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Vol. 25, No. 10 (2 parts) Part 2, October 2003 • Order # 25-25

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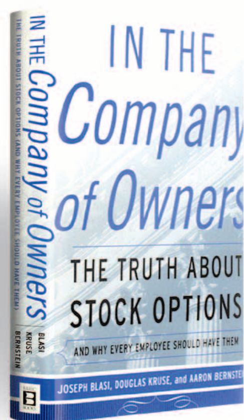
FILE: EMPLOYEE OWNERSHIP



By Joseph Blasi, Douglas Kruse, and Aaron Bernstein

The Truth About Stock Options (And Why Every Employee Should Have Them)

IN THE COMPANY OF OWNERS

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THE SUMMARY IN BRIEF

Recently, stock options have gotten a bad reputation as the runup in the stock market during the 1990s allowed some corporate executives to pursue unethical strategies to pump up their stock and cash in on their options, while employees saw huge potential fortunes disappear overnight. The corporations, their employees, and investors all appeared to get a raw deal from options. The problems were a consequence of abuse of stock options, not the concept itself. Stock options have typically been concentrated with top executives while exposing lower level employees to risky 401(k) plans stuffed with company stock. The authors estimate that the top five executives of the 1,500 largest U.S. companies received $18 billion in option profits in 2001. But are they really providing enough value to overcome the dilution their shares cause? In the Company of Owners *shows how and why stock options and the risk of ownership should be given to most of the work force.*

What You'll Learn In This Summary

✓ The history of shared ownership between labor and owners.

✓ How stock options became a necessary tool for recruitment and retention for high-tech companies in the 1990s.

✓ How high-tech companies use options differently than traditional firms.

✓ How giving out options every year improves the return for employees and management.

✓ How shareholders profit from employee options despite the dilution of their shares.

✓ How traditional corporations can use the high-tech model to take advantage of the benefits of partnership capitalism.

Published by Soundview Executive Book Summaries, P.O. Box 1053, Concordville, Pennsylvania 19331 USA
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IN THE COMPANY OF OWNERS

by Joseph Blasi, Douglas Kruse and Aaron Bernstein

— THE *COMPLETE* SUMMARY

The History Of Partnership Capitalism

Although there had been experiments in sharing profits for almost a century, it was the high-tech industry of Silicon Valley that found the right combination of cultural and financial incentives in stock options that have become partnership capitalism.

It All Began With Shockley

Nobel Laureate William Shockley left AT&T in 1956 to start Shockley Semiconductor Laboratories in Mountain View, Calif., because AT&T would not share royalties from patents based on his ideas. He recruited some of the country's finest engineers and physicists, but he was an arrogant manager who treated them no better than AT&T had treated him. In 1957, Robert Noyce led eight dissatisfied employees to pool their brainpower and found a company based on knowledge.

When they acquired funding with the help of Arthur Rock, they set up an unusual arrangement. Each of the eight scientists received 10 percent and Rock's banking firm got 20 percent, while Fairchild Camera and Instrument lent the group $1.5 million for an option to buy the company for $3 million. The scientists insisted on a culture that showed them the respect Shockley did not. There were no titles, dress codes, or reserved parking spaces, and everyone sat in an open room.

Valuable Knowledge Workers

After selling Fairchild Semiconductor in 1959, Noyce realized that knowledge workers would become increasingly valuable and would need ownership for motivation. But Fairchild only reserved stock options for top management and refused to change. Noyce and Gordon Moore left Fairchild to found Intel. Fairchild and Shockley lost much of their best talent to upstart competitors while Intel went on to become one of the most valuable companies of all time. The new corporate model gave intellectual and financial credit to workers whose creative talent contributed to the wealth of the company and proliferated through startups founded by former Fairchild employees. By the late 1980s, more than 100 companies could be traced back to Fairchild.

Partnership capitalism relies on an ownership stake and a nonhierarchical culture of collaboration. It mirrors the structure of the Internet — the technology that set the stage for a new corporate model.

