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Resurrected, recovered, but still didn't survive? A case study on the viability of employee-owned companies**

While there have been high hopes about democratic governance structures in organizations recently, the empirical record of employee-owned companies (EOC) is rather bleak. Correspondingly, in the long-standing literature about EOCs, there seems to be a consensus regarding the rather limited viability of democratic organizational forms. Although the explanations, mainly based on microeconomic models, differ in the causal mechanisms explaining EOCs' short average lifespan. In this paper, we challenge the conventional wisdom about the reasons for the limited viability of democratic organizational forms. We develop an alternative explanation for their normal failure by means of an in-depth case study that corresponds with the transformation expectation about EOCs into conventional firms. We analyze a German case which we were able to study over a long period of time including the end of the EOC (while the company survived the changes in ownership and corporate governance structures). Firstly, we show that classical explanations do not seem to be valid for this particular failure of democratic governance structures. Secondly, we try to explore alternative explanations for the institutionalized transformation expectation regarding EOCs. In order to overcome the shortcomings of microeconomic models of EOCs, we deploy a social-constructivist heuristic framework that is derived from the organizational theories of Niklas Luhmann und Karl E. Weick. Thus we focus on dynamic social sensemaking processes and decision-making processes at the organizational level at the same time. We stress the role organizational cognitive routines in EOCs play especially in their organizational environment, pointing to the social embedding of EOCs and to the historical trajectories of individual organizations as potential sources to explain the normal failure of EOCs. Our study also confirms the significance of both the ambivalence and ambiguity of sensemaking and the contingency in the decision-making process for the explanation of a phenomenon that looks, at first glance, rather causally determined.

Key words: **employee owned company, social constructivism, company transformation, organizational cognitive routines, social innovation** (JEL: D22, G32, J54, O35, P13)

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1. Introduction

For what reasons do employee-owned companies (EOC) often transform into classic enterprises in the medium term? The question and answers regarding the viability of EOC have become relevant against the backdrop of some broad discussions about alternative forms of companies and management throughout the past few decades. The "theoretical key question" (Dow, 2003, p. 5) of this debate is: Why do only a limited number of EOCs exist? After all, they promise to combine the preferred characteristics of democratic corporate governance with some advantages in productivity, in an increasingly-complex production environment?

There is, unfortunately, no uniform definition or concept in the literature of companies that are owned to a considerable extent by their employees. In this paper, we analyze an empirical case of an EOC with the legal and organizational form of a limited liability company. For practical purposes, we conceptualize EOCs as the organizational and legal form of a 'worker capitalist' company, where employees share capital to purchase their company and hold at least a majority share of 51% of the equity, thereby consciously excluding from this working definition cooperatives and other alternative forms like kibbutzim.

Unfortunately, we only possess rather rough data about the frequency of EOCs in Germany. Duhm (1990), for instance, was only able to identify about 40 cases. It was later estimated that more than 3000 companies had been privatised in East Germany through management- or employee-buyouts (Schwien, 1995; Gros, 1998); however, we do not know how many EOCs have resulted and how many of them have survived.

The scientific debate on the viability of EOCs is clearly dominated by some formalistic model assumptions (for an overview, see Dow, 2003), while in-depth case studies remain fairly rare. This is particularly true for private companies, while cooperatives have been well researched in the past. The aim of this paper, thus, is to critically question the existing explanations of EOC viability and, if possible, to enrich and deepen our respective knowledge. This will be done on the basis of a broadly-developed single case study of an EOC that emanated from a case of insolvency and, several years later, lost its EOC characteristics and transformed into a 'normal' company.

In the following chapter, we critically review the state of the literature on EOC viability. Subsequently, the methods of both data gathering and analysis will be outlined. The description and explanation of the case study are then dealt with extensively. This will be followed by a discussion of the findings as well as of some implications and limitations of our study.

2. State of research

EOC has been a topic of academic interest since the early 20th century (Jensen, 2011; for the ideological bases, see Vanek, 1975). Since the 1970s at least, several studies have given more in-depth consideration to two basic problems. On the one hand, they asked for the reasons behind the relative rarity of this organizational form, in spite of its promises to combine the desired characteristics of democratic governance structures with productivity advantages against the background of an increasingly complex production regime. On the other hand, they explored the viability of EOCs and the reasons for their potential viability deficits and their higher degeneration and mortality rates.

The following analysis is limited to capitalist economic systems and renounces some more general or system comparative approaches. We focus instead on the organizational level and do not explicitly engage in any macroeconomic considerations (e.g. on the so-called 'labour-managed economies'). We also abstain from examining some cooperatives and other unique forms of community ownership (e.g. kibbutzim). Finally, given the particular character of our case study, we also leave aside any discussions about productivity advantages or disadvantages here.

2.1 Classic economic approaches

In the first decades of the 20th century, several Marxist writers already held a critical view towards the idea of EOCs (e.g. Webb & Webb, 1920). They considered it to be an instable democratic model still suffering from the weaknesses of the capitalist system that was to be overcome. The reasons for its numerous failures, according to them, lay in undercapitalization, lack of management skills and disciplines, and in a problematic relationship between management and employees (Potter, 1891; Webb, 1928).

During the second half of the 20th century, against the backdrop of the system conflict between the East and the West, most authors aimed at comprehending the organizations of the Yugoslav type – the so-called "Illyrian firm" (Ward, 1958). For its protagonists, it served as a proof of existence and efficiency of a normatively targeted alternative between real socialism and capitalism (the so-called 'third way'). For its enemies, however, the Illyrian firm was rather a contrasting case to the normal capitalist firm that was intended to theoretically prove and demonstrate the economic inefficiency of even a mild form of socialism. In this context, several authors rejected the idea of EOCs (e.g. Petit, 1959; Vanek, 1969; Meade, 1972), arguing that the combination of collective ownership of the production factors by the state with some democratic governance structures at the individual level of the companies would lead to some perverse incentive structures for the employees. This would inevitably result in a situation with a lack of investments and a refusal to take on new employees (in order to maximize the profits) and, in the medium- or long term, in the failure of the EOC.

Throughout the 1970s and 1980s, several studies on the viability of EOCs dealt with these classic considerations. They were mainly based on microeconomic analyses that observed the effect of EOCs on the incentive structures of individual actors and deemed EOCs to be an inherently instable organizational form. Two ideal positions can be identified: On the one hand, several authors demonstrated, with the help of some formal models, that EOCs would degenerate into 'normal' capitalist firms in the medium term. This would be due to their preference towards hired labour instead of new owners (Miyazaki, 1984; Ben-Ner, 1988a), leading eventually to a situation when even some increases of turnover and profits would negatively impact on the viability of the EOC (Ben-Ner, 1988b). On the other hand, authors from the field of agency and transaction cost economics concluded that the EOC would inevitably fail due to insufficient governance structures (i.e. limited control function), a lack of competitiveness, and a limited capacity to refinance via the capital market (Furubotn, 1976; Jensen & Meckling, 1979; Williamson, 1980). This position and argument has also been replicated in several more recent studies (e.g. Hansmann, 1990, Rock & Klinedinst, 1992; Faleye, Mehrotra, & Morck, 2006).

2.2 Critical feedback on the classic economic approaches

Since the late 1970s, an increasing number of scholars have questioned the negative prognoses about EOC viability (for an overview, see Dow, 2003). This was also due to the obvious success of some prominent EOCs such as Mondragon (Oakeshott, 1975), the cooperatives in Italy (Thornley, 1981) and France (Estrin & Jones, 1992), the numerous 'worker-buy-outs' (Paton, 1989), and the self-managed companies in Yugoslavia (Vanek, 1975).

