suppliers, employees, government, the general public, agents, and other key publics" (Kotler 1972: 48). Kotler was interested in the exchange of values that can occur between any two parties, including stakeholders. Kotler thus valued and made a strategic case for managing stakeholders. The general marketing field, however, did maintain its narrow consumer and shareholder focus, and only later started to integrate notions of CSR. The focus was on the benefits of corporate citizenship/CSR as a good marketing practice (Mullen, 1997). But by sticking to the broad term 'society', the parameters of responsibility were too vague, and thus meaningless (Hult et al, 2011). However, the

literature evolved and began to offer stronger conceptualizations and tests. In particular Maignan and Ferrell (2004) distinguished two organizational processes that influence the organization's impacts on stakeholders. Those organizational processes are stakeholder orientation determining stakeholder intelligence (e.g. who counts as a stakeholder; and what counts as a stakeholder issue) and organizational norms defining stakeholder responsibilities. Maignan, Ferrell and Hult (1999) operationalized three organizational culture orientations: market, humanistic, and competitive. They found that such orientations affect the level of commitment to corporate citizenship, and ultimately found that corporate citizenship is conducive to business benefits (via customer loyalty, employee commitment).

In sum, the marketing literature yields two interesting insights for this work. First, the marketing field has evolved and possibly matured into finding the stakeholder approach a more useful one than CSR to capture the responsibilities of the firm beyond those owed to its shareholders. Second, the field has highlighted the importance of culture, and this is both in line with Kotter & Heskett (1992) and that underscores the idea that the values of the organization matter in particular with respect to how stakeholders are treated (e.g. stakeholder orientation in Maignan & Ferrell (2004).

1.9.5 Determinants of ethical behavior

Last, the literature in organizational ethics is connected with notions of responsibility. The ethical decision-making field tends to evaluate individual antecedents and outcomes, rather than the organizational level, and the main focus is on the negative, e.g. unethical behavior and outcomes. However various factors can be relevant for RSM as well. The debate has centered on whether unethical outcomes stem from the presence

of bad apples or bad barrels (O'Fallon & Butterfield, 2005; Trevino, 1986). The most recent review of the literature concludes that the individual ("bad apple), the moral issue ("bad case"), and the organizational environment ("bad barrel") can all lead to unethical work decisions (Kish-Gephart, Harrison & Trevino, 2010). While the focus is on individual-level antecedents, the literature pays attention to ethical leadership in particular. This is meaningful since managers play such an important role in organization-level outcomes such as stakeholder management, and potentially RSM, as reviewed above. Also, ethical climate and culture (e.g. Victor & Cullen, 1988) may impact individual decision-making and are key organizational level variables that can be shaped by stakeholder management (Kotter & Heskett, 1992; Jones et al. 2007).

The summary table on the following page provides an overview of these potential determinants that can be categorized into one of the four broad key factors that shape a firm's behavior (Kotter & Heskett, 1992).

Summary table for potential determinants of responsible stakeholder management

Levels	Categories	
Individual	Employees	<ul style="list-style-type: none"> *Potential applicants value good stakeholder treatment (Turban & Greening, 1997) *Values fit (Bansal, 2003) *Good stakeholder treatment enhances organizational commitment (Brammer et al., 2007)
Individual/ Organization	Culture	<ul style="list-style-type: none"> *Self and other-regarding ethical cultures (Jones et al. 2007) *Culture orientation (market, competitive, humanistic) (Maignan et al., 1999) *Proactive stakeholder orientation (Ali, 2011) *Stakeholder orientation (Maignan & Ferrell, 2004) *Trust (Ali, 2011; Jones et al., 2007; Ogden & Watson, 1999)
	Leadership & Strategy	<ul style="list-style-type: none"> *Managerial commitment (Weaver et al. 1999) *Managers' perceptions (Mitchell et al. 1997; Buysse & Verbeke, 2003) *Leaders' values (Agle et al. 1999; Ali, 2011) *Managers' intuition (Harvey & Schaefer, 2001) *Genuine stakeholder concern (Kotter & Heskett, 1992) *Firm strategy *Managers' ethical orientation (Buchholz & Rosenthal, 2005) awareness/leadership (Trevino, 1986)
Organization	Structure	<ul style="list-style-type: none"> *Institutional ownership (Johnson & Greening, 1999) *Leader equity rewards (Johnson & Greening, 1999) *Employee/Stakeholder involvement (Greenwood, 2007) *Employee/Stakeholder engagement fostered by people management policies and stakeholder input processes (Ali, 2011) *Open communication (Drew et al., 2003)

Levels	Categories	
Organization	Business Context	<ul style="list-style-type: none"> *Stakeholders attributes (power, legitimacy, urgency) (Mitchell et al., 1997). *Stakeholder self-organization, power, influence and legitimacy (Ali, 2011)
Institutional	Business Context	<ul style="list-style-type: none"> *Firm size (Finegold et al., 2010; Udayasankar, 2009) *Business cycle (Jawahar & McLaughlin, 2001) *Competitive context (Greenley & Foxall, 1996) *Industry *Country (Maignan & Ralston, 2002) *Type of market economy (Finegold et al., 2011)

2 CHAPTER TWO - EMPLOYEE OWNERSHIP

The objective of this section is to provide an overview of the complex landscape of employee ownership, and start to tease out characteristics that affect employee and organizational outcomes. This overview is rather broad and applies to both private and public corporations. However the sample of employee ownership types in a private corporation will be simpler and of fewer number.

Employee ownership is significant to the US economy and the study of corporations in a variety of ways. The prevalence of employee ownership in the US economy often comes as a surprise. Among companies that have stock, 36% of the US workforce own stock in their employers, through one plan or another, according to a study of the 2010 General Social Survey (Kruse, Blasi & Park, 2008). These 25 to 30 million employee owners represent extraordinary growth compared to forty years ago, when probably not more than one million employees owned company stock (Rosen, 2013). In the US, employee ownership has often been discussed as a risk in the context of employer stock in 401(k) plans that is bought by workers with their savings, but this is now one of the least significant types of employee ownership (Rosen, 2013). This form of ownership caused losses in the Enron case and in the last few recessions. However, most employee ownership is granted to workers and managers and not purchased.

Employee ownership receives support on both sides of the political aisle –as it is seen as a form of both economic and political democracy. Employee ownership is part of a different mode of capitalism, labeled shared capitalism (Kruse, Blasi & Freeman, 2010). As an organizational phenomenon, employee ownership influences employee and firm outcomes as research now consistently supports (Blasi, Freeman, & Kruse, 2013,

Chapter 5).

While this overview provides context, this dissertation taps especially into one particular component by evaluating employee ownership and its relationship with certain organizational and societal outcomes, namely the company's responsible (or irresponsible) management of stakeholder relationships. The following section is a more complete review of employee ownership by providing definitions, different forms, reasons to implement, institutional determinants, and effects of employee ownership.

2.1 Definitions

Employee ownership can signify a “variety of ways in which employees [beyond] top management can own stock in their companies” (Kruse, 2002: 2). Employees can buy stock directly in their company, be given it as a bonus, can receive stock options, or obtain stock through a profit sharing plan. This study leverages a straightforward definition: employee ownership is “the amount of stock in their employing company that employees own directly, or indirectly through some kind of trust – as in employee stock ownership plans (ESOPs) - or through share options” (Kaarsemaker & Poutsma, 2006: 670).

Broad employee ownership refers to firms where a large percentage of employees beyond top managers are stockholders. What level would make employee ownership truly broad? Scholars define significant ownership as common stocks and ownership exceeding 5% of the firm's total market value, whereby if employee owners organized and joined forces they would achieve blockholder status. On the other hand, the term ‘employee-owned’ is reserved for companies that are more than 50% owned by its employees (Kruse & Blasi, 1997). More specifically the term employee-owned is used

for companies that are at least 50% owned by an ESOP or another qualified plan or by one or more other kinds of plans in which at least 50% of full-time employees are eligible to participate (Rosen, 2013).

Significant and majority employee ownership, are both meaningful for this project. Other notions come to play in capturing broad-based employee ownership. For example, it is not just the percentage of employee ownership that matters; the dollar value employees own may actually matter more in some cases (Klein, 1987). Overall research finds that the status of being an employee owner matters more than the size of one's ownership stake (Kruse, 2002).

Four important dimensions of employee ownership are: the percentage of employees who participate, the percentage of ownership held within the company by employees, the distribution of ownership stakes among employee-owners, and the prerogatives and rights conferred by employee ownership (e.g. direct/indirect through a trust) (Kruse & Blasi, 1997). For example, a company may be 100% owned by 25% of its employees, or only 25% owned by all of its employees, or 100% employee-owned, but with one person or family holding the majority of the shares (Kruse & Blasi, 1997).

While the focus is on employee ownership, this study recognizes that other mechanisms tie into the larger concept of shared capitalism (Kruse, Blasi & Freeman, 2010). Indeed profit-sharing and gain-sharing plans can also represent an effort by management to share the wealth broadly with employees, and can also tie employees' efforts to focus on organizational outcomes. At the firm or business-unit level, they may provide better line of sight than employee ownership. However profit/gain sharing plans tend to have a short-term focus (Han, 2011), e.g. paid out at the end of the year. They

would typically miss some of the other mechanisms associated with ownership such as long-term focus and the psychological ownership that may be associated with responsible stakeholder management.

2.2 Different forms of employee ownership

Distinguishing the different types of employee stock ownership is important as each type has specific characteristics and may influence outcomes differently (Kaarsemaker, Pendleton & Poutsma, 2010).

Employee ownership within private or public companies can be categorized in four broad categories: employee stock ownership plans (ESOPs) – where typically the employee is granted the stock - and other plans primarily invested in employer stock, stock options and other equity awards, 401(k) primarily invested in employer stock - where employees typically buy the stock with wages or savings for some matching shares from the firm, and employee stock purchase plans (ESPPs) – where employees typically buy stock at a 15% discount to market. A distinct form of employee ownership is one where employees can become owners through worker cooperatives where everyone has an equal vote. In cooperatives, employees tend to start the firm with their own capital. By far the most common form of employee ownership in the U.S. is the ESOP. Almost unknown until 1974, about 11,000 companies now have these plans, covering over 10 million employees (Rosen, 2013). Below is a table with an estimate of the extent of employee ownership in the US and a brief overview of what the different plans entail.

Estimated Number of Plans and Employees; Value of Plan Assets³

Type of Plan	Number of Plans (estimated as of the end of 2011)	Number of Participants (as of the end of 2009)	Value of Plan Assets (as of the end of 2009)
ESOPs, stock bonus plans, & profit sharing plans primarily invested in employer stock	10,900	10.3 million	\$869 billion
401(k) plans primarily invested in company stock	800	5 million	\$200 billion
Broad-based individual equity plans	3,000	10 million	(\$5 billion to \$10 billion in 2008, S&P 1500 only)
Stock purchase plans	4,000	11 million	(not realistic to estimate)

2.2.1 Employee Stock Ownership Plans (ESOPs)

ESOPs are a kind of employee benefit, using a trust mechanism. Specifically, ESOPs are defined contribution plans governed by the Employee Retirement Income Security Act (ERISA) that have a statutory framework since 1974. Principles of fairness were included in ESOP legislation. Like other qualified deferred contribution plans, ESOPs must not discriminate in favor of highly compensated employees, officers, or owners. An ESOP generally must include all full-time employees over 21, and allocation of stock is based on pay or some more equal formula. Stock is either purchased by the trust with a loan or contributed to the trust by the firm.

³ Available data do not allow us to make estimates beyond 2009 with confidence for the number of participants or plan assets. NCEO, <http://www.nceo.org/articles/comprehensive-overview-employee-ownership>, January 24, 2013.

ESOP shares are almost always a contribution to the employee, not an employee purchase. Employees gradually vest their shares in their accounts, as the loan underlying the purchase of the stock is repaid – within three to six years. Employees receive the value of their vested shares when they leave the company. The company must buy back the stock at fair market value. One of the questions when managers want to consider an ESOP – is whether they are willing to have employees receive more information and have more say. In majority employee-owned firms such as configurations with ESOPs can provide, employees may have an expectation to be deeply involved in the governance of the firm (Kaarsemaker, Pendleton & Poutsma, 2010). And Rosen⁴ posits that unless employee owners get information and voice, they are likely to be demotivated – even cynical – about ownership.

Following this logic, real employee ownership also labeled - an ownership culture – (e.g. Mackin & Freundlich, 1995) entails not just giving employees access to company shares but also giving employees a voice in how the company is run. There is a wide spectrum in levels of employee voice in ESOPs, yet informal voice and other formal participatory mechanisms tend to be more present in an ESOP format compared to other forms of employee ownership (Blasi, Kruse, & Freeman, 2013, Chapter 5). And voice may be greater in small firms such as B Corporations. ESOP legislation did not require that employees have a voice. ESOPs must simply appoint a trustee to act as the plan fiduciary. However “voting is one of the most controversial and least understood of

⁴ NCEO report, 2012, <http://www.nceo.org/articles/comprehensive-overview-employee-ownership>, January, 2013.

ESOP issues”.⁵ The trustee of the ESOP votes the ESOP shares. The key question is “who directs the trustee?” The trustee can make the decision independently but generally is guided by either management, an ESOP administrative committee, or employees themselves. In private companies, employees are mandated by Federal law to direct the trustee on major corporate issues that deal with the basic structure of the company (e.g. closing, sale, liquidation, recapitalization). This is the only mandate for employee governance rights in Federal law that even worker cooperatives don’t have. However, employees generally cannot vote for the board of directors nor do they have a say in most typical governance issues. In public companies, employees must be able to vote on all issues but this comes with limitations. Overall, employees have a limited formal mandated role in their company’s formal governance unless the ESOP company chooses to provide employees with additional rights. But there remains a lot of informal participation.

In sum, ESOPs are considered the most complicated and powerful employee ownership tool⁶. Complexity stems from specific legal requirements, many tax benefits, and the fact that an ESOP is often used as a means to borrow money (a “leveraged” ESOP) and/or to transfer ownership from family owners to employees. The combination of the long-term features and the tax-advantages of ESOPs allow managers and employees to purchase large blocks of corporate shares in single transactions and to create a strong ownership culture, in particular if combined with proper employee involvement mechanisms (e.g. Kruse, Blasi, & Freeman, 2012).

⁵ Id.

⁶ Id.

Thus ESOPs offer the most interesting form of employee ownership for this study as there is a legislative floor that structures employee ownership to favor breadth of employee coverage, a long-term business focus, but also a wide variation in terms of what managers and frontline employees can do to complement the rules, to truly involve all employees and make them feel and act like owners.

2.2.2 Broad-based individual equity plans

Broad-based individual equity plans include essentially stock options, but also restricted stock, stock appreciation rights (SARs), and phantom stock. A stock option gives an employee the right to buy shares at a price fixed at the time they are granted, and for a defined number of years in the future. Options are usually subject to vesting. Stock options, unlike ESOPs, 401(k), and certain ESPPs which are required to include most full-time employees, can be given to as few or as many employees the company wishes. ‘Broad-based stock option plans’ are named thus because they grant stock options to 50% or more of full-time employees. Stock options offer greater flexibility, and were very popular pre-Enron as they had more favorable accounting treatment than ESOPs. The downside for the company is that broad-based options can impose a substantial dilution for other shareholders as new shares are issued to satisfy option holders. The implosion of Enron in 2001 led many to believe that the demise of the company was fueled by the huge stock option grants that were provided to its executive employees. In 2004, the Financial Accounting Standards Board required that companies expense the value of stock options given to all employees although the focus was executive compensation. Thus stock options are now treated in a similar way to regular cash compensation (WorldatWork, 2010).

Restricted stock has become more popular as companies could no longer benefit from the ‘free accounting ride’ for stock options and stock in hand is perceived as safer than options that could go below their strike price (under water) in a down market (WorldatWork, 2010). Restricted stock allow employees to buy shares or have shares granted to them, subject to one or more restrictions such as working a certain number of years of achieving a performance target (e.g. company/business unit/individual performance). Employees cannot take possession of the stock until the restriction(s) lapse (Rosen, 2013).

When comparing the use of stock options with restricted stock, we find that today these are largely comparable. A survey in 2009 of 843 firms worldwide (75% were US-based) found that 16-31% firms offer restricted stock/free shares depending on firm size, and these numbers are very similar to the percentage of firms offering broad-based stock options (14-29%). Smaller firms (fewer than 2,500 full-time equivalent employees) and larger firms (over 20,000 FTEs) tend to offer the highest level of employee equity in either stock options or restricted shares.

2.2.3 401 (k) plans

Section 401(k) plans allow employees to set aside part of their pay on a pretax basis into an investment fund set up by the company. The law requires that participation in these plans not be too heavily skewed towards highly paid people so the company generally offers to match to encourage broad participation. The match can be any investment vehicle the company chooses, including company stock.

For the company, contributing its own stock may be the most cost-effective way for the firm to match employee contributions. Contributing imposes no cash cost, and in

fact provides a tax deduction. But other shareholders suffer a dilution. Public companies rather than private companies tend to offer stock matching as part of 401(k)s as, for the latter, disadvantages may outweigh benefits. Private companies more specifically face the need to find resellers, extra securities regulations, and the absence of a tax rollover as in an ESOP.

From an employee perspective – company stock is the one they know best – and may be attractive to people who do not want to spend time learning about alternatives or have a strong belief in their stock. 401(k)s are meant to be diversified retirement plans. Too strong a concentration in company stock limits portfolio diversity, and further places all the eggs in the same basket by combining both job and retirement savings at risk. Perhaps realizing the risks of under diversification, employees have decreased their investments in employer stock in their 401(k) in the post-Enron period (Rosen, 2013). It's unclear whether employees have educated themselves or employers have supported such education. A combination is most likely. Indeed, while financial awareness should be encouraged, only a small number of employers provide education on the importance of diversification and risk management (WorldatWork, 2010).

2.2.4 Employee stock purchase plans (ESPPs)

The majority of ESPPs tend to be qualified plans (often called 'Section 423' plans) and meet special tax treatment. The plans vary but are typically after pre-tax deferrals of pay into an account which can be used to buy company stock at the end of each "offering period". The company might allow a 15% discount on the price at the end of the offering period.

ESPPs are very popular in public companies as they offer a benefit to employees

and additional capital to companies. Private companies would rather not deal with the extra compliance and complex securities laws. ESPPs are an add-on and usually complement existing employee ownership plans. They are not a means to create an ownership culture because most employees do not have the resources to commit large amounts to these plans.⁷

2.2.5 Worker cooperatives

A distinct form of employee ownership to which this study will refer (but not focus on) is worker cooperatives. A worker or employee cooperative is a membership organization set up to market the labor and skills of its members through owning a business. It is owned by the members, and each member has one voting share. Its profits are allocated among the members on the basis of how much labor they put into the co-op. Employee cooperatives are part of a broad family of cooperative businesses, which include agricultural co-ops owned by their farmer members; credit cooperatives owned by their depositor members; and consumer co-ops like some natural food stores owned by their customers (Logue, 2006). Employee cooperatives are typically started with worker savings.

While in the US cooperatives are relatively rare – with roughly 300 worker cooperatives⁸ with an estimated 4,000-7,000 workers (Blasi, Freeman, & Kruse, 2013: Chapter 2). there are tens of thousands of worker cooperatives in Spain, and Italy (Rosen, 2013). In the US, only certain states have cooperative incorporation laws, while in Spain, legislation is very supportive of worker cooperatives. The most well-known group of

⁷ <http://www.nceo.org/articles/comprehensive-overview-employee-ownership>, June 2013.

