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INVITED FEATURES

Looking for virtue in employee owned enterprise values

In 2006, along with Kim Cameron and Robert Marx, we coedited a special issue of JMSR on "Values and Virtues in Organizations." In the special issue, the authors introduced a variety of perspectives on virtuous behavior and outcomes related to individuals as expressed through leadership, responses to difficult events or situations, or the support of others in various contexts. Cameron reminds us that in the language of POS, virtues in organizations are "differentiated from values through at least five attributes … including fostering a sense of meaning, well-being and enoblement in human beings … fostering harmony in relationships … and fostering resilience" (Manz et al. 2006, 5).

Since then, case studies of exemplary organizations operating with a broader purpose beyond efficiency and profitability have continued to increase and are nudging further toward becoming a norm. We have been fortunate to be a part of this case-based learning and writing expedition in collaboration with lead investigator and gifted case writer, Frank Shipper.

The Invited Feature article we are introducing in this issue of JMSR holds a special place in our scholarship history. In the early 1990s, Frank Shipper and Charles Manz studied W.L. Gore on-site and wrote various articles including "the Gore Case" which was first published in l993 (Shipper et al. 1993). More recently over the past several years, both of us participated with Frank Shipper in on-site visits at Herman Miller and Equal Exchange resulting in published cases, articles, and book chapters. These business cases focus on organizations especially noted for high-performance, nontraditional organizational structure, and culture and for having a key focus on employee participation, development, and well-being. These companies—and many others studied by Frank Shipper and colleagues including his Invited Feature coauthor Richard Hoffman—in one way or another incorporate employee ownership into their operating approach for managing people and doing business (Shipper et al. 2014).

Hoffman and Shipper point out in their article "Shared Core Values of High Performing Employee-Owned Enterprises [EOEs]" that "EOEs tend to outperform traditional organizations.… Thus, learning the core values that underlie successful EOEs should open a window to performance." And they conclude "firms desiring top performance need to find ways to empower or energize their employees.… Good ideas can and should come from anybody in the organization … giving employees responsibility for seeing that values are adhered to is the best way to sustain a value-based system."

Eight case studies across large and small enterprises and across industries and cultures are explored and analyzed by Hoffman and Shipper. In addition, these companies are mature enterprises ranging in age from 32 years to 91 years. The article teases out several strands of commonality including the origin of values of a CEO or other key leader in earlier times to operating values and practices found in current times. These strands are identified as the Core Foundational Values (honesty/fairness, empowerment, freedom/autonomy, and egalitarianism) and the Core Organizational Values (accountability/merit, transparency, community, and sustainability).

Although it is beyond the grand scope of their article for the authors to comment on the distinctiveness of these core values outside of their shared expression within these cases, we were struck by how well they resonate with "the language of virtue" written about in the POS and spirituality literatures. One way to approach the many insights offered by Hoffman and Shipper might be to first read the article with attention to the core values operating in their profiled employee-owned organizations. Then later, perhaps revisit the article with a virtue lens for a different perspective. We predict the combination of these two readings might create for you an insightful window revealing important clues about how organizations can create deeper meaning and purpose, higher performance, and enhanced quality of life for all involved … partly, and significantly, because employees are also owners of their firm.

Disclosure statement

No potential conflict of interest was reported by the authors.

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Shared core values of high performing employee-owned enterprises

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ABSTRACT

Values represent guidelines for behavior and are important determinants of organizational performance. In addition, employee-owned enterprises (EOEs) tend to outperform traditional organizations. Thus, identifying the core values that underlie successful EOEs should provide insights for improved firm performance. Based on an exploratory comparative analysis of eight high-performing, employee-owned companies, a common set of values that form the basis of their cultures was identified. At one level, four core foundational values – honesty, autonomy, empowerment, and egalitarianism – stood out as enhancing the work experience of individual employees. At another level, four organizational values – accountability, transparency, community, and sustainability – were evident. The identified values do overlap and may serve to support, reinforce, or initiate each other. Moreover, these firms appear to have built management practices and policies that bolster these values. Thus, knowledge of the practices, policies, and core values should be beneficial to organizations seeking high performance.

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Values represent priorities among our goals, norms, and beliefs that provide guides to behavior (Hosmer 2003; Schein 2010). Values have been found to be important determinants of performance (e.g., Goodman and Svyantek 1999). Employee-Owned Enterprises (EOEs) (all forms of organizations in which the employees have a stake in the financial outcome[1]) tend to outperform traditional organizations (Blasi, Kruse, and Weltmann 2013; Campbell, Case, and Fotsch 2018; Kurtulus and Kruse 2017; National Center for Employee Ownership 2017). Thus, identifying the core values that underlie successful EOEs should open a window to performance.

Research identifying the values underlying successful EOEs is important because EOEs have become a worldwide phenomenon (Shipper 2017) with the potential to assist alleviating income and wealth inequality (Kurtulus and Kruse 2017; National Center for Employee Ownership 2017; Wiefek 2017). The research on EOEs would suggest, however, that, for an EOE to have sustained high performance, it must have a core set of values that stimulate a high-involvement culture (Kruse, Freeman, and Blasi 2010). In other words, employee ownership is not a sufficient condition for EOEs to be

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successful. A values-driven culture is also needed to optimize the benefits, including high performance. Thus, identifying and understanding the underlying values will help current and future EOEs to be successful and ultimately assist in creating a more justice-based workplace and contribute to the well-being of society.

Methodology: a comparative case study analysis

The authors and other colleagues have been investigating and writing articles and case studies on EOEs for over 25 years. Our primary research methodology has been the case study approach (Shipper et al. 2014). This methodology has been described in detail by Farquhar (2012) and Yin (2014). In brief, researchers gather data from interviews, observations, archives, articles, and other documents. Interviews are conducted on-site. Thus, the researchers have opportunities for visits to the worksites. Subsequently, the interviews were transcribed. The interviewees are given an opportunity to review any quotes that are to be used to ensure that the transcription is correct and to ensure what the interviewee intended to say is conveyed.