Berman and Berman (1978, p. 701f.) criticized that several assumptions about the microeconomic models just result from a problematic mixture of different theoretical fundaments. Fusfeld (1983) pointed out that the basic assumptions of several studies about the so-called 'self-destruction' theorem (e.g. equal distribution of income, short-term income maximization) are rather particular and do not allow for generalizations about EOCs. Putterman (1984) reminded us that some particular empirical characteristics of EOCs were often considered to be generalizable and undecidable assumptions although they constitute some decision premises on the organizational level that go beyond any individual decision calculus.

Several authors also demonstrated that the pessimistic classic considerations on EOC viability at least need to be differentiated. This was achieved through numerous empirical studies in different countries and regions (e.g. Westenholz, 1986; Estrin & Jones, 1992; Prasnikar, Svejnar, Mihaljek, & Prasnikar, 1994; Burdin & Dean, 2012).

2.3 Some alternative explanatory approaches

As a reaction to and result of these criticisms of the classic explanations of EOC viability, a few alternative approaches have recently been developed. They can be distinguished into four groups.

Contextual approaches

A few authors assume that EOCs must be perceived as being highly dependent on certain contexts and resources, i.e. their existence and viability is of a higher probability in certain countries than in others (Jensen, 2011). Already back in 1983, Greenberg proposed a taxonomy of four socio-cultural contexts where EOCs may develop. Poole (1986) argued that in order to survive, EOCs must develop a power position based on the values and power of the employees and their representatives, which are grounded in different systems of industrial relations.

Paton (1989) found empirical evidence for this relationship in his study about 'worker takeovers' in different European countries. Ben-Ner (1988b) explained some large differences in birth and death rates of EOCs by referring to conjuncture and industry influences. Both Kalmi (2003) and Mygind (2012) showed that the rapid erosion of employee ownership in the transformation countries of Central and Eastern

Europe was also dependent on the historical context in which employee ownership was used as a main privatization instrument. Other authors also referred to the immediate influence of the local and communal environment (e.g. Bradley, 1986; Klemisch, Sack, & Ehrsam, 2010; Smith, Arthur, Scott Cato, & Keenoy, 2011).

Evolutionary approaches

The idea of an EOC life cycle dates back to the early 20th century (Tugan-Baranovskii, 1921). It is mainly based on the assumption that a conventional company transforms into an EOC during a crisis (Miyazaki, 1984), 'normalizes' later on, and then changes back into a conventional capitalist firm (Ben-Ner, 1988a).

Batstone (1983) and Lichtenstein (1986) both developed some life cycle models of EOCs based on a dialectic-democratic process that comprised of the phases of emergence, early maturation, and late maturation. Viability is dependent on the EOC's ability to go through these phases and to assert against any destabilizing influences. Accordingly, Jensen (2006, p. 52) suggests a fourth phase during which some counterforces among employees and management develop and "re-democratize" the EOC.

Several authors also demonstrated empirically that EOCs do not undergo some automatisms of failure or degeneration but that there are some particular organizations that adapt their decision-making practice to changing situations (Greenwood & Santos, 1992). Moreover, some also pointed to the fact that this process is not only shaped by individual rationality calculus but rather that the formation of elites and power (mis-)use play an important role (Smith, 2003; Spear, 2004).

Configurative approaches

Another group of authors focuses on the key characteristics required by EOCs in order to economically survive and to be successful. Jensen (2011, p. 702) mentions four major functions, namely the power function, the institutional function, the entrepreneurial function, and the democratic function.

In addition, other authors have pointed out some crucial characteristics that have an impact on EOC viability, for instance, a limited heterogeneity among the employee owners (Hansmann, 1990), an easy fungibility of the shares (Spear & Voets, 1995; Dow 2003), some regular dividend payouts (Bernstein, 1982), the existence of both material and immaterial employee participation (Lampel, Bhalla, & Jha, 2014), the establishment of supporting institutions (Doucouliagos, 1990; Wächter, 2010), support by the state (Bradley, 1986; Rock & Klinedinst, 1992), or a culture and tradition of employee share ownership (Betit, 2008; Smith et al., 2011; Mygind, 2012).

Sensemaking approaches

In one of the few empirical studies on the viability of EOCs, Spear (1999) differentiates between two types of EOCs depending on the key actors' motivation in the entrepreneurial formative phase in which structural and cultural premises are socially constructed by those actors. While some key actors use an EOC as a financial investment tool, others pursue values of industrial democracy, with the latter being more robust against tendencies towards transformation into a normal capitalist firm. Thus, the transformation of EOCs into a normal capitalist firm does not happen automatically, but may depend instead, at least partly, on some contingent processes of dynamic social sensemaking with respect to the meaning and relevance of employee ownership.

2.4 Deficits and desiderata for research

Obviously, a consequent elaboration on a social-constructivist perspective to analyse EOCs has so far remained largely lacking in the literature. Moreover, we face a need for more critical descriptive studies on the large heterogeneity of structures and processes surrounding EOCs.

Against this background, we are looking for a new, alternative explanation in response to an old prognosis. With our case study, we aim to reconstruct the empirical decisions and decision premises (sensu Luhmann, 2000) across the life of an EOC. This will not be limited to the internal actors but should include the external stakeholders as well. Following the idea of sensemaking (sensu Weick, 1995), we do not merely focus on the options chosen but also on the variety of disposable and decidable options, and on the decision criteria. All of this should help us to comprehend more deeply the reasons for and mechanisms of EOC transformation.

3. Research design

In order to overcome the deficits identified in the literature discussion on EOCs, we will deploy a heuristic framework for the interpretation of the empirical results of our case study that focuses on dynamic social sensemaking processes and decision-making processes at the organizational level at the same time. We derive our heuristic framework by combining the sensemaking theory by Karl E. Weick (1995) with the theory of organized social systems by Niklas Luhmann (2000) since we consider both theories to be complementary and, thus, commensurate rather than contradictory. According to Luhmann, we reduce the empirical complexity of the case study by selecting only those decisions that are concerned with pivotal characteristics of employee ownership and that build for each other so called "decision premises" (Luhmann, 2000, p. 222).

Following the valid objection made by Weick (1995), that the relevant organizational processes might not be captured fully when one exclusively focuses on the narrow decision making process, we broaden our heuristic framework and also take processes of organizational sensemaking into consideration. Thus, we not only focus on the process of how decisions are sequentially chained to each other but are also interested in the processes of how the different options a decision can choose between and how the criteria used to favour one option over the other are socially constructed. We suggest complementing Luhmann's theory with a more profound sensemaking perspective by placing more weight and relevance on the term *cognitive routines*. Cognitive routines can be understood as "identifications that are semantically stored for multiple uses and that can be called upon by requirement" (Luhmann, 2000, p. 250). We assume that notions of employee ownership belong to the reservoir of cognitive routines used within organizations and may influence the social construction of a certain number of decisions. Our research question guiding the interpretation of the case study's empirical results therefore is: What semantic concepts are used to shape the different options a decision has to choose between and how can the preference of one option over the other be grounded?