There were two kinds of Internet companies: Those that focused on selling goods over the Web and those that produced the infrastructure of the Web. The former mostly disappeared after the crash of 2000, but the latter went on to accidentally embrace a new model of management.

The explosion of Internet companies made an already tight labor market even worse. The talent wars found companies outbidding each other for the best employees and pressuring Congress to expand visas for skilled immigrants. Without cash or profits, Internet startups used stock options to compete. This involved employees in decision making, and gave employees opportunities to affect their stake in wealth-generating capacity. Stock options became the industry norm, and even after the crash, companies had to give out stock options to stay competitive.

A Radical Shift in Relationships Between Managers and Employees

The idea took off so quickly because in the consistently faster cycle time of the industry, **innovation, rather than production, garnered wealth.** The companies needed brainpower as fast as they could get it. Even shareholders were willing to dilute their ownership because they believed in the new partnership system.

There was a radical shift in the relationship between

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For Additional Information on the authors, go to: http://my.summary.com

Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corporation. Published monthly. Subscriptions: $195 per year in U.S., Canada & Mexico, and $275 to all other countries. Periodicals postage paid at Concordville, PA and additional offices.

Postmaster: Send address changes to Soundview, P.O. Box 1053, Concordville, PA 19331. Copyright © 2003 by Soundview Executive Book Summaries.

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The History of Partnership Capitalism

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managers and employees. The new model:

- **Spurred innovation and performance from the bottom up.**
- **Made employees more likely to work as teammates than competitors.**
- **Made employees more likely to put creative abilities toward the company's interests rather than fulfilling their own career interests.**
- **Blurred the lines between worker and management, allowing employees to take problems and issues straight to top management.**
- **Decreased turnover.**

A Successful Employee-Centered Culture

Cisco, like many other companies, was able to set up a successful employee-centered culture that worked through tough times. With every new company acquisition, Cisco expanded its generous stock plan to new employees and integrated them into its collaborative culture with special orientation teams. Even when the company's stock dropped 70 percent in mid-2001, the culture remained. New stock options were issued at the lower price, and employees did not abandon the company, but chose to stay and fight. Options withstood the slump because employees didn't have to pay for them with their own money; many workers still made money from options despite the crash; and Cisco continued to give out options after the slump, still tying employees to the company.

For centuries people have used options that allow owners and investors to protect themselves against extreme outcomes. Property owners give up a portion of potential profit in exchange for sharing the risk of catastrophic losses. The option holder gets the rights of partial ownership with a much smaller investment, and has no obligation to exercise the option, so loss is limited.

The Separation of Ownership and Control

The rise of publicly traded companies in the 1920s and 1930s saw the separation of ownership and control, and shareholders wondered if CEOs would cheat them. Options were a controversial solution designed to keep the executives honest. The intellectual battle over options lasted for decades. Was it appropriate to give away equity? How should they be taxed? Were stock price increases because of general market increases or individual executives? In 1976, Congress essentially legislated stock options out of existence by making employees go back to paying the standard personal income tax rate on option profits.

In the early 1970s, the Black-Scholes pricing system was developed, and the Chicago Board of Trade opened to trade options on the shares of public companies. Both

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Toys 'R' Us Shows CEOs the Options Jackpot

One of the first huge executive option payouts went to Charles Lazarus, founder of Toys "R" Us Corp. He sold the toy store chain in 1967 for $7.5 million, but it foundered in subsequent years and sank into bankruptcy. When it emerged in 1978, Lazarus returned and set aside 15 percent of the company's shares for executives and store managers in the form of stock options. Under his management, the chain became the country's top toy retailer. By 1987, the company was worth $5 billion.

That year, Lazarus earned a bonus of $3.3 million, which was large by the standards of CEO pay at the time. His options payoff, however, was $56 million. Norman Ricken, the company's president, got $11 million, and many of the store managers also pulled in large windfalls. Suddenly, other CEOs across the country woke up to the stock option bonanza.

