Relating Equity Investment to Human Resource Development for Business Benefits

Jae H. Song, St. Cloud State University
Yinsog Rhee, St. Cloud State University
Carl R. Adams, University of Minnesota
Ross E. Azevedo, University of Minnesota

Abstract

A conceptual model relating equity investment to human resource development (HRD) that results in business benefits was developed based on extant theories on employee stock ownership, organizational learning, alignment, and risk shift. Businesses will benefit from a more committed and effective workforce, receiving more employee support for retirement and health programs that reduce risks for businesses, and a social and political environment that is more favorable to business values. Needed HRD actions include educating their employees about the benefits available, providing their employees with the capability to manage their equity investments, and strengthening participant management to enhance the commitment and effectiveness of their workforce.

Business Benefits of Equity Investment

The proportion of the US households that own equities has been growing steadily over the past two decades. As of January 2005, 57 million US households (50.7%) or 91.1 million individuals owned at least one form of equity (Investment Company Institute & the Security Industry Association [ICI & SIA], 2005) - either individual common stocks or common stock mutual funds[1]. Within the equity-owning investors, 70% of the

[1] For these equity investors, 51% own only stock mutual funds and the remaining 49% own only individual stocks or both stocks and mutual funds.

equity owners were employed, and the remaining 30% were either not employed or retired. These ownership figures indicate that the US is already, what one could call a "mass equity investment society (MEIS)", a society in which equity ownership of public corporations is held by a majority of all households.

Along with broader ownership, the self-management of equity investment is substantial and increasing. During 2001, 31% of investors used the Internet to execute some or all of their equity market transactions versus 15% during 1998. Among these internet users, on-line discount broker users grew from 9% in 1999 to 17% in 2002 (ICI & SIA, 2002).

While we believe that the trend in equity ownership is good for businesses, we propose that an effort to further expand ownership through HRD (Human Resource Development) will offer significant additional benefits to businesses and employees alike. To obtain those benefits in a timely manner, however, businesses should have HR departments take the lead in actions to enhance the forces favoring and to mitigate the forces limiting equity ownership expansion as ways of encouraging the complementary approach of participant management. The equity ownership expansion leads to business and employee benefits which include increased commitment and effectiveness of the workforce, improved understanding and acceptance of the shifting of retirement and health plan associated risks from business to the workforce, and a more receptive attitude toward various business activities, all changes within the purview of HRD. Figure 1 is a model relating the role HRD should play in influencing the forces that favor and limit equity ownership expansion. These benefits of equity ownership are discussed in more detail below and the HRD roles are presented after sections on the forces favoring and limiting equity ownership expansion.

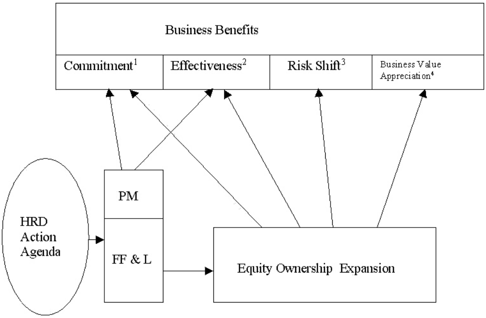

Figure 1. Model of Business Benefits and HRD Action Agenda

[1] Affected by 4 million employee owners (2002)
[2] Affected by 32.25 million employee investors with investing individual stocks (2005)
[3] Affected by 63.77 million employed investors (2005)
[4] Affected by 91.1 million investors (2005)

HRD: Human Resource Development
PM: Participant Management
FF & L: Forces Favoring & Limiting

Commitment of Managers and Workers

Broadening equity ownership presents an opportunity to increase the commitment of both the management and the workforce. Commitment is related to the alignment of employee interests to their employers by equity ownership. In 2002, there were 24 million employees who owned their employer stocks through the employee stock ownership plan (ESOP), 401k, and other plans (Blasi, Krause, Sesil, & Kroumova, 2003; ICI & SIA, 2002). Studies on employee stock ownership and organizational outcomes are mostly focused on ESOPs[2] that are primarily invested in employer stock. As employees own stocks of their employers, they have an additional amount of commitment to their employers due to the selling costs and other specific limitations associated with the stock. Hallock, Salazar, & Venneman (2003) reviewed selected studies on ESOPs and organizational outcomes and suggested a positive association between employee commitment and ESOPs. Similarly, Blasi et al (2003) reported a result that "employee ownership plays an important role in the improved performance." A review entitled Employee Ownership and Corporate Performance by the National Center for Employee Ownership (NCEO) on the impact of ESOPs to organizational commitment provides the additional insight, "We can say with certainty that when ownership and participative management are combined, substantial gains result" (NCEO, 2002, p. 4). Note that participant management, discussed extensively below, may complement the positive association of employee ownership with commitment.