This very heuristic framework tries to address the theoretical deficits identified in the literature discussion. It particularly tries to overcome the shortcomings of micro-economic models of EOC that take only the aggregated decisions of internal stake-holder modelled as a resourceful-evaluative-maximizing-man into account, of a narrow perspective on (perverse incentives for) employee-shareholders that overlooks the role of the organizational environment, and of deterministic perspectives that leave no room for the possibility of historical trajectories of individual organizations. In other words, our combination of a decision-making process with a sensemaking process perspective into a single heuristic framework tries to ensure that social processes at the organizational level be recognized as the key factors in understanding the fate of EOC and that there is a more comprehensive view of EOCs as socially embedded organizations. It also confirms the significance of the ambivalence and ambiguity of sensemaking and of contingency in the decision-making process in the explanation of a phenomenon that looks, at first glance, rather causally determined.

The following case study made up part of a larger research project (supported by the German Ministry of Education and Research) lasting for more than three years. Its aim was to increase the involved companies' innovation capacity through the reform of their participation concepts. This framework allowed us to establish a close relationship with the company as well as an intense and trustful exchange with the actors on all hierarchical levels.

In terms of data collection, a broad variety of qualitative tools was used, such as semi-structured interviews with different actors both internal and external to the company (see Appendix), minutes (e.g. of workshops, coordination meetings, phone calls) as well as notes about all kinds of participatory observations. These data were integrated in a field diary. Moreover, we had access to a multitude of company documents.

The research time frame can be divided into three phases. Since the company has already been a subject of our earlier research, the initial data underwent a secondary analysis. The second phase consisted of the time frame of the larger research project mentioned above (2008 to 2011). The close relationship established during this time could be used to conduct some further interviews and observations between 2012 and 2014.

In terms of data analysis, a few techniques of qualitative content analysis (Mayring, 1993) and of sequence analysis (Psathas, 1995; Have, 1999) were used. The findings and interpretations were validated through several group discussions.

4. The Case

4.1 Case overview and history of the decision sequence

The case study concerns a Saxony-based enterprise, Phoenix, whose 175 employees produced a total turnover of € 33 million with net profits of € 2 million (2008 figures) through the production and global sales of cutting machines for large-scale work pieces. After the end of the GDR regime in 1990, Phoenix was formed by the Treuhand

Agency from a state-owned combine with more than 3500 employees and later sold to a medium-sized competitor from Western Germany. After the investor was forced to file for insolvency in 1993, the company was sold on to a West German industrial corporation that, in turn, faced insolvency in 1996. In the end, Phoenix was born again from the ashes of the insolvency in the form of an employee-owned company whose nominal capital was raised by contributions of DM 10,000 by one hundred employees of all levels and functions. A board of directors with voting powers was appointed to oversee the business. This supervisory board consisted of eight members, including three representatives elected democratically by the shareholding employees and five representatives of other entities (including the chairman of the regional branch of Phoenix' house bank, the local mayor, the bookkeeper from Phoenix' financial audit company, the trade union official who initiated the Phoenix employee-buy-out, and a board member from a German automotive company who acted as the supervisory board's first chairperson) appointed with the prior consent of the workforce. According to the articles of incorporation, the chairperson was to be a representative of an external organisation and had a casting vote when the supervisory board could not reach a majority vote. This institutional arrangement was kept intact for the following years, while some changes in personnel took place.

By the turn of the millennium, turnover had recovered to approx. €22.5 million, and the company employed a total of 156 members of staff, which rose to 171 in 2002. However, the company suffered a dramatic drop in turnover (decreasing by 22% to €18 million) in 2003, with its workforce contracting again to approximately 150 members of staff when temporary employment contracts were not renewed. While business began recovering in 2004, the workforce would not increase again until 2007. In 2006, a private equity firm acquired approx. three quarters of the company in the wake of a capital increase, reducing the holdings of the original employee owners to a blocking minority. However, the number of employees rose quickly to 175 in 2008.

The literature analysis and this brief listing of the facts of the case already indicate the organizational decisions that will form the focus of the following analysis. The parts to follow will explore the initial foundation, the decision to accept new employee shareholders, and the decision to accommodate an institutional investor as a majority shareholder. Of particular interest in each of these three decisions is how the alternative options and evaluation criteria were defined and understood by the *internal and external stakeholders* involved in the construct.

4.2 The decision to re-establish Phoenix as an EOC

Employees: Employee ownership as a stopgap solution

The idea of Phoenix being bought by its employees and reformed as an independent employee-owned company was slow to form in the discussions among the protagonists involved in the insolvency proceedings. It was only introduced by the presiding officer of the local trade union office after Phoenix' executive management had failed to identify a suitable investor who would have bought and maintained the company as a functioning entity.

> "The foundation was indeed something we were not happy to do in this way. We did not want to say, we can do this or now we are entrepreneurs or whatever. It was simply there was nobody else there, and this was the only expedient option." (Chairman of the works council – 9/2009)

The new organisational form of the company was conceived as the final option, with the democratic element implied by it understood as an unwanted, but inevitable side effect. When the employee shareholders took their decision in favour of the new form, they expressly decided against other organizational options that an employee buy-out would have allowed. It was, in this sense, a decision against other alternative forms of doing business (e.g. socialist or cooperative options).

What, however, motivated the individual employees to take the financial risk and contribute DM 10,000 to the company's capital? Individual decisions were dominated by the desire to safeguard jobs while unemployment on the local labour market reached critical levels. This was reinforced by the employees' general wish to be able to remain in their original professions and not be forced into different forms of employment or retraining. The strong sense of identification with the long-established business and its products certainly also played a general role, while the financial consideration about the potential increasing value of the shares tended to be side-lined.

The unfamiliar construct of an employee-owned company had to overcome serious reservations concerning the expected dysfunctionality of democratic decision-making processes or the lack of the entrepreneurial qualities required to make the right decisions and protect the business not only among the management but also on the part of the employee shareholders and even the works council representatives. None of the parties involved had any interest in using the new construct to experiment with novel forms of employee participation beyond the well-established co-determination processes in the German system of industrial relations.

> "That's why we tried to get this supervisory construct in order, so that you, as shareholder, had some say about the strategic direction, but so that the people in charge every day, the director, was not constantly forced to ask a hundred people for their opinions. And that is what we tried to balance with the supervisory setup." (Chairman of the works council – 9/2009)

These perceived problematic issues of employee-owned companies led to the inclusion of several structural provisions in the Articles of Incorporation of 23 September 1996: The contract established an executive board (§7) and a supervisory board (§8) to oversee its activities, closely resembling the traditional governance structures of common joint-stock companies.

The triad of motives – protecting their jobs by protecting the company, and increasing the company value – found a common denominator in the establishment of hierarchical and centralized governance structures with a minimum of employee participation. As an expression of the prevalent reservations about the unfamiliar participative organizational form, the employee shareholders made the curtailment of their powers a precondition for agreeing to the construct. The chosen company form was essentially considered a temporary solution, with the endeavour to be ended as soon as a new investor was found who would commit to safeguarding the employees' jobs and income.

The employee shareholders' decision was not, however, solely the product of their anxieties about an unfamiliar organizational form. It was also a means of pro-actively countering similar reservations among external stakeholders, primarily regional politicians and the company's house bank. In particular, the clauses concerning the supervisory board in the articles of incorporation were viewed by the employee shareholders as a visible symbol of their self-curtailment in the eyes of the audience of external stakeholders.

Presiding officer of the local trade union office: Employee ownership as a building block of a regional, decentralized alternative economy

The presiding officer of the local trade union, the person who had originally conceived the idea of recovering Phoenix from the insolvent parent company through an employee buy-out, did not favour this alternative as his prime choice either. However, he did not consider it a singular deviation from normal business, but a social innovation, the emancipatory potential of which should be tested.