⁸ <http://www.usworker.coop/aboutworkercoops>, June 2013.

cooperatives are under the organization Mondragon in the Spanish Basque country, which set up its first cooperative in 1956, and includes 256 cooperatives as of 2011⁹.

Since worker cooperatives have their own distinct mechanism, and the purpose of this study is to compare firms that have broad employee ownership versus those firms of a similar structure that have no or little employee ownership, worker cooperatives will not be the focus of the study. However worker cooperatives offer a very clear illustration of the effects of broad-based employee ownership. Being 100% employee-owned, and set up with a strong democratic governance structure and principles from the outset, worker cooperatives provide insight into the most extensive employee voice mechanisms. Hence this study will leverage findings from the worker cooperative literature to draw especially from its insights on voice and workplace democracy.

2.2.6 Related forms of ownership: family ownership, partnerships, and state-owned enterprises

Other ownership structures exist that differ from the most prevalent shareholder owner model, as exemplified by family, partner or state owners. Their existence is worthy of note for this study, as some work has been done in evaluating the relationship between a firm's ownership status and its relationship with stakeholders in society. Several empirical studies have examined the positive effects of family ownership on the firm's corporate social responsibility, evaluated by the firm's overall relationship with stakeholders (Dyer & Whetten, 2006), on the firm's community stakeholder (Niehm, Swinney & Miller, 2008) and on the firm's proactive environmental strategy (Sharma &

⁹ <http://www.mondragon-corporation.com/eng/>, June 2013.

Sharma, 2011). These firms can partially illustrate the common characteristics that tie certain forms of ownership to stakeholder management.

2.3 Reasons for employee ownership

There are many reasons why a firm may pursue employee ownership. The reasons may differ somewhat by type of employee ownership, but remain broadly the same. The WorldatWork survey (2010) found that the most common reason was alignment of interests between employees, management and shareholders (around 45-47% for Options and Restricted/Free Shares, and higher for ESPPs with alignment cited as the primary reason for 62% of the firms surveyed). Other key reasons are: to attract and retain employees (22-30%), a necessary part of a competitive rewards/benefits package (7-14%). Finally, history and culture of the company was cited as the primary reason for 8-10% of the firms choosing either options or ESPPs. Interestingly, tax benefits were cited as the primary reason in less than 5% of the firms for all plan types.

The special legal structure of ESOPs is associated with other reasons for their adoption. Klein (1987) provided a clear summary of the possible motivations for setting up an ESOP: (a) to provide an employee benefit, (b) to provide an incentive for employee effort, (c) to fulfill management's philosophical commitment to shared ownership, (d) to gain tax advantages, (e) to finance capital acquisitions, (f) to purchase the shares of a retiring owner, (g) to finance employee purchase of the company during a corporate divestiture, or (h) to transfer from public to private ownership. Based on a US GAO 1986 survey of why companies formed ESOPs, the primary reasons were to provide an employee benefit (91%), gain tax advantage (74%), and improve productivity (70%). Another factor advanced by Blasi & Kruse (1992) in a study of public companies is the

introduction of an ESOP as a takeover defense. However case law limited the use of such managerial strategy by requiring that employee ownership plans be used exclusively for the benefit of employees (Blasi & Kruse, 1992). Contrary to common belief, ESOPs are almost never used to save troubled companies¹⁰.

In sum, based on the literature, reasons to adopt ESOPs can be categorized into those that are distinctively positive for employees, and those that benefit employers: employee productivity, tax advantages, financial advantages (finance capital acquisitions), and the ability to change the ownership structure (purchase shares of retiring owner, transfer public to private ownership). However this picture is missing the ethical component that this study aims to incorporate.

Klein (1987) states that in order to succeed, ESOPs require management's philosophical commitment to shared ownership, and that may be true as the set-up is complex, and requires commitment. One might say the same for broad equity rewards.

2.4 Effects of employee ownership

Many studies have looked into the effects of employee ownership on a variety of employee and firm outcomes (Kaarsemaker et al. 2010, Kruse & Blasi, 1997; Kruse 2002 Kruse, Blasi & Park, 2008). The outcomes can be categorized into four areas (Kruse, 2002): (a) employee attitudes and behavior; (b) firm performance; (c) employment stability, growth, and firm survival; and (d) employee wealth and wages. What is missing is the effect on societal outcomes – though some of the factors may be related to this more macro outcome (e.g. employment stability).

¹⁰ NCEO, 2013, <http://www.nceo.org/articles/esop-employee-stock-ownership-plan>, May 2013.

Focusing on employee ownership broadly, but excluding profit-sharing and broad-based stock options, Kruse (2002: 9) concluded based on over 70 studies of employee ownership in the past 25 years that:

- “1. Studies are generally split between favorable and neutral findings on the effects of employee ownership on employee attitudes and firm performance, with very few negative findings.
2. On average, employee ownership is linked to 4-5% higher productivity levels, and greater employment stability, growth, and firm survival.
3. While employee ownership may often improve attitudes or performance, it clearly does not automatically improve these outcomes whenever it is implemented. The distribution of outcomes may be shifted in a positive direction, but the dispersion is probably as great among employee ownership firms as among other firms.
4. Employee-owners generally do not sacrifice pay or benefits in exchange for employee ownership, and in fact are more likely than other employees to have diversified retirement plans.”

More recent studies shed more light on the interactive effects of employee ownership with other human resource practices (Kruse, Blasi, & Freeman, 2012). With possible exceptions such as Erdal (2011) who evaluated the effects of cooperatives on the community, there is paucity of research on the effects of employee ownership on other actors other than the employee and the firm.

3 CHAPTER THREE: THEORETICAL BACKGROUND AND HYPOTHESES

After an in depth review of the literature on responsible stakeholder management, and employee ownership, it is now possible to build the theoretical framework that supports the relationship between the two underlying constructs. The purpose of this section is to examine how a variety of mechanisms at different levels can help explain why and when employee-owned firms will be more likely to manage their internal and external stakeholders more responsibly. Theoretical work on understanding how employee ownership relates to employee and firm outcomes is fairly thin (Carberry, 2011) save a few exceptions (e.g. Caramelli, 2011; Klein, 1987; Pierce, Rubenfeld, & Morgan, 1991). This work aims to address this gap by evaluating the mechanisms along with the effects of employee ownership.

An outline of the arguments follows. First, employee ownership is a complex phenomenon. The previous chapter underscored the variety of types of employee ownership, the reasons to adopt employee ownership, its consequences, and the accompanying practices to support successful employee ownership. Another key feature of employee ownership is that it can function at two levels, organizational and individual. Understanding the multi-level nature of employee ownership, allows setting the stage for understanding the mechanisms that link employee ownership to RSM. Second, there are philosophical arguments that make real employee ownership a feature of internal RSM. This leads to the first hypothesis that employee ownership is empirically positively associated with the other components of internal RSM. Third, the existence of real employee ownership in a firm requires key factors (leadership, structure, culture), and thus make employee ownership more likely to be positively associated with external

RSM. Fourth, at the individual level, employee ownership can foster particular motives that can be associated, and can even enable external RSM.

3.1 Employee ownership is a multi-level construct

All organizational phenomena are multi-level by nature (Klein, Dansereau & Hall, 1994). Thus precise articulation of the level of one's constructs is important for any research – whether single level or multi-level (Klein et al., 1994). This study is at a single level, the company level, but appreciates that employee ownership is a construct that is tied to several organizational levels or entities. Such a perspective helps to explain more carefully why employee ownership is related to RSM by evaluating individual and firm-level concepts and constructs. Employee ownership is an organizational practice that tends to be implemented firm-wide, yet it may be adopted, and further perceived differently by its employees - depending on the variation of employee motives for example. Stakeholder management tends to be evaluated at the firm-level (e.g. Berman et al., 1999), yet it results from relationships with stakeholders that can occur at the individual, group or organization-level.

Katz & Kahn (1978) argued for the need to differentiate between levels of conceptualization (ideas, theories about phenomena) and levels of phenomena (what is studied, measured). Understanding also the assumptions that underlie multi-level research becomes relevant; homogeneity, independence or heterogeneity may exist within higher-level units (Klein et al., 1994). Without being a multi-level study per se, that may for example evaluate cross-level effects, this study understands employee ownership as a multi-level construct, itself associated with factors at multiple levels.

3.2 Employee ownership is a feature of internal RSM

3.2.1 ‘Real’ employee ownership

To investigate what makes employee ownership a key component of internal RSM requires providing a more comprehensive understanding than the general employee ownership definition provided previously (e.g. Kruse, 2002), the one most commonly adopted in the literature that tends to focus on financial ownership. Employee ownership is associated with several central rights: return rights and control rights (Ben-Ner & Jones, 1995). Return rights relate to having a share of the risks and rewards related to owning stock in the company through different ownership forms – ESOP, stock option, 401(k), ESPP. Control rights relate to participation in decision-making. Return rights tend to come automatically with employee ownership, control rights do not. The combination of both rights is not always associated with employee ownership. When the literature is focused in the control rights piece, it clearly distinguishes this component using different terms that relate to employee participation in decision-making at increasingly higher levels of the organization, starting with information sharing, and employee involvement at the job level (e.g. Kruse, Blasi, & Freeman, 2012; Pendleton & Robinson, 2010), and ranging to employee voice in the governance of the firm (e.g. Mackin & Freundlich, 1995), and finally to full workplace democracy (e.g. Ellerman, 1992).

Another useful distinction is offered by Pierce, Rubinfeld, and Morgan (1991) who divide employee ownership further into other rights: the right to equity possession (i.e. return rights), participation, and information about what is owned (1991: 125). While this study tends to combine the participation and information in control rights, it remains useful to keep in mind that formal ownership can be operationalized as a

multidimensional variable consisting of several critical dimensions: equity, influence, and information (Pierce et al, 1991: 126).

This study is interested in ‘real employee ownership’, which combines both return and control rights. The label ‘real’ resonates because it is descriptive yet simple. It is an arbitrary choice for this study and others have used the term ‘true’ instead referring to true owners (e.g. Blasi, Kruse, & Bernstein, 2003). Kaarsemaker and Poutsma (2006) have also employed the term ‘real ownership’, building on the work by Rousseau and Schperling (2003) that in order to be a real owner, an employee would have a share in the returns, a say in how the business is run, and be business literate. Other scholars have referred to an employee ownership culture, meaning that ownership has seeped into all aspects of the organization (e.g. Mackin & Freundlich, 1995) in order to support both return and control rights. Culture is indeed an important feature but it tends to be a factor that is required to support real ownership in a firm, rather than define real ownership itself.

3.2.2 Normative arguments that real EO is part of internal RSM

The return and control rights dimensions of employee ownership have been deemed morally desirable in the business ethics literature (Boatright, 2004; Hsieh, 2008; Moriarty, 2008). Boatright (2004) referred specifically to the term employee governance in order to signify both employee financial ownership and employee participation in decision-making. Boatright (2004) takes it as a given that employee governance is morally desirable. His purpose is to acknowledge that employee governance as commonly understood may be deemed inefficient by the economics literature (e.g.

Alchian & Demsetz, 1972), but can still be a goal to strive for by adopting a different conception of employee governance.

Several researchers have made the argument that the control rights component in particular, also called workplace democracy (e.g. Dahl, 1985; Pateman, 1979), is morally desirable. The moral perspective in favor of workplace democracy relies on two arguments. The first is a requirement to justify authority, based on the parallel argument that the rights of an employee in a firm are similar to those in a citizen state (Dahl, 1985; Pateman, 1970) or that managerial authority requires legitimacy (McMahon, 1994). The second key argument is based on the right of individuals to freedom and autonomy (e.g. Brenkert, 1992; McCall, 2001).

The justification for either financial ownership or employee participation in decision-making (at the job, unit, and/or firm level) is hotly debated in the literature. For some, financial ownership is considered a prerequisite for workplace democracy. Ellerman (1992) holds the strongest position arguing that individuals' inalienable right to property requires universal self-employment, and thus collective rather than individual forms of ownership, such as cooperatives. For those interested in what makes managerial authority legitimate, maximal legitimacy would be ensured via full employee ownership as a means to workplace democracy (McMahon, 1989). However rather than challenge the current capitalist system of ownership, McMahon (1994) advances medial rather than maximal or full legitimacy, thus not making full employee ownership a prerequisite for the legitimate exercise of managerial authority.

On the opposite end, Mayer (2000) argues that employees do not have a moral right to workplace democracy. Mayer (2000) defines morality in terms of rights and

argues that employee claims to a share of power in the workplace are not inherently inalienable, and cannot be justified on grounds of exploitation. Mayer (2000) concludes that employees consent to forego their claim to power in exchange for something deemed more valuable – remuneration.

Many do not discuss financial ownership, as it is not considered a prerequisite for workplace democracy. Pateman (1970) doesn't mention ownership and rather focuses on levels of participation in the workplace (pseudo, partial and full), and whether workplace involvement positively affects participation in the political sphere. The industrial relations literature (e.g. Schurman & Eaton, 1996) also doesn't make financial ownership a prerequisite for workplace democracy. In the US in particular, the industrial relations field sees unions as a solution to workplace democracy, perhaps disillusioned with earlier failures of cooperatives in the US, as observed by Dahl (1985). But these conclusions were made before the ESOP and B Corp sectors became significant.

The purpose of this study is not to enter the intricate debate in favor or against return rights (e.g. financial ownership) or control rights (e.g. workplace democracy), but to show that real employee ownership can be considered a dimension of responsible stakeholder management. We rely on Moriarty's (2008) stakeholder/shareholder framework, because among the different ones available (e.g. CSR, sustainability), stakeholder theory is the most articulate in assessing the normative claims of corporations' responsibilities. Employee rights and obligations constitute one of the four issue-clusters in business ethics as identified by Moriarty (2008). Moriarty (2008) finds that a number of moral issues fit under the category of employee rights and obligations: i) freedom from discrimination and harassment, ii) job security (employment-at-will vs. just

cause), iii) safety, iv) privacy, v) meaningful work, vi) employee participation, vii) compensation, viii) whistleblowing. These dimensions represent well categories to assess the responsible treatment of the employee stakeholder. Real employee ownership addresses two of these dimensions: employee participation and compensation.

Further arguments supporting that real employee ownership is morally desirable within the stakeholder framework come from applying the earlier definition of RSM more specifically to employees. Reiterating the RSM definition, three principles can serve as a guide. One is the perfect duty to respect stakeholders' negative freedom, by upholding their rights, and by avoiding coercion or deception. Another is an imperfect duty to support the individual's autonomy, and thus positive freedom when possible. Fairness represents another principle, and can be derived from both a perfect and imperfect duty. Fairness is required for stakeholders entering a cooperative scheme, such as a business. An obligation of fairness is owed to the parties involved in such a scheme. How these guiding principles translate to the treatment of employees can be manifested in an organization's practices to protect employee rights, avoid coercion and deception, support employees' autonomy, and promote fairness.

Employee rights have been codified and protected under legal boundaries, such as a right to safety, a right to collective bargaining, right to equal employment opportunity – that different workplace laws and governmental agencies protect (e.g. OSHA, NLRB, EEOC)¹¹. The International Labor Organization provides clear guidelines for the respect of worker rights without necessarily having the ability to enforce those rights into law. Strict coercion to work is generally avoided, as employees are not slaves and are

¹¹ <http://www.dol.gov/opa/aboutdol/lawsprog.htm>, April, 2014.

generally considered free to enter an employment contract. However this is open to debate when evaluating employment-at-will (Epstein, 1984; Radin & Werhane, 2003). Thus certain moral worker rights may not be protected by law. Freeman & Evan (1990) noted that employees are not at equal power with management in the employment relation contract. Indeed individuals cannot easily change jobs as stockholders can change titles. The charge of coercion may be of a more institutional nature whereby employees do not enter the contract entirely freely if the economic context is poor, institutional safety nets are weak, or the laws of a country rely on employment-at-will.

Organizations may do their share in responsible employee management only on aspects on which they have control. They can diminish coercion and deception in particular in cases of involuntary layoffs. Bowie (1999) argued that the source of the control problem is essentially in the nature of asymmetrical information, as managers know more about the firm's finances than employees do. Both the deception charge and the coercion charge could be dropped if employees were fully informed within the limits of regulation requirements, and able to choose: either to provide solutions to avoid layoffs, propose alternative arrangements (e.g. furloughs) or to prepare for their exit (e.g. through early notice, retraining, and outplacement services). In reality, there are a number of business practices that are an improvement on the traditional labor contract and come closer to being in conformity with Kant's principle of respect for persons (Bowie, 1999). Such practices include fostering open communication, and involvement of employees in the management of the company and its profits, and, especially in the decisions that directly affect them. Real ownership can provide the basis for such practices. The control rights of employee ownership are thus very important for internal RSM even the extent of

this right remains extensively debated in the literature. Return rights, fostered through practices such as employee ownership and profit sharing, can ensure fair distribution of risks and rewards.

Deception and coercion also remain possible in the area of compensation as noted by Bowie (1999): big inequalities and wage differentials exist between top management and average employee are relevant here. Stock and profit sharing can help address these issues with plans extend that to the entire workforce and allow everyone to share in the gains that result from increasing productivity, and firm market value. Employees share the risks too. However some plans are still reserved predominantly for top-management, and/or employees are not involved in the formulation of such plan nor informed about how decisions are made. To pass the test of responsible employee management, plans would need to be freely accepted by the employees and this acceptance should in turn rest on full financial information.

In summary, labor contracts and organizational practices should at a minimum be neither coercive nor deceptive (e.g. absence of bargaining power for employees where they are forced to choose employment-at-will), and where possible support individuals' autonomy (e.g. meaningful work). This study agrees with Bowie (1999) that employees should be involved in the firm decisions that affect them, especially with regards to layoffs and productivity. When an economic crisis looms, employees should have a say in the policy decisions that affect them. In good times and bad times, employees should have control and return rights, whereby employees have a voice in determining the nature of the plan, and share in the gains and risk of the firm.

This section has developed normative arguments to show that real ownership is a strong component of responsible internal stakeholder management, and thus provides the normative theoretical backbone in associating the two.

Hence, on normative grounds:

Relationship 1: Real employee ownership should be considered a component of responsible management of employees (i.e. internal RSM).

The following section clarifies how this normative relationship can be translated to a testable empirical hypothesis.

3.2.3 The move from a normative framework to a descriptive one

Even before moving to the operationalization of theoretical constructs into testable measures, a preliminary step is required to understand the differences between a normative framework and a descriptive one. A normative approach prescribes how managers “ought to” behave, while a descriptive approach studies how managers actually do behave and attempts to explain what factors may be associated with such behavior (Trevino & Weaver, 1994). It is problematic to move from a descriptive framework to a normative one, as one cannot derive an “ought” from an “is”. It is not because scientists observe that humans continuously kill each other, that killing is the right thing to do. As Donaldson and Dunfee (1994) explain: to deduce an “ought” from an “is” is to commit to a logical mistake some have called a “naturalistic fallacy” (Moore, 1903/1951: 10-14). No amount of empirical accuracy can ever by itself add up to an “ought” (Sorley, 1904/1969 in Donaldson & Dunfee, 1994). However “ought” implies “can”. Ethicists cannot place unrealistic demands on individuals. Arguing that individuals ought to tell the truth stems from the fact that we know that they can.