Our sample for this comparative analysis consists of eight high-performing, relative to their industries, EOEs that we have studied over the past 15 years (see Table 1).[2] It includes firms that are both private and public, ranging in size from fewer than 50 employees with $5 million in annual sales in the United States (Maryland Brush Company, MBC) to a large multinational firm based in Spain with 75,000 employees and $18 billion in annual sales in 30 nations (Mondragon). These companies also represent a wide variety of industries from manufacturing (Atlas, Herman Miller (HM), MBC, SRC Holdings (SCR)), specialty materials (W.L. Gore & Associates, WLG), retail (John Lewis Partnership, JLP), Fair Trade (Equal Exchange, EE), and diversified products and services (Mondragon Corporation, MON).

Our profiled case studies have revealed that, while there are a variety of values at play, there appears to be a common set of values that form the basis of the cultures of these firms. To help identify these values more clearly, we will touch upon a source of origin of each organization's core values. We will then focus on considering the expanded expression of these values over time as evidenced in each organization's policies, practices, and management.

Whyte (1969) points out that positive and negative values are intertwined. We focus on positive values because they indicate what should be done and for which individuals will likely be reinforced based on our experience and the theoretical work and research of Skinner (e.g., 1974) on positive reinforcement. Our inquiry and analysis will be guided by the question "what core values are related to high performance?"

Values can be further broken down into individual and organizational levels and the need for congruence between the two (Chatman 1991). As can be seen in Table 1, the impetus for the organizational values of the EOEs studied came from the individual values of the founder (or other top leader such as a board member or son of a founder). Thus, for the purposes of this analysis, the individual values of the CEO and the organization can be thought of as congruent. To maintain congruence, many of these companies hire employees first for fit with the core values of the organization and

Table 1. Demographics and source/impetus of core values of profiled EOEs.

Firm[3]	Location, year founded and year transformation began (if different)	Industry/primary product line	Sales and employees	Source/impetus of core values
Herman Miller (HM)	Michigan, USA Founded in 1905; transformation began in 1927	Office furniture	Sales: $2.28 billion Employees: 7500 in 20 nations	Discovery of employee hidden talents by President
John Lewis Partnership (JLP)	London, UK Founded in 1864; transformation began in 1928	Retail	Sales: $14.2 billion Employees: 86,700 in UK and EU	Son of founder saw disparity in wages from top to bottom
Mondragon Corporation (MON)	Mondragon, Spain Founded in 1955	Diversified products & services	Sales: $18 billion Employees: 75,000 in over 30 nations	Catholic Social Doctrine emphasized by Founder, Father Arizmendiarrieta
W.L. Gore & Associates (WLG)	Delaware, USA Founded in 1958	Specialty materials	Sales: $3.2 billion Employees: 9600 in 30 nations	Founder championed teamwork
SRC Holdings (SRC)	Missouri, USA Founded in 1983	Remanufacturing	Sales: $532million Employees: 1500	New owners who believed all employees could be business people
Equal Exchange (EE)	Massachusetts, USA Founded in 1986	Fair Trade food & beverages	Sales: $70.1 million Employees: 126	Founded by former food cooperative employees who valued fair trade and sharing the benefits
Maryland Brush Company (MBC)	Maryland, USA Founded in 1851; transformation began in 1990	Metal fabricators	Sales: $4–5 million Employees: <50	Board Chair who valued employee participation
Atlas Container (ATL)	Maryland, USA Founded in 1968; transformation began in 1991	Cardboard boxes	Sales: $80 million Employees: 220	New owners recognized that all were needed to succeed

secondly, for the skills of a specific position. Although this is still considered unorthodox, it was proposed as a new model of selection in 1991 by Bowen, Ledford, and Nathan.

Profits, growth, competitiveness, innovation, and viability are the practical metrics needed to make a business case to have a values-driven organization. In fact, a strong business case has been made that values-driven companies outperform those that are not (e.g., Donker, Poff, and Zahir, 2008; Van Beurden and Goessling 2008). After an extensive literature review, Van Beurden and Goessling (2008) concluded, "We can therefore clearly state that, for the present Western society, 'Good Ethics is Good Business (p. 407).'" Furthermore, EOEs who are industry leaders are often values-driven, such as Nucor in steel and Southwest in airlines. In addition, they typically offer higher compensation including retirement packages to their employees and create more jobs. Such success is well documented in the academic literature, but less frequently in the popular press (Alperovitz and Bhatt 2012).

While many books and articles tout the importance of values and having values statements as part of one's strategic plan, it is not so common to find companies where values beyond profitability form the basis for the management of the firm. Peters and Waterman (1982) observed over three decades ago that values formed the core of what they considered to be the corporation's culture, and it was central to a successful management system. Many large public corporations seem to have drifted away from valuing anything that is other than economic in nature. In contrast, in the following section we describe the impetus for the EOEs core values, some of which have been in place for over 50 years.

Values as a basis for management

In most of our cases, the impetus for making a significant change in "how we do business" came from managers who had experienced traditional hierarchical management where employees do as they are told in return for a wage. In many instances, this led to neither consistent firm performance nor to a particularly satisfying work experience for all concerned. All of our top leaders, however, were led in some manner to think that there had to be a better way to run a business.

When Paul and Peter Centenari bought Atlas Container (ATL), they knew nothing about the cardboard box business and ran it by the numbers, as their former investment banking background had taught them. A year later, they had run the company into the ground. Not understanding the business, the brothers realized they had to rely on their employees and set about to break down barriers between management and employees as they were all in this together. Overtime, they developed a set of values that harnessed the power of the people in the organization.

In contrast, CEOs of two of our firms had an epiphany of sorts that led them to seek a better way to manage. D.J. De Pree, former President of HM, went to the funeral of a millwright in 1927 where the widow read some poetry. De Pree inquired as to the author of the poems and found out it had been the millwright's avocation. At this point, De Pree realized he knew little of the talents of his employees beyond their narrowly defined jobs. From that point on, he was determined to treat all his employees as people with special talents and potential. Similarly, when Spedan Lewis, president of JLP, began working for his Father, he reviewed the accounting statements and discovered that his Father, brother, and himself were taking home more money than all the other employees combined. It was not until he bought control of Peter Jones from his Father that he was able to introduce a profit-sharing scheme.