> "My motivation is: I need to try out new ways in the old system. Because the system as we have it is not really working. I am an absolute believer in decentralized structures. That's the reason for my region fund." (Presiding officer of the local trade union office – 4/2010)

Companies using employee ownership as an alternative form of organization would only be one building block among many in this greater concept of decentralized economic structures. The idea of decentralization, in his thinking, implies a cluster of owner-managed medium-sized family businesses as is common in the German state of Baden-Württemberg, with different types of employee shareholdings being consolidated and coordinated in an overarching regional fund. This fund would act as an alternative financial source that is independent of traditional banks. The right to participate in decision-making processes would be held and exercised on behalf of the shareholding employees by a vanguard of politically-sound and commercially-talented union representatives at both the supervisory boards of the companies with employee ownership and the directorate of the regional fund.

For the trade union officer, Phoenix was one empirical variant of this model, minus the regional fund (for lack of assets). This can explain his rejection of a cooperative option and acceptance of the self-curtailment of executive participation rights on the part of the employee shareholders. He therefore acted as an entrepreneur for an alternative organizational form whose introduction he inspired and helped coordinate.[1]

Saxony's State Government: Phoenix as a prototype of an employee-owned company tamed into a normal business

The re-establishment of Phoenix as an employee-owned company was dependent on the approval of public funds, in the form of investment subsidies and loan guarantees,

[1] The trade union officer at Phoenix was an entrepreneurial proponent for an alternative organizational form even with respect to his trade union that tends to refuse EOCs for different reasons, which would require a separate article to explore.

by the State of Saxony. The "Concept New Phoenix", the shareholders' agreement, and more details about the supervisory concept formed part of several applications for official support from Saxony's economic development office.

The 'narrative' of an employee-owned company born to save jobs encouraged the politicians in the state to prop up the comparatively meagre equity of the new Phoenix to the level required in the capital-intensive mechanical engineering industry. However, this support came at the cost of conditions imposed on Phoenix. First, the decision-making model proposed by the shareholders' agreement, i.e., the supervisory board, was explicitly stated as being a precondition for any support. Other conditions set the personal liability of the executive directors at a level of DM 200,000, called for the appointment of a commercial director, enforced strict cost management, required a further capital increase by the acquisition of new shareholders, and linked dividend pay-outs to the explicit consent of the company's house bank and the State of Saxony.

The financial aid and guarantees promised by the State of Saxony were meant as support for the re-emergence from blameless insolvency of one of the state's traditional businesses and for the protection of jobs. It was decidedly not an experiment with democratic forms of organization in the economy or with entrepreneurship among employees. Tapping into the mass media interest in the project, not least an outcome of the large trade union's support for it, this was also an informal way of remedying the blunders made during the privatization of Phoenix in 1990 and communicating important industry policy signals.

The State of Saxony was not, however, simply interested in financing the recovery of Phoenix and tolerating the employee ownership construct as a stopgap solution with a definite expiry date. Rather, the political protagonists understood the importance of such a prototype or vanguard model. The condition placed upon Phoenix to look after new shareholders in order to raise more equity was therefore a guarantee in view of the potential risk of the employee ownership model failing as a social experiment. Interestingly, this understanding of the ownership structure as a vanguard model was only expressed in private, whereas the less favoured option, employee ownership as a temporary bridging solution, was soon recorded as a formal condition for the state's loan guarantees.

House bank: Employee ownership as a riskless-risky prototype

Financing the investment plans and operating assets of Phoenix was a deviation from the routine credit transactions of the company's house bank. First, the bank had no experience with employee-owned companies anywhere in Germany. Second, Phoenix was, at the time, still in insolvency protection and was characterized by several apparently disadvantageous factors (e.g. insufficient securities, limited personal liability of the executive directors, heterarchical ownership structure, poor strategic competence). These twin forces would make financing its recovery rather unlikely.

Which conditions would have to be fulfilled to overcome these twin concerns speaking against financing Phoenix' investments and operating assets? The first and foremost concern was a default guarantee by the State of Saxony. The house bank also wanted to maintain a "strategic interest" (Bank-Key Account Manager) since it was, nevertheless, convinced of the commercial viability of Phoenix as a result of its traditional roots, its market share, and its product portfolio.

> "It was not inherently risky, because it was a long-established business with a good product. (…) You need to see the whole package. If everything works, then sales will work and the international business, that will grow looking forward. And when you then make a name for yourself, you get other, good customers by word of mouth. That is investing in the future." (Former regional director of the house bank – 2/2014)

Another condition that allowed the bank to accept the remaining default risks involved the decentralized decision-making processes at the bank, which left sufficient room to manoeuvre for its regional directors when initiating, preparing, and taking such decisions. These structures were balanced effectively by the culture of the bank, which encouraged reasonable risks. The regional director also considered how he would be affected by the potential payoff of favourable results, as the novel organizational form would be a meaningful element in his eventual assessment of his life's work. The employee ownership model had other advantages on its side, including the positive expectations in terms of the shareholding employees' motivation and the technical expertise in tool making, which the bank's regional director saw personified in the person of Phoenix' technical director.

All of these considerations led the regional director of the bank to even consider the employee ownership model for Phoenix as a "win-win situation" for all parties involved, which in turn led the bank's regional directorate to assess the proposed model in detail and to prepare the ground for a positive financing decision. This concerned a) the bank's own development of a consensus among the underwriting parties involved, b) the growth of an undercurrent of trust between the various stakeholders (especially the employees, directors, and supervisory board members), c) the specific shape of the employee ownership model (as described above), and d) the public guarantees for the loans. This complex reasoning eventually led the bank to overcome the original twin reservations and clear the credit lines to save Phoenix from insolvency.

The outcome was a rather curious constellation: The employee shareholders considered their ownership of the company as a solution born out of necessity, and they hoped to transform into a normal company form as soon as possible. By contrast, their external stakeholders were motivated by the novelty value of employee ownership to finance the recovery of Phoenix in the first place, considering it a social experiment with a model prototype. Internal and external stakeholders, however, both made it a precondition of their agreement that the employee ownership model be modelled closely on more familiar company forms. In view of this complex constellation, it is indeed surprising to see how the employee ownership model of this case study managed to survive for a full decade.

4.3 How employee ownership served as a decision-making premise

Employee-shareholder: Employee ownership as a synonym for safe jobs via entrepreneurial self-determination

Phoenix was newly established as an employee-owned company in the autumn of 1996, starting its operations with an initial team of 13 shareholder employees. By the end of the year, it employed approx. 70 employee shareholders. After a commercial director from the former West Germany was employed in January, thus ensuring compliance with the conditions of the state credit default guarantee, the house bank un-froze the credit line and the State of Saxony released the promised subsidies. By June 1997, all shareholders had returned to regular employment. While turnover increased to more than DM 6 million in 1997, important investment projects could be introduced on this basis, supported by official business development funds and the bank's loans.

The initially disliked idea of employee ownership soon lost its original stain as an interim solution. Instead, it was perceived as an experience of more entrepreneurial freedom at firm level, in sharp contrast with the limited freedom for strategic decisions in the former corporate arrangement. As a result, the initially preferred option of a take-over by an external investor was reassessed in view of the negative experience with the former two parent companies: It now came to represent a loss of self-determination and a threat to job security.