Netscape's 200 for 200 Program

In 1996, Netscape CEO James Barksdale needed to motivate employees for the new strategy to license software so buyers would pay fees that rise with the number of users. He set a goal of 200 design wins (i.e. convincing large firms to use their software designs) by June 30, 1997. Everyone throughout the company would have to work hard. Rather than offering a set $500 bonus to everyone, he said that if Netscape reached its goal, every single employee would get options to buy 200 shares.

The company cafeteria had a 5-foot thermometer sign with the mercury designating design wins for every employee to see. Barksdale told employees, "When the sales force is out in Paris, and they call back to headquarters and say they need help to make a sale, I want the receptionist who answers the call to know how important it is to hook the sales person up immediately to the engineer who's got the little piece of code that will make the difference."

With effort from everyone and constant updates through the months, the company reached 200 wins by June 30. They sold $135 million in software, an 80 percent increase over the same period the previous year, and every employee was 200 shares richer.

The History of Partnership Capitalism

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events increased confidence in options and helped them became mainstream for executive pay. In the 1980s, mergers and layoffs were holding down worker pay, while people complained that CEOs got more and more. Options for senior managers made it more difficult to compare their amazing wealth with workers'.

CEOs did not give out options to everyone. They felt only top executives were covered by the 1934 New York Supreme Court ruling that designated employees "whose labor, skill, ability, judgment and effort have made profits available" as those who deserved options. Corporate America began to spread options down the hierarchy, but only a tiny percent came close to high-tech companies. Though companies talked about workers being their most vital asset, they did not back this up by sharing the risks and rewards of ownership. ■

For Additional Information about the mechanics of stock options, go to: http://my.summary.com

How High-Tech Firms Do It

There is no precedent in modern American history for how Internet high-tech firms have granted ownership to their employees. The research in *In the Company of Owners* focuses on the High Tech 100, the 100 largest public companies that derived more than half of their sales from the Internet as of October 2002. All but one trade on the NASDAQ, and their combined sales grew 78 percent between 1999 and 2001 to $59 billion.

So Much Potential Ownership

The High Tech 100 can be used to track the extent of employee equity, including directly owned stock and unexercised options. On average, employee equity in these companies was 19 percent at the end of 2000 and the top five officers owned an additional 14 percent. The large management stake was usually because they were the original founders.

Never before has an entire industry had so much potential ownership by such a broad cross section of employees. The index also corrects the misconception that high-tech employees were left with nothing when the high-tech stocks collapsed. Although 83 percent of employee options were underwater by July 2002, and a potential $171 billion was lost, the remaining 17 percent of employee options were worth $4.4 billion, an average of $25,000 per worker.

Who Owns How Much of the High-Tech Industry

Because options are only potential ownership, current stockholders could find their percentage of ownership diluted. Post dilution is the best way to look at who owns how much of the industry. Though high-tech CEOs and top managers do take almost as much for themselves as those in corporate America, they are much more generous to their employees. There is no evidence that since the crash these companies have stopped sharing ownership. They have accepted substantial dilution of their ownership stake because they believe in the incentive effect of stock option capitalism. Ninety-eight of the High Tech 100 companies provided options to most or all employees.

Underwater Stock Options

Despite 19 percent employee ownership, 83 percent of High Tech 100 options were underwater as of July 2002. There was misery among employees who had counted paper millions and lost it, those who came to a company at the end of the bull market, and those who were hit with unexpected taxes when the prices fell dramatically on their exercised but unsold options. However, losing real money as opposed to potential money on options was the exception. Though many people believed that options were a worthless form of compensation after the crash, High Tech 100 employees showed a net profit. ■

For Additional Information on who owns the high-tech industry, go to: http://my.summary.com

Portal's 350 Millionaires

Even after the dot com crash, employees who had received options when they were priced ridiculously low collected $25 billion in profits in 2000 and 2001 — an average of $125,000 per worker.