Regardless of how the need for a change in management approach occurred, most of the firms in our study have developed a set of explicitly stated values on which they base their business. The values observed here are consistent with similar values found among EOEs (e.g., Shipper et al. 2014). For example, for ATL these include egalitarianism, democracy, mutual accountability, and transparency. For HM, the core values are curiosity, engagement in community, performance, inclusiveness (value all human potential), transparency, and a better world (sustainability). At JLP, the core values are embodied in their constitution, which states the Partnership's ultimate purpose is "the happiness of its members" including emphasis on community (partners are sovereign), egalitarianism/fairness (democracy), and accountability. Similarly, EE, MON, and WLG have clearly articulated values.

What underscores all of these values-based management approaches is the recognition of and the need to develop human potential. SRC wants to build a business of business people to grow the company. EE believes that a shared ownership structure makes the employees feel valued and that they, in turn, are willing to invest their whole being in the organization. At MON, human beings have priority over capital; thus, the ultimate governance authority remains in the hands of the employee members.

The core values can be identified and classified at two levels. The first level values (Core Foundational) are generated from the individual values of the founders or CEOs who converted the firms to EOEs (See Figure 1). These core values focus on the individual

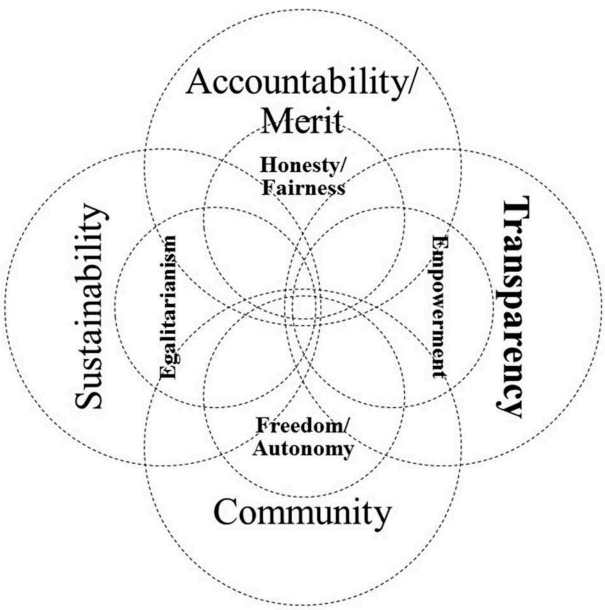

Figure 1. Core values of profiled employee-owned enterprises.
Core Foundational Values: Honesty/Fairness, Freedom/Autonomy, Empowerment, and Egalitarianism
Core Organizational Values: Accountability/Merit, Transparency, Community, and Sustainability

employee and can be better understood as evidenced through employee behaviors (e.g., communication, task performance, or problem-solving). At the secondary level, Core Organizational Values are broader values imbedded in the culture which the firms developed to enhance the potential of the associates as they work for the success of their firm. Previous research has identified various levels of values (e.g., Denison and Spreitzer 1991; Kabanoff, Waldersee, and Cohen 1995; Schneider, Erhrhart, and Macey 2013). While the two levels we have identified here do not fully coincide with some of the past typologies, they are in the spirit of two of the levels defined by Schein (2010) wherein, our first level values are similar to Schein's assumptions/beliefs in that they reflect values that facilitate the development of human affiliation, achievement, and stability. These, in turn, help shape secondary level values that further facilitate organizational functioning.

First level or core foundational values

As previously stated, these values facilitate the development of human affiliation, achievement, and stability, core to the effective functioning of a group. Thus, we will examine honesty/fairness, freedom/autonomy, empowerment, and egalitarianism.

Honesty/fairness

Values of honesty are rooted in concepts of truthfulness based on direct and open communications that are crucial to sharing information and maintaining a well-functioning core by which our EOE firms function. Closely related is fairness, which seeks to ensure equitable treatment of employees in all endeavors, e.g., settling disagreements, evaluation and promotion, and pay.

Honesty is generally reflected in communications that occur within these firms. "At MON dialogue between workers and managers is very frank, sometimes blunt." Leaders at WLG experienced similar frankness as when a new leader was told by an associate to put on his safety gear before proceeding any further. Sometimes such direct and honest communications is the only way to ensure that important information is conveyed in a clear and timely manner.

Honesty is critical in recruiting new members in these firms.

> *Our recruiting process is very much about us getting to know the applicants and them getting to know us. We are very open and honest about who we are, the kind of organization we have, the kind of commitments we want and whether or not we think that the applicant's values are aligned with ours* (WLG).

Similarly, honesty in recruitment is practiced at HM, "We are a commercial enterprise, and the customer has to be on center stage, so we have to first figure out whether your gifts and talents have a match with the needs and wants of this commercial enterprise."

Honesty is an important part of annual evaluations; for example, as an Espresso Bar Manager at EE stated,

> *If I'm being evaluated, my supervisor and I will have access to them… Sometimes they are just nice to hear, but not terribly helpful; sometimes they're a little hard to hear. Most of the time, people are really careful to give constructive criticism, to give specific examples of things they can do better or things we did well.*

Honest communications in these EOEs extend to stakeholders as well. At JLP, Principle 5 of their constitution states, "… the partnership aims to deal honestly with its customers and secure their loyalty and trust by providing outstanding choice, value, and service."

Regarding fairness, the HR manager at ATL stated, "What's important to me is that people are treated with dignity. That's extremely important to me." For example, at ATL managers worked directly with its troubled employees and did their best to help them work through various issues. Other firms (e.g., EE, JLP, MON, SRC) expressed similar sentiments in helping employees work through both good and bad times.