Essential for the complete re-evaluation of the two options was the perception that the function of entrepreneurship was fulfilled in the employee-owned company. At the same time, the governance structures defined in the company's regulations had to prove themselves as effective answers to the problems that were originally associated by the employee shareholders with the novel and unfamiliar employee ownership concept, that is a) the risk of becoming unable to take collective action, b) conflicts resulting from the distinctions between ownership and control and between decisions and their execution, and c) the dysfunctional procedures of democratic decision-making processes. In everyday decision-making, the premises regarding the structures and competences defined in the statutes were respected by all parties. The employee shareholders gave proof of the stipulated self-curtailment of their power by voluntarily foregoing their formal influence over the decision-making processes.

> "It is evident that employee ownership was relatively unimportant in everyday work. But that was never actually wanted or expected, because you cannot simply install something that inhibits or limits the everyday decision-making authority of the directors to any real extent." (Chairman of the works council – 9/2009)

The persons involved consider the supervisory board to have played a particularly positive role in the frictionless establishment of a central authority the protection of time-binding capacity of decisions, and the maintenance of a general capacity for collective action. The placement of the supervisory board between the shareholders and the company's executive management received particular praise, especially for its decoupling effect. While the executive managers had uninhibited influence over the development of Phoenix as a business, they were also protected from the influence of the employee shareholders who were both subject to their managerial influence and potentially equipped with legitimate influence themselves.

This decoupling of shareholders and managers and the linearization of the circle of influence by the supervisory board was supported by two key notions. First, the presence of external supervisory board members played a major role as it prevented a "short circuit" in the influence circle with the concept of externalized influence. Second, there was a difference between the two functional roles of "shareholder" and "employee", which each person could occupy independently at different times. While an employee shareholder could therefore be categorized as an employee in everyday routines at Phoenix, the category of personnel "shareholder" was reserved for the extraordinary sessions of the supervisory board or the general assemblies of the shareholders.

Employee-shareholder: Heterogeneous criteria for decisions about the shareholder status of new personnel

The decisions about the shareholder status of new employees were marked by great differences and changes both in the design of the options offered and in the criteria for the decisions. The statutes offered no complete formal regulations.

> "The fact that everybody only received one share was not contained in the status (…) it was custom. (…) We say, it is not in the statutes, but in the regulatory guidelines that the supervisory board had introduced for itself. People have to be on board for at least one year, they have to have a permanent contract. Those are the conditions to be able to become a shareholder." (Commercial director – 3/2006)

Thus, the acquisition of new shareholders among new recruits was out of question at first due to the presence of probationary periods and temporary contracts. No employee shareholder left the company in the first years, and neither the executive management, nor the supervisory board, nor the shareholders themselves engaged in active acquisitions. The first applications from officially-eligible employees were the result of their own initiative and forced the company to clarify certain details.

A general assembly confirmed the executive regulations as determined by the supervisory board – no divided shares, limit of one share per person, only "internal" shareholders. At the same time, the value of each share had to be determined. It should increase constantly in order to make the actual shareholders partake in the value enhancement of the company and to demand from prospective shareholders an investment that, for reasons of fairness, should at least match the total amount and the opportunity costs covered by the original investors. However, the value of a share should not increase as far as to be discouraging or indeed out of reach for employees who had insufficient assets.

On this formal basis, a plurality of shares was bought and sold, albeit for many different reasons. Apart from the natural fluctuation in the shareholder body due to old-age retirement, the executive and supervisory board set up a programme to proactively recruit new employee-shareholders. With the newly hired managers, becoming a shareholder was primarily meant to prevent any conflicts in the "control circle" mentioned above. With the new personnel without leadership authority, the option to buy a share in the company was used as a retention and motivation tool. Accordingly, the number of employee shareholders increased to a peak of 113 in 2002.

From 2003, the number of shareholders decreased as more and more original employee shareholders retired. Even though the company employed more people on permanent contracts in this period, none were ready to invest in the company, forcing Phoenix to buy back the shares from those retiring employee shareholders itself. The shareholders saw a number of reasons behind this boycott: First, the prohibition of dividends meant an abstract increase in the value of the shares every year, but no actual profit in the hands of the shareholders. Instead, all employees, regardless of their shareholder status, were treated equally and were offered a capped annual bonus that reflected the company's annual performance. Second, there was a definite feeling in the workforce that the development of the company and, by implication, the risk of the investment could not be influenced by them, despite the employee-ownership construct. Third, non-shareholder employees became increasingly risk-averse, especially after the mechanical engineering industry felt the brunt of the economic crisis after 2003.

At no point in Phoenix' governance structure in the period from its foundation to 2006 was the premise of barring any employees from holding company shares ever considered. Rather, the decision to enter the ownership construct was dependent on the individual rationale of each employee with a conventional employment contract. Influencing this rationale at the individual level would have required organizational decisions affecting decision-making premises, which was never even considered. The prohibition of dividend payments was not challenged because it would have violated the conditions of the state default guarantees. The equal treatment of all employees in the bonus payments was also not challenged as it could have been regarded as a breach of the dividend prohibition and damaged the idea of unity at Phoenix: Formal membership, constituted by the employment contract, should always be considered to be an upper-level decision-making premise in comparison to the status of employee shareholders, which was a reflection of the company's wish to present itself as far as possible as a conventional company, despite the undeniable differences in the membership status of its employees.

House bank: From a riskless-risky prototype worth experimenting with to a default risk to be wound down

When Phoenix was founded, the external stakeholders had informally agreed to a two-year testing phase for the employee ownership construct, which they could supervise closely with their majority presence on the supervisory board before any adjustments were required. The organizational premises were not changed when the testing phase was over, first because of the commercial success of the company and second because of the bank's positive experiences with the supervisory board's performance in controlling and monitoring the executive board and with the cooperation with all the other board members.

The bank's participation rights, which were exercised freely and openly, were far more extensive than on similar supervisory boards at regular stock companies as a result of the conditions tied to the state default guarantees. The bank's regional director also hedged the bank's investment by installing a regular controlling and reporting system developed specifically for that purpose at Phoenix.

As the bank maintained effective control and influence over the decisions taken at Phoenix from its place on the supervisory board and as the employee shareholders indeed limited their own influence and the company developed in such a way that the interest payments seemed secure, the executive management of the bank began to forget about or consider irrelevant the exit option for the social experiment, i.e. the introduction of an external investor. The option of developing the employee-owned

Phoenix as a model prototype quasi became institutionalized, that is, no longer seen in terms of other alternatives.

However, a change in the perceptions of Phoenix, from a new model and business opportunity to an organizational stopgap solution with high default risks, had already been prepared on the operational level, namely by the bank's account managers, during the time of the former regional director. The principal bank was the only bank working with Phoenix, which meant a relatively large financial commitment, with a constant stream of payment sureties for current projects coming on top of the original investment. Since the investment loan had already passed a defined threshold, Phoenix had been managed by a key account manager and another bank manager from the risk management team from the very beginning of the experiment.

The remuneration system in the risk management team meant that the banks' systemic focus on default risk was structurally ingrained on the operational level. This focus was being maintained whenever new loans to finance individual machine projects at Phoenix had to be approved by the bank. At the same time, the bank personnel working on the operational level did not share in their executive managers' positive view of employee ownership as a new organizational and legal form. Rather, they developed massive reservations about it from a credit risk viewpoint, which only increased whenever the model failed in other instances.

> "Such models like at Phoenix (…) are quite unusual and always present us with a problem: Does it work? Other than Phoenix, no employee-owned companies are working effectively anywhere."(Key account manager of the house bank – 6/2010)

The concerns revolved around at least three risks: 1) the risk of the structural lack of capital on the part of the shareholders, 2) the risk of unenforceable personal liability in the case of a default, and 3) the risk of inefficient strategic decisions as a result of the heterogeneous interests at work in such a complex governance setup. Taken together, for the operational level these risks implied the apprehension towards bank loans being invested at too high a risk or for incorrect purposes.

