Companies are increasingly offering employees a financial stake in the firm in order to encourage employees to act like owners. Agency theory predicts that giving employees ownership will reduce the classic conflict of interests between principals (legal owners) and their agents (managers and employees) (Eisenhardt, 1989). As the number of companies offering some form of employee ownership has grown, organizational researchers have become interested in understanding the effects that ownership has on employee attitudes and behaviors. On the whole, research on this topic has revealed conflicting. Although many studies find support for the proposition that ownership leads to positive attitudinal and behavioral outcomes, such as higher organizational commitment, productivity, and employee retention, there are also studies that find either no effect or negative effects of ownership on many of these variables (see Blasi & Kruse, 1995 for review).

More recently, scholars have argued that there is both a financial and psychological dimension of employee ownership (Pierce, Rubenfeld, & Morgan, 1991). Financial ownership is the objectively verifiable state of ownership through financial equity in the company, while psychological ownership is the internal state of possessiveness and the feeling of being psychologically tied to the company (Pierce et al., 1991). Psychological ownership is an independent construct that is proposed to mediate the relationship between financial ownership and employee attitudes and behaviors. Pierce, Kostova, and Dirks (2001) contend that psychological ownership should result in employees expecting more rights to and accepting more responsibility for the company. Such rights may include the right to information about the company and the right to influence decisions concerning the company. Responsibilities include sharing the burden of caring for and protecting the company, becoming informed about the company, and investing time and effort into the company. Pierce and his colleagues (1991) propose that the primary way that financial ownership affects employee attitudes and behaviors is by operating through the mechanism of psychological ownership. This theorized relationship between financial ownership and psychological ownership may help explain why financial ownership had no effect on employee attitudes and behaviors in some studies because it suggests that financial ownership, without psychological ownership, may not be enough to produce the intended positive effects. Unfortunately, to date there has been no empirical examination of the relationship between financial and psychological ownership. In general, we know very little about the mechanisms that connect financial ownership with its outcomes (Buchko, 1992). More research is needed on how financial ownership relates to psychological ownership and also on how financial ownership may lead to positive (and possibly negative) outcomes for employees and organizations.

In this study, I sought to develop grounded theory about the relationship between financial and psychological ownership and the ways that this relationship influences employee attitudes and
behaviors. To this end, I examined employees’ experiences of financial and psychological ownership in a high-growth software company over an 18-month time period. I chose to study this topic in a high-growth company for two reasons. First, high-growth firms often grant employees stock options (Rosen 1991), and stock options are a form of employee ownership that has been relatively neglected in organizational research. Stock options give employees the right to buy a certain amount of the company’s stock at a fixed price for a number of years into the future. Once purchased, employees can sell the stock for a profit if the market price is above the fixed price they paid for it. Stock options have become a popular form of employee ownership in recent years and are expected to continue growing in popularity (Edwards, 2001; Rosen, 2001). More research is needed on stock options so that educators and practitioners will better understand the effects of this form of ownership. The second reason I chose to study high-growth firms is because these firms often operate in volatile environments and are particularly susceptible to stock market fluctuations. Given that the financial value of most forms of employee ownership, including stock options, are closely linked with the firm’s stock performance and broader stock market conditions, it is likely that the economic context in which employees are embedded may help shape employees’ experiences of ownership. Few studies have examined how the economic context of the firm may affect employees’ experiences of financial ownership. Studying a high-growth firm that was embedded in a volatile economic context may illuminate how employees make sense of sizable variations in the financial value of their ownership, and it may highlight important boundary conditions for a theory on employee ownership.

In summary, the purpose of this study is to inductively examine how employees’ experiences of financial and psychological ownership evolve over time in a high-growth organization. In particular, I explore how these two forms of ownership relate to each other and how they relate to employee attitudes and behaviors. After a brief description of my research methods, I present the relationships among these variables through an organizational narrative.

METHODS

In October 1999, I began studying a ten-year old, US-based software company, which I will refer to as “Rocket, Inc.,” that was experiencing enormous growth. I used a combination of qualitative methods to collect the data for my study. First, I conducted open-ended interviews with 150 employees in the company. My sample included members from all seven functional areas of the company and covered all levels in the organization. I conducted multiple interviews with one-third of my informants in order to identify any changes in their experiences during my 18 months in the field. These informants represented a mix of employees from various departments and with various positions and lengths of tenure. Second, I supplemented my interviews with hundreds of hours of observation of work activities, company events, and informal social gatherings. Finally, I collected a variety of industry and company documents as another lens into Rocket and as a way of examining what was happening in the technology sector and the economy in general.

For this initial study, I analyzed my data by writing memos that helped me recognize themes and patterns that were emerging in my fieldwork. I continually compared these memos to new, incoming data and modified my developing theory accordingly (Glaser & Strauss, 1967).
addition, I used a variety of analytic techniques described by Glaser and Strauss (1967) to build grounded theory on how the key concepts related to one another.