Fairness in leadership is in short supply in the corporate world. At MON, a good leader is a good listener, someone who accepts self-criticism, someone who sets the "mark" and does not demand from other members what she or he is not prepared to deliver himself. Former HM CEO Max De Pree set the mark for being a good leader when he said, "The first responsibility of a leader is to define reality. The last is to say thank you. In between the two, the leader must become a servant" (De Pree 1989, 9).

The use of pay and incentives by these firms provide a good insight into their concept of fairness and defining reality. First of all, the gap in pay between the lowest and highest pay is of concern. JLP began its partnership trust because the gap was too wide and continues to monitor the ratio. MON also has been mindful of the need to establish a ratio between the highest and lowest paid based in part on the Catholic Doctrine which seeks to reduce inequality in society. EE tries to maintain a top-to-bottom ratio of 4:1 to reflect the Fair Trade ethic inside the firm. Most of the other firms give similar attention to the pay gap among the various ranks.

The overall compensation goal at WLG is to maintain internal fairness and external competitiveness. To ensure fairness, associates were asked to rank their team members each year in order of contribution to the enterprise and to provide their rationale. During difficult economic times, maintaining profitability is sometimes done through pay reductions. For example, executives have taken a pay cut before all others and twice as much as all others when needed to maintain profitability at HM. At HM, the principles of equity and justice for everyone in the company underlie their bonus plan. Two major functional elements of the plan include the use of committees for sharing ideas on improvements and a structure for sharing increased profitability. Likewise, at MBC, the standards set to guide their gain share program are by a representative committee to assure the standards are fair for all. Equitable distribution is based on one's pay level, as well as days worked.

A variety of benefits are made available to all employees at most of these companies. HM and JLP provide both in-house benefits and outside recreational benefits that are available on a first-come, first-serve basis. The JLP Trust has operated multiple properties where Partners can take their families and friends for holiday at subsidized rates. Spedan Lewis felt that, in fairness, such activities should not be out of reach of any Partner. At EE, all worker-owners receive two weeks of vacation for the first 2 years and earn up to 5 weeks off after 8 years.

These firms' sense of fairness extends to external stakeholders as well. From the beginning, EE paid producers an above market price for their products to help provide them a better, more stable income and to more equitably distribute the proceeds of the final sales. Similar practices occur between JLP and both its customers and suppliers.

SRC summarized the concerns these firms have for treating employees fairly. First, SRC is strongly committed to protecting and helping its employees, even in difficult economic times. Second, employees have both the opportunity and the encouragement to explore careers across the company. Third, SRC places a strong emphasis on succession planning including training in new skills for employees. Thus, our EOE firms apply fair treatment through servant leadership, equitable pay and benefits, and career opportunities.

Freedom/autonomy

In essence, the values of *autonomy* and *freedom* refer to the right to be treated as an adult to make one's own decisions, to develop, and to be trusted as an adult (Shipper et al. 2014). Having the freedom to act on one's own is dependent upon having the sufficient knowledge about the business to act responsibly to further its goals. Fundamentally, the learning starts when one is first hired in these firms. For example, during the probation period at EE, the employee is expected to participate in a curriculum to learn about the mission, how it works, and to be prepared for the responsibilities of worker-ownership and governance. Similar orientation training occurs in all of the firms in this study.

At the heart of knowledge development is open book management which is practiced by all of the enterprises in this study. While the term refers to the fact that the company's financial books are open for all employees to see, it goes well beyond that. Jack Stack of SRC is one of the biggest promoters of developing all employees who are not only knowledgeable about their jobs but also about the business itself, so that they can contribute more widely to the firm's success. In addition to training, all of these firms provide ample room for employees to further develop themselves. For example, MON offers its member "professional mobility," the opportunity to rotate within and among co-ops to further develop or widen their skill sets. At WLG, associates are offered a variety of in-house training opportunities, not only in technical and engineering areas but also in leadership development.

Having the proper knowledge enables employees to have autonomy in their work. At the group level, this means that each cooperative in MON is responsible for its own business model, governance, and financing. At both HM and WLG, associates at all levels are encouraged to put forth new ideas and may obtain resources to work on them if they are approved. For example, at HM, once a new idea is approved for further investigation, the initiator of the idea is given the autonomy to assemble a multi-functional team to work on the project. As the group leader stated,

> *The group acts with a fair amount of autonomy, but it does not want complete autonomy because …We don't want to be out there completely on our own because we have such awesome resources here at Herman Miller.*

Having knowledge also provides autonomy to employees at MBC. "One of the benefits of the position that I'm in, my time is not necessarily regulated as I have tasks and things that need to be done. But I'm able to work at a self-pace with those items." At JLP, for example, buyers are in control of selecting concessions or consultants within a budget. This gives them the flexibility to change brands as demand warrants. Such freedom is critical to meeting the needs of the changing retail landscape.

To effectively operate with freedom and autonomy, employees of these companies appreciate the freedom to seek information directly from whomever they need. For example, at WLG the Lattice organization deemphasizes hierarchy permitting employees to speak directly to whomever. The freedom to communicate is true also in smaller firms such as MBC where one employee noted,

> *Yeah, I get the feeling that this organization is one where you can go talk to whoever you need to talk to, and there's no standing on formality here. … The communication from all levels is open.*

Thus, knowledge through education and training and open communications are key to enabling employees to have the freedom and autonomy necessary to move their organizations forward.

Empowerment

Empowerment is related to both employee participation and engagement beyond the mere confines of their job. Increased empowerment has been found to be associated with greater satisfaction, commitment, productivity, and innovativeness (Shipper et al. 2014).