Theory is expected to guide empirical research. The back and forth between theory and empirical findings happens in many social sciences fields such as sociology, psychology, and economics. However business ethics is a fairly new field, where a fairly fluid exchange does not always happen, and may not be possible in the same way as it is in organizational theory or organizational behavior fields. First, the business ethics field is fairly new, and counts on the one side philosophers who study ethics in business, evaluate how managers, and firms “ought” to behave, and on the other management scholars who focus on predicting when managers and firms might behave (un)ethically (e.g. for a review of work on antecedents and consequences of ethical behavior: O’Fallon & Butterfield, 2005). While the two approaches increasingly talk to each other in forums such as the Society for Business Ethics, Social Issues in Management, and scholarly research argues that both approaches can be symbiotic (Trevino & Weaver, 1994; Donaldson, 1994; Freeman et al, 2010), there is critique as to whether both normative and descriptive approaches can be truly integrated (Alzola, 2011). However reconciliation is possible, whereby both fields can be respected for their unique identities while helping place limitations on the other: empirical research can provide constraints to normative thinking, and a normative framework can help better frame empirical research (Alzola, 2011). For example, while philosophy refers to the “impersonal point of view” – the impartial perspective from which judgments are supposed to be made, social psychologists show that most human beings favor their personal interests and values, special relationships, and personal commitments over others (Alzola, 2011).

In summary, a normative framework can serve as a prescriptive guide for individuals, and a theoretical guide to the descriptive framework. Conversely a

descriptive approach can alter expectations, and generally place limitations on normative demands of how individuals ought to behave.

3.2.4 Hypothesis 1: Employee ownership (financial) is positively associated with internal RSM

Building on the arguments above that ethical theory can help frame an empirical proposition, this section simply translates the relationship between real employee ownership and internal RSM into a testable hypothesis. This move requires us to relax the strict theoretical demands. Indeed real ownership as argued above is a tall order to achieve based on philosophical grounds. In order to better provide a test of the normative theory, it is useful to decompose real ownership in its subparts: the return rights (financial ownership) and the control rights (participation in decision-making). Further control rights have been distinguished based on the level of participation decision-making employees can have. While full workplace democracy (Ellerman, 1992) may be the ultimate translation of internal RSM, in reality, firms offer participation decision-making at the job level, that more commonly corresponds to the term of employee involvement (Kruse, Blasi, & Freeman, 2012; Pendleton & Robinson, 2010).

The move also relies on arguing that what ethical theory says is morally desirable is also what in real organizational life will be considered morally desirable and doable. Three aspects to evaluate this translation are to look at the issue from the organization's perspective through its own values and practices, and through employees' perceptions of what the organization is valuing and doing. An organization's approach to internal RSM can be evaluated through its values expressed through the organization's mission statement, its leaders, and internalized through its organizational culture. Dimensions to

look at can be based on the eight components of employee rights and obligations suggested by Moriarty (2008): freedom from discrimination and harassment, job security (employment-at-will vs. just cause), safety, privacy, meaningful work, employee participation, compensation. Practices matter greatly too, as they manifest the organization's values and priorities (e.g. breadth of employee ownership, number and type of employee involvement practices, specific measures to ensure safety and non-discrimination).

Thus stating the values is a start, but insufficient. Proper engagement requires that the firm take concrete steps to turn its words into action. The literature of strategic human resource management (SHRM) can be a helpful source in illustrating the sequence of events from values to outcomes. Proper policies, programs, practices and processes as articulated by Schuler (1992) can all enact at different levels a firm's philosophy of how it treats and values its people. The relevance of principles, processes and outcomes as it relates to all stakeholders of the firm is also articulated in Wood's model of corporate social performance (1991).

How intended firm values, and practices will be perceived will translate to employee perceptions within the notion of organizational climate – defined as the shared organizational level of shared collective perceptions, attitudes and behaviors among employees (Bowen & Ostroff, 2004). Fairness constitutes a key element for consensus to exist, whereby employees need to perceive the HRM system as adhering to three dimensions of justice: distributive, procedural, and interactional (Bowen & Ostroff, 2004: 212).

Since both employee ownership and RSM are multilevel constructs, they should be evaluated as such, paying attention to organizational values and practices, and employee perceptions. The operationalization of these components will be detailed further in the methods sections. For now, it is expected that the same combination of organizational values, practices, and employee perceptions will support both real ownership and responsible management of employees.

Real employee ownership is very complex to test. In order to come close to it requires separating financial ownership piece from control rights, and in particular focusing on the more commonly evaluated employee involvement – rather than real voice and voting rights. Thus,

Hypothesis 1: Employee ownership (financial employee ownership) is positively associated with the responsible management of employees (i.e. internal RSM).

This study later re-integrates the moderating effect of employee involvement on the relationship between financial employee ownership and external RSM. In order to provide a stronger rationale for the relationship between employee ownership and external RSM, it is better to theoretically distinguish the factors operating at the organizational level and those at the individual level – even if these cannot be all tested in this study.

3.3 Organizational level: Real employee ownership and RSM share a common underlying set of values, manifested in leadership, structure, and culture

3.3.1 Leadership, structure, culture and the concept of fit

“[Real employee ownership] happens not because you allow it but because you structure it” (Rosen & Rodrick, 2001/2013). The authors were referring to employee

involvement in particular, but the relevance of intention and structure applies to the full spectrum of employee ownership (i.e. real ownership) as well. Following Kotter and Heskett's (1992) framework, all four factors: leadership commitment and strategy, structure, culture, and business context contribute to implementing (or not) real employee ownership. Furthermore the first three factors are similar to the ones expressed in the section above: values espoused by the organization (and represented by leadership commitment and strategy), practices (structure), and shared employee perceptions (culture).

Employee ownership scholars have also found that the following components contribute to real employee ownership, thus leading to positive employee and firm outcomes: leadership commitment (Erdal, 2011), structure manifested in specific employee involvement practices (Kaarsemaker & Poutsma, 2006; Kruse, Blasi & Freeman, 2012), and organizational culture (Mackin & Freundlich, 1995; Erdal, 2011). Alignment of strategy, structure, and culture will make the intended organizational behavior stronger. This concept of alignment comes from strategy (Porter, 1996) and is leveraged in the field of strategic human resource management (SHRM). First it is necessary to clarify that SHRM is a useful framework for real employee ownership that relates to key HRM practices of an integrated system built on employees' ability, motivation, and opportunity to perform to achieve company goals (Bailey, 1992; Lepak, Liao, Chung, & Harden, 2006). Indeed employee ownership taps into compensation and incentives, or extrinsic motivation, as well as more complex intrinsic motivation through mechanisms such as psychological ownership (Rousseau & Schperling, 2003). Employee

involvement and participation in decision-making as well leverages intrinsic motivation, and provide the opportunity to perform.

For SHRM, fit is expressed along two dimensions: vertical and horizontal. SHRM is defined as “the pattern of planned resource deployments and activities intended to enable an organization to achieve its goals” (Wright & McMahan, 1992: 298). Vertical linking of HRM practices occurs with the strategic goals of the organization (e.g. Dyer, 1985; Lengnick-Hall & Lengnick-Hall, 1988). Horizontal alignment emphasizes coordination or congruence among the various human resource management practices, (e.g. Baird & Meshoulam, 1988).

The concept of fit can also be applied to RSM. A true commitment to RSM should manifest in leadership strategy, structure, and culture. Where real ownership and RSM connect in particular is a similar underlying leadership values, as well as culture. The values and priorities adopted by leadership create a top-down effect. If there is congruence, such values will also translate into culture, creating a parallel bottom-up effect whereby a shared organization climate emerges from aggregate employee perceptions.

Empirical work on employee-owned firms supports this idea of fit, finding “management’s philosophical commitment to employee ownership” which is “the degree to which employee ownership is both a central part of management’s philosophy and its human resource strategy and is integral to the organization’s culture and identity”(Pierce et al., 1991: 129). Klein (1987) found that management’s philosophical commitment to employee ownership significantly related to employee attitudes (e.g. satisfaction, commitment, and turnover intentions).

3.3.2 Rekindling the concept of workforce philosophy: real employee ownership and RSM share common values

Values are a component of a firm's overall organizational climate, and culture. Climate represents the more visible aspect of the broader construct of culture (Denison, 1996). Similar values expressing how employees ought to be treated would extend to external stakeholders as well, and rely on a shared respect of stakeholders' humanity, and obligation to fairness. The structure materializes what values are prioritized. Few in the HR literature have pursued the line of values embodied in a workforce philosophy (Colbert, 2004; Schuler, 1992); instead, most have focused on the structural components of the HR system comprised of policies, programs, and practices (e.g. Lepak et al., 2006). This study agrees with Kaarsemaker and Poutsma (2006) that workforce philosophy is a critical piece of a complete HRM system.

While generally the goals of SHRM are to gain a sustained competitive advantage, the goal of RSM can either be considered an intermediate step to achieve sustained competitive advantage, or a goal in itself, i.e. treating stakeholders responsibly is a goal worthy pursuing even if it may require financial trade-offs.

In summary, the above section made the case especially at the organizational level for the presence and alignment of leadership, structure, and culture in both real employee ownership as well as RSM, and the sharing of a common set of values. Further theory is needed to articulate the link that explains ways in which real ownership is connected to motives and mechanisms that *enable* RSM. In order to do this, a move to the individual level is required.

3.4 Individual level: employee motives

While theoretical development in understanding how different dimensions of employee ownership affect employee and firm outcomes is still lacking (Caramelli, 2011), several influential articles have offered a better understanding of relevant psychological and social factors through which employee ownership affects outcomes by evaluating motivation models (e.g. Klein, 1987), psychological ownership (Pierce et al., 1991, Pierce, Kostova, & Dirks, 2001), and the psychological contract (Rousseau & Schperling, 2003). This section connects key mechanisms related to employee ownership with the antecedents of RSM, by adapting Aguilera and colleagues' (2007) framework of multiple needs theory. Motives can either be instrumental, connected with the need for control, relational, serving a need for belongingness, or moral and responding to a need for meaningful existence (Aguilera et al., 2007).

3.4.1 Key concepts in employee ownership: psychological ownership and psychological contract

Employee ownership is complex and multidimensional comprising both formal and psychological components (Pierce et al, 1991). Pierce and colleagues introduced the notion of psychological ownership based on previous results which found that perceived employee ownership appeared to be more proximal to employee attitudes and behaviors than formal ownership. In her study of 37 ESOP companies, Klein (1987) showed that there was no significant relationship between the percentage of ownership stake in the ESOP and employee attitudes (e.g. job satisfaction, organizational commitment). However, ESOP employee ownership did have a positive impact on average employee attitudes when coupled with significant financial rewards or participative management

practices or both (Klein, 1987). Long (1977, 1978a,b) also evaluated formal employee ownership and perceived participation in organizational decision-making, and found that the effect of the latter was a stronger predictor of employee attitudes and behaviors.

Pierce and colleagues thus developed a model showing that formal employee ownership may work on employee attitudes and behaviors through a “psychologically experienced state of ownership” (1991: 126). “Formal ownership can be operationalized as a multidimensional variable consisting of three critical dimensions: equity, influence, and information” (Pierce et al., 1991: 126). Psychological ownership relates to employees’ feeling as if they are owners of the company, and is more specifically defined in a subsequent paper as “that state in which individuals feel as though the target of ownership (material or immaterial in nature) or a piece of it is ‘theirs’ (i.e., “It is MINE!”)” (Pierce et al., 2001: 299).

Another key concept is that of the psychological contract, which underlies the employment relationship, and relies on the beliefs that each party has regarding a reciprocal agreement between the worker and the employer (Rousseau, 1995: 560). The psychological contract offers an alternative to the standard employment contract, and is particularly relevant in firms which use employee ownership (Rousseau & Shperling, 2003). Coupling ownership, which provides residual control rights and “profit sharing with shared financial information and decision-making participation increases the employer-worker agreement regarding the terms of the psychological contract, beyond the effects of any single facet of ownership” (Rousseau & Shperling, 2003: p561).

Both concepts of psychological ownership and psychological contract enrich our understanding of what motivates employees, and offer alternative explanations to the

narrow rationale of self-interest and motivation to shirk advanced by agency theory (e.g. Alchian & Demsetz, 1972). These psychological and social perspectives accept the formal component of ownership (i.e. residual control rights), but add other mechanisms which make seeking other ends than only profits possible, thus opening the opportunity to understand other goals - such as responsible stakeholder management.

3.4.2 Instrumental motives

A key component of the instrumental motive for responsible stakeholder management resides in the principle of fairness. Employees may view a socially responsible firm as one concerned with fairness towards all of its stakeholders, both internal and external. Employees care about fairness manifested to other stakeholders because it signals that the employer will in turn be fair to them (e.g. Turban & Greening, 1997). Exercising an instrumental motive, employees seek to control outcomes they will be subject to, and can use the firm's CSR as a heuristic that they will in turn be treated fairly. Formal employee ownership through broad-based plans, whereby all employees receive a participation in firm stock (e.g. ESOP, broad based stock options) or are eligible to participate (e.g. 401(k), ESPP) can send a strong signal the firm seeks to distribute the pie fairly across its internal stakeholders (e.g. managers, employees).

Since one of the key stakeholders groups are external shareholders, employees that own shares would be incentivized to align their interests with those external shareholders. Adam Smith (1776) wrote just as corporations were replacing partnerships as the dominant mode of industrial organization. He was skeptical of organizations that were no longer partnerships where each member could keep an eye on the other and feel responsible for the overall result. Employee ownership changes the traditional corporate

arrangement to repeatedly shift responsibility back to the center of the company's management hierarchy in three possible ways. First, the approach is to realign the agent's interests with those of the principal through monitoring and incentives – as in agency theory (Monks & Minow, 2011). Employee ownership then serves as a mechanism to align employees' interests with those of the other owners of the firm. Thus employees are made to feel responsible to all shareholders – both internal and external. However employees are different from external shareholders – and through the long-term view, as well as the patient capital mentioned earlier, are motivated to mind the long-term interests of the firm.

3.4.3 Relational motives

Aguilera et al (2007) define the relational motive for CSR as one in which employees fulfill a need for belongingness, and seek to be legitimate members of valued social groups (2007: 842). Thus employees would rather belong and identify with a firm that cultivates positive relationships with its network of stakeholders. Under the effect of psychological ownership, lies a strong sense of identity (Pierce et al, 2001). Indeed Pierce and colleagues argue that the “roots of psychological ownership can be found in three main motives: (1) efficacy and effectance, (2) self-identity, and (3) ‘having a place’” (2001: 300). Thus, it becomes crucial for employees who feel that the firm they own and work for also relates positively with its stakeholders, in order to preserve a positive self-identity. One case in point is British Petroleum, whereby the firm strongly supports wider share ownership (Sledge, 2012), and where employees were very negatively affected by BP's Gulf of Mexico oil spill. BP engaged in significant efforts to redress the situation for external facing reasons, but also to boost employee morale (Sledge, 2012). The aspect

of identity may be particularly important for SMEs, that are deeply rooted in a local community where relationships overlap: i.e. business, personal, individuals with a shared interest in the community well-being.

3.4.4 Moral motives

CSR (and by extension RSM) connects to an individual's need for a meaningful existence (Aguilera et al, 2007). While touching upon ethics briefly, Aguilera and colleague's statement that "[m]ost individuals share a basic respect for dignity and worth" (2007: 842) is consistent with our definition of responsible stakeholder management as demonstrating respect for stakeholders' humanity. Employees would prefer ethical frameworks that are consistent with theirs (Aguilera et al, 2007). Aguilera and colleagues rely on Rupp, Ganapathi, Aguilera & Williams (2006) to articulate why a bridge may exist between CSR and organizational justice. As noted earlier, RSM relies on assumptions of treating stakeholders fairly and contains the core concept of responsibility – which is also at the center of the psychological contract, and associated rights and responsibilities that come with employee ownership.

With firms' current inability to promise job security and promotion with seniority, employee ownership offers an alternative support for a relational psychological contract between employee and employer in certain conditions. In principle, employee ownership gives employees additional rights to those normally expected by employees when four rights and privileges can be bundled: residual control rights, a right to share in the company's profits, access to information on company finances and operations, and rights to participate in the management of the company (Rousseau & Shperling 2003). "Such a

bundle can form the basis of trust and aligned interests between workers and employer,” (Rousseau & Shperling, 2003: 565).

The notion of rights coupled with responsibilities has also been pursued by Marens and colleagues (1999) who argue that the combination of ESOP and employee participation forge a stakeholder relationship between employees and managers. This capability is the one that underlies the link between ESOPs and firm performance found in studies. Marens et al. (1999) explain that ESOPs create an affective relationship – different from one that it exists in other involvement programs. Employee involvement programs alone do not seem to work. Marens and colleagues use cooperative game theory to illustrate why it is costly for either party to engage more. But broad-based ownership like that found in an ESOP can create a different kind of relationship, one that is mutual and based on trust.

When evaluating the interplay of motives, Aguilera et al (2007) proposed a hierarchical order whereby moral motives mattered most, then relational, and finally instrumental motives. The relationship between the three motives is considered additive. For this study, and in order to be most aligned with responsible stakeholder management, moral motives need to be satisfied, whether the other motives are satisfied may not contribute directly to RSM. This study does not provide a direct test of the three motives but underscores the particular relevance of moral motives.

3.5 Emergence of collective motives

While employees are key actors in the firm, which may interact with external stakeholders, it is likely that a great number of interactions occur at the unit-level (firm, business unit or group) that moves the level of investigation back to the organizational

level through a bottom-up effect. This accounts for the emergence of motives and mechanisms at the organizational level, following multilevel approaches recommended by Kozlowski and Klein (2000). The accounting for multilevel theories in strategic HR is needed but fairly recent; one good example is applied to human capital and the emergence of knowledge, skills, abilities and other (KSAOs) at the unit-level (Ployhart & Moliterno, 2011). Kozlowski & Klein describe “a phenomenon [as] emergent when it originates in the cognition, affect, behaviors, and other characteristics of individuals, is amplified by their interactions, and manifests as a higher-level, collective phenomenon” (2000: 55).

An example of the organizational-level phenomenon of employee ownership is the functioning of ESOPs. In ownership rights and benefits, because employee shares are grouped in an employee trust, employee ownership does not decline when individuals retire, hence the shares and employee ownership as a phenomenon have an organizational existence that goes beyond their individual stake. SAIC, that grew to be one of the world’s largest employee-owned firms, with \$8 billion in revenue, provides a strong illustration of ownership at the organizational level. It used several mechanisms including an ESOP and other forms of non-trust individual holdings. It even created an internal stock market to allow employees to trade shares while continuing to be a private firm (Beyster, 2007).

3.5.1 Long-term view

Employee owners are more conservative and have a longer term focus than external shareholders. While the finance and economics literature (e.g. Williamson, 1975) argues that stockholders bear residual risk, Freeman & Evan (1980) contend that they are most

free to renegotiate their contract at any time through their ability to exit effortlessly through the existence of a market for shares. In fact it is the other stakeholders that have “at least as good a claim as owners, since they often do not have the option of ‘exiting, almost freely’” (Freeman & Evan, 1980: 344). Employees generally do not have the same flexibility as regular shareholders to enter and exit a firm. Hence employees’ interests are to act more conservatively, and such long-term view may be more beneficial to the firm’s sustainability and the required long-term relationships with non-shareholder stakeholders.