Thus, two opposing forces were at work at the principal bank. On the top executive level, the perception of the employee-owned Phoenix as a prototype and business opportunity institutionalized itself, while the operational perspective of risk management considered it more and more as a deviant organizational form with increased credit default risks.

In 2000, the regional management of the bank was reshuffled. This brought about a change in the personally felt ties to the original decision in favour of Phoenix' recovery and its consequences as well as in the personal trust and familiarity with the proceedings and conditions at the employee-owned company. There was also a change in personal values and career ambitions: While the outgoing director was more concerned with his legacy against the background of secure membership and status, the new regional director considered the avoidance of failure a key condition for her future career advancement. As a consequence, Phoenix was no longer regarded as a worthwhile social experiment, but as an unfamiliar organizational and legal form with increased risk of defaulting. This changed the relationship between the strategic and the operational side within the bank, whose former different perceptions of the situation of Phoenix became aligned.

In 2002, the long-standing technical director left Phoenix to retire, but with no regular successor lined up. He returned his share in the company and was released from his personal maximum liability guarantee for the investment loan (which had been one of the original conditions for the state default guarantees). As the incoming technical director did not have to accept a similar liability upon joining the company, Phoenix' commercial director also returned his share in return for being released from his personal liability guarantee. This cost Phoenix considerable credibility at its principal bank. The double risk of the shareholding employees was seen by the bank, but not considered the functional equivalent of the personal liability of the people in charge. This was not changed by additional employee shareholders coming on board, which actually reinforced the negative traits of employee ownership in the eyes of the bank (potential for conflict, lack of strategic competence etc.). At the same time, the bank's decision-making process was affected by a change in its business policy and by the increasingly centralized structures, which strengthened the systemic focus on the risk of loan defaults in general.

In 2004, the company was required to open its books, and the impact of the poor state of the economy was revealed. With the organizational reforms at the bank and the economic straits faced by the company itself, the poor balance sheet performance and new (regular) loan applications at the same time implied an even higher risk of defaulting. The bank's inherent belief in a higher risk of default among employee-owned companies now took hold in the bank's treatment of Phoenix: The approval of the requested credit line was tied to the condition that an external majority investor was to be found and the shareholders' agreement amended accordingly.

This new call for an external majority shareholder was supported with a reference to the conditions for the State of Saxony's default guarantee.

> "Back then, Phoenix always had that condition that they had to look for another potential shareholder, investor. That was part of the State of Saxony's default guarantee from the very beginning, black on white (…) Our goal was to get a shareholder to take over a majority of the company, because I would not have had the same effect that I wanted otherwise, that is, get somebody whom I can tell, this is your responsibility, you are liable." (Key account manager of the house bank – 6/2010)

Thus, the bank re-interpreted the option of a planned transformation of the EOC into a regular company form, which had originally only been intended as an exit option for this social experiment, as the option that had been preferred from the start but had not yet been implemented. While the bank expressed this as the simple execution of a decision that had originally been taken in consensus with the shareholding employees, the bank's behaviour seemed a surprising new development from the point of view of an employee-owned Phoenix that had by now been fully institutionalized. The act of communicating this decision was taken as an outright hostile act.

This difference in the viewpoints of the bank and the shareholders led to an open conflict between both parties. The continuation of Phoenix as an employee-owned company run by its employees was seen by the bank as the decision not to implement a long-made, irrevocable decision, that is, as perpetuated resistance and opposition. A number of decisions were taken in routine loan management (e.g. increased interests on current account overdrafts, reduced credit lines) to put more pressure on Phoenix.

This threat potential was felt even more strongly by the company because Phoenix had no other financial sources available. For its entire life, the managers of the employee-owned company did not manage to add to the portfolio of outside financial sources to obtain more independence from the house bank and to build on their entrepreneurial independence.

4.4 The employee-shareholders' election of a majority investor

The shareholding employees regarded the house bank's call for a majority investor as a threat to the commercial independence of Phoenix and, thus, as a threat to their own medium-term job security as well. Their decisions that followed were, in consequence, determined primarily by the criterion of maintaining the self-determination of the company. The decision to follow a capital-intensive growth strategy that had been tabled before was not rejected outright now, but rather maintained as a valid premise and also deemed essential for the other key purpose, i.e. securing the jobs of Phoenix' employees. The option rejected first was using own equity for the growth strategy in the place of outside capital since the employee shareholders were not ready to invest additional personal assets and the chances of finding enough willing new investors among the remainder of the workforce remained bleak. The employee shareholders therefore placed their hopes initially on another attempt at substituting other banks for their house bank.

In the meantime, two take-over bids had been tabled, about which the shareholders were allowed to decide in a secret ballot at the general meeting in early 2005. The first bid was a debt-financed management buyout by the new technical director, the second a take-over by a local, medium-sized mechanical engineering company with a complementary product range. Both prospective owners wanted to take over 100% of the employees' shares. The commercial director managed to convince the employee shareholders during the emotionally charged meeting to stick with their idea of employee ownership and to continue looking for a more suitable investor. Both offers were rejected.

The commercial director had launched a search for an external investor before the house bank had stated its ultimatum after he had had recognized that the future capital requirements of the company could not be covered by equity capital since the assets of the employee shareholders were structurally limited, the employee shareholders were rather risk averse, and since the new regular Phoenix personnel was rather reluctant in buying shares. The option of finding a (minority) investor was only seen as a second-best option, although it trumped the bank's call for a majority investor in that it would allow self-determined development under only minor restrictions with full participation and, above all, with Phoenix' independence intact.

> "Our goal is (…) to get the partner on board as a minority investor, but with the predefined option of becoming a majority shareholder under certain circumstances. (…) If something comes of it, you know that you fit with each other and you have an equal partner who has, say, 52% and the Phoenix people have 48%. They accept that he can have the majority say, because he has paid real money, but not everything." (Commercial director – 3/2006)

An investor was indeed found who could accept these conditions: A medium-sized machine dealer whose business model revolved around the buying, selling, and maintenance of machines exclusively made by Phoenix and who had a global network of service workshops on his side. The house bank, however, rejected this offer when the potential investor rejected the demand for a personal loan guarantee, which the pre-set goals of the bank had made a sine-qua-non requirement.

The executive management of Phoenix and the employee shareholders then began to develop new alternatives under the motto of "we prefer strategic partnerships over investors" (Commercial director). The aim was a) to improve the equity ratio at the company, b) to avoid an investor interested primarily in buying out a competitor, and c) to maintain the shareholder status of the employees.

In this situation, the trade union representative's efforts found a foreign financial investor, Reputatio, whose offer met all conditions and who was ready to take over a maximum of 74.9% of the shares. At the same time, the local mechanical engineering company whose take-over bid had been rejected before entered a new offer which would have furnished the employee shareholders with a majority of 51% of the shares.

The supervisory board presented the two offers at an extraordinary meeting of the employee shareholders. Although both offers fulfilled the formal criteria, the employee shareholders remained unconvinced of both, as they were concerned about the survival of their culture of participation. In some sense, they had the choice between two evils. They mistrusted the offer of the local competitor whose reputation of patriarchal leadership and attitude towards employee participation had been fuelling a long conflict with the trade union. In turn, Reputatio had to face the, at the time, widespread negative prejudices about financial investors (the notorious "locust" debate).