SRC's shared leadership philosophy empowers employee-owners with decision-making discretion and authority. Consequently, employees are responsible for completing their daily activities and, in doing so, they are empowered to make many decisions for themselves. An employee at MBC explained the effects of empowerment thus:

> *…more so than the average person…you're really involved in things. You're involved in some of the decision making on the floor where, before, with the supervisor, you were just told what to do without input.*

The range of empowerment includes cross-training on multiple jobs to coming up with innovations. At MBC, Gwen started by making paint brushes by hand. When that operation shut down, she moved to engineered brushes and learned how to run those machines; she can now operate six different machines. This provides for a knowledgeable and flexible work force. Employees at SRC worked out how to convert a diesel engine to a natural gas engine, potentially an important innovation. At most firms, this would be the end of the employee contribution. Not at SRC, the employees calculated the payback period and helped develop the marketing plan for the engine. They knew whom to work with and how to go about making this specific innovation profitable. Similar levels of empowerment for innovations exist at HM, MON, and WLG.

Some of these firms empower other stakeholders as well. For example, EE was founded on the premise that, "What if food could be traded in a way that is honest and fair, a way that empowers both farmers and consumers?" JLP also works closely with both customers and suppliers in order to provide them with information to be more empowered in their relationship with them.

Among the benefits of empowerment with accountability (discussed later) includes increased flexibility, productivity, and innovativeness. These values also lower administrative costs. For example, at ATL, with empowered associates, close supervision/

micromanagement is unnecessary. The payoff is that a supervisor can manage 35 people without assistance. At a comparable plant, there might be up to five additional people in supervisory positions.

Egalitarianism

The value of *egalitarianism* refers to the degree to which the organization is democratic, as characterized by equality of opportunity, broad participation, and fair treatment (Shipper et al. 2014). In the normal functioning of the organization, there is less of a gap between those at the top and those at the bottom. At its core is the representation of ideas from all levels on key issues facing the firm. The reason for emphasizing egalitarianism is fairly well expressed by the following, "[SRC] believes … that the people in the organization can actually contribute to its success, and it's not just the top guys that make all the strategic decisions …"

Ensuring equal representation of ideas is accomplished through multiple means. At one level, physical barriers dividing organizational members must be removed. When the Centenari brothers bought ATL, it was a managerially and physically segregated white collar/blue collar facility. Paul literally knocked down the wall that separated the office bathrooms from those on the shop floor so that all shared the same bathroom. As one employee said, "Everyone's on the same playing field. There's a hierarchy, I guess, but we don't talk about it. It's not important to us." At WLG, many HR initiatives support the notion that all associates are stakeholders in the enterprise and have a shared responsibility for its success. Thus, there are no reserved parking spaces and only one cafeteria in each facility to serve as focal points for associate interaction.

The foundation of egalitarianism in these firms is the fact that all associates are also owners. As owners, employees can participate in selecting executives and members of the Board of Directors. At JLP some board members are selected by the Partnership Council, while at EE the six inside board members are elected directly by the employees. Other firms such as SRC and MBC vote for certain employee representatives on the board. So, by virtue of their ownership, employees can participate at the board level through their representatives and at the annual meetings. EE notes that, in their organization, leadership is distributed equally across all worker-owners on a democratic one-person/one-share/one-vote basis.

Participation by all is also underscored structurally in these firms. For example, at WLG, the key to their egalitarian culture is the use of its unique lattice versus hierarchical structure. Central to this structure are direct lines of communication, no fixed or assigned authority, use of sponsors not bosses, and tasks/functions organized through commitments. The most comprehensive structures are the representative democratic governance structures at JLP and MON. They have to be representative simply because of the size of the organizations, but in both firms, every employee-owner has the right to speak up and be heard, as protected by the management and governance structures at MON and by the Constitution at JLP. The latter establishes a system of rights and responsibilities, which places on all Partners the obligation to work for the improvement of the firm's business.

Egalitarian decision processes in action can be seen in a couple of examples below. When Atlas decided to invest $1 million in upgrades to the major cardboard corrugator machine, the employees voted on which company would be selected to make the equipment upgrades. The employees actually picked a vendor over the one that the president favored, but he accepted the employees' decision, and the new equipment was installed ahead of schedule. When HM decided to overhaul its profit-sharing program, an ad hoc committee of 54 people from nearly every segment of the company was elected to examine the need for changes and to make recommendations. All employees were given an opportunity in small group settings to discuss it. Shortly thereafter, 96% of the employees voted to accept the new plan.

Other examples of egalitarianism at work include the fact that all of the sales staff at Atlas are on straight salary and not on commission. HM has no executive retreat, but it does have an employee retreat on Lake Michigan. At JLP, there are hotels for the Partners, their families, and guests. These facilities are available to all employee-owners. Once booked, a higher level employee-owner cannot bump a lower level employee-owner.

In summary, egalitarianism is an example of a core value that interrelates with other core values. We can see how it empowers employees and spreads their freedom to develop on the job and to contribute widely to the organization. It is also dependent on transparency of information which will be discussed in the next section.

Second level or core organizational values

As previously stated, these values facilitate the organizational functioning. Based on our research, they are essential to the smooth running of an enterprise. Thus, we will next examine accountability/merit, transparency, community, and sustainability.

Accountability/merit

One way to avoid an attitude of entitlement is through *accountability*. JLP's Constitution (John Lewis Partnership 2016) establishes a system of "rights and responsibilities," which places on all Partners the obligation to work for the improvement of the firm's business. Related to accountability is the value of *merit* that is tied to the belief that an individual or group is deserving based on behaviors that contribute to the organization's success. Being recognized for such behaviors reinforces accountability and a sense of ownership (Shipper et al. 2014).

Having all share in ownership is a critical component to accountability. At JLP even the part-time employees are considered owners. Ownership by employees ranges from 100% for EE, JLP, MBC, and MON to less than 50% for HM and SRC. As owners, every associate can rightly be held accountable for the firm's successes or failures. In large firms such as JLP, the Partners' Council (an elected body) holds the chairman accountable for running the firm for the benefit of the partners, so accountability exists at all levels in these firms. Employees at SRC are clearly held accountable for the line item(s) to which they contribute and are expected to accept that responsibility. They also realize that an error by one employee can negatively impact many fellow employees. As an SRC associate observed, "Of course, productivity would suffer if employees were completely unaccountable for their [empowered] behaviors and actions." A similar attitude prevails at HM. As one associate noted,

> *Performance isn't a choice. It's up to everybody at Herman Miller to perform at his or her best. Our own high performance … enriches our lives as employees, delights our customers, and creates real value for our shareholders.*

At MBC, each operator is responsible for the quality of products they produce. Each finished goods box is marked with the packer's name, so it is easy to trace quality issues back to the responsible producer.