Portal was an ISP founded in 1985 that shifted to developing software. When the Internet began to expand after 1994, Portal grew too, and its sales doubled each year, eventually hitting $103 million in 1999. Yet the company still had only 754 employees.

Portal gave employees options when they were hired, and then most people got them annually for promotions and special achievements. Portal went public in May of 1999 at the height of the boom. The stock soared 167 percent to $12 that day, and by the time the employee cash-out date arrived in six months, the stock had hit $80. Over the next year, Portal's stock fluctuated between $27 and $84. The outcome for everyone who exercised their options was an estimated $1.3 billion, for an average of $1.4 million each. In actuality, some employees had more options than others, so they did not all get that much, but Portal says that its IPO created 350 millionaires.

New Options Every Year

Looking at options from a bottom-line perspective understates the past and future benefits of partnership capitalism. The run rate, or the amount of equity a company hands out in employee options every year, is where the true value lies. Because the top five executives of High Tech 100 companies had so much equity, they generously dispersed about 8 percent of equity per year between 1997 and 2001 to increase overall employee ownership. About 7 percent of the equity went to employees, and their equity eventually eclipsed that of the top officers.

Management continues its commitment to sharing the risk and reward even after the crash by granting stock options every year with the price pegged to the current stock price. Annual option grants automatically readjust employee risk sharing. The run rate also made up for any wage substitution that was in place when the employee was originally hired.

Ensuring the Survival of an Ownership Culture

By constantly refreshing the employees' stake in the firm, the company can ensure the ownership culture will survive. And, indeed, High Tech 100 employees did not desert in droves for traditional companies after the meltdown. In fact, lower stock prices now make options more attractive to potential hires.

Despite annual grants of options, companies still felt the need to address the low morale of employees who saw paper fortunes disappear and who felt cheated out of the promise implied in wage substitution — lower pay for larger payout later. Microsoft handed out pay raises. Other companies raised the run rate. A quarter of the High Tech 100 companies pursued the controversial approach of exchanging old options for new ones, essentially repricing the strike price down. Outsiders felt it was cheating because part of the point of stock options is accepting the risk. Because companies replaced high-priced options with fewer low-priced options, it appeared that companies were reducing their run rate. But, in effect, they made options more likely to be successful and, thus, more likely to dilute.

Retention Difficulties and Poor Work Habits

When Amazon's stock fell from $107 to $30, and only 3 to 4 percent of employees had options that were worth anything, disappointment, resentment and diminished confidence in the company's future was reflected in poor work habits and retention difficulties. By August 2000, the stock was at $16, but nearly 70 percent of the 70 million options held by employees had strike prices ranging up to $83. Amazon allowed workers to trade older options for fewer options with strike prices at least 15 percent lower. By July 2002, only 13 percent of workers' options were underwater. Many companies did not want to reprice because guidelines from the Financial Accounting Standards Board (FASB) required subtracting employee gain from earnings. But companies soon discovered a loophole that doesn't require the earnings hit if issuing the new options happens six months and one day after canceling the old ones. ■

Yahoo Shares the Wealth

Jerry Yang and David Filo started Yahoo in 1994, and they owned 100 percent of the stock. They sold shares to Sequoia Capital, a venture capital firm, and Softbank, another Internet firm. They also granted options to most employees and sold shares to the public in 1996. At that point, Yang and Filo each owned only 11 percent of the company after accounting for potential dilution. Other officers and directors held 7 percent, Sequoia held 13 percent, Softbank held 27 percent, employees' options were 17 percent, and public shareholders held 14 percent.

Yahoo continued to grant options to employees at a run rate of about 9 percent annually. They handed out almost 250 million options between 1994 and 2000, giving 12 percent to top executives and 88 percent to employees. By 2000, Yang and Filo's ownership had shrunk to 6 percent each and employees had a total potential ownership of 20 percent almost entirely through options.