In a move that surprised most internal and external observers, 70% of the shareholding employees decided in favour of the offer from Reputatio. One major factor in this might have been the influence of important actors at *Phoenix*, in particular the commercial director, the production director, and the trade union representative, who had been vocal about their support for Reputatio (and against the local competitor). This outcome was also a stark sign that the employees were primarily concerned with balancing the paradoxical situation of heteronymous self-determination. Since both offers meant the end of Phoenix' time as an employee-owned business, some secondary criteria influenced the decision in favour of Reputatio. Avoiding the integration into a corporate structure for as long as possible – which meant a survival of certain vestiges of Phoenix' entrepreneurial independence – played a part, as did financial concerns, with the relatively higher increase in company value promising higher eventual returns on the employees' holdings. At the same time, the shareholding employees attributed the ultimate cause for this self-chosen end of their construct to the decisions of the house bank. They, again, construe the paradox of a heteronymous self-determined end to their entrepreneurial self-determination.

By request of Reputatio and in order to bundle their interests, the employee owners took the decision to form an employee ownership fund. After Reputatio was brought on board, the house bank removed all suspensions and conditions on the company's current accounts and credit guarantees in 2007. In May of that year, Phoenix was able to begin the planned expansion of its production facilities and acquired new tool-making equipment. In mid-2009, the shareholding employees received Reputatio's offer to buy the remaining shares, which was accepted by an overwhelming majority vote. The investment fund later took the decision to sell its holdings in 2011 to a West German mechanical engineering company in family ownership at a time when Phoenix employed a total of 180 people.

5. Discussion

Against the background of our empirical results on the one hand and the literature analysis on the other hand, an idiosyncratic picture emerges: While the case study corresponds with the transformation expectation of EOC into a conventional firm, the classical explanations do not seem to be valid. There had been neither a misallocation of capital due to a heterogeneity of shareholder-employees' interests based on differing time horizons (Jensen & Meckling, 1979), nor could we observe a tendency to replace retiring employee-shareholders with conventional employees without a share in the company or a tendency to refuse the shareholder status to new employees (Ben-Ner, 1988a, 1988b; Miyazaki, 1984). So, these classic approaches are not just widely criticized in the existing literature (see chapter 2.2) but also fail to explain the case observed here.

As the main theoretical contribution of this paper, we develop three alternative explanatory approaches that have more or less been neglected in the previous literature but will hopefully enrich the respective discussion and deepen our understanding of the viability of EOCs: *Firstly*, any explanation for the transformation of an EOC into a conventional capitalist firm should be based on a more differentiated perception of the actors involved since the processes are generally dependent on the perceptions and convictions the key actors attribute to them and from the dynamic changes these perceptions and convictions are subject to (Spears, 1999; Klemisch et al., 2010). Obviously, these transformations cannot be explained by a single logic or mechanism inherent to just one or a few stakeholder groups involved that execute it automatically or without any alternatives, as outlined in concepts based on methodological individualism (Jensen & Meckling, 1976). In contrast, our case study testifies to the role of process dynamics in the sequential decision-making process at the organizational level within a network of formal, personnel, cultural, and cognitive decision premises (Weick, 1995; Luhmann, 2000) by internal and external stakeholders in the reproduction and the transformation of EOC. More specifically, it underlines the fact that the process of uncertainty absorption by which information complexity as well as alternatives are reduced (Luhmann, 2000, pp. 183ff) rests on dynamic organizational sensemaking processes in which alternatives as well as decision criteria are constructed (Weick, 1995). This also gets us to broaden the traditionally narrow focus on the logics and mechanisms of internal stakeholders towards a broader focus that includes the logics and mechanisms of an EOC's external stakeholders as well. This particular heuristic framework, we argue, constitutes a further (methodical) contribution of our paper.

Secondly, employee-shareholdership is indeed decisive for the processes of foundation, institutionalization, and transformation of EOCs, though, we argue, in a much more differentiated and complex manner than was suggested by the classic literature (e.g. Ben-Ner, 1988a, 1988b). Though individual preferences and calculi play a role, the decisive ones might not necessarily be those held by the incumbent shareholding employees but may be those held by the incoming employees. Moreover, the individual preferences and calculi of the employee-shareholders are mediated by organizational decision-making procedures and embedded in a collective rationality.

Thirdly, since EOCs still tend to be social innovations in the social environments in which they occur, they are predominantly dependent on contingent processes in which the sense made is connected to notions of familiarity and, to the same extent, of trust. Thus, EOC's most important viability requirement is that all its key stakeholders have to (more or less synchronically) find for themselves a way to render the unfamiliar novelty 'EOC' into a form that appears to resemble something familiar and trustable (Duhm, 1990; Pendleton, McDonald, Robinson, & Wilson, 1996). The irritations provoked by the unfamiliarity of EOCs may otherwise lead to attempts to 'normalize' this deviant case and, thus, to its suppression. However, turning the unfamiliar into something familiar and trustable can take on different semantic forms for different actors. In this context, the inauguration of the executive board as well as the supervisory board with its particular formal structure must be considered the adoption of the classical organizational script and as a kind of minimal compromise in the eyes of internal as well as external stakeholders. As an additional requirement, it seems to be paramount that the EOC should be assessed by all key stakeholders as a welcoming innovation in one way or another rather than as a deviation from normality (Luhmann, 1995). Again, different actors may connect this with different expectations such as to allow for greater influence and power in small- and medium-sized companies for the trade unions (perspective of the union secretary), to provide a new form for formerly failed privatizations (state, house bank), or to provide a final rescue for securing the enterprise and its workplaces (employees).

These theoretical considerations also lead us to some obvious *practical implications*: EOCs are generally well advised to, *firstly*, acknowledge the importance of both stakeholders internal and external to the firm and to perceive their behaviour as the result of different sensemaking processes. *Secondly*, it would be risky to perceive EOCs as stable and the same is true for the organizational members' motivation structure. Accordingly, it is of high importance to continuously observe and adapt the company's incentive systems, particularly with respect to the rules of employee-ownership. *Thirdly*, EOCs ought to pay particular attention to the development and retention of the familiarity and trust with the EOC model in use, both within and outside the firm.

Our paper, of course, also bears some clear *limitations*. *Firstly*, although the capacities of the case study approach should not be underestimated, our findings are based on just one case. So, further research seems to be necessary to strengthen but maybe also to adjust our argument. This would particularly require examining some further cases of EOCs induced by crisis situations although, as we noted above, their number is quite limited and long-term access often difficult and rather retrospective. Further attention may also be paid to co-operatives since they can be perceived as too often possessing a more traditional and approved governance structure and to dispose of a considerably higher level of familiarity and trust with both internal and external stakeholders. Thus, they could figure in comparative studies as contrasting cases. *Secondly*, Phoenix is located in the mechanical engineering industry, which makes the case rather particular. While Phoenix displayed a high level of capital-intensive production, the vast majority of EOCs, including co-operatives, operate rather in industries and services that are characterized by high labour intensity (Dow, 2003). This made Phoenix always highly dependent on the environment in terms of organizations that can provide either outside capital or public subsidies. While Phoenix' particularity enabled us to discover some new aspects of EOCs that would otherwise go undetected, our argument presented here may also figure in future comparative research as a contrasting case in terms of capital intensity and the subsequent dependence on the perceptions and convictions external key stakeholders have about EOCs. *Thirdly*, it should not be forgotten that the transformation of Phoenix took place in the particular context of the societal and economic transformation of East Germany. There is no doubt that this constitutes a framework with rather particular contingencies (e.g. high unemployment, restructuring of whole industry sectors, far-reaching value change), which makes generalizations as well as comparisons with other cases more complex. *Finally*, due to space restrictions, some important questions, such as about the role of customers and suppliers, had to be left aside and may be a subject for further discussions.