Values based on *merit* are most easily demonstrated in the compensation practices of the EOEs in the study. At ATL, equality is not measured in terms of equal outcomes. ATL is indeed a performance-oriented organization, and the CEO is a strong believer in a meritocracy. High performance is expected from everyone, and rewards are based solely on performance. As Paul described it, "We don't give raises across the board anymore. You get a raise because you either move up a position … or you're doing good things."

The firms vary on their preference for rewarding more for individual versus group performance. SRC is currently redesigning its bonus program so that it gives greater incentives for performance to some department managers, as well as various executives. At MBC, if an employee is sick and misses work, that employee will not be credited for hours worked and will not earn as much stock. As the firm's president stated, "…it makes sense to count only those employees who are at work because those are the ones who have an opportunity to positively contribute to the organization." Principle 4 of JLP's constitution epitomizes the focus on individual merit as:

> *…relationships are based on mutual respect and courtesy, with as much equality between members as differences of responsibility permit. The Partnership aims to recognize their individual contributions and reward them fairly.*

Rewards based on group performance are particularly evident at EE where all worker-owners who work a full year receive the same amount without regard to rank or seniority. Likewise, some of SRC's bonuses are tied to specific goals across the various SRC units and serve to incentivize desired behaviors on the part of the employees. At MON, merit depends on the circumstances. As one manager noted,

> *As long as you are able to finance a project at the co-op level, you are autonomous. You are the one assuming the risk. Hence, you should be the one deciding if you want to take it. Now, if you need the assistance of the group, then the decision will be collegial and the analysis of the merits of the project will be done by those who will finance it.*

WLG epitomizes the use of merit via its leadership model of "Natural Leadership." Associates gain credibility by demonstrating special knowledge, skill, or experience that advances a business objective, achieves a series of successes, or involves others in significant decisions. The person with the idea has the responsibility for recruiting a team to develop and execute it. Thus, our EOEs hold their member-owners accountable for the responsibilities they take on and reward them for their responsibilities fulfilled.

Transparency

Transparency (openness) refers to the free flow of information throughout the organization supported by two-way communication. To be free to make empowered decisions, people need to be well informed of the critical aspects of the business, not just that of their job or department.

Transparency is critical for how these firms operate. For example, "… being transparent is essential for us. We must disclose information and explain the reasons for a decision," according to a manager at MON. At ATL, "We opened the books in 1996." The CEO saw it as one of the first steps in establishing democracy within the firm. Private or closely held firms such as EE are not required to make their annual report public, but the company publishes each year's annual report on the web. JLP and SRC also openly share information with customers and suppliers. The 'open book" environment at SRC educates and explains the business. As one employee stated, it, "I would say you're limited only by your own creativity and your own desire and willingness to work for what you want." At ATL, open book management is firmly embedded in the culture. The firm provides extensive training in financial and other business material. A monthly meeting is held that everyone is expected to attend. According to a Customer Service Representative, "They shut the entire plant down and… everyone comes in," including customers so that all relevant parties are informed about the firm's progress. Thus, transparency transcends organizational boundaries to key stakeholders.

The information sharing in these firms is ongoing and regular. SRC holds "weekly huddles" that cover a variety of current issues, as well as updates on the firm's financials. Every two weeks, corporate staff meets with general management to review strategies and potential challenges facing the firm, and every 6 months, sales and marketing make presentations to the entire company. At HM, there are what appear to be electronic scoreboards over the assembly area. All workers can see in real time the status of the order on which they are working. Thus, these companies recognize the importance of sharing and updating information frequently.

Community

Developing a sense of community is very apparent in these EOEs. The notion that "we are all in this together" fosters the need for collaboration and cooperation across departments and organizational levels. Because associates spend so much of their time at work, the organization is a family and often their primary reference group. Developing the community means hiring slow to recruit people who share similar values, promoting from within to retain the best, and meeting frequently to share information.

Building a sense of community appears to be essential to assure the level of collaboration needed to often provide solutions to complex problems. In 2006, EE announced, "Our Vision in 20 Years… [is to build] a vibrant, mutually cooperative community of two million committed participants trading fairly one billion dollars a year in a way that transforms the world." At HM, community is part of its core belief in engagement.

> *… It is about being owners – actively committed to the life of this community called Herman Miller, sharing in its success and risk. Stock ownership is an important ingredient, but it's not enough. The strength and the payoff really come when engaged people own problems, solutions, and behavior. Acknowledge responsibility, choose to step forward and be counted. Care about this community and make a difference in it.*

For associates at MON, the importance of community boils down to the following, "… we only know how to perform well in structures where people are involved and participate." The benefit to the individual of this sense of community is best expressed by a first-level manager, "Atlas has 'a family environment,' and that I believe they do care about the employee, which I know sounds like a cliché, but once you start to experience that…it's a fun place to work. I like it."

Developing a sense of community begins with recruitment of associates with similar values and work ethic. In general, all of our EOEs practice the slow method of recruiting to obtain a good fit between the recruit and the firm. The process at WLG serves as a good example. Applicants are first screened by personnel specialists; those who pass are then interviewed by a group of associates from the team the recruit would join. Finally, HR contacts multiple references before issuing a job offer. Once hired, the process of assisting the new employee to become a full-fledged member of the community is not left to chance. New recruits are given mentors (e.g., EE, SRC) or sponsors (e.g., WLG) who work informally with the recruit, and recruits can consult with their mentors any time. Original mentors may continue to mentor an associate, but associates also gain mentors as they move up the organization. Orientation and training, both formal, e.g., open book, and informal, on-the-job, are also an important aspect in helping recruits fit into the community and culture. Many of these firms have probation periods that range from 3 months at SRC to 1 year at WLG and EE and 5 years at JLP to ensure a good fit before the employee becomes a full member of the community.