Shareholders Gain By Giving up Ownership

The other side of stock options and the run rate is greater dilution of shareholders' equity stake. During the high-flying economy of the late 1990s, it seemed as though options were a zero-sum gain, because employees cashed out $78 billion from the industry, while investors lost $1 trillion. However, options can benefit both sides in a normal economy.

Stockholders definitely lose a small piece of their pie if options are exercised, but only if the stock price is growing. If the stock price is down, there is no dilution. Options can create extra value that offsets dilution by attracting and retaining an innovative work force and encouraging employees to think and act like owners.

In addition to dilution of shareholders' equity, companies bear the burden of the option overhang — the difference between the strike price and market price when the option is exercised. Another way to look at dilution is to examine total equity — the amount of stock owner-

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Shareholders Gain by Giving up Ownership

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ship employees and investors would have if all options were exercised. The High Tech 100 only experienced a 16 percent dilution in 2000, far less than if the companies experienced the effect of the cumulative 8 percent run rate average of the preceding five years. This is because employees typically sell the stock they get into the public market. As a result, annual option grants continually dilute outside shareholders, but the total dilution and employees' collective ownership of the company is kept largely in check.

Options Seem Like Wages

To ameliorate dilution, companies get tax breaks on the spread between the exercise price and the market price at which they sold it. This makes the options seem like wages, and there is much discussion about whether options should be counted as real expenses against profits if they can be deducted for taxes. FASB guidelines require companies to report option expenses in a footnote.

Another benefit of options which offsets dilution is increased productivity. No one is sure how productivity gains happen, but since high-tech companies are based on knowledge and higher human productivity, partnership capitalism relies on the assumption that changes in employee behavior due to ownership are the key to productivity gains.

Investing Human Capital

Granting options causes employees to work hard for themselves, which is good for management and shareholders. Though they spend no money, they are investing their human capital. There is no guarantee that shareholders will benefit from increased productivity, but that is no different than any other investment, and options offer greater downside protection because failure costs nothing due to lack of dilution.

If used properly, partnership capitalism spreads both risks and rewards evenly between shareholders and employees, especially if the options are not repriced. There is no way to prove that the High Tech 100 could have done better if their shares were not diluted, but most CEOs are convinced options' increased value helped. And many of the startups would never have survived without the financial incentives of options. ■

How Risk Sharing Pays Off for Companies And Their Shareholders

Performance Measure	Gain from Partnership Capitalism
Total shareholder returns	2 percentage points
Productivity	4 percentage points
Return on equity	14%
Return on assets	12%
Profit margins	11%
Average employee ownership	8%*

NOTES: * After dilution

Total shareholder returns include stock price appreciation and reinvested dividends.

Productivity is defined as output per employee in some studies and as value-added per employee in others.

Return on equity is defined as after-tax profits divided by the outstanding shares.

Return on assets is defined as pretax profits divided by a firm's assets.

Profit margins are income before extraordinary items, taxes and depreciation, divided by total sales.

SOURCE: Authors' analysis of more than seventy empirical studies.

For Additional Information about the mechanics of dilution, go to: http://my.summary.com

Stockholders Come Out Ahead

The high-tech firms did not discover anything new, but they fused elements of sharing ownership with nonhierarchical workplaces to encourage employees to think like owners, and then they spread the idea across an entire industry. People have been sharing ownership for over 200 years. Twenty-four million workers or 23 percent of the work force are offered shares in their company through nonstock option plans such as 401(K)s or profit sharing plans.

Based on information synthesized from over 70 studies from the last 25 years, it is clear that investors profited if their company adopted key elements of partnership capitalism. Shareholders received a one-time bump where productivity improved by 4 percent on average; total shareholder returns increased by 2 percent relative to other firms; and profit levels measured by profit margins, ROA and ROE increased by 14 percent. These gains came after dilution and were created by granting roughly 8 percent of their shares to employees.