Thus, it is more likely that workers within an employee-owned firm will adopt a long-term view, which is aligned with a longer term view in managing the firm’s stakeholders including the shareholders. As a group, employee owners can be considered as having patient capital, which refers to investments made by owners who are willing to take a long-term view (Smith, Pfeffer & Rousseau, 2000). “Where higher returns are anticipated over time, as in the case of investments in research and development, workforce development, and organizational infrastructure, patient capital can benefit a broad spectrum of firm stakeholders” (Rousseau & Schperling, 2003: 565). Furthermore for this study I focus on aspects of shared capitalism that provide a long-term payout (ESOPs, ESPPs, 401K, stock options).

3.5.2 Distribution of power

Theories of power are important in the sociology and psychological literature and are very relevant for employee ownership. Employee ownership tends to share the power, especially if complemented with involvement mechanisms. Mackin and Freundlich (1995) argue that in order to achieve what they call an “ownership culture”, firms need to go beyond basic communication processes and implement representative structures. Such

structures are required to provide psychological safety for the exercise of uninhibited employee voice. Mackin and Freundlich contend that the major qualitative issue in employee ownership may relate to the exercise of organizational power. As a result, the value of an ownership culture goes beyond the tax and financial benefits of employee ownership, so that firms can leverage both greater profitability, and greater democracy for employees (Mackin & Freundlich 1995).

Erdal (2011) provides numerous company case studies, such as Litecontrol, John Lewis Partnership, and the Mondragon cooperatives, in order to show how the combination of broad employee ownership and involvement structures lead to higher firm performance and employee satisfaction. Erdal (2011) also argues that broad employee ownership coupled with appropriate involvement structures will balance the power between employees and managers, allowing for the former to truly contribute, for organizational benefit and for individual benefit, for employees to fully flourish. Quoting Chris Mackin, he notes (Erdal, 2011: 215): “A democratic firm properly structured has the best chance of being a community of equals, but only if you really understand power in organisations and the challenge of the relatively unpowerful and the less educated.”

3.5.3 Hypothesis 2: Employee ownership (financial) is positively associated with external RSM

The sections above have detailed the case for a complete view of real employee ownership, and why return rights and control rights result from a combination, and fit among organizational factors (leadership commitment, structure, and culture). Furthermore return rights (or financial ownership) relate to instrumental motives for RSM while the control rights relate to psychological ownership, and facilitate the

conditions for the relational and moral motives of responsible stakeholder management.

While a test of the real employee ownership construct (equity, influence, and information) would be theoretically strong, no such measures have been developed yet. For simplicity, it is best to differentiate the basic relationship first, and consider later the moderating effects of influence (e.g. employee involvement) and information.

Thus,

Hypothesis 2: Employee ownership (financial ownership) is positively associated with external responsible stakeholder management. (i.e. external RSM).

3.6 Hypothesis 3: Employee involvement positively moderates the relationship between employee ownership and external RSM

It has been shown that employee ownership offers the incentive to improve performance (Kruse et al, 2010) and decision-making offers the *means* to do so. The same would apply to the capacity for employee ownership to affect stakeholder outcomes. So while employee ownership is not often associated with voting rights, it is associated generally with increased employee involvement in decision-making. Research points to the coexistence of employee ownership practices alongside other HR practices that relate to employee involvement and decision-making (Kroumova & Lazarova, 2009; Kaarsemaker & Poutsma, 2006).

While theoretical and empirical research has found support for the combined effect of employee ownership and employee involvement leading to better employee outcomes and firm performance (Kruse & Blasi, 1997; Kruse, Freeman & Blasi, 2010; Kruse, Blasi, & Freeman, 2012), research has not systematically tested whether improved stakeholder management can be the outcome. The interaction between employee

ownership and employee involvement has been theorized in the sections above on real ownership and is further suggested by information drawn from case studies.

Several case studies suggest that employee-owned firms have a long-term perspective embedded in their culture (e.g. KCI Technologies and King Arthur Flour) which attract individuals with a more long-term view of the employment relationship and that strong voice mechanisms actually enable individuals to operate with a long-term mindset when they interact with different stakeholders of the firm. ESOP firms may attract a different type of engineer than the general engineering industry which is competitive and where engineers tend to look for short-term job commitments. KCI technologies is an ESOP with over 900 employee owners, and an engineering firm providing consulting, engineering, and environmental construction management services, with revenues of approximately \$131 million (2009). While competing firms offer more earning potential, KCI greatly attracts upper managers who are attracted by ESOP structures that encounter less financial risk compared to regular partnerships (Street, Weer, & Shipper, 2010).

When employees are encouraged to see a long-term view of their relationship with the firm, they may more properly use a voice mechanism, in order to attempt to repair or improve the relationship with their employer rather than resorting to an exit mechanism, of simply leaving the firm (Hirshman, 1970). Thus the ability to envision a long-term view matters in itself – as it is aligned with long-term outcomes and relationships with external stakeholders - but also fosters the opportunity to use voice to actively propose solutions that will improve stakeholder relationships. Firms such as KCI Technologies are able propose and devise environmentally conscious solutions, or King Arthur Flour

with values focused on developing productive relationships both internally and externally (Ali, 2011). Both KCI and King Arthur Flour depend on high quality relationships with consumers. Producing superior quality for customers drives repeat business at both KCI and KAF. Customers are critical for any business yet the nature of the firm-customer relationship is what sets a firm apart and may indicate external RSM. While many firms share the objective of satisfying customers, there is indication that treating the employees well, has an impact in turn on the quality of employee interaction with the firm's customers. Firms supporting high-performance work systems that foster employee psychological empowerment as well as perceived organization support can in turn affect customer satisfaction (Liao, Toya, Lepak, & Hong, 2009).

While not the focus of this study, cooperatives offer insights, as they illustrate the effects of a democratic structure. It is expected that a democratic structure would impact how external stakeholders are also treated. The combination of employee ownership and flat structures enabling strong employee involvement and voice may create key mechanisms of trust, commitment, and motivation. In order to uncover what it is that makes individuals so positively responsive to shared ownership with minimal hierarchy and high participation, Erdal (2011) studied the small Italian community of Imola, which represents the largest concentration of worker-cooperatives in the world (p 239). He found significant positive effects in this community compared to other community with similar characteristics but without cooperatives. Hence Erdal finds the effects of EO to be wide ranging and include decreased domestic violence, less inequality, better health, more training/education, more voting behavior. Erdal (2011) studied the psychology of

sharing, and connects it to our ancestral hunter-gatherer origins. He contends that we are meant to live in a community of equals.

While Erdal (2011) was evaluating an entire community, which is made up of worker cooperatives – the logic may be transposed to a firm and its environment. The boundaries would stop at the stakeholders of the firm, but could be extended to a larger network if we studied beyond the firm.

Thus I derive:

Hypothesis 3: Employee involvement positively moderates the relationship between employee ownership (financial ownership) and external responsible stakeholder management, such that in the presence of employee involvement the relationship between EO and external RSM is stronger.

This study offers a groundwork for the study of RSM, and guidelines that may lead to proper operationalization. Yet, the area of research in RSM is new and faced with real limitations. This is not uncommon in the overall business and society literature as experienced with the use of measurements of corporate social performance, and in particular, stakeholder strengths and concerns, where many studies have leveraged the same measurements from the firm KLD Analytics (Berman, Wicks, Kotha & Jones, 1999; Turban & Greening, 1997). Yet, RSM is an even more stringent guideline by requiring the evaluation of perfect duties – simplified in a ‘do no harm’ approach and imperfect duties – represented by approaches to benefit stakeholders. Thus, while RSM represents an ideal theoretical measure, and offers strong guiding principles for operationalization, the translation to the empirical section requires several adaptations.

Fortunately, this study was able to examine hypothesized relationships in a sample of unique firms such as B Corporations that come closer than often studied public corporations, to approximate RSM.

4 CHAPTER FOUR: B CORPORATION STUDY

This study focuses on a sample provided by B Lab that offers a unique and novel terrain for the key variables of interest to this study: employee ownership and responsible stakeholder management.

4.1 The driving force behind B Lab: business as a force for good

B Lab is the non-profit organization behind certified B Corporations and benefit Corporations that seeks to use business as a force for good. Founded in 2006 after their own experience of firms' limitations to remain true to a social and environmental mission, Jay Coen Gilbert, Bart Houlahan, and Andrew Kassoy sought to create an organization that is designed to set standards and provide certification for companies that both "want to do good and be good investments".¹² Prior to B Lab, Gilbert and Houlahan were Co-Founder and President respectively, of AND1, a \$250 million basketball footwear and apparel business. Kassoy had spent his career as a private equity investor.¹³ "There needed to be a way for a company to scale, raise capital, have a liquidity event, and remain true to a social and environmental mission," stated Houlahan.¹⁴

As President of AND 1, founded in 1993 with environmental and social values, Houlahan experienced how the firm developed a deep commitment to its internal and external stakeholders, until it got larger and radically changed when it became public. When the company brought in its largest round of outside investors, Houlahan felt that AND 1's commitment to their stakeholders became impossible:

¹² <http://rsfsocialfinance.org/2012/09/b-lab-movement/>, April 2014.

¹³ <http://www.bcorporation.net/what-are-b-corps/the-non-profit-behind-b-corps/our-team>, April 2014.

¹⁴ <http://rsfsocialfinance.org/2012/09/b-lab-movement/>, April 2014.

“We knew that we had to take the highest offer available, and as a result the new owner stripped from the organization—within a very short period of time— any remaining commitments we had to our employees, our community, and the environment. Within six weeks, the organization was entirely different after the new owners came in.” (Pileika, 2012: 3).

By creating a market for B Corporations as well as legislative protection, Houlahan and his B Lab cofounders, Kassoy and Gilbert, sought to enable firms to amplify and protect their initial mission, in spite of shareholder pressures – should they become public.

4.2 Background on B Corporations, and benefit corporations

Both benefit corporations and certified B Corporations tend to be called B Corps – whereby “B” can stand for “better” or “benefit.” They share a common goal to “provide benefits for all stakeholders not just shareholders”, yet they are distinct. Benefit corporations represent a legal status administered by the state, while certified B Corporations gain certification by achieving high standards of environmental and social metrics set by the non-profit B Lab¹⁵.

Thus, B Lab has a three-pronged approach to support what it calls the B Corp community: through certification, legislation, and impact measurement. The B Lab sample of this study focuses on the former: the aspiring and certified B Corporations. This study follows the naming supported by B Lab of using the overall label B Corps or B Corp community when referring to both certified B Corporations and benefit corporations.

¹⁵ <http://www.bcorporation.net/what-are-b-corps/legislation>, April 2014.

Clearly, the B Corp community is not just about making profit. They have a legal duty to attend to their stakeholders. Certified B Corporations are encouraged to become Benefit corporations in order to protect their mission. The legal requirement is intended to “1. Give legal protection to directors and officers to consider the interests of all stakeholders, not just shareholders, when making decisions. 2. Create additional rights for shareholders to hold directors and officers accountable to consider these interests”¹⁶. B Corps and the leaders that found them start with a desire to do something that will contribute to a better world. B Corps care about profits but likely as a means to create a self-sustaining way to produce a greater end (‘good for the world’) and being responsible citizens. Thus, B Corps new form of corporate charter, governance, and/or certification are an effort to provide an alternative to the real or perceived constraints imposed by the shareholder value maximization focus of traditional public corporations.

As of March 2014, B Lab counts 950 certified B Corporations in 32 countries and 60 industries¹⁷ which are all privately owned, except for one, Plum Organics -- acquired by Campbell’s in June 2013 (Schwartz, 2014). As for the benefit status, Maryland became the first state in 2010 to pass benefit corporation legislation. By March 2014, benefit laws has been passed in 20 US states, and 19 others are considering legislation.¹⁸ Delaware which became the 19th state in July 2013 to enact benefit corporation legislation was considered the tipping point because it represents the home to over 1

¹⁶ <http://www.bcorporation.net/become-a-b-corp/why-become-a-b-corp/protect-your-mission>, March, 2014.

¹⁷ www.bcorporation.net, March 2014.

¹⁸ Id.

million corporations, including 50% of all publicly-traded companies and 64% of the Fortune 500 (Forbes, 2013).

Since B Corporations are a very recent phenomenon, only a few research articles have been published on them to date. The majority of scholarly work comes from law journals that focus on issues of corporate governance tied to the benefit legislation (e.g. Murray, 2013; Reiser, 2011) or investigate the unique hybrid structure of what has been labeled as a dual mission of for-profit/non-profit of the B Corps (e.g. Brewer, 2013). In the management field, several case studies of individual firms that have since become either Benefit or certified B Corporations have been written up for educational purposes (e.g. Anteby & McFee, 2011; Marquis, Margolis & Winig, 2009) but reflection is absent or in its early stages on the specific implications of becoming either a benefit or certified B Corporation. Scholarly research in peer-reviewed outlets is rare as the B Corp phenomenon is nascent. One such exception is the work by Ali (2011) developing theory on how proactive stakeholder management works through a qualitative analysis that includes case studies of two B Corporations – Dansko and King Arthur Flour. No quantitative studies have been published in peer-reviewed journals at the time of writing, as the first academic teams to have access to B Lab dates only from December 2012, and are now sharing their results.

4.2.1 Unique terrain for studying employee ownership and RSM

4.2.1.1 A unifying structure, culture and context of B Corp community

There are several common features of almost all the firms in the B Lab sample: a private governance structure, the adoption of a common goal and mission statement (to be a force for good in business), and a relatively similar size. These constitute three key

variables that shape a firm's behavior (Kotter & Heskett, 1992). Indeed the private structure and size are elements of the business context, shaping the particular competitive environment of the firm. The common goal and mission statement underlies a common thread in the leadership and culture of the different members of B Corp community. The relative homogeneity of this sample can thus help to isolate the key relationships of interest: the relationship between employee ownership and RSM.

4.2.1.2 Unified ownership and control, allowing for fuller expression of RSM

While there is an overlap, responsibilities are different when evaluating public vs. private corporations, and thus need specific framing. In particular, the type of ownership and the size of the firms differ. With public corporations, shareholders tend to be outsiders with little concern for responsibilities other than the bottom line. While there is a growing trend of socially responsible investors that care about the effects of firms on their stakeholders and society at large, these are still the minority - representing 11% of the total market under professional management¹⁹.

Though the obligation to shareholders may have been overstated and led to the shareholder value myth (Stout, 2012), it remains a reality that shareholders of a public firm are closely looking at the company's key financial metrics with less regard for stakeholder concerns unless those contribute fairly directly to the bottom line. In the US, the frequency of the scrutiny by investors over managers occurs every quarter. Separation of ownership and control is managed by incentivizing and controlling the

¹⁹ <http://www.ussif.org/sribasics>, March 2014.

agents – especially through pay and stock to top executives, but may not be enough to truly instill even a sense of responsibility to shareholders.

When public firms manifest concern for a broader set of stakeholders, it is more because they have become convinced this will increase the long-term success of the enterprise. Empirical studies support that paying attention to your stakeholders and/or investing in CSR increases corporate social performance (Orlitzky et al., 2003). Researchers have embraced the win-win strategy, whereby paying attention to the firm's stakeholders is not connected to ethical requirements but merely justified via an economic lens, and the marketization of CSR serves the firm's long term financial interests (Crouch, 2006; Vogel, 2005; Williams & Siegel, 2001).

The distinction that Berle and Means (1932) make between passive and active property is relevant. They contrast the position of the owner of shares (passive property) and the owner of a horse (an example of active property). The one with the horse is 'married' to his physical property and must take responsibility for it. The stockholder's position is different.

Several features of the B Corp community help facilitate the practice of RSM. All of the firms are private, and small to medium in size. This makes a big difference as it overcomes the partial issue of separation and control experienced by public corporations (Berle & Means, 1932). The structure in smaller and private companies is that the ownership is visible and responsibility can be more directly traced and manifested. There is both the terrain for real employee ownership and less of the '1/n' problem as economists frame it. Thus the B Corp community offer a better breeding ground for RSM.

4.3 Description of approach and sample

The B Lab sample consists of an initial pool of 1413 private corporations, mostly small to mid-size firms that have voluntarily completed a ‘B Impact Assessment’. Firms are evaluated across the following ‘impact areas’: workers, community, environment, and governance. The assessment is voluntary and freely administered by B Lab. Out of the initial 1413 firms seeking an assessment, 581 sought formal review, whereby B Lab audits the assessment for a fee. A further 417 of the reviewed firms obtained B Corporation certification by clearing the hurdle of 80 points (out of 200) across the different impact areas. The leftover pool of non-certified firms, whether reviewed or not, is called other sustainable businesses (OSBs). This study leverages the full B Lab sample of OSBs and B Corps in order to keep a wider variation in the answers on the impact areas, which largely match this study’s stakeholder dimensions.

The initial B Lab sample comprises all three sectors (manufacturing, wholesale, and service) with a strong predominance of the service sector (75%). While exact industry and region membership was not provided for the B Lab sample in order to preserve firm anonymity, B Corps represent a wide array of 60 industries and US regions²⁰.

B Lab shared its sample with eight academic teams nationwide in order to develop relevant and rigorous research on B Corporations. The teams were selected based on their grant proposal, by CASE (Center for the Advancement of Social Entrepreneurship at Duke University) and B Lab. The sample was carefully created, and cleaned by the B Lab team, and represents only those firms that completed at least 75% of the survey, which contains a total of 416 questions. In order to create a high-quality sub-sample, this study

²⁰ <http://www.bcorporation.net/news-media/annual-report-2012>, June 2013.

identifies questions that are both theoretically meaningful and were answered by all respondents, except for the employee ownership category where 596 firms were initially included as they answered at least one of the three employee ownership questions.

In the creation of indexes for the different stakeholders, the study followed a listwise deletion approach by deleting firms with missing values, and thus keeping only those firms that had answered all the relevant stakeholder questions. While listwise deletion can present problems of external validity and generalization (Acock, 2008: 171), it is the most suitable method for this study, as it allows working with the same sample of 347 firms across all analyses, unlike pairwise deletion, which would provide different sample sizes and error terms. Though one of the concerns with listwise deletion is affecting statistical power, the final sample retained for this study does present sufficient statistical power. More specifically, if this study assumes a medium effect size, and performs multiple regression with four variables at significance tests ($\alpha = .01$), the required sample size for a power of .80 is at the minimum 118 firms (Cohen, 1992). Another concern with dropping missing values is whether such procedure is random. T-tests were performed and further reported in the sampling bias section of the preliminary results.

The study sample of 347 firms is fairly evenly split between the 176 firms that were reviewed (of which 140 became certified B Corporations) and the 171 other sustainable businesses (OSB) which did not apply to be reviewed, thus providing an interesting variation. A perception may be that the OSBs could be of lower quality since they were not reviewed. However B Lab states that some firms may complete the survey, provide the results, and not be interested in formal certification, which has a cost. They rely instead on other certifications (e.g. Fair Trade) or are required by a partner or client firm

to complete the survey (but not required to gain B Corporation certification and label). Furthermore, this study rigorously selected firms that answered all key questions.

Employee ownership is significant in the B Lab sample, but varies significantly among firms. In this study's subset of 347 firms, over 30% of the firms have majority employee and manager ownership (in either stocks, stock equivalents, or options in the company), whereby employees and managers, including founders/executives, own over 50% of the firm. Furthermore in around 9.5% of the B Lab sample of firms, there is over 25% strict employee ownership, and a further 5% of the firms where only employees (excluding even managers, according to B Lab's definition) own over 50% of the firm (Table 5b). These percentages of strict employee ownership may seem small but can be deemed meaningful considering that the majority of these firms are small in size, privately owned, and whereby most of the members of the firm are likely founders and/or managers. Indeed the median size for this sample is 18 employees. The median is used to remove the effect of a couple of very large and notable firms such as Patagonia, and Seventh Generation. In comparison, the B Lab numbers are rather higher than those in public corporations, whereby about 10 percent of the companies in the Fortune 500 have employee stock ownership accounting for between 5 percent to 10 percent of shares, per estimates by Blasi, Freeman and Kruse (2013: 82).