Since some of these organizations are quite large, developing a sense of community becomes easier in a team setting. At HM, the most frequently referenced work unit is the team. Teams are also key to WLG's innovativeness. Teams are based around new ideas for product development. Once the product is developed, members are redistributed to other teams based on their skills and knowledge. Teams are even prevalent in the traditional manufacturing setting. Even though there is a strong ownership mentality at SRC, employee-owners realize that it is in their own best interests to work as a team to get the best results for everyone. After installing team management at MBC, one employee described the change,

> *…In the past, you went to a certain [work] station and stayed there. And now it's you go to this team, and you learn these different aspects of different jobs, and it's actually more interesting. You move around. You get to do more.*

The frequent meetings discussed under the transparency value are also critical to building and sustaining a community by sharing information of importance to all employee-owners.

Sustainability

The value *of sustainability* as practiced among the EOE has two facets. The first facet refers to sustainability of the firm by following practices that focus on successful long-term performance. This ensures that the firm will continue to provide for their members. The second facet refers to running the business that does no harm (i.e., sustains) to the environments and the communities they serve (Fox 2008): anything from reducing the firm's carbon footprint to enabling associates to have time to serve worthy causes in their communities.

Sustaining the firm for the long run involves a variety of activities within the firm from HR practices to product policy, and to careful expansion. As discussed previously, all of the EOEs in this study not only practice careful recruiting but also rely heavily on mentors to help new associates adapt to the firm's culture. WLG encourages new hires to meet with their sponsors face-to-face to get to know them and to demonstrate the importance of relationships within the firm. SRC has an employee-run Ownership Culture Committee tasked with spreading the attitude of ownership throughout their units.

Another way of sustaining the firm and its culture is to promote from within, a practice followed by all of these firms. SRC provides typical rationale for this practice; a long-term career path stimulates productivity and commitment on the part of employees. Thus, promotion from within benefits both the employee and the firm.

An important aspect of reinforcing culture in these firms is through leadership. A manager at MON in Spain best expressed the role of leadership in these circumstances:

> *Culture is reinforced through the examples of the leaders, either formal or informal, but their actions are decisive. For the new interns or new members, it's not just a question of asking them to attend a welcome program or asking them to read a brochure about the cooperative model .... No, if he goes to work and his supervisor does not act based on these values, he will think that it's not true, it's not real.*

Certain management practices are indicative of managing for the long term. For example, as noted previously, firms such as ATL will do their best to help troubled employees work through difficult times directly. This demonstrates their long-term concern for employees. Managers as well as employees will take pay cuts before considering layoffs in large (HM) and small firms (MBC, SRC). However, at times layoffs cannot be avoided; even then, the firms will try to mitigate their effects by maintaining seniority and benefits for up to 1 year in hopes of hiring them back.

Sustaining the firm also means being responsive to the marketplace. We have already noted the importance of innovation at MON, WLG, SRC, and others as a way to keep the firm relevant in the marketplace. As a manager at HM stated, "We remained focused on maintaining near-term profitability while at the same time investing for the future." HM invests in R&D even in down cycles to manage the firm for the long term.

Expansion is an important part of providing for future firm sustainability. However, it does make it more challenging to maintain the organization's values. When acquiring a company, WLG closely examined the culture that made the company successful because making sure that WLG's culture would add value to the acquired company was an important consideration. MON's recent expansion has been international, which presents a challenge when trying to export their "cooperative values." As one manager noted,

> *Our success overseas will depend to some extent on how much of our model we can transfer. Two options: (1) a cooperative member who is ready to live abroad and stay as long as it takes or (2) local people who have absorbed our style and who understand that we want to expand in that country while maintaining our management style.*

Sustaining communities in which these firms operate is also a hallmark of the EOEs in this study. To misquote Donne (1623), no organization is an island. EOEs actively recognize that external stakeholders such as customers and suppliers are essential to their success. While all of the firms seek to sustain their communities, three in particular hold it as a core value or belief. EE's mission of focusing on Fair Trade is central to who they are,

> *... to build long-term trade partnerships that are economically just and environmentally sound, to foster mutually beneficial relationships between farmers and consumers and to demonstrate, through our success, the contribution of worker co-operatives and Fair Trade to a more equitable, democratic and sustainable world.*

HM's belief in a "better world" is pursued by "... giving time and money to our communities and causes outside the company; through becoming a good corporate citizen worldwide ...." JLP's Principle 6 is concerned with developing business relationships with courtesy and integrity for long-term sustainable relationships with suppliers. More recently, JLP has joined other UK retailers, NGOs, and trade unions in an Ethical Trade Initiative that includes developing strategic supply countries in Africa. JLP takes a portion of the profit from these relationships and reinvests it the local communities to improve working conditions and raise labor standards.

The EOEs pursuit of environmental sustainability reflects a wide range of other sustainable practices. MBC and SRC recycle most of the waste material in their production units. As a resource- and energy-intensive business, ATL has had three energy audits in recent years to reduce their carbon footprint. HM has also greatly reduced their energy use and waste treatment (90% reduction) and all of their furniture is made with 100% renewable energy. Moreover, all of HM's buildings meet Leadership in Energy and Environmental Design (LEED) standards for energy use.

Product development and design have also been used to pursue a sustainable environment. SRC's main business of recycling diesel engines reflects a completely recycled product. HM has redesigned a lot of their furniture to incorporate 45% of recycled materials and 96% of the material is recyclable, and the firm has discontinued the use of endangered wood species and replaced them with more renewable ones. These firms also make it possible for their employees to contribute to their communities. For example, WLG and HM permit employees from 8–16 paid hours per year to work with nonprofits in their community. This amounted to almost 8000 h at WLG in a recent year. Thus, these EOEs are committed to both the long-term sustainability of both their businesses and their communities to ensure that owner-employees will be well served in the future.