A Long History of Sharing Ownership and Risk

In the United States, there is a long history of sharing ownership and risk with workers. Early efforts such as whaling ships and sharecropping did not work because the workers lacked the authority to defend their interests. In the 1880s, companies such as Rand McNally and Proctor & Gamble set up profit-sharing plans. In the early 1900s, Filene's Department Store and Sears gave workers stock, and in 1927, DuPont began giving stock as a retention bonus.

Unfortunately, employee ownership never spread beyond a thin layer of leading companies in the early 1900s, and the Depression showed how risky owning company stock was when employees used their savings.

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Stockholders Come Out Ahead

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During World War II, companies with a certain amount of profits got a tax break from sharing earnings with workers, and profit sharing became more popular through the decades, especially for pension plans. The advent of the 401(k) pushed almost all employee ownership into retirement saving. Employee stock ownership plans (ESOPs) also allowed employee stock purchases, and companies used them to ward off labor unrest and takeover bids. But they waned as management lost commitment to a culture of ownership, and accounting rules made them less desirable.

The Other Half of Participation Capitalism

Teamwork, the other half of participation capitalism, also took off in the 1940s and grew through the second half of the 20th century. Although teams seem prominent in the corporate landscape, only 12 percent of companies actually have a majority of employees working on teams. U.S. companies have been using elements of employee ownership and participation, but it is the High Tech 100 that has melded them together. An analysis of the 70 studies mentioned above shows the effects of employee ownership on the different elements of partnership capitalism.

- **Stock Options** — Broad based option companies performed better on corporate measures, and stock market returns were high. Stock options pay off the most when they go to mid- and lower-level employees.
- **Employee Stock Ownership** — Employee ownership seemed to correlate with higher stock prices in the studies. Companies with ESOPs were more stable, and their sales per worker grew faster than other companies.
- **Profit Sharing** — Splitting profits with employees improved productivity.
- **Employee Participation** — True employee motivation required both the financial incentive and the culture of participation. Companies increased their market value substantially and cut turnover by overhauling both culture and approach to pay. ■

For Additional Information on the early history of partnership capitalism in the United States, go to: http://my.summary.com

How Corporate America Must Change

If combining a culture of participation with the financial incentives of ownership is so effective for improving corporate performance, why is the high-tech industry the only one to have embraced it completely? Traditional corporations understand these benefits and try to accomplish them, but few involve more than half their employees in decision-making, and most employee ownership is bought with workers' earnings not options.

Though traditional management does not motivate employees with ownership stakes as it claims, it does use that very argument to justify its own highly inflated salaries and compensation. As of 2000, the 1,500 largest public companies in the United States issued about 12 billion options valued at $1.2 trillion. Roughly 30 percent of that wealth was in the hands of the top five executives. Most of the remaining 70 percent is spread across a thin layer of management that represents 5 percent of traditional companies. Corporate leaders want the higher productivity gains that employee ownership brings, but without paying for it. They claim employees are their most important asset, but the CEOs believe they deserve the majority of employee options because they are responsible for leaps in shareholder value.

Traditional Companies Offer Fewer Options

While High Tech 100 top executives keep the same 14 percent ownership as their Corporate America 100 counterparts, their employees receive 19 percent ownership while their counterparts receive 2 percent. Ninety-six of the Corporate America 100 have an employee stock option plan, but only six regularly give options to a majority of their workers. Except for the ESOP stock and employer matches in 401(k)s, employees at traditional corporations bought most of that equity with their own money, which only increases their risk.

In 1980, a sampling of the two highest-paid executives at nearly 500 firms showed they made an average of $1.35 million each in today's dollars, mostly from salary and annual bonuses. Options accounted for only about a fifth of their earnings. By 2001, their average pay was $11 million with 80 percent from options. The reason is that CEOs set their own salary. Although the board technically determines the amount, CEOs often hand pick the directors and dominate the board. Our business culture believes the genius corporate leader is the most important contribution to success, even though there is no clear evidence that CEOs create enough extra value to offset the dilution of their salary. ■

Putting It All Together

Traditional companies looking to apply this partnership capitalism model to a more traditional corporate setting will find that creating a more flexible, entrepreneurial and less hierarchical culture is the harder task, but deciding how to share ownership is also tricky. The High Tech 100 cannot be used as a guide because most traditional companies are not startups that can expect growth rates like Internet companies. Additionally, High Tech 100 companies are mostly knowledge based, not

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Putting It All Together

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equipment based. Companies that use more human capital than equipment can reap higher rewards from employee ownership.