Evaluating employee ownership in a subset of comparatively more responsible companies provides three particular advantages. First, the more homogenous sample of companies from B Lab, makes it easier to control for other unobserved variables, thus allowing to test more directly the relationships of interest. Second, the opportunity to compare and contrast two types of similar company universes such as the certified B

Corps and the Other Sustainable Businesses, helps maintain sufficient variation in the dependent variable of responsible stakeholder management. Third, while there is some selection bias created by firms choosing on their own to complete the initial B Lab Assessment, such study represents a stronger test of the proposed relationships within a subset of more responsible firms than the general population.

4.4 Operationalization of variables

While RSM represents an ideal theoretical measure, and offers strong guiding principles for operationalization, the translation to the empirical section requires several adaptations. In order to provide both transparent and theoretically meaningful measures, this study develops its own indexes based on the pool of 416 questions in the B Impact Assessment on firms' stakeholder dimensions in the following areas: Employee, Consumer, Community & Environment. Certain areas are further subdivided into more meaningful components –i.e. a sub-dimension of questions on “Community” (per the B Lab label) relates more specifically to suppliers. This study retains a meaningful set of 69 unique questions across all stakeholders.

The B Impact Assessment evaluates the impact areas mostly through the existence of practices (e.g. full array available of employee healthcare benefits) or actual results/behaviors (e.g. percentage of employees that had participated in company organized community service last year). This study's index creation follows an additive approach (e.g. Batt, 2002, Huselid, 1995; Ichniowski, Kochan, Levine, Olson, & Strauss, 1996; MacDuffie, 1995; Pendleton & Robinson, 2010) and aggregates the relevant questions related to a given stakeholder. The more the practices focused on a specific stakeholder, the more committed the firm is likely to be to the corresponding stakeholder.

Following the argument developed by Jiang, Lepak, Han, Hong, Kim, & Winkler (2012) for HR practices, the additive approach is even likely to underestimate the synergistic and multiplicative effect of stakeholder practices.

The survey questions are of three types: 1) dichotomous (Yes/No), 2) scale-like with varying but equal increments, ultimately rescaled to fit within a comparable (0-1) scale, and 3) multi-pick questions with multiple answers, each given the same weight, and where the highest score of 1 goes to the firm checking all the answers for that question. The questions are illustrated in each stakeholder index table.

While B Lab itself gave different weighting to the different questions within their own indexes, this study retains a theoretically meaningful selection of questions, and gives each question an equal weight.

4.5 More in-depth justification for creating customized indexes

Three arguments drawn from studies in the CSR/stakeholder and the strategic HR literatures justify the creation of indexes for this study. First, one needs to go through a process of data reduction in order to study the relationship between the key variables of interest. The creation of indexes provides one approach to do so and has been used extensively to capture the measure of corporate social performance/stakeholder management (Agle, Berman, Wicks, Kotha, & Jones, 1999; Barnett & Solomon, 2012; Turban & Greening, 1997; Waddock & Graves, 1997).

Second, this work also draws on the strategic human resource management literature, which provides conceptual justification for the creation of additive indexes of HR practices. Such a framework also supports the creation of ‘stakeholder’ systems made up of specific stakeholder practices. Indeed Jiang et al (2012) argue that the measure of

HR systems should be formative rather than reflective. For example, the ability, motivation and opportunity concepts map on to HR policy domains (Lepak et al, 2006) and capture unique aspects of the concept of an HR system. “All three HR policy domains contribute to an HR system collectively rather than reflecting it as a common latent construct” (Jiang et al. 2012: 81). The most common operationalization of a formative approach is the additive index, which consists of the addition or average of values of HR practices. For multiple practices that may reflect the same construct (e.g. different approaches to recruitment), a reflective approach performed by factor analysis does make sense (Becker & Huselid, 1998).

Ideally, this study would use a mixed measurement approach as suggested by Jiang et al (2012) identifying broad policies (e.g. benefits, compensation, involvement) within the HR system, and where practices within each policy might be reflective and cover the same construct (e.g. benefits can be assessed via number of items: holidays, maternity / paternity leave, health benefits). Conducting factor analysis (FA) to identify a single factor, labeled ‘Benefits’ for example, would be a preferred approach, but its feasibility is limited by the type of data available. The potential items themselves are not conducive to FA because of the three distinct ways questions are asked (Y/N, multipick, and scale). Opportunity for future research will be discussed in a later section.

Third, this study constructs its own index based on theory rather than accept the index or score already created by the provider (i.e. B Lab for this study). Most of the corporate social performance research has relied on ready-made indexes provided by the ratings firms such as KLD Analytics. Some efforts are made to deconstruct the indexes and use dimensions that are most conceptually meaningful. Turban and Greening (1997)

evaluate distinct stakeholder dimensions within the corporate social performance measure (e.g. employee relations, community relations) as do Hillman and Keim (2001). However researchers are unable to test the discriminant validity of the sub-indexes.

At the opposite end of the spectrum, researchers might isolate a specific practice within a stakeholder area but the reliability of a single item may be weak.

For example, for his dependent variable of employee involvement, Mullins (2013) taps into a specific question provided by MSCI ERG STATS (former KLD) within the employee area that relies on a single item that is dichotomous, and furthermore confounds financial involvement and decision-making involvement. (“The company strongly encourages worker involvement and/or ownership through stock options available to a majority of its employees; gain sharing, stock ownership, sharing of financial information, or participation in management decision-making”).

In order to leverage the theoretically meaningful formative approach of indexes and to minimize the lack of discriminant validity in combining multiple items, this study carefully selects appropriate items for each stakeholder index – i.e. relevant practices fostering RSM – and those firms that answered all of these items, in order to put all firms on the same playing field. Further detail on index creation is provided below.

4.5.1 Dependent variables

Responsible stakeholder management

For each of the key stakeholders, an index is created: Suppliers, Community, Employees, Consumer, and Environment.

4.5.1.1 Supplier Index

The Supplier Index provides a good example of the approach to creating indexes for stakeholders, as all three types of questions are represented. One question is dichotomous (i.e. Yes/No) ‘Have you shared your social and environmental mission with all of your Significant Suppliers?’ A Likert-like scale question is represented by following ‘What is the average tenure of your relationships with Significant Suppliers’ which has 5 possible answers, and 4 increments of 0.25 each were created. The value 0 is given to the answer ‘0-1 Year’, 0.25 is attributed to the answer ‘1-2 Years’, and 1 is given to the highest value of ‘5+ Years’. The multi-pick question is represented by the item ‘When evaluating the social and environmental performance of Significant Suppliers, which of the following practices apply’. Six practices were given, and a seventh answer gave the option of ‘none of the above’. Each real practice is given an equal weight, of $1/6$, thus a firm possessing all six practices would attain the full 1 point.

Final scoring mechanism

The range for each stakeholder index is brought to a (0-1) scale by attributing $1/n$ to each of the ‘n’ questions within the index. Thus each stakeholder index is comparable on the same scale. Stakeholder scores are provided in the descriptives table within the results section.

In the appendix, a detailed table for each stakeholder index is given, comprising all the questions and their basic descriptives (initial B Lab survey sample, mean and standard deviation, and this study’s sample of 347, corresponding mean, and standard deviation). Below is a snapshot of the Supplier Index.

Supplier Index:

Question	AnswerValue	Survey Sample	Survey Mean	Survey SD	Study Sample	Study Mean	Study SD
Have you shared your social and environmental mission with all of your Significant Suppliers?	Yes, No	1377	0.68	0.47	347	0.66	0.47
What is the average tenure of your relationships with Significant Suppliers?	1=0 - 1 Year, 2=1 - 2 Years, 3=2 - 3 Years, 4=3 - 5 Years, 5=5+ Years	1376	3.11	1.50	347	3.80	1.31
When evaluating the social and environmental performance of Significant Suppliers, which of the following practices apply:	Visited all significant suppliers	558	0.38	0.48	347	0.39	0.49
	Specific environmental criteria required	558	0.38	0.48	347	0.35	0.48
	Specific social criteria required	558	0.39	0.49	347	0.38	0.49
	Third party social or environmental metrics screen applied	558	0.20	0.40	347	0.20	0.40
	Evaluated at least annually	558	0.42	0.49	347	0.45	0.50
	Give preference to Local Suppliers	558	0.65	0.48	347	0.66	0.47
	None of the Above	558	-	-	347	-	-

4.5.1.2 Community Index

The community index comprises two dimensions related to charity and local involvement and is made up of thirteen questions, such as the following ‘Is there a written community policy?’ (Yes/No) and ‘Do more than 50% of the company’s customers reside in the same community(ies) (i.e. within 100 miles)?’

4.5.1.3 Employee Index

The employee index is made up of a total of fourteen questions that cover three sub-categories: employee benefits (6 questions), employee compensation (4 questions), and employee involvement and communication (4 questions). An example of a benefits question is ‘What % of full-time employees were offered health insurance?’ with a Likert-type scale from 1 to 5 representing increasing percentages ‘1=0, 2=1-49%, 3=50-69%, 4=70-79%, 5=>80%’. The compensation questions focus on issues of fairness. For example ‘What multiple is the highest compensated individual paid (inclusive of bonus) as compared to the lowest paid full-time worker?’ with a Likert-type scale whereby lower values indicate strong gaps between top and low level pay, and higher values indicate a

flatter compensation structure. '1=>20x, 2=16-20x, 3=11-15x, 4=6-10x, 5=1-5x'. Finally, employee involvement and communication is a broad term to include questions related to voice, financial transparency for employees, and communication of performance feedback. A sample question follows: 'Is there a Human Resource / Ombudsperson / Employee Representative to mediate complaints / issues?' (Y/N)

4.5.1.4 Environment Index

Thirteen questions make up the environment index with Likert scale questions such as 'What % of materials used for office operations (e.g. office supplies, furniture, catering supplies, janitorial supplies, etc.) come from recycled / sustainable input materials?' where the scale ranges from 1 to 4, where '1=None, 2=Some (less than 49%), 3=Most (more than 50%), 4=All'. For the scoring, the scale is recalibrated 0-3, whereby '0=None, 3=Most'.

A second type of question is multi-pick, such as 'For which of the following activities does your company purchase carbon offsets?' The options provided are 'Travel, Commuting, Office Operations, Shipping, Other, None of the above.' For the scoring, the first five responses are weighted .25 each. Thus a firm indicating carbon offset for all first five options score a 1.

4.5.1.5 Consumer Index

While consumers would be ideally included within external responsible stakeholder management, they are not included for this study. Indeed the B Lab consumer questions tend to relate to strategic choices of the firm that can be exclusive of one another (e.g. health focus or environment focus) rather than correspond to responsible practices towards consumers (e.g. safety, non misleading marketing).

However the consumer index may be relevant to measure separately, and eventually use as a control. The design of this study does not require that firms respond to all the consumer questions in order to be included in the final study sample. The consumer index is comprised of seven questions that are structured in a similar way. Each question identifies a direct, indirect or no impact related to the following consumer concerns or preferences: economic equality, health, environment preservation, arts and sciences, purpose-driven, other.

4.5.2 Independent variables

4.5.2.1 Employee ownership Index

The employee ownership index is comprised of three equally weighted items: percentage of full-time employees and management (including founders and executives) that own company stock, percentage of company that is owned or formally reserved for full-time employees and management; percentage of company owned only by full-time, non-managerial employees. Each question is evaluated on the same Likert-type scale of 1-5 with the first two having values of: '1=0, 2=1-24%, 3=25-49%, 4=50-75%, 5=>75%' and the third represented by the following scale: '1=0, 2=1-4%, 3=5-24%, 4=25-50%, 5=>50%'.

While the index can provide a fuller picture of the different combinations used by firms to undertake employee ownership, subsequent analyses evaluate each question as an independent variable with specific interest in the third question of employee (non-managerial) percent ownership of the firm.

4.5.2.2 Moderating variable

Employee involvement. This index consists of a subset of the employee index, and is relevant to isolate to test its potential interaction with employee ownership on firm outcomes such as external stakeholder management – based on the reviewed theory that employee involvement reinforces the effects of financial employee ownership. The index is based on a set of 4 questions related broadly to employee involvement on issues related to financial transparency, voice, and performance feedback. While there appears to be 6 unique questions, 2 are duplicate questions (a or b) intended for different sectors. A sample question and answer is “Do all full-time employees have access to information that identifies all material owners and investors of the company? (Yes/No)”.

4.5.3 Control variables

Based on the logic explained for the public corporations sample, the following controls are both relevant and available: sector and company size (log of number of employees), and company size dummy. The latter was added because 39 out of the 347 firms either did not provide a size or gave a value of zero employees. Rather than discard these cases, this study chose to assign a dummy variable to this control, and a potential predictor in the regression, as recommended by Cohen and Cohen (1985).

4.6 Results

4.7 Preliminary analyses

4.8 Missing values and assumptions of multivariate analysis

The approach to handling missing values was addressed in the creation of the final sample. One variable that had extreme values, company size, was transformed using

a log transformation. The purpose is to improve the fit between the distribution of the different variables and the assumptions of normality, linearity, and homoscedasticity in multivariate analysis. Additional histograms on scores per stakeholder were evaluated to check for patterns of distribution, and found rather normal patterns.

4.9 Common method bias

Common method bias is a potential concern since both the independent and dependent variables come from the same survey. However common method variance may at times be overstated (Spector, 2006) and this study – while a self-report - is less faced with issues of social desirability as the types of questions gather statements of fact (e.g. whether a firm follows certain practices), rather than opinion. Furthermore, a subset of 176 firms were audited by B Lab – whereby respondent firms are required to verify and at times provide supporting material to substantiate their answers.

4.10 Sampling bias

Based on initial t-tests, there were significant differences between the initial B Lab sample and this study's sample of observations to be random in order to minimize sampling bias, it is likely that firms that were best placed to answer a higher number of questions would also achieve the highest scores, and thus be deemed more responsible.

In dealing with missing values, researchers (e.g. Allison, 2001) increasingly recommend imputing values rather than discarding missing values. However this study is too exploratory to make advanced assumptions to back-up proper imputation methods. Furthermore, this study was able to retain largely sufficient statistical power despite deleting firms for incomplete responses.

4.11 Hypotheses testing

Table 7 provides the basic descriptive statistics (means, standard deviations, minimum and maximum) and correlations for the study variables. There are no surprises with high correlations (e.g. greater than .35, $p > .05$) as these are found only for those variables that make up part of a broader index. For example, the employee involvement index is part of the overall employee index but studied independently as well; employee involvement is evaluated as a moderating variable of the employee ownership – external stakeholder relationship. The other high correlations are found in logically related variables such as company size and company size dummy, and sectors 2 (wholesale) and 3 (service). Thus there does not seem to be a concern of multicollinearity among the independent variables. The hypotheses, summarized in the model reported as Figure 1, were tested using a series of ordinary least square (OLS) regressions.

The section is organized as follows. First, the main effects of employee ownership on internal RSM (Hypothesis 1) and external RSM (Hypothesis 2) are reported, followed by the moderating effect of employee involvement on the relationship between employee ownership and external RSM (Hypothesis 3). Then, as a way to explore the more nuanced findings related to Hypothesis 2, further analyses report the main effect of employee ownership on the distinct stakeholders that make up External RSM via its measure the External Stakeholder Index. Last, additional post-hoc analyses are conducted based on the lack of support for Hypothesis 3. The main effect of internal RSM on external RSM is evaluated as well as employee ownership as the potential moderator of this relationship. In all the analyses, the significance levels are based on two-tailed tests in order to perform more conservative tests of the suggested hypotheses.

4.12 Direct (main) effects hypotheses (H1, H2)

For the analyses of whether employee ownership is associated to internal RSM (Hypothesis 1), three regressions are run. Table 8a reports these results. The first equation (Model 1) reports the base case of company size and sector controls alone. Company size and sector 3 (service) are positively associated with internal RSM, both at the same statistical significance level ($p < .05$). This means that larger firms, and firms operating in the service sector are more likely to treat their internal stakeholders - their employees - more responsibly.

The following two regressions test respectively the main effect of Employee Ownership via the overall Employee Ownership Index measure (Model 2) and directly via the use of the strict Employee Ownership Percentage measure (Model 3). Supporting Hypothesis 1, and confirming results in the literature, the presence of employee ownership is positively associated with internal RSM. Indeed the relationships are statistically significant ($p < .01$) when using either measure of the Employee Ownership Index or the strict Employee Ownership Percentage. In other words, the level of employee ownership is associated with a firm also having HR practices (compensation, benefits, involvement) that represent responsible management of the firm's employees.

Next, evaluating whether employee ownership is positively associated with external RSM (Hypothesis 2), another three regressions are run, similar to the previous three. In table 8b, the first equation (Model 4) reports the base case of company size and sector controls alone. Contrary to the previous findings, company size and sector 3 are not positively related to external RSM, except for sector 2 (wholesale) which relates with

rather weak significance ($p < .1$) external RSM. The company size dummy is associated with external RSM ($p < .01$).

There is no specific reason why a firm not reporting its size or reporting not having any employees (likely a solo ownership) would treat its external stakeholders better. Those 39 firms that had not reported a number of employees or indicated simply having no employees do indeed tend to have slightly higher external RSM on average, but there is nothing else that seems unusual with them.

In order to verify if this subset of firms might be sole proprietors (100%), further analyses were run but only found a similar distribution to the rest of the 308 firms that indicated having employees. In case the size dummy were affecting the overall analyses, regressions were run without them based on the smaller subset of 308 firms only – and found only slight changes in the values of the coefficients but not in the statistical significance of the results.

The following two regressions report respectively the main effect of Employee Ownership via the overall Employee Ownership Index measure (Model 5) and directly via the use of the strict Employee Ownership Percentage measure (Model 6). Providing some support for Hypothesis 2, the presence of employee ownership is positively associated with external RSM. Statistical significance exists at the $p < .05$ level when using either measure of the Employee Ownership Index but there is no effect when evaluating the specific question on Employee Ownership Percentage.

The model with only the key variables of Employee Ownership, either as an index or as the individual question, is statistically significant in explaining internal RSM (F test has a $p \text{ value} < .01$, $p = .003$). The statistical significance of the overall model ($\text{Prob} > F$)

remains when evaluating the overall Employee ownership Index to relate to external RSM (at $p=.05$) but disappears when using the strict Employee Ownership Percentage measure ($p=.66$). This test is useful in order to show that it is not just the controls (Model 1, 2) that are driving the significance of the overall model.

4.13 Moderating effects hypotheses (H3)

Table 2 reports the moderating effect of employee involvement on the relationship between employee ownership and external RSM (Hypothesis 3). Testing the moderating effect requires first evaluating the independent effects of each variable. Thus the independent effect of employee involvement (Model 7) and of both variables employee involvement and employee ownership (Model 8) are tested, while controlling for firm size and sector. Employee involvement relates to external RSM significantly ($p<.01$) as reported in Model 7. Furthermore the overall F test is significant ($F=13.33$, $p<.01$), and the explained variance is fairly high, especially in comparison to the previous Models 1-6, ($R\text{-squared} = .16$). The independent main effects of both employee involvement and employee ownership (Model 8) are both significant with respective coefficients of ($b=.62$, $p<.01$) and ($b=.14$, $p<.1$) and the overall model is significant ($F=11.72$, $p<.01$), with an $R\text{-squared}$ of 17%, slightly higher than previously.