Discussion and conclusions

A close examination of select EOEs reveals that, beyond sharing ownership, most of these firms possess a strong corporate culture based on a strong set of core values. In this study, we have focused on those values that appear to be at the heart of eight studied firms. The core values described here are prevalent across all of the firms in our study, but they do not represent all the possible values a firm can embrace.

It is clear from this analysis that values overlap in that they may support, reinforce, or initiate other values. For example, "freedom to decide" is based in part on the empowerment provided to members. Managing performance based on merit requires that fairness also be taken into consideration. Egalitarianism is also dependent on community and fairness. Transparency requires honesty and fairness. The practice of open book management helps promote empowerment through the knowledge it provides and contributes to transparency and honesty. The use of slow recruiting to have the best fit of employees aids community and firm sustainability. Training and the use of mentors supports values of empowerment, egalitarianism, and community. The diagram in Figure 1 attempts to indicate how the values overlap and reinforce each other and, hence, the management practices used by the EOEs.

While there are many outcomes for the employees and their firms as a result of managing with these values as guides, we will address three of these briefly. First of all, by managing with these values, the EOEs demonstrate that *their most important resources are the members of the organization*. JLP's ultimate purpose is the happiness of all its members through their worthwhile and satisfying employment in a successful business. The first part emphasizes the importance of people and getting the best out of them. The second part recognizes that to provide worthwhile employment, the firm must be successful in business. Moreover, SRC and ATL emphasize the need for strong business performance so to provide meaningful work for their members. Indeed, the research shows (e.g., Kurtulus and Kruse 2017) that EOEs outperform traditional firms on most measures of firm success.

Second, values-based management yields strong *commitment* on the part of employees vis-a-vis their firms. At ATL, we observed the reasons for such commitment. The employees returned loyalty and engagement for the loyalty shown to them by the owners. The company success was not a surprise, but seen as a consequence of the culture and leadership. This results in lower turnover, 5% or less in most cases, and therefore, the firms are saving on recruiting and training costs. Moreover, when the EOEs do go out on the market, firms such as ATL, EE, MBC, and SRC experience lower search costs as there are local community members who are eager to work for these companies. Even during layoffs, employees will wait to see if they can be hired back before committing to another full-time position. These are all strong indicators of organizational commitment.

Finally, another important outcome is the development of *trust* among all levels of employees. It is well known that the lack of respect and trust is at the heart of most labor-management strife (e.g., Lipman 2013; Lopis 2013). At MON, it is believed that good social relations among cooperative members "contribute to strong trust and mutual support." As a manager at SRC noted,

> *Trust and accountability are two additional* [outcomes] *that contribute to SRC's widespread shared leadership foundation. In order for employees to bring their thoughts and ideas into the open, they have to believe that upper management will respect them, appreciate them and, when deemed advantageous, act on them.*

Trust may not be a value, but it may be an outcome variable of the core values or an intervening or mediating variable between the core values and high performance. Two scholars (Mayer 2013; Zak 2017) recently have argued for the importance of trust in creating high performing organizations. Zak has argued that, "Compared with people at low-trust companies, people at high-trust companies report: 74% less stress, 106% more energy at work, 50% higher productivity, 13% fewer sick days, 76% more engagement, 29% more satisfaction with their lives, 40% less burnout (p. 4)." Moreover, trust is crucial to support values of freedom, egalitarianism, fairness, community, and sustainability. In short, it may be the result of a management system based on a well-defined value scheme. While other outcomes undoubtedly exist, these were clearly evident from our comparative case study analysis.

The strength of this study and its findings may not be readily apparent to many because it is a qualitative study. Such studies have limitations such as sample size, sample selected, and interpretations by the researchers. One way to overcome these limitations is to use triangulation to cross-check the results using two or more methods to investigate the same subject (O'Donoghue and Punch 2003). The research question of this qualitative inquiry was, "what *values* are related to high-performance in the eight EOEs studied?" Zak (2017) using neuroscience asked a broader, but similar research question, what *behaviors* lead to high-performance enterprises? When the results of the two studies are compared, there is considerable overlap. For example, the value of "merit" would appear to be similar to the behavior of "recognize excellence" (p. 5). Similarly, the value of "autonomy" would appear to be analogous to the behavior "give people discretion in how they do their work" (p. 7), "empowerment" to "enable job crafting" (p. 7) and "transparency" to "share information broadly" (p. 8). Thus, the findings of this study would appear to be supported by Zak's (2017) findings and vice versa. Therefore, from this brief comparison, these observations appear to be fairly robust.

The implication of this study for practice is that firms desiring top performance need to find ways to empower or energize their employees. A set of values such as those discussed here may provide that basis. It is also clear that firms must constantly work to find ways to make the values part of the way the firm does business. Here again empowered employees can help in this regard. Good ideas can and should come from anybody in the organization. In a similar manner, giving employees responsibility for seeing that values are adhered to is the best way to sustain a value-based system.

Implications for future research include other case studies to confirm or broaden the set of relevant values. Furthermore, larger sample studies can also help in this regard and particularly in examining the relationship between values-based management systems and firm financial and nonfinancial (commitment, trust) performance. After all, that is the ultimate test of successful management.

We conclude with the following quotation from Andy Grove (*High Output Management*, 1983, p. 50) that reflects the belief of the EOEs in this study regarding values,

> *…a shared corporate culture becomes indispensable to a business. Someone adhering to the values of a corporate culture – an intelligent corporate citizen – will behave in consistent fashion under similar conditions, which means that leaders don't suffer the inefficiencies engendered by formal rules, procedures and regulations used to get the same results.*

Notes

1. These include Employee Stock Ownership (ESOP), Employee-Owned Cooperatives (EOCs), profit sharing, mutual firms, perpetual trusts, gain sharing, and KSOPs (401ks with an ESOP component).
2. For published /presentation forms of these cases, see (Hoffman, Brown, and Shipper 2013; Shipper et al. 2014; Shipper and Calo 2016; and Roche et al. 2018).
3. Firms listed in order of when the enterprise initiated values-based management.

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No potential conflict of interest was reported by the authors.

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