

## New Charters/Governance Models

The high-road/high-performance work system strategy relies on managerial leaders and, where they are present, union leaders to choose to adopt these practices because they believe they will work better to achieve the goals of the firm and the work force. There is another approach, one that attacks the shareholder maximizing model directly by changing the corporate charter to be more inclusive of other stakeholder concerns. One such approach is called the benefit corporation, or B corporation.

Benefit corporations are a new class of corporation that “1) creates a material positive impact on society and the environment; 2) expands fiduciary duty to require consideration of non-financial interests when making decisions; and 3) reports on its overall social and environmental performance using recognized third party standards.”<sup>1</sup>

At present, twenty-two states and the District of Columbia allow firms to incorporate with benefit corporation charters. The most important of these is the state of Delaware, since most companies around the country choose to incorporate in Delaware because it has the most fully developed set of corporate governance laws and regulations. As of 2013 an estimated 786 companies had been certified as B corporations.<sup>2</sup> One of the best-known examples is Patagonia a California-based maker of hiking and other outdoor sportswear and climbing gear. When it incorporated as a benefit corporation its founder, Yvon Chouinard, said:

Patagonia is trying to build a company that could last 100 years. Benefit-corporation legislation creates the legal framework to enable mission-driven companies like Patagonia to stay mission driven through succession, capital raises, and even changes in ownership, by institutionalizing the values, culture, processes, and high standards put in place by founding entrepreneurs.<sup>3</sup>

To date little research has been done to assess how these organizations fare over time. Hopefully this will change, especially if their numbers continue to increase.

### Employee Ownership

*We the Owners* is a 2013 documentary that tells the stories of people employed at several employee-owned enterprises across industries that range from beer brewing to construction to manufacturing.<sup>4</sup> The stories of the workers in the film capture the promise of employee ownership

<sup>1</sup> “Business FAQ’s,” Benefit Corp Information Center, <http://benefitcorp.net/>.

<sup>2</sup> Haskell Murray, “How Many Benefit Corporations Have Been Formed?” Socentlaw, July 23, 2013, <http://socentlaw.com/2013/07/how-many-benefit-corporations-have-been-formed/>.

<sup>3</sup> Mat McDermott, “Patagonia Becomes a California Benefit Corporation,” treehugger, January 3, 2013, <http://www.treehugger.com/corporate-responsibility/patagonia-becomes-california-benefit-corporation.html>.

<sup>4</sup> See the trailer for *We the Owners: Employees Expanding the American Dream* at <http://www.wetheowners.com/>.

advocates: When employees are and feel like owners, they will go the extra mile to contribute energy and ideas about enhancing the success of the enterprise. This will be a source of competitive advantage for the firm and source of great satisfaction and financial return for the employee-owners.

Currently, there are over 10,000 employee-owned firms in the United States with an estimated total employment of about 12 million.<sup>5</sup> The evidence is quite clear about what conditions must be in place if employee ownership is to realize its promise. The key is that the culture of the organization must embody the theory of employee ownership and employees must actually have a voice in shaping how they do their work and how the operations of the firm might be improved. In addition, compensation systems must be designed so that bonuses or profit shares or longer-term equity growth are supplements to and not substitutes for a competitive wage. But if employee ownership is only a financial transaction or only provides seats on the board of directors for one or more employee owner or representative, it is likely to do no better than its competitors at best and eventually decline and fail at worst.

Employee ownership has some real advantages. It also has to be designed and managed carefully, as described above. Employees should never put all their eggs in one basket by investing all their retirement savings in the stock of their employer (obviously this advice holds true whether the firm is employee owned or not). Also, employees need to beware of firms that create ownership schemes largely or solely for tax advantages or the wage concessions they can gain by adopting this organizational form.

I can personally attest to examples of trucking firms that were in financial trouble in the 1980s that reluctantly accepted sharing a minority ownership stake with employees in return for wage concessions. I sat on the board of directors of two such firms as a representative of the employee-owners. In neither firm was the top management committed to sharing control or empowering front-line workers, as is required for generating the benefits of increased productivity and a sense of ownership among employees. Both firms eventually had to be merged with others to avoid bankruptcy. There are other stories like this. The point is that employee ownership is a valuable and viable option for structuring firms in ways that give employees a stake in the enterprise. When a firm is managed as a truly employee-owned entity, it can and often does do well and realize its promise. It would be wise to think about this as one good option for the future.

### Cooperatives

Cooperatives are organizations owned by a large number of people or organizations that contribute key resources to make them work. Those of us who grew up on farms might remember their families perhaps being part of a milk cooperative or a feed store where farmers took grain and corn to be ground up and mixed with other good stuff to make healthy food their cattle loved to eat. Some well-known sawmills in Oregon have been organized as cooperatives for many years. At the other end of the

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<sup>5</sup> Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse, *The Citizen's Share: Putting Ownership Back into Democracy* (New Haven, Conn.: Yale University Press, 2014).

spectrum is the Harvard (and MIT) Cooperative Society, a bookstore with branches on the Harvard and MIT campuses. And then there is my favorite cooperative-like organization: the Green Bay Packers! The Packers are owned by community residents who bought shares issued by the team so they could stay in business in the 1930s (and again to raise revenue to expand Lambeau Field in 2010). So cooperatives have a long and venerable history. They are governed by boards of directors that are accountable to the many owners.

A signal advantage of the cooperative form is that it cannot be sold or subject to some hostile takeover by a financial investor seeking some newfound, often short-term gains. Stability and continuity and presumably therefore a long-term view are built into this organizational form. (How else could Green Bay, Wisconsin, a city of about 100,000 people, have kept a professional, often a very good, and sometimes championship football team for nearly a century?)

Perhaps the most famous and certainly one of the most successful cooperatives is found in the Basque region of Spain. The Mondragon Group is the world's largest worker-owned industrial cooperative. It was founded by a Jesuit priest in 1956 and has grown to employ 70,000 workers in Spain and another 15,000 in other countries in a variety of separate businesses in industries that range from auto parts to financial services, construction, and research. Large and successful cooperative firms are also active in other countries; these include Novo Nordisk (Denmark), Tata (India), IKEA (Sweden), John Lewis Partnership (UK), and Natura (Brazil). Thus, this organizational form is another alternative governance structure that enables multiple people to achieve multiple objectives, including goals related to profit and the welfare of the planet.

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