Effectiveness of Managers and Workers

Effectiveness is related to the integration of knowledge gained from the employee managing his/her equity investments into his/her work environment. The effect of equity investment on effectiveness is a two-step process, knowledge acquisition and application of the acquired knowledge. In 2005, there were 91.1 million equity owners in the US; among them 63.77 million were employed and 32.25 million were investors, whose investment portfolios included individual stocks. These investors, especially, the active investors continuously acquire knowledge by searching investment

[2] In 2002, 8.2 million participated in ESOPs (Blasi et al., 2003), and in 2006, there were 9,225 ESOPs and 10.1 million participated (A Statistical Profile of Employee Ownership, retrieved from http://www.nceo.org/library/eo_stat.html).

opportunities and by monitoring the earnings outlook and prices of their existing investments. As a by-product of these equity investment activities, investors will gain knowledge about the firms whose equities the investors are interested in. Specifically, investors gain knowledge of the business opportunities, strategies, capabilities, and performance of various firms including their own[3]. The acquired knowledge and experience of the active employee-investors broadens their understanding of corporate strategies, capabilities, and the future performance of their own firms.

To better understand the second step, the application of acquired knowledge, it is useful to consider the organizational learning model proposed by Argyris (1992). In that model, actions generate consequences while governing variables, including values, assumptions and policies, drive and guide the actions. Organizational learning occurs through two distinctive sub-processes: single-loop and double-loop learning. In single-loop learning, individuals, groups or organizations adjust their actions to correct the mismatch between expected and obtained consequences. The deep understanding of business especially of strategy brings single-loop learning for managers and workers by changing their actions to better support their business strategy and thus to lower the costs due to inconsistent objectives (Jensen, 1998). In double-loop learning, the individuals, groups or organizations scrutinize the governing variables. If they are able to examine and change the governing variables and their actions, then double-loop learning occurs. By searching investment opportunities and monitoring their investments, managers and workers acquire knowledge of the major governing variables that may drive and guide their actions.

[3] The top 10 information needs of equity investors were: strategy, EPS growth, free cash flow, management experience, R&D expenditure, short and long-term debt, products, bad news, market leadership, and challenges and risk. IR is failing basic task, study says, *Investor Relations Business*, 04/12/1999, 4(8). pp.1-3.

Having managers and workers understand and possibly influence the modification of the governing variables and their related actions leads to double-loop learning. This brings long-term effectiveness for a firm. Double-loop learning requires participant management, a managerial practice that permits workforces to participate in and share higher-level managerial responsibilities and authority. Participant management leads to a mutual adjustment between managers in controlling actions of workers and workforces in changing governing variables. As discussed further below, participant management can also facilitate career development.

The effects of business understanding on learning are similar to those of the common knowledge required to facilitate efficient integration of individual specialties (Grant, 1996), the role of redundancy[4] for knowledge creation (Nonaka & Takeuchi, 1995) and innovation (Van de Ven, 1986), the understanding of business strategy by employees as an enabler of business-information technology(IT) alignment (Luftman & Brier, 1999), and the need for broad macro knowledge of interrelationships to support systemic learning (Senge, 1990). Further, participant management in the above discussion is similar to the various coordination mechanisms that integrate knowledge as addressed by Grant (1996) and also to alignment enablers proposed by Luftman & Brier. In their study on business-IT alignment, Luftman & Brier (1999) proposed participant management practices such as "Senior executive support for IT", "IT involvement in strategy development" and "Business IT partnership" as alignment enablers. Considering a business strategy as a long-term position of a firm, a critical analysis of business strategy and performance could also deter the myopia of organiza-

[4] Redundancy is the existence of information that goes beyond the immediate operational requirement of organizational members, Nonaka, I., & Takeuchi, H., (1995). The knowledge-creating company. New York: Oxford University Press, p. 80.

tional learning[5] and help to develop more effective organizational capabilities (Levinthal & March, 1993).