FINDINGS

I present my findings in the form of an organizational narrative that has been significantly abbreviated and simplified for these Proceedings. In this narrative, I used the experiences, views, and recollections of my informants to construct how financial and psychological ownership evolved since Rocket’s inception.

Rocket, Inc. was founded in 1990 by a small group of engineers who had left a large, prestigious computer firm because they wanted the opportunity to start their own company. One of their goals was to create a flatter organization that empowered the workers by giving them a voice in the strategy and operations of the company. They also wanted to encourage employees to act more like owners, so they gave them a financial stake in the company through stock options. During the first several years of Rocket’s existence, the company remained fairly small, growing to only 300 employees by 1997. The “oldtimers” who were at Rocket during these early days remember investing a great deal in the company – physically, mentally, and emotionally. They were proud of this entity that they believed they had built. They felt responsible for whatever success or failure the company had, but they also believed they had a right to control certain aspects of the company and a right to reap the financial benefits of ownership if Rocket should ever go public. In 1996, when the company held its initial public offering, many employees made a significant amount of money from their stock options. Their financial ownership motivated the employees to continue investing their energy into the company and reinforced their high level of psychological ownership.

Right around the time that Rocket went public, the entire technology industry began to experience a huge surge in growth and stock market performance. The tech-heavy Nasdaq index soared to unprecedented levels. Being part of this tech boom, Rocket also started to experience unbridled growth in terms of revenues, stock price, and the number of employees. From 1998 to 2000, the company grew from approximately 300 to 1,300 employees and increased its net revenues from approximately $125 million to over $400 million. The stock value grew so quickly that the company’s Board of Directors voted to split the stock four times during these years so that it would still be affordable to a broad range of investors. With every stock split and value increase, employees made more and more money from their options.

My informants believed that Rocket and its employees went through a major transformation during the late 1990s. During this time, many employees began placing an increasing value on financial ownership relative to psychological ownership. Stock options became one of the most salient features of the culture. As one employee said, “I wonder what Rocket would be if they didn’t give out stock [options]. I hate to put too much emphasis on this, but it’s the first thing someone says to you in the hall. ‘Hey, we’re up two points!’” Another employee said, “Everything is driven by the stock price…. I’ve adopted that attitude. I don’t think you can not think about money in Rocket.”
Along with this shift in focus to financial ownership, employees described a transition to a more individualistic attitude. One employee said, “It’s more competitive. There’s less of a sense that we’re all in this together. It’s more, ‘I want to get ahead.’ ‘I’m going to cover my ass.’ There’s less of a sense of team.” Moreover, employees frequently mentioned how much time employees (including themselves) would spend managing their stock portfolios rather than working: “I had one [executive] tell me that if he didn’t spend one to two hours a day managing his investments that he wasn’t doing right by his family. And this was during regular work hours. I wanted to say, ‘You’re not doing right by the company by spending the equivalent of one to two days a week on your personal finances.’” Many employees talked about this growing infatuation with their financial ownership and the enormous amount of time and energy it consumed. They would even share spreadsheet templates that they had designed with their fellow employees so that they could all calculate minute by minute how much they were “worth” as the stock price varied throughout the day.

Employees associated the growing emphasis on stock options to another damaging outcome for the company. They tended to believe the high stock price lulled employees into a false sense of security. They thought people had begun to ignore the problems within the organization because they were so ecstatic about the stock price. As one employee stated, “There’s a twist in all this happiness. The tolerance is far greater than it should be. People will tolerate stupid moves, bad decisions just because the machine is still running full steam ahead.” During the peak of the stock ascent, an employee told me how stock options were pacifying his coworkers. “Every once in a while we’ll be talking about a depressing project and we’ll say, ‘But how ‘bout that stock!’ I pity the day when the stock falls. When it falls, I think some of the best guys will leave.” Since employees had to remain with the company in order to exercise their options and receive the financial benefits of ownership, many employees referred to stock options as “the golden handcuffs.” Therefore, although Rocket had an incredibly low turnover rate during the late 1990s, and low turnover is often proposed to be a positive outcome of employee ownership, not all of the employees that Rocket retained during this period were productive employees with a high level of psychological ownership.

Thus, during the transition phase that occurred in late 1990s, the focus on financial ownership began to overshadow psychological ownership within the company. Many employees started expecting all of the rights of financial ownership without as many of the responsibilities of psychological ownership. Although employees were ecstatic about their membership in such a successful company and the financial windfalls that came with it, the emphasis on stock options also tended to focus employees on individual aspirations rather than the company’s well being. Thus, instead of fostering employees’ psychological ownership as financial ownership is predicted to do, stock options actually ended up eclipsing many employees’ psychological ownership.