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Appendix: Overview empirical data

Internal stakeholder

Form of Data Collection	Form of Data Collection Event	Internal Stakeholder	Content	Number	Date/ period	Coding
Transcript from notes and memory	Meetings of the Steering Committee of the Joint Research Project	Leader of the joint research project (Human Resources Manager)	Contributions and Decisions taken	29	08/2010 - 10/2012	(HRM-SK-x)
Transcript from notes and memory	Workshop	Representatives from Phönix' middle management and works council	status quo and perspectives of employee-shareholding at Phönix	1	11/2008	(Function of Person-WS1)
Transcript from notes and memory	Workshop	Representatives from the middle management and works council	status quo and perspectives of employee-shareholding at Phönix	1	11/2008	(Function of Person-WS2)
Transcript of Tape Recording	Interview	Shop Chairman since 1996, Founding Employee-Shareholder, Member of the Supervisory Board since 1996, Director of the Employee Ownership Fund since 2006	History, status quo and perspectives of employee-shareholding at Phönix	1	09/2009	(Shop Chairman - 1)
Transcript of Tape Recording	Interview	Shop Chairman since 1996, Founding Employee-Shareholder, Member of the Supervisory Board since 1996, Director of the Employee Ownership Fund since 2006	status quo and perspectives of employee-shareholding at Phönix	1	05/2011	(Shop Chairman - 2)
Transcript of Tape Recording	Interview	Shop Chairman since 1996, Founding Employee-Shareholder, Member of the Supervisory Board since 1996, Director of the Employee Ownership Fund since 2006	status quo and perspectives of employee-shareholding at Phönix	1	11/2011	(Shop Chairman - 3)
Notes and minutes from memory	Interview	Works council member, Founding Employee-Shareholder	History, status quo and perspectives of employee-shareholding at Phönix	1	10/2009	(Works Council)
Transcript of Tape Recording	Interview	Financial Director between 01/1997 and 01/2009, Shareholder between 1997 – 2002	History, status quo and perspectives of employee-shareholding at Phönix	1	03/2006	(Financial Director-old-1)
Transcript of Tape Recording	Interview	Financial Director between 01/1997 and 01/2009, Shareholder between 1997 – 2002	History, status quo and perspectives of employee-shareholding at Phönix	1	09/2009	(Financial Director-old-2)
Notes and minutes from memory	Telefon-Interview	Financial Director between 01/1997 and 01/2009, Shareholder between 1997 – 2002	History, status quo and perspectives of employee-shareholding at Phönix	1	08/2012	(Financial Director-old-3)
Email-Correspondency	Written Interview	Financial Director between 01/1997 and 01/2009, Shareholder between 1997 – 2002	History, status quo and perspectives of employee-shareholding at Phönix	1	03/2014	(Financial Director-old-3)
Transcript of Tape Recording	Interview	Financial Director between 12/2008 and 2011	status quo and perspectives of Phönix and employee-shareholding at	1	03/2010	(Financial Director-new)

			Phönix			
Transcript of Tape Recording	Interview	Technical Director between 1996 and 2002, Founding Partner	history of employee-shareholding at Phönix	1	06/2010	(Technical Director)
Transcript of Tape Recording	Interview	Department Manager Construction, Founding Employee-Shareholder	History, status quo and perspectives of employee-shareholding at Phönix	1	03/2006	(Con1-1)
Transcript of Tape Recording	Interview	Department Manager Construction, Founding Employee-Shareholder	Influence of Employee-Shareholding and its execution on Firm Innovativeness	1	05/2011	(Con1-2)
Transcript of Tape Recording	Interview	Human Resources Manager between 2008 and 2012	status quo and perspectives of employee-shareholding at Phönix	1	09/2010	(HRM)
Transcript of Tape Recording	Interview	Head of Construction Department since 2009	Influence of Employee-Shareholding and its execution on Firm Innovativeness	1	05/2011	(HCD)
Transcript of Tape Recording	Interview	Head of Sales Department between 2002 and 2011, Shareholder	Role and Dynamics of Employee Owend Companies and Employee Sharehlding at Phönix	1	02/2012	(HSD)
Transcript of Tape Recording	Interview	Department Manager Construction, Founding Employee-Shareholder	Influence of Employee-Shareholding and its execution on Firm Innovativeness	1	05/2011	(Con2)
Transcript of Tape Recording	Interview	Head of Manufacturing Department, Founding Employee-Shareholder	Qualification Requirements of Employees during reduced working ours	1	10/2009	(HMD)
Notes and minutes from memory	Interview	Shop Floor Supervisor, Founding Employee-Shareholder	Qualification Requirements of Employees during reduced working ours	1	10/2009	(SFS1)
Notes and minutes from memory	Interview	Shop Floor Supervisor, Founding Employee-Shareholder	Qualification Requirements of Employees during reduced working ours	1	10/2009	(SFS2)
Transcript of Tape Recording	Group Discussion	Head of Service Department, Founding Employee-Shareholder, Member of Supervisory Board between 2000 and 2006 Technician, Member of Supervisory Board between 1996 and 2006	History of Employee. Ownership at Phönix	1	04/2013	(GD-SB)

External Stakeholder

Form of Data Collection	Form of Data Collection Event	External Stakeholder	Content	Num-ber	Date/perioid	Coding
Transcript of Tape Recording	Interview	Partner of the Financial Investor Reputatio, Member of the supervisory board between 2006 and 2011	Role and Dynamics of Employee-Shareholding	1	04/2010	(FI)
Transcript of Tape Recording	Interview	Chairman of the supervisory board at Phönix between 2006 and 2011, CEO of another firm	Status Quo and Perspectives of Employee-Shareholding at Phönix	1	02/2010	(CSB-new)
Transcript of Tape Recording	Interview	Local Official of the Trade Union IG Metall, Initiator of the employee buy-out, Member of the supervisory board at Phönix between 1996 and 2011	History, Status Quo, Perspectives and Execution of Employee-Shareholding at Phönix	1	04/2010	(IGM)
Transcript of Tape Recording	Interview	Key Account Manager at Phönix' Principal Bank	Genesis, Development and Transformation of Employee-Shareholding at Phönix	1	06/2010	(Bank-KAM)
Transcript of Tape Recording	Interview	Regional Director of Phönix' Principal Bank and Member of Phönix' Supervisory Board between 1996 and 2001	Genesis, Development and Transformation of Employee-Shareholding at Phönix	1	02/2014	(Bank-Regional Director-old)
Transcript of Tape Recording	Interview	First Chairman of the Supervisory Board at Phönix between 1996 and 2001, Member of the Executive Board of a German Automotive Company	Genesis, Development and Transformation of Employee-Shareholding at Phönix	1	03/2014	(1. CSB)
Transcript of Tape Recording	Interview	Regional Director of Phönix' Principal Bank and Member of Phönix' Supervisory Board between 2001 and 2006	Genesis, Development and Transformation of Employee-Shareholding at Phönix	1	08/2014	(Bank-Regional Director-new)

Summary

Form of Data Collection Event	Number
Interviews	23, thereof 16 conducted with internal and 7 with external external stakeholders
Meetings of the Steering Committee of the Joint Research Project	29
Workshops	2
Group Discussion	1
Telephone Interview	1
Written Interview by Email	1