Model 9 is a variant of Model 8, evaluating employee ownership using the stricter measure. Employee involvement remains significant ($p<.01$) in relating to external RSM, while the strict Employee Ownership Percentage does not. The interaction effects of employee involvement and employee ownership are evaluated in Models 10 (overall employee ownership index) and 11 (strict employee ownership percentage) but no interaction effects are found. Thus there is no support for hypothesis 3.

4.14 Post-hoc analyses

In order to investigate more precisely the role of the three external stakeholders that make up the external RSM construct, Table 10 distinguishes and evaluates the effect of employee ownership on the three distinct stakeholders (supplier, community, and environment). This represents a post-hoc analysis for Hypothesis 2. The three models 12, 13, and 14 are significant with F tests that are statistically significant for each stakeholder, specifically at $p < .05$ for the environment, and $p < 0.01$ for both the supplier and community stakeholders. However, employee ownership is only associated with the environment stakeholder with a positive coefficient ($p < .01$).

5 CHAPTER 5: DISCUSSION

5.1 Discussion of Findings

That employee ownership is associated with internal RSM (Hypothesis 1) is in line with the theory and empirical research in the field of strategic HR. Indeed employee ownership can be viewed itself as one of the key SHRM practices to manage human capital for both better firm and employee outcomes. The principle of internal fit (Delery, 1998) is that in high-involvement work systems or high performance work practices, bundling mutually reinforcing practices has a stronger effect than any isolated practice on the complex behaviors these systems entail (Huselid, 1995; Ichniowski, Kochan, Levine, Olson, & Strauss, 1996; MacDuffie, 1995). In the strategic HR literature, employee ownership is generally viewed as a part of rewards system, designed to extrinsically motivate employees to perform (Lepak et al, 2006). However, literature focused more specifically on the study of employee ownership and its outcomes explains that employee ownership is more than a mere compensation tool, and positively affects employees attitudes such as work motivation, job satisfaction, and affective organizational commitment (Kruse & Blasi, 1997).

While prior work only provided empirical support to suggest employee ownership affects positively extrinsic motivation (Klein, 1987), there are theoretical reasons supporting the intrinsic motivation rationale. Actual financial ownership contributes to an employee's perception of psychological ownership, and strengthening of the psychological contract between the employer and the employee (Rousseau & Shperling, 2003). By working through psychological ownership, employee ownership - a

long-term form of shared capitalism - differs from other incentives or compensation practices (Han, 2011: 4). Indeed motivation can be decomposed into reward motivation, intrinsic motivation, and employee commitment which can further be enhanced by HR practices such as: job security, good labor-management relations, training, skill-based pay, teams, job enrichment, empowerment, participation, pay, promotion opportunities (Lepak et al, 2006: 235). Such practices would fit with a mutual investment employer–employee relationship that can create employee perceptions of fairness (e.g. Tsui, Pearce, Porter & Tripoli, 1997), and can constitute relevant facets of responsible stakeholder management. Thus, for both extrinsic and intrinsic mechanisms, actual employee ownership in the firm is likely to predict the firm treating employees responsibly.

This study cannot demonstrate causality, nor does it seek to theoretically demonstrate causation between broad employee ownership and an internal responsible stakeholder management. Rather this study demonstrated that these practices tend to be associated in firms. This is supported by the SHRM literature, whereby practices within high-involvement systems may be substitutes of one another (Jiang et al., 2012), thus a different bundle of HR practices – one not including employee ownership - may also be qualified as a responsible management system towards employees.

When evaluating the effects of the controls alone, size and sector 3 (service) were found to have a significant positive effect on internal RSM. It is expected that the larger the firm, the more it may have formalized processes and practices to manage employees more responsibly. However it is difficult in any analysis to differentiate whether higher RSM stems from truly higher levels of RSM or simply better reporting and more formal policies and practices being in place for larger firms. Furthermore the service sector may

have stronger needs to attract and retain human capital (Batt, 2000; Boxall, 2003; Keltner & Jensen, 1999) than the other two sectors, and thus be able to demonstrate that it treats its potential and current employees well.

We find only partial support for hypothesis 2: that employee ownership is associated with external RSM. The hypothesis is supported when using the overall EO Index measure which includes both employee and managerial ownership, but when looking at employee-only ownership percentage. I argue that both measures are very relevant as they both relate to breadth of ownership in the firm, even if such ownership is not the typical worker or rank-and-file employee owner.

As a reminder, the questions that make up this study's overall Employee Ownership Index are the following:

1. What % of full-time employees & management (including founders/executives), owns stock, stock equivalents (any form of company ownership) or stock options in the company?
2. What % of the company is owned or formally reserved as part of a written plan for full-time employees and management (including founders/executives)?
3. What % of the company is owned by full-time employees (excluding founders/executives)?

In general, and across a range of company sizes and types, we might be most interested in employee-only ownership as a measure of broad-based EO, as contrasted to executive ownership. While a classical definition of employee ownership entails stock ownership of the firm by employees other than top managers (Kruse, 2002: 2), the definition may need to be broadened even further for small firms such as those in the B

Lab sample. The median size of the B Lab sample is 18 employees. It is likely that many of the firms in the B Lab sample are heavily made up of founders, and managers, rather than typical rank-and-file employees. Thus, the wording of question 3 may skew the answers to lower values since the firm may have already few traditional employees. Question 3 calls for the exclusion of founders/executives and remains silent on other categories, such as managers only. However it is likely that in smaller firms, and especially in the service sector, which relies strongly on human capital (e.g. consulting, start-ups in the service arena), a majority of members are actually managers or professionals who may not be necessarily founders or executives. Hence question 3, while more 'pure' than the overall EO index, and seemingly closer to the classical definition of true EO is flawed as it excludes managers (who are not excluded in Kruse (2002)'s definition) and furthermore limits the variability by the smaller nature of the firms' size in the sample. Thus the key indicators for broad employee ownership differ from those in public corporations. In this study the aggregate measure of employees, managers, and founders is relevant. It may be possible that some individuals play a double or even triple role, combining operational, managerial as well as ownership roles.

Additional analyses can be done to see which distinct components of the employee ownership index may be driving the positive relationships. From Table 5b, it is already clear that questions 1 and 2 follow the same distribution pattern so these additional regressions may not provide much more light. The change in pattern happens between 1 and 3, and thus is already evaluated by focusing on the strict employee ownership percentage question 3.

The breadth of ownership by both employees and management as measured in questions 1 and 2 remains very relevant even if it does include founders and executives. As many of the individuals of the smaller firms may themselves be managers, the initial breadth of ownership is still indicative of a culture of shared rewards and ownership. Indeed, initial breadth of ownership among the current members of their firm - even if they are mostly managers and founders -- can be indicative of the firm's willingness to share the pie with all of its members. This could then translate into retaining more broad EO as the firm grows.

While the evidence from this study only provides partial support for broad employee ownership relating to responsible stakeholder management, recent work in the employee ownership literature (e.g. Caramelli, 2011) offers further theoretical grounding, and encouragement to investigate. Caramelli (2011) focuses on the mechanisms by attempts to explain *why* employee ownership affects a number of employee attitudes positively. These same mechanisms are potentially very relevant to predict external stakeholder management by referring to a bundle of responsible practices. Indeed as Caramelli explains: “when employees see employee stock ownership as a management practice related to the company’s overall culture, human relations policy and/or commitment to employees, rather than as a tax and financial tool, is a key variable in explaining the attitudinal effects of employee ownership” (Caramelli, 2011: 29). This is relevant because it potentially inserts employee ownership within the same broader philosophy and practice of overall responsible stakeholder management. Again, while these initial findings and theoretical support do not claim causality, the logic of a comprehensive responsible stakeholder management system where key

practices co-exist and may reinforce each other is similar to the HR system logic and is meaningful.

5.2 Holistic or Distinct External Responsible Stakeholder Management

Post-hoc analyses for Hypothesis 2 also leads us to accept with caution that employee ownership is positively associated of external responsible stakeholder management, and to encourage future research. While the overall F tests were significant, when isolating the different stakeholders from the overall Index, employee ownership only demonstrated a positive and significant contribution to the responsible management of the Environment Stakeholder. Future research could attempt to study the internal consistency of the holistic external RSM construct first by relying on individual items that allow such a test. Due to the limitations of this manipulation in the current study, only theoretical reasoning was able to support the validity of the multidimensional external RSM construct.

Deconstructing external RSM is possibly another approach to test the validity of the separate items as has been done in this study's post-hoc analysis. However, it presupposes a different theoretical stance, that firms manage each stakeholder independently from one another. While such a stance is possible (e.g. some firms may be reputable for green environmental policies, while devoting less attention to their potential long-term effects on the community – such as Wal-Mart), in order for firms to be considered really practicing responsible stakeholder management, they would have a coherent culture, and practices to do so across all stakeholders. Such a holistic stance is illustrated in the mission statement of the B Corporations, which explicitly encourages them to think about all of their stakeholders. In the 'declaration of interdependence' that

they sign, is stated that the B-Corporation “creates benefits for all stakeholders [...] through their products, practices, and profits, businesses should aspire to do no harm and benefit all”²¹.

5.3 Employee involvement: not a simple moderator but a key driver of External RSM

While the initial hypothesis proposed a secondary role for employee involvement, results showed that employee involvement is a key factor associated with RSM. The strength of employee involvement's effect in driving the variance in external RSM is so strong that the interactive effect with employee ownership does not appear. The results suggest that a firm with high employee involvement is more likely to also treat its external stakeholders responsibly.

Indeed, accounting for firm size and sector, employee involvement can explain 16% of the variance of external responsible stakeholder management. What remains is that in spite of the strength of employee involvement ($b=.62$, $p<.01$), employee ownership retains associative power even if statistical significance was rather weak ($b=0.14$, $p<.1$), and only validated through the overall employee ownership index. This finding is in line with the employee ownership literature that both variables matter to affects key outcomes, such as employee attitudes, behavior and firm performance (Kruse, Blasi, & Freeman, 2012). However the fact that the interaction effect disappeared is more in line with the findings from Pendleton & Robinson, 2010. The interaction is not always needed. The breadth of the stock ownership can have independent effects on employee

²¹ www.b-corporation.net, March 2014.

outcomes such as productivity (Pendleton & Robinson, 2010). In this study, a different external outcome is of interest. What permeates from this study's findings is the strength of employee involvement.

The finding that employee involvement is a key factor in understanding RSM, thus complements, rather than detracts from the role of employee ownership in RSM. The purpose of this study was to investigate whether firms that tend to have higher levels of employee ownership also treat their external stakeholders more responsibly. This study found support for this relationship, even if it cannot demonstrate the direction of the causation.

It makes sense that employee involvement is a more important marker (and potential enabler) of external responsible stakeholder management. Firms that treat their employees responsibly – whether for instrumental or normative reasons – tend to support their employees' involvement in working with external stakeholders. The question of employee ownership is a deeper one for a firm to contemplate, and potentially more interwoven in the central mechanisms of the firm. As stated in the theory section, broad employee ownership requires leaders that are committed. Thus employee ownership may only be suitable for a smaller subset of firms. However this study did find that employee ownership still matters beyond the presence of employee involvement.

While evaluating isolated practices such as employee ownership and employee involvement make sense, the strategic HR literature strongly encourages looking at work systems more broadly. Thus future research may evaluate responsible stakeholder management systems of philosophy, policies and practices that lead to actual responsible stakeholder outcomes. A model study that embraces this complexity both theoretically

and in its study design, execution, and results is the work by Liao and colleagues (2009) which focuses on the customer stakeholder. Indeed Liao et al. (2009) evaluated and found that a high performance work system for service quality – a system of HR practices designed to enhance employees’ competencies, motivation, and performance - succeeded in providing high-quality services to external customers. The challenge in any stakeholder research is the need to evaluate an array of stakeholders simultaneously with sufficient rigor and detail.

5.4 Practical Implications

Given that this study is an initial attempt to evaluate the relationships between employee ownership, employee involvement and responsible stakeholder management, the implications for management are to be taken with caution. For firms such as those that seek B Corporation certification, knowing that there is a potential association between employee ownership and responsible stakeholder management, may encourage them to investigate whether distributing the pie among employees makes sense for their current structure and financing mechanism, and may fit with their overall culture, and HR practices. More research will help understand which dimension of internal ownership is most meaningful: employee, manager and/or founder.

5.5 Limitations and Future Research Directions

5.5.1 Future Research on EO and RSM in B Corporations

As with any research, this work has limitations, and thus requires caution in interpreting the results. Recognizing limitations may also indicate the opportunity for further investigation. First, this study is cross-sectional and thus cannot provide support

for causation in either direction. Longitudinal research is welcome here and may be feasible, as firms that wish to maintain certification require B Lab review every two years.

As the measures for internal and external RSM could not be fully validated, future research should assess the RSM construct via a combination as recommended for HR measures by Jiang et al. (2012) of formative (i.e. index) and reflective approaches that rely on multiple individual items with Likert scales that can be evaluated for internal consistency. Future research would benefit from more rigorous testing by drawing on established measures from the organizational behavior literature in employee involvement, participation in decision-making and voice (e.g. Van Dyne & LePine, 1998). Here as well, real opportunity for research exists as B Lab is both a dynamic organization and eager to demonstrate the rigor in its survey and findings.

Common method bias may inflate the significance of the relationships. However social desirability is not the chief concern here as the B Lab survey focused on practices rather than matters of opinion. Future research could address both common method bias and provide increased reliability through triangulation of the data by surveying the stakeholders themselves, and assessing their engagement levels. Of interest to collect would be employee perceptions of their own involvement, and supplier satisfaction with the firm's stakeholder management. The survey of private corporations may also draw from the long experience with the measurement of public corporations - such as MSCI ESG STATS²².

²² <http://www.msci.com/products/esg/stats/>, April 2014.

Another potential contributor to common method variance may relate to normative beliefs. The influence of B Lab co-founder and board perspectives may permeate through the categories that surface in the assessment. In the same way a search for a purpose beyond profit fuels the development of B Lab, specific normative beliefs about employee ownership being the right thing to do may have led to its presence in the impact assessment, in turn encouraging B Corporations to seek out such practices. However this may constitute only a minor limitation as the adoption of employee ownership is a more involved program than a basic practice that could be easily checked off on an assessment to gain a score. Further as detailed in the literature review, employee ownership would relate to multiple factors, and generally requires strong leadership commitment. Within the B Corp community itself, it would be useful to understand the influence of the founding management team, and better differentiate the group of firms that obtained certification against those that did not in comparable sample by size and sector. These analyses could isolate the differences in the founding management's impact on the adoption of practices and approaches. Results may reveal the stronger effect of management than any of the employee ownership or employee involvement factors.

This study could not provide a perfect test of the full normative concepts of real ownership and responsible stakeholder management. As clarified previously, the translation from an ideal normative theory to an empirical study requires strongly relaxing some of the demands on the expectations of actual firms practices. Furthermore while partially capturing the imperfect duties component of RSM, and the inclination to benefit stakeholders, the B Impact Assessment only lightly taps into the perfect duties

component. This may stem from an assumption that candidates for B Corporation certification are focusing on the good, and not evaluated on potential harmful behavior – save in the environmental category (e.g. minimizing pollution). Since B Corporations tend to focus on the good, and seem strongly influenced by their leaders, a virtue ethics perspective may provide an alternative relevant normative framing to be explored.

While assessing alternative customer strategies related to a health, environment, or education focus, the current B Lab assessment does not provide sufficient components to evaluate and compare responsible consumer management across firms. Since consumers are critical stakeholders, this dimension should be developed and build on the rigorous academic research in marketing, that might include areas such as consumer safety, transparency, satisfaction, and promise.

Investigating the role of size may offer insights as to whether companies may behave differently on either side of a potential breaking point. The organizational literature points to 20 employees representing that cusp. It is expected that the association of EO-RSM would be stronger in the small firms compared to the larger ones because they former would have more real involvement with face-to-face contact. In order to capture this informal culture, employee and managerial perceptions of employee involvement would be more suited when compared with surveying the firm's practices that formalize employee involvement in typically larger structures (through ombudsmen, formal employee handbooks and performance feedback systems).

To better evaluate broad employee ownership, specific questions could be added in the B Lab survey that would clearly distinguish employees and managers from founders or executives. In order to stay closer to a theoretical definition of responsible

stakeholder management, a future study, could articulate the sub-categories within responsible employee management, and have a more specific mapping of practices. The sub-categories could tap into existing HR practices (e.g. Lepak et al., 2006) and map more closely onto the several dimensions of employee rights and obligations according to Moriarty (2008): freedom from discrimination and harassment, job security, safety, privacy, meaningful work, employee participation, compensation.

On the one hand the B Lab sample of aspiring and certified B Corporations provide a more homogeneous sample than regular firms across the key factors of leadership, structure, culture and business context, and enabled to provide a more stringent test of the variables of interest. However, there may be variation along these key factors that would be critical to evaluate in future studies, in order to better understand the unique contribution of each to RSM.

Finally, while this study attempted to carefully theorize the mechanisms that relate employee ownership to responsible stakeholder management, it does not provide a direct test of these mechanisms. Thus, subsequent research would need to study the different mediating variables such as employee motives between these two key but likely distal variables, and can leverage the recent strategic HR research that attempts to uncover the ‘black box’ between HR practices and organizational outcomes (e.g. Jiang, Lepak, Hu & Baer, 2012).

5.5.2 Future Research on EO and RSM in public corporations

In order to test whether the relationships between broad employee ownership and RSM can be generalized, a follow-up study would need to move beyond the unique factors of the B Corps sample. Do the relationships hold true in public corporations?

Since stakeholder theory and empirical research have focused on public corporations, yet not seemingly evaluated the role of employee ownership, there is clear opportunity to study whether broad employee ownership relates to RSM. Furthermore what theoretical constraints and adaptations are required when taking into account the specific pressure of shareholder value maximization?

There is opportunity to collect the different dimensions of employee ownership as well as the stakeholder evaluations of environmental, social and governance (ESG). Hence a future study would seek to combine three distinct sources of data. The first data source can provide measures of the breadth of employee ownership within companies based on the Form 5500 that firms with employee ownership through ERISA-regulated defined contribution plans - such as ESOPs, and 401(k) - that need to file with the U.S. Department of Labor. A compensation firm can provide additional modes of employee ownership by tapping into calculations of broad-based stock options and restricted stock. Restricted stock grants to employees represents the newest form of employee ownership that is not comprehensively tracked by Standard & Poors Compustat. The third source, can give ratings of firms' stakeholder relationships, and includes organizational level information on employee involvement in management decision-making. ESG data firms triangulate data from company, media, NGO & Government. MSCI ERG STATS (formerly KLD Analytics) is widely used by CSR researchers (e.g. Turban & Greening, 1997; Berman, Wicks, Kotha & Jones, 1999).

5.6 Conclusion

This dissertation justifies and presents a concept of responsible stakeholder management (RSM). RSM focuses on the relationships the firm has with its stakeholders.