Looking at traditional companies' own history shows that through ESOPs or profit sharing, corporations gave employees 8 percent of their shares. As a rough guide, traditional companies could expect a jump in profits and stock price if they shared a total of about 8 percent of ownership. The high run rates in the high-tech companies would over-dilute traditional companies. Different studies of traditional companies that do offer options to most employees average run rates of 3 to 4 percent. Run rates for companies that give exclusively to executives are about 2 percent.

This sounds small, but since 1926 the U.S. market has risen by 10 percent per year. An extra 20 percent return compounded over the years is significant. Companies can use these numbers as general guidelines, but they should adapt the concept to their own financial structure. Companies with higher stock market values for each employee will have an easier time issuing options. Companies with lower market values per worker could find it easier to pursue partnership capitalism by mixing option grants with ESOPs or profit-sharing programs. The best approach is to begin with a vision of the employee ownership you want to achieve and determine which mix of methods will work best for your situation.

Options should not be considered a form of compensation like salary or benefits. They represent risk sharing and are an opportunity to become shareholders by spending human capital instead of cash. The regular wages and benefits that employees get for doing their jobs are a separate issue. Employee ownership delivers extra gains because employees do more than their regular jobs. Working harder and more efficiently is a real cost to employees, but it is often an easier way to pay for ownership than direct wage sacrifice.

To motivate employees, options should be a minimum of 15 percent of their annual paycheck every year. Though neither employees nor investors would be guaranteed extra return, they would probably get more over time because option profits grow with the market value of the company. Options also alleviate the problem of diversification for employees because they can take their wealth as soon as they vest and invest elsewhere. ■

The Differences in Option Amounts at BEA Systems

Sharing the wealth doesn't mean social egalitarianism. There will still be differences according to what employees contribute. If those with greater skills bring greater value, they will get greater rewards. Bill Coleman of BEA Systems explains how more senior people receive more stock options because they can influence more of the success of the company. Coleman explains that he gives a new round of options every year, a "merit refresh," to employees whose individual performance puts them in the top 75 percent of the work force. He adds, "The top 25 percent get probably twice as much as the third quartile. And the bottom quartile, they don't get any refresh [just their initial option grant]. You really want to retain those top people. You want their handcuffs [from the option wealth they stand to collect when they vest] to get bigger and tighter."

Barriers to Partnership Capitalism

It is clear that corporate America would enjoy more motivated workers and larger profits if it embraced partnership capitalism. However, there will be challenges implementing the successful high-tech model into traditional companies. Even some high-tech companies may leave the model behind as growth slows and workers are easier to hire, though there is no evidence of this so far. Traditional companies should consider the following as they attempt to implement partnership capitalism:

- **Employees at traditional corporations lack the camaraderie born of shared technical interest to help promote the teamwork culture.**
- **Most companies will not expand at the phenomenal rate of the 1990s, so employees and investors will not see as large a gain.**
- **The large size of traditional companies breeds partnership-thwarting bureaucracy, and they have much slower decision-making processes which will impede the collaborative culture.**
- **Large companies will be dragged down by free riders if there is not enough employee cooperation.**
- **Companies can grant too many options so that the extra productivity will not overcome dilution.**
- **Boards must be strong and independent enough to ensure the options program is combined properly with the shift to a less hierarchical culture.**
- **Corporations need to have a viable plan for dealing with a long bear market.** Setting up profit-sharing programs is far better than shifting too much risk to shareholders by repricing.
- **The cult of the CEO will have to be tempered so all power is not pushed to the top where most of the option wealth is currently held.** ■