In the Spring of 2000, Rocket’s soaring stock price came to a screeching halt. The company announced for the first time ever that it would miss its forecasted revenue numbers. While the company was able to recover its revenue the next quarter, it was too late because the company was caught in the overall downward plunge of the Nasdaq in early 2000. Over the next few months, Rocket’s stock went through a series of nosedives. Over a short period, the stock dropped 85%. Few employees thought the stock price would ever drop that low, so many of them
had not sold their vested options. Time and again employees told me how they were struggling with their financial loss. One employee said,

“I don’t know how to deal with the loss of millions. I knew I threw up. I knew Tara [another employee] did. How many people took it out on their family? How many people got s--t-faced for weeks? One of our friends just sat in our pool all weekend and drank because he couldn’t go home and tell his wife that he lost millions. For four to five months, this company has been agonizing.”

In the months that followed the stock crash, the company’s turnover increased significantly. Some employees said that the people who were leaving were the “fast buck experts” who had joined the company solely because “they wanted to become midnight millionaires.” When the stock crashed, there was no longer any reason for them to stay. Others thought that people were leaving because they had been unhappy with the company for a while, and once the stock crashed, they were no longer shackled by their “golden handcuffs.” There were also a number of unhappy employees who stayed, harboring hopes that the stock price would rebound.

Despite the severe decrease in potential for employees’ financial ownership to make them wealthy, there had not been a widespread shift in emphasis back to psychological ownership. Financial ownership had focused many employees on their personal wealth, and even now that the stock was not promising to make everyone millionaires, many workers were still in the mode of thinking about ways to advance their own individual interests. Some employees said they were experiencing more political and self-promoting behavior at Rocket than they had in the past. One worker admitted, “I now realize this isn’t going to be my last job so I have to get more skills so that I can move on.” Another employee said:

“If you stayed [at Rocket] as the stock’s worth decreased, you became more oriented toward showing your success so you’ll get promoted so you’ll get a higher salary. If stock stayed at 115, I could have cared less if I ever got promoted. I was filthy rich! Then the stock tanked, and I thought to myself, ‘Stupid, I need to really be thinking about getting good experiences either by being promoted here or so that I can take that experience to another company.’”

While on the whole there was a substantial shift in focus from psychological ownership to financial ownership during the late 1990s, it is important to note that there were a number of employees who expressed an incredibly high sense of psychological ownership in the company. They tended to be oldtimers who had invested so much of themselves into the company that the low stock price barely dampened the responsibility they felt towards the company. A common sentiment among oldtimers in this group was, “I really care. It’s not just about the stock price. It’s about the success of the company. It would be shattering to think we put so much into the company to have it fail regardless of the stock price.”

**DISCUSSION AND IMPLICATIONS**

This is the first study to empirically examine the relationship between financial and psychological ownership and the employee attitudes and behaviors that result from the dynamics
between these two forms of ownership. In prior work, financial ownership has been theorized to lead to psychological ownership (Pierce et al., 2001). Employees’ experiences in the early years of Rocket support this proposition. However, employees’ experiences of financial and psychological ownership in the late 1990s suggest that financial ownership might actually undermine psychological ownership, particularly under conditions of high-growth and stock market volatility. At Rocket, the undermining process emerged from the tendency for lucrative stock options to focus employees on their individual aspirations and interests rather than on the company’s well-being. Stock option plans are implemented because they are thought to align employees’ interests with those of shareholders and increase psychological ownership, which in turn should lead to improved work attitudes and behaviors. My research challenges these claims and suggests that there may be an important boundary condition to agency theory’s predictions. When there are large swings in the stock market as we saw at the turn of the century, having a financial stake in the company via stock options may actually increase employees’ self interests rather than increasing concerns for the company’s and shareholders’ well-being. As many Rocket employees expressed, having stock options during bull market years not only enticed them to spend substantial amounts of work time managing and discussing their personal wealth, but it also gave them a false sense of security and created an atmosphere of complacency – attitudes and behaviors that were in not likely to support shareholders’ interests. Moreover, in 2000, when Rocket’s stock valuation plummeted along with much of the technology market, employees’ interests became almost too aligned with those of shareholders. Many expressed great frustration and even depression over the loss in the financial value of their ownership. These employees tended to focus more on their role as financial owners than on their role as psychological owners. In both cases, the extreme highs and lows of the stock market created conditions that distorted the positive outcomes that agency theory predicts would result from granting employees financial ownership.

Understanding the issues, relationships, and boundary conditions involved in ownership is important to the thousands of companies that offer employee ownership plans. The basic underlying premise of these plans is that financial ownership will lead to positive outcomes for employees and their companies. When these plans do not have the intended outcomes, understanding the underlying processes is critical to taking measures to make them more effective. Through an in-depth look at employees’ experiences of financial and psychological ownership in a high-growth firm, this study illustrates and explains some of the potential opportunities and problems presented by stock option ownership plans.

REFERENCES AVAILABLE FROM AUTHOR

1 “Rocket” is a pseudonym. I have disguised the name of my research site and its members to protect confidentiality.