It leverages a key tenant in stakeholder theory that stakeholders can affect or be affected by the firm, and have intrinsic value whether or not the firm has an interest in them. RSM takes a stance by specifying what responsibility entails by grounding it in the perspective of a firm avoiding harm and potentially benefiting its stakeholders. This work then distinguishes the internal and external components of RSM, isolating in particular internal shared stock ownership, and employee involvement, and builds theoretical support for their relationship with external RSM. The relationships are tested in a unique sample of aspiring and certified B Corporations. Despite certain methodological limitations, this study dives into the detail of combining into indexes the relevant practices that theoretically make up RSM. The findings suggest that employee involvement, and internal ownership by employees and managers are positively related to external RSM.

Thus this study contributes to the employee ownership literature by broadening its traditional focus on employee and firm performance related outcomes. The concept and practice of RSM can be meaningful to the growing academic fields of business and society, as well as social entrepreneurship, and is evaluated here in a subset of firms different from the traditionally studied public corporations. This new standard clearly expands from a traditional perspective of corporate governance focused on shareholders to one that is not limited to minimizing harm but genuinely interested in benefiting the firm's multiple stakeholders. Indeed this study is one of the first to examine an exciting new phenomenon of growing firms such as B Corporations that purposefully seek an alternative to the more conventional shareholder-oriented organization and attempt to incorporate in their DNA the seed of RSM.

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TABLE 1: Employee Index – Internal RSM

NB	Stakeholder	Question	AnswerValue	Survey Sample	Survey Mean	Survey SD	Study Sample	Study Mean	Study SD
EE2.1	EE_Benefits	Is health insurance offered to all full-time employees and their families?	Yes, No	1049	0.67	0.47	347	0.83	0.38
EE2.2	EE_Benefits	What % of full-time employees were offered health insurance?	1=0, 2=1-49%, 3=50-69%, 4=70-79%, 5=>80%	1039	3.22	1.73	347	3.80	1.48
EE2.3	EE_Benefits	What % of health insurance premiums are paid by the company for family coverage (full-time employees)?	1=0, 2=1-49%, 3=50-69%, 4=70-79%, 5=>80%	1039	2.36	1.59	347	2.73	1.57
EE2.6	EE_Benefits	What is the minimum number of vacation days / sick days / personal days / holidays offered annually by full-time employees with the company for 2 years?	1=0-3 weeks, 2=3-4 weeks, 3=4-5 weeks, 4=5-6 weeks, 5=6 weeks+	1038	2.23	1.28	347	2.39	1.27
EE2.7	EE_Benefits	What is the minimum number of weeks of paid maternity leave offered to full-time employees with the company for 2 years?	1=None, 2=Some, up to 2 weeks, 3=3-5 weeks, 4=6 weeks +	1026	3.89	1.02	347	3.91	0.99
EE2.10	EE_Benefits	What additional benefits are offered to full-time employees with the company for 2 years?	Dental Insurance	1047	0.45	0.50	347	0.62	0.48
EE2.10	EE_Benefits		Short-Term Disability	1047	0.30	0.46	347	0.44	0.50
EE2.10	EE_Benefits		Long-Term Disability	1047	0.29	0.45	347	0.46	0.50
EE2.10	EE_Benefits		Flexible Spending Account	1047	0.27	0.44	347	0.41	0.49
EE2.10	EE_Benefits		Domestic Partner Benefits	1047	0.26	0.44	347	0.34	0.47
EE2.10	EE_Benefits		Other Benefits	1047	0.42	0.49	347	0.57	0.50
EE2.10	EE_Benefits		No Additional Benefits	1047	0.31	0.46	347	0.14	0.35
EE1.5	EE_Comp	In the last fiscal year, the company's bonus plan represented what % of the company's salary base (when calculating, exclude executive bonuses and salaries)?	1=0, 2=1-5%, 3=6-15%, 4=>15%	1050	1.71	0.91	347	2.02	0.95
EE1.2	EE_Comp	What multiple is the highest compensated individual paid (inclusive of bonus) as compared to the lowest paid full-time worker?	1=>20x, 2=16-20x, 3=11-15x, 4=6-10x, 5=1-5x	1045	4.59	0.88	347	4.24	1.06
EE1.1	EE_Comp	Is a living wage (see 'need help') paid to all full-time and part-time employees (excluding interns)?	Yes, No	1060	0.89	0.31	347	0.92	0.28
EE1.4	EE_Comp	How does your company's compensation structure (excluding executive management) compare with the market?	1=Below Market, 2=At Market, 3=Above Market	1053	2.06	0.63	347	2.11	0.61
AA4.3a	EE_EI	Do all full-time employees have access to information that identifies all material owners and investors of the company?	Yes, No	562	0.68	0.47	347	0.66	0.47
AA4.3b	EE_EI	Do all full-time employees have access to information that identifies all material owners and investors of the company?	Yes, No	417	0.86	0.35	0	NA	NA
AA4.2	EE_EI	Does the company have a formal process to share financial information (except salary info) with its full-time employees?	Yes, No	983	0.61	0.49	347	0.65	0.48
EE5.3a	EE_EI	Is there a Human Resource / Ombudsperson / Employee Representative to mediate complaints / issues?	Yes, No	185	0.89	0.31	148	0.91	0.29
EE5.3b	EE_EI	Is there a formal method by which employees can raise complaints / issues without fear of reprisal?	Yes, No	851	0.71	0.45	199	0.74	0.44
EE5.1	EE_EI	Is there an established, formal, consistent process for providing performance feedback to all employees which (please check all that apply):	Is conducted on at least an annual basis	1053	0.80	0.40	347	0.85	0.35
			Includes peer and subordinate input	1053	0.50	0.50	347	0.53	0.50
			Provides written guidance for career development	1053	0.65	0.48	347	0.72	0.45
			Includes social and environmental goals	1053	0.42	0.49	347	0.31	0.46
			Clearly identifies achievable goals	1053	0.66	0.48	347	0.71	0.45
			None of the above	1053	-	-	347	-	-

TABLE 2: Community Index

The community index comprises two dimensions related to charity and local involvement.

Stakeholder	Question	Answer/Value	Survey Sample	Survey Mean	Survey SD	Study Sample	Study Mean	Study SD
CM_Charity	What was the average annual % of net profits or net revenues that your company gave to charity in the last two fiscal years? (Please include tax deductible pro bono work and in-kind donations.)	1=0, 2=1-4% of profits or 0.1-0.4% of sales, 3=5-9% of profits or 0.5-0.9% of Sales, 4=10-50% of profits or 1-5% of sales, 5=>50% of profits or >5% of sales	1384	2.50	1.53	347	2.59	1.49
CM_Charity	Is there a written Community Service Policy?	Yes, No	1391	0.35	0.48	347	0.37	0.48
CM_Charity	Are full-time employees explicitly allowed any of the following paid or non-paid time-off hours options for community service?	1=Non-paid time off, 2=Paid time off, 3=More than 20 hours a year of paid time off, 4=Do not offer paid or non-paid time off	977	2.35	1.15	347	2.33	1.13
CM_Charity	Are suppliers and customers actively made aware of your service mission?	Yes, No, N/A	1395	0.70	0.46	347	0.67	0.47
CM_Charity	Has the company created a public facing partnership with a service/charitable organization?	Yes, No	1393	0.55	0.50	347	0.62	0.49
CM_Charity	Is there a formal written policy that sets a required commitment for Charitable Giving?	Yes, No	1389	0.26	0.44	347	0.27	0.45
CM_Charity	Does the majority of your community development activities occur in the markets you source from and/or operate within (choose n/a only if your company does engage in community development activities)?	Yes, No, N/A	1393	0.62	0.49	347	0.68	0.47
CM_Charity	Is your charitable giving certified by an organization, such as 1% for the planet or another organization that promotes charitable giving (choose n/a only if your company does not make charitable donations)?	Yes, No, N/A	1366	0.10	0.30	347	0.12	0.32
CM_Local	Is there a written local purchasing strategy or policy in place?	Yes, No	1388	0.31	0.46	347	0.29	0.46
CM_Local	Is the majority of your company's banking services provided by an institution with any of the following characteristics:	A local independent institution located in your community	1375	0.43	0.50	347	0.41	0.49
CM_Local		A bank with a CRA rating of outstanding	1375	0.27	0.45	347	0.32	0.47
CM_Local		A certified CDFI	1375	0.44	0.50	347	0.46	0.50
CM_Local		A certified B Corporation	1375	0.03	0.17	347	0.02	0.14
CM_Local		None of the above	1375	-	-	347	-	-
CM_Local	Do more than 50% of the company's customers reside in the same community(ies) (i.e. within 100 miles) as material owners?	Yes, No	1391	0.53	0.50	347	0.45	0.50
CM_Local	What % of your company's Significant Suppliers are independent suppliers located in the same community as one of your offices?	1=0, 2=1-19%, 3=20-39%, 4=40-60%, 5=>60%	1383	3.28	1.53	347	3.26	1.46
CM_Local	Have you asked your Significant Suppliers if they source locally?	Yes, No	1381	0.56	0.50	347	0.50	0.50

TABLE 3: Environment Index

Question	AnswerValue	Survey Sample	Survey Mean	Survey SD	Study Sample	Study Mean	Study SD
Has the company formally engaged with suppliers, business partners, or customers to reduce the environmental impact of their activities on a regular basis?	Yes, No	1395	0.60	0.49	347	0.61	0.49
Is the company a member of an association that fosters environmentally sustainable business practices?	Yes, No	1387	0.56	0.50	347	0.60	0.49
For which of the following systems have you implemented energy conservation/ efficiency measures for your corporate facilities (if your company has selected 'other,' please attach a description)?	Equipment: Energy Star Appliances / Automatic Sleep Modes / After-Hour Timers / etc.	1383	0.66	0.47	347	0.69	0.46
	Lighting: Natural Light / CF Bulbs / Occupancy Sensors / Daylight Dimmers / Task Lighting / etc.	1383	0.79	0.41	347	0.83	0.38
	HVAC: Programmable Thermostat / Timers / Occupancy Sensors / Shade Sun-Exposed Walls / Double-Paned Windows / etc.	1383	0.72	0.45	347	0.76	0.43
	Other (please specify)	1383	0.08	0.27	347	0.10	0.29
	None of the above	1383	-	-	347	-	-
Does the company use an office wide recovery and recycling program that includes the following (please check all that apply)?	Cardboard	1407	0.88	0.33	347	0.88	0.33
	Plastic	1407	0.87	0.34	347	0.84	0.36
	Glass & Metal	1407	0.85	0.36	347	0.83	0.37
	Paper	1407	0.92	0.28	347	0.93	0.26
	Composting	1407	0.47	0.50	347	0.44	0.50
	None	1407	-	-	347	-	-
What % of materials used for office operations (e.g. office supplies, furniture, catering supplies, janitorial supplies, etc.) come from recycled / sustainable input materials?	1=None, 2=Some (less than 49%), 3=Most (more than 50%), 4=All	1395	2.67	0.75	347	2.63	0.79
Has the company implemented written policies that reduce corporate travel, thereby lowering its carbon footprint?	Yes, No, N/A	1392	0.31	0.46	347	0.32	0.47
What % of carbon inventory for company travel, commuting, office operations, and shipments was reduced through the purchase of certified carbon credits last year?	1=0, 2=1-4%, 3=5-24%, 4=25-50%, 5=>50%	1361	1.61	1.27	347	1.79	1.43
What % of energy is used from renewable sources at your corporate facilities?	1=0, 2=1-4%, 3=5-24%, 4=25-50%, 5=>50%	1361	2.24	1.50	347	2.32	1.52
Which of the following water conservation methods have been implemented at the majority of your corporate offices:	Low-flow toilets/urinals	1400	0.45	0.50	347	0.52	0.50
	Low-flow faucets or showerheads	1400	0.36	0.48	347	0.37	0.48
	Grey-water usage for irrigation	1400	0.07	0.26	347	0.07	0.25
	Low-volume irrigation	1400	0.19	0.39	347	0.19	0.39
	Harvest rainwater	1400	0.55	0.50	347	0.47	0.50
	Other (please specify)	1400	-	-	347	-	-
	None	1400	-	-	347	-	-
Which of the following chemical reduction methods have been implemented at the majority of your corporate facilities on a consistent basis:	Non-toxic janitorial products	1401	0.60	0.49	347	0.55	0.50
	Unbleached / chlorine free paper products	1401	0.47	0.50	347	0.48	0.50
	Soy-based inks or other low VOC inks	1401	0.33	0.47	347	0.33	0.47
	Organic or sustainable kitchen products	1401	0.62	0.49	347	0.61	0.49
	Other	1401	0.24	0.43	347	0.25	0.43
	None	1401	-	-	347	-	-
Is hazardous waste (batteries, paint, electronic equipment, etc.) always disposed of responsibly?	Yes, No	1390	0.94	0.24	347	0.95	0.22
For which of the following activities does your company purchase carbon offsets for?	Travel	1372	0.18	0.38	347	0.21	0.41
	Commuting	1372	0.09	0.29	347	0.12	0.32
	Office Operations	1372	0.87	0.33	347	0.87	0.33
	Shipping	1372	0.13	0.34	347	0.17	0.37
	Other	1372	-	-	347	-	-
	None of the above	1372	-	-	347	-	-
What % of your company's printed materials use recycled paper content, FSC certified paper, or soy-based inks? (Choose n/a only if your company does not have any printed materials)?	1=0, 2=1-24%, 3=25-49%, 4=50-74%, 5=>75%, 6=N/A	1372	3.95	1.26	347	3.96	1.29

TABLE 4: Consumer Index

Question	Answer/Value	Survey Sample	Survey Mean	Survey SD	Study Sample	Study Mean	Study SD
It promotes economic equality for individuals	as a direct impact (e.g. job training, education, products that directly address economic inequalities for the underserved)	1225	0.32	0.47	302	0.27	0.44
	as an indirect impact (e.g. educational toys, etc.)	1225	0.22	0.41	302	0.18	0.38
	no inherent product impact in this area	1225	0.54	0.50	302	0.62	0.49
It promotes economic equality for communities	as a direct impact (e.g. CDFI's, low-income housing, access for underserved communities (water, internet, utilities, etc.))	1219	0.24	0.43	301	0.21	0.40
	as an indirect impact (e.g. YMCA, local summer camps)	1219	0.24	0.43	301	0.21	0.40
	no inherent product impact in this area	1219	0.58	0.49	301	0.63	0.48
It preserves the environment	as a direct impact (e.g., renewable energy, recycling technology, green building design & development, sustainable technologies)	1240	0.36	0.48	306	0.35	0.48
	as an indirect impact (e.g., products made from recycled or sustainable input materials (paper, cups, FSC certified, etc.))	1240	0.43	0.50	306	0.42	0.49
	no inherent product impact in this area	1240	0.31	0.46	306	0.34	0.47
It improves health	as a direct impact (e.g. disease prevention or cure, such as AIDS or other vaccines, cancer clinics)	1226	0.19	0.39	306	0.19	0.39
	as a indirect impact (e.g. Products promoting healthy living (organic food, mountain bikes, etc.))	1226	0.45	0.50	306	0.46	0.50
	no inherent product benefit in this area	1226	0.42	0.49	306	0.41	0.49
It promotes the arts, sciences or the advancement of knowledge	as a direct impact (e.g. museums, photographers/artists, independent media, publishing, research labs)	1219	0.27	0.45	299	0.23	0.42
	as a indirect impact (e.g. intl. travel agent, book stores, sound equipment, fine jewelry)	1219	0.25	0.44	299	0.22	0.41
	no inherent product benefit in this area	1219	0.53	0.50	299	0.61	0.49
It increases the flow of capital to purpose-driven enterprises	as a direct impact (e.g. fundraising for purpose-driven enterprises, socially responsible investing)	1228	0.30	0.46	298	0.25	0.43
	as a indirect impact (e.g. consulting to purpose-driven enterprises, ad agency for for purpose-driven companies)	1228	0.33	0.47	298	0.29	0.45
	no inherent product benefit in this area	1228	0.45	0.50	298	0.55	0.50
Other: Please specify, and attach a description of beneficial product or service.	creates direct impact in this area	1035	0.20	0.40	268	0.18	0.38
	creates indirect impact in this area	1035	0.09	0.29	268	0.09	0.29
	no inherent product benefit in this area	1035	0.74	0.44	268	0.76	0.42

Consumer Index shown only for illustration purposes. Not included in external RSM or in regressions because illustrating unique consumer strategies, and not representing overall responsible consumer stakeholder management.

External RSM = Supplier Index + Environment Index + Community Index

TABLE 5a: Overall Employee Ownership Index

Employee / Manager / Founder

Question	AnswerValue	Survey Sample	Survey Mean	Survey SD	Study Sample	Study Mean	Study SD
What % of full-time employees & management (including founders/executives), owns stock, stock equivalents (any form of company ownership) or stock options in the company?	1=0, 2=1-24%, 3=25-49%, 4=50-75%, 5=>75%	595	2.71	1.43	347	2.83	1.46
What % of the company is owned or formally reserved as part of a written plan for full-time employees and management (including founders/executives)?	1=0, 2=1-24%, 3=25-49%, 4=50-75%, 5=>75%	591	3.01	1.70	347	3.16	1.64
What % of the company is owned by full-time employees (excluding founders/executives)?	1=0, 2=1-4%, 3=5-24%, 4=25-50%, 5=>50%	592	1.85	1.16	347	1.96	1.18

TABLE 5b: Simple Distribution of Employee Ownership**Employee & Management Ownership**

What % of full-time employees & management (including founders/executives), owns stock, stock equivalents (any form of company ownership) or stock options in the company?

EO_PercAll	Freq.	Percent	Cum.
0%	62	17.87	17.87
1-24%	133	38.33	56.2
25-49%	40	11.53	67.72
50-75%	26	7.49	75.22
>75%	86	24.78	100
Total	347	100	

Employee Ownership Reserved

What % of the company is owned or formally reserved as part of a written plan for full-time employees and management (including founders/executives)?

EO_PercReserv	Freq.	Percent	Cum.
0%	85	24.5	24.5
1-24%	62	17.87	42.36
25-49%	39	11.24	53.6
50-75%	35	10.09	63.69
>75%	126	36.31	100
Total	347	100	

Strict Employee Ownership

What % of the company is owned by full-time employees (excluding founders/executives)?

EO_PercEE	Freq.	Percent	Cum.
0%	178	51.3	51.3
1-4%	56	16.14	67.44
5-24%	80	23.05	90.49
25-50%	15	4.32	94.81
>50%	18	5.19	100
Total	347	100	

TABLE 6: Employee Involvement and Communication Index

Nb	EI dimension	Question	AnswerValue	Survey Sample	Survey Mean	Survey SD	Study Sample	Study Mean	Study SD
AA4.3a	Financial transparency	Do all full-time employees have access to information that identifies all material owners and investors of the company?	Yes, No	562	0.68	0.47	347	0.66	0.47
AA4.3b	Financial transparency	Do all full-time employees have access to information that identifies all material owners and investors of the company?	Yes, No	417	0.86	0.35	0	NA	NA
AA4.2	Financial transparency	Does the company have a formal process to share financial information (except salary info) with its full-time employees?	Yes, No	983	0.61	0.49	347	0.65	0.48
EE5.3a	Voice	Is there a Human Resource / Ombudsperson / Employee Representative to mediate complaints / issues?	Yes, No	185	0.89	0.31	148	0.91	0.29
EE5.3b	Voice	Is there a formal method by which employees can raise complaints / issues without fear of reprisal?	Yes, No	851	0.71	0.45	199	0.74	0.44
EE5.1	Performance feedback	Is there an established, formal, consistent process for providing performance feedback to all employees which (please check all that apply):	Is conducted on at least an annual basis	1053	0.80	0.40	347	0.85	0.35
			Includes peer and subordinate input	1053	0.50	0.50	347	0.53	0.50
			Provides written guidance for career development	1053	0.65	0.48	347	0.72	0.45
			Includes social and environmental goals	1053	0.42	0.49	347	0.31	0.46
			Clearly identifies achievable goals	1053	0.66	0.48	347	0.71	0.45
			None of the above	1053	-	-	347	-	-

TABLE 7: Basic Descriptives, and Correlations of Study Variables

Variable	Mean	s.d.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12
1 Employee Ownership Index	.41	.28	.00	1.00												
2 Employee Ownership Perc.	.24	.29	.00	1.00	.72											
3 Employee Index	1.87	.39	.43	2.84	.16	.16										
4 Employee Involvement Index	.69	.25	.05	1.00	.07	.09	.73									
5 External Stakeholder Index	1.52	.44	.40	2.75	.10	.02	.30	.36								
6 Supplier Index	.59	.23	.06	1.00	.08	.02	.22	.27	.81							
7 Community Index	.43	.17	.03	.91	.02	.01	.21	.30	.73	.36						
8 Environment Index	.50	.16	.11	.92	.14	.05	.24	.27	.73	.36	.40					
9 Consumer Index	.29	.27	.00	1.00	.14	.02	.01	.05	.08	.03	.14	.03				
10 Company Size ^b	1.27	.75	.00	4.85	.07	.11	.08	.02	.02	.04	.01	.00	.13			
11 Company Zero&Blank ^c	.11	.32	.00	1.00	.11	.06	.01	.04	.14	.14	.12	.06	.13	.61		
12 Sector2	.10	.30	.00	1.00	.06	.01	.01	.03	.11	.18	.06	.09	.05	.07	.04	
13 Sector3	.70	.46	.00	1.00	.04	.03	.10	.06	.08	.19	.15	.10	.16	.04	.04	.50

n = 347

^a For all correlations greater than .85, $p < .01$, for all correlations greater than .35, $p < .05$

^b Logarithm

^c Dummy variable, 1 assigned to 39 company size values that were either zero or blank

TABLE 8: Employee Ownership as Main Effect

	a. Results with Internal RSM as dependent variable			b. Results with External RSM as dependent variable		
	Model 1 Internal RSM	Model 2 Internal RSM	Model 3 Internal RSM	Model 4 External RSM	Model 5 External RSM	Model 6 External RSM
Employee Ownership Index		0.23***			0.18**	
Employee Ownership Percentage			0.20***			0.04
Company Size ^b	0.09**	0.09**	0.08**	0.06	0.06	0.06
Company Zero&Blank ^c	0.14	0.16*	0.13	0.28***	0.30***	0.28***
Sector 2 (wholesale)	0.09	0.08	0.09	0.15*	0.14	0.15
Sector 3 (service)	0.13**	0.13**	0.12**	-0.02	-0.01	-0.02
Constant	1.65***	1.55***	1.62***	1.40***	1.33***	1.40***
Observations	347	347	347	347	347	347
F test	2.53**	3.96***	3.58***	3.50***	3.76***	2.85**
R-squared	0.03	0.05	0.05	0.04	0.05	0.04

*** p<0.01, ** p<0.05, * p<0.1

All significance levels are based on 2-tailed tests

^b Logarithm

^c Dummy variable, 1 assigned to 39 company size values that were either zero or blank

TABLE 9: Moderating Effect of Employee Involvement

	Results with External RSM as dependent variable				
	Model 7	Model 8	Model 9	Model 10	Model 11
	External RSM	External RSM	External RSM	External RSM	External RSM
Employee Ownership Index		0.14*		.09	
Employee Ownership Percentage			0		-0.03
Employee Involvement Index	0.63***	0.62***	0.63***	0.59***	0.62***
Employee Involvement Index x Employee Ownership Index				0.07	
Employee Involvement Index x Employee Ownership Perc.					0.03
Company Size ^b	0.05	0.05	0.05	0.05	0.05
Company Zero&Blank ^c	0.24***	0.25***	0.24***	0.25***	0.24***
Sector 2 (wholesale)	0.11	0.1	0.11	0.1	0.11
Sector 3 (service)	-0.05	-0.05	-0.05	-0.05	-0.05
Constant	1.03***	0.97***	1.03***	1.00***	1.03***
Observations	347	347	347	347	347
F test	13.33***	11.72***	11.07***	10.03***	9.46***
R-squared	0.16	0.17	0.16	0.17	0.16

*** p<0.01, ** p<0.05, * p<0.1

All significance levels are based on 2-tailed tests

^b Logarithm

^c Dummy variable, 1 assigned to 39 company size values that were either zero or blank

TABLE 10: Responsible Management Related to Distinct External Stakeholders

	Results with Distinct External Stakeholders as Dependent Variables		
	Model 12 Supplier	Model 13 Community	Model 14 Environment
Employee Ownership Index	0.07 [1.57]	0.03 [0.82]	0.08*** [2.62]
Company Size ^b	0.02 [1.05]	0.03** [2.14]	0.01 [0.64]
Company Zero&Blank ^c	0.13*** [2.71]	0.12*** [3.21]	0.05 [1.39]
Sector 2 (wholesale)	0.09* [1.96]	0.02 [0.53]	0.03 [0.79]
Sector 3 (service)	-0.06* [-1.91]	0.07*** [2.97]	-0.02 [-1.09]
Constant	0.55*** [11.68]	0.31*** [8.91]	0.47*** [13.83]
Observations	347	347	347
F test	5.33***	3.76***	2.56**
R-squared	0.07	0.05	0.04
Adjusted R-squared	0.06	0.04	0.02

*** p<0.01, ** p<0.05, * p<0.1

All significance levels are based on 2-tailed tests

t-statistics in brackets

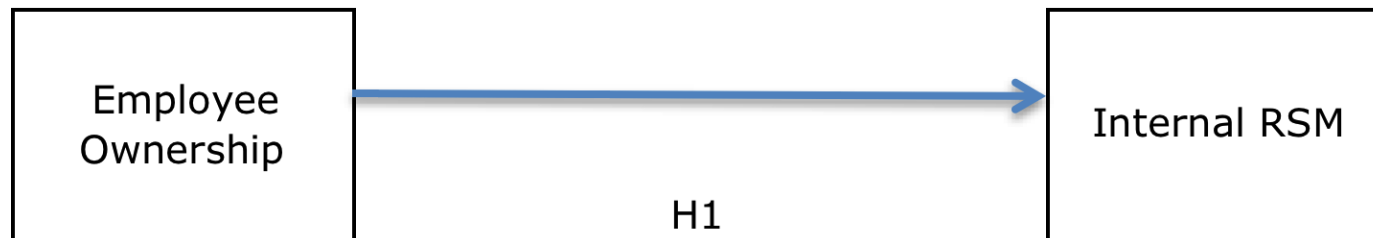
^b Logarithm

^c Dummy variable, 1 assigned to 39 company size values that were either zero or blank

FIGURE 1: Summary Table: Main characteristics of different EO plans

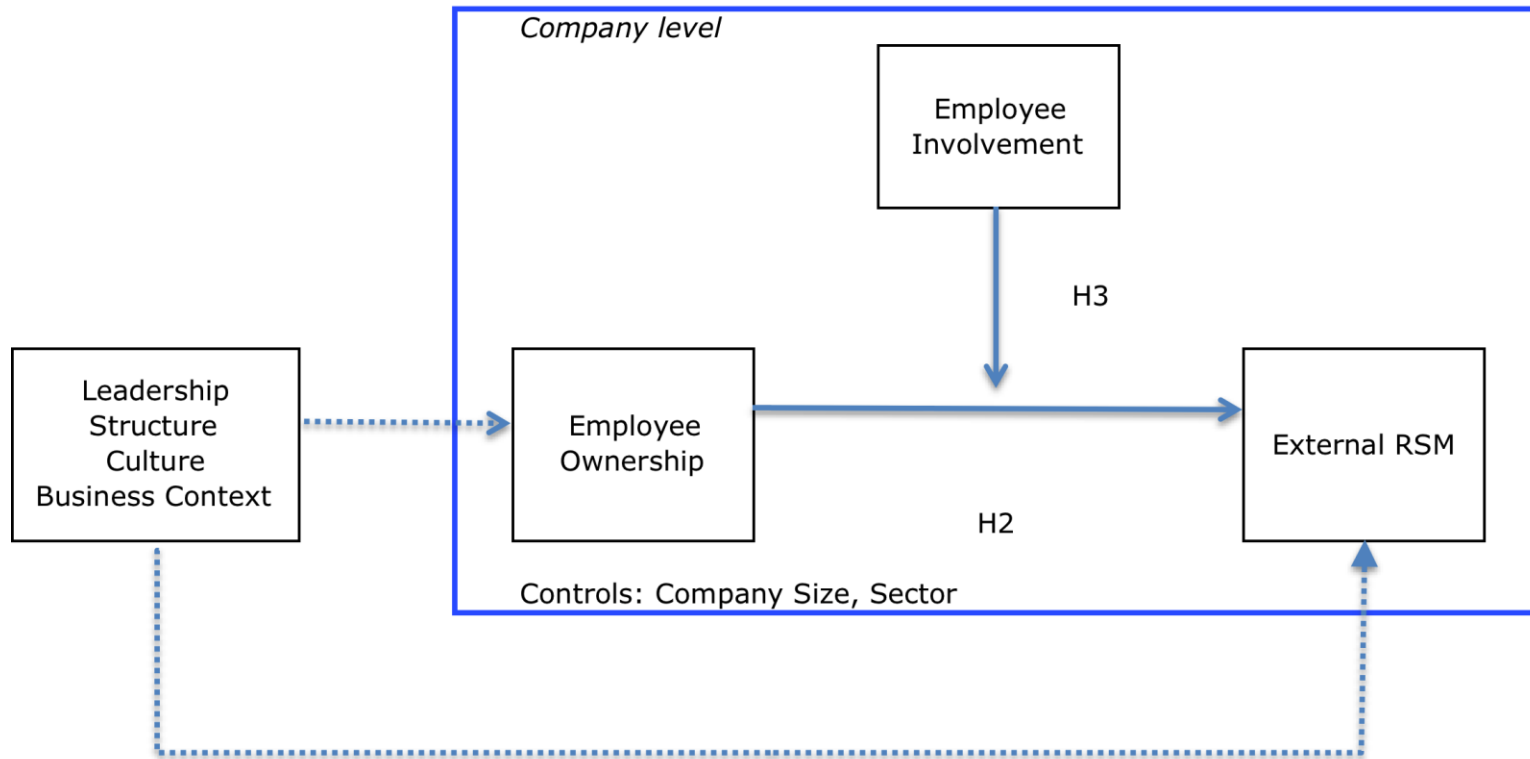
	ESOP	Individual Grants of Equity		401(k)	ESPP
Stronger association of following characteristic in different plans		Stock Options	Restricted Stock, Stock Appreciation Rights, Phantom Stock		
Public		x	x	x	x
Private	x				
Majority employee ownership	x				
Broad (all employees encouraged to benefit)	x			x	x
Tax incentives	x				
Government regulated	x			x	x
Compensation focus		x	x		
Benefits focus				x	x
Strong leadership commitment	x				
Employee basic participation		x			
Employee involvement in governance	x/?				

FIGURE 2: Hypothesis 1 for B Lab Study



Hypothesis 1: Employee ownership is positively associated with the responsible management of employees (i.e. internal RSM).

FIGURE 3: Full Model for B Lab Study with Boundary Conditions



Hypothesis 2: Employee ownership is positively associated with responsible external stakeholder management. (i.e. external RSM).

Hypothesis 3: Employee involvement positively moderates the relationship between employee ownership and external RSM, such that in the presence of employee involvement the relationship between EO and external RSM is stronger.

APPENDICES

B Lab Impact Assessment Survey

B Lab Impact Assessment Survey V2.0, 30+ee, Service 2011- Employee Dimension

This section focuses on how the Company treats your Employees through Compensation Practices, Benefits, Employee Ownership and Work Environment.

Compensation & Benefits

Compensation

EE1.1 - Is a living wage (see 'need help') paid to all full-time and part-time employees (excluding interns)? [Heavily Weighted]

Yes No

EE1.2 - What multiple is the highest compensated individual paid (inclusive of bonus) as compared to the lowest paid full- time worker? [Heavily Weighted]

>20x 16-20x 11-15x 6-10x 1-5x

EE1.3 - By what % has the company's total compensation (excluding executive management) increased in the last fiscal year? Total compensation should include bonuses and headcount growth. [Equally Weighted]

0% 1-5% 6-15% >15%

EE1.4 - How does your company's compensation structure (excluding executive management) compare with the market? [Equally Weighted]

Below Market At Market Above Market

EE1.5 - In the last fiscal year, the company's bonus plan represented what % of the company's salary base (when calculating, exclude executive bonuses and salaries)? [Equally Weighted]

0% 1-5% 6-15% >15%

EE1.6 - What % of non-executive, full-time employees participated in the company's bonus plan in the last fiscal year? [Equally Weighted]

EE1.7 - Have you acquired or referenced a compensation survey of your industry in the last three years? [Less Weighted]

Yes No

Cash Benefits

EE2.1 - Is health insurance offered to all full-time employees and their families? [Less

Weighted]

Yes No

EE2.2 - What % of health insurance premiums are paid by the company for individual coverage (full-time employees)? [Heavily Weighted]

0% 1-49% 50-69% 70-79% >80%

EE2.3 - What % of health insurance premiums are paid by the company for family coverage (full-time employees)? [Heavily Weighted]

0% 1-49% 50-69% 70-79% >80%

EE2.4 - At what juncture do your part time/flex time employees qualify for full time health care benefits? [Equally Weighted]

15 - 19 Hours per week 20 - 24 Hours per week 25 - 30 Hours per week 30+ Hours per week Not at all

EE2.5 - Is there an Employee Retirement Plan (e.g., Pension, Profit Sharing, 401k) available for all full-time, tenured (2 Years) employees that is: [Equally Weighted]

Unfunded Partilly Funded / Partial Match Fully Funded / Full Match No Retirement Plan

EE2.6 - What is the minimum number of vacation days / sick days / personal days / holidays offered annually by full-time employees with the company for 2 years? [Equally Weighted]

0-3 weeks 3-4 weeks 4-5 weeks 5-6 weeks 6 weeks+

EE2.7 - What is the minimum number of weeks of paid maternity leave offered to full-time employees with the company for 2 years? [Equally Weighted]

None Some, up to 2 weeks 3-5 weeks 6 weeks +

EE2.8 - What is the minimum number of weeks of paid paternity leave offered to full-time employees with the company for 2 years? [Less Weighted]

None Some, up to 2 weeks 3-5 weeks 6 weeks +

EE2.9 - What is the severance (excluding employees terminated with cause) offered in practice and in writing to full-time employees with the company for 2 years (excluding executive management)? [Less Weighted]

No Severance 1 Month 2 Months 3 Months

4 Months+

EE2.10 - What additional benefits are offered to full-time employees with the company for 2 years? [Heavily Weighted]

Dental Insurance Short-Term Disability Long-Term Disability Flexible Spending Account Domestic Partner Benefits Other Benefits

No Additional Benefits

Job Creation

EE3.1 - By what % has your employee base (full-time equivalents) grown over the last 24 months? [Equally Weighted]

0% 1-5% 6-15% >15%

EE3.2a - What is the average annual attrition rate among full-time employees over the last 2 years (excluding employees terminated with cause)? [Equally Weighted]

0-2.4% 2.5-4.9% 5-10% >10% N/A

Employee Ownership

EE4.1 - What % of full-time employees & management (including founders/executives), owns stock, stock equivalents (any form of company ownership) or stock options in the company? [Equally Weighted]

0% 1-24% 25-49% 50-75% >75%

EE4.2 - What % of the company is owned or formally reserved as part of a written plan for full-time employees and management (including founders/executives)? [Equally Weighted]

0% 1-24% 25-49% 50-75% >75%

EE4.3 - What % of the company is owned by full-time employees (excluding founders/executives)? [Heavily Weighted]

0% 1-4% 5-24% 25-50% >50%

Work Environment

Communication

EE5.1 - Is there an established, formal, consistent process for providing performance feedback to all employees which (please check all that apply): [Heavily Weighted]

Is conducted on at least an annual basis Includes peer and subordinate input Provides written guidance for career development Includes social and environmental goals

Clearly identifies achievable goals None of the above

EE5.2 - Which of the following are written, easily-accessible and circulated (please check all that apply): [Heavily Weighted]

Employee Handbook Discrimination/Harrassment Policy Code of Ethics None of the above

EE5.3a - Is there a Human Resource / Ombudsperson / Employee Representative to mediate complaints / issues? [Equally Weighted]

Yes No

EE5.4a - How often does the company conduct anonymous employee satisfaction/

engagement surveys? [Equally Weighted]

Annually Every other year Less frequently than every other year Never

EE5.5 - Based on the results of your employee satisfaction assessment (conducted within the past 2 fiscal years), what percent of your employees are 'Satisfied' or 'Engaged'? [Equally Weighted]

<65% 65%-80% >80% N/A

EE5.6 - Are employee metrics (e.g. retention, turnover, diversity) regularly collected, monitored and made transparent to all employees? [Less Weighted]

Yes No

Training and Development

EE6.1 - What % of positions above entry level have been filled with internal candidates in the last two years? (Exclude material owners in your calculation) [Heavily Weighted]

0% 1-24% 25-49% 50-74% >75% N/A

EE6.2 - What % of full-time employees have participated in external professional development opportunities or lifelong learning opportunities (paid for or subsidized by the Company) to enhance performance skills in the past fiscal year? [Equally Weighted]

EE6.3 - What % of full-time employees are reimbursed for continuing education opportunities? [Equally Weighted]

0% 1-5% 6-15% >15%

EE6.4 - For what % of terminated full-time employees (excluding those terminated for cause) are formal outplacement services provided? [Less Weighted]

Job Flexibility/Corporate Culture

EE7.1 - Does the company offer, whenever feasible, in writing and in practice (please check all that apply and attach relevant written policies): [Heavily Weighted]

Part-time work schedules Flex-time work schedules (allowing freedom to vary start and stop times) Telecommuting (working from home one or more days per week) Job-Sharing None of the above

EE7.2 - Which of the following flexible career option reflect your company's practices? [Heavily Weighted]

We have managers or executives who work part-time or in a job-share We have managers or executives who telecommute We hire new people into positions that are part-time or job-share We hire new people into positions that are telecommuting

We have transitioned staff into part-time, job-share, or telecommuting positions None of the above apply

EE7.3 - Which of the following supplementary services are offered to employees (please check all that apply)? [Heavily Weighted]

On-site childcare Off-site subsidized childcare Health & wellness Program Counseling services Other: please attach None

EE7.4 - Do career development and promotion policies and practices support whenever possible: (please choose all that apply) [Less Weighted]

Employees who seek to take a short-term leave/sabbatical with his/her job guaranteed upon return

Employees who seek to take a long-term leave/sabbatical where efforts will be made to find a place for him/her upon return

Employees who desire to make lateral moves or change career direction or pace

Accessibility

EE8.1 - Are all facilities physically accessible to people with disabilities (please choose NA if there are no corporate offices)? [Equally Weighted]

Yes No N/A

EE8.2 - Does the company provide Reasonable Accommodation for employees and job applicants with disabilities? [Equally Weighted]

Yes No