Assuming that investor-workers are more knowledgeable through the learning noted above, benefits based on mutual accountability should result. In public corporations, there are significant agency costs (the cost of monitoring and bonding the managers as well as residual loss). Mutual accountability would reduce these costs and result in better business performance. Residual loss occurs as managers who operate as agents of the equity investors make decisions that are not in the best interest of those investors. This loss to the investor, residual loss, is a critical weakness of public corporations according to Jensen (1989). Recent corporate scandals due to the ethical lapses of top management highlight the vulnerability of public corporations and the significance of agency costs. The more sophisticated investor-workers in the MEIS should develop a mutual accountability with management (Davis, Lokomnik, & Pitt-Watson, 2006). This mutual accountability between management and worker-owners should motivate individual managers to better their performance, deter managerial malfeasances, and reduce the residual losses, a component of agency costs to the owners. The well-informed investor-owners have a lower need to monitor agents (managers). This lowers monitoring costs and further reduces the agency costs to the owners of the firm. In addition, the commitment of employee stockowners provides additional motivation for the mutual accountability.

The knowledge acquired by employed active investors from managing their investments could facilitate organizational effectiveness through double-loop learning, the integration and alignment of individuals

[5] Myopia includes the tendencies to overlook distant times, distant places, and failures.

and groups, and the reduction of learning deficiencies and agency costs. In addition, as organizations move toward more flat and decentralized structures, more members of the workforce are increasingly participating in managerial functions. The knowledge gained from investments is relevant to an increasing number of workers. However, the full realization of both the commitment and effectiveness of managers and workers requires a management practice (participant management) that allows non-managerial employees to participate in traditional managerial actions and decisions. In our model in Figure 1, the absence of PM (Participant Management) is viewed as a force limiting equity ownership expansion and an interacting factor in creating the effectiveness as well as the commitment of managers and workers.

Acceptance of Risks Associated with Retirement and Health Plans

Both successful firms, e.g., IBM and Alcoa and firms in financial difficulty e.g., General Motors are shifting their pension plans to defined contribution retirement plans with access to equity investment options. Presumably, theses firms are attempting to shift the retirement program risks to their employees. The retirement program risks include investment risk, funding risk (insufficient funds to finance retirement benefits), and longevity risk (Zelinsky, 2004). This reflects an opinion that the firms prefer to focus their management effort on running their businesses and shifting risk management to their employees. This transfer frees management to put their attention to other aspects of running their businesses. The defeat of the Social Security reforms proposed by the Bush Administration that included a defined contribution retirement benefit and an equity investment option suggests that a barrier exists to the shifting of risk from either the government or businesses to the workforce (Hacker, 2006). Further expansion of equity ownership might help overcome this barrier. In time, the populace of the MEIS could become sophisticated in appreciating Social Security as a modest defined benefit retirement program that complements an employment based defined contribution retirement plan with an equity investment option. Similarly, Health Savings Accounts (HSAs)[6] and the new consumer driven health plans shift the management of the risk to employees.

Increased Appreciation of Business Values

There are potential conflicts of interest between workers and investors. In an employment relationship, firms pay wages and compensation to an employee for his/her works or efforts. In an investment relationship, on the other hand, firms receive investment capital from investors, who in return accept shares of common stock that generate a stream of investment incomes and have the "residual control" rights (Dow & Putterman, 1999). The amount of wages payable to the employees and the amount of capital for investment are clearly specified and determined in advance, both the value of the employees' work and the equity returns are uncertain and difficult to predict. The value of work or investments varies depending on the firms' needs, future performance, and market competition. In the employment relationship, firms are taking a risk arising from the uncertainty regarding an employee's future productivity and work attitude. In the investment relationship on the other hand, investors are taking the risk of uncertain future returns.

In general, in a bilateral relationship, the party taking the risk assumes the control rights and claims over the other party. The governing authority thus

[6] Health Savings Accounts (HSAs) were established as part of the Medicare Prescription Drug, Improvement, and Modernization Act, which was signed into law by President Bush on December 8, 2003 and are designed to help individuals save for future qualified medical and retiree health expenses on a tax-free basis

flows from an investor to firms and from a firm to employees. For investors, the growth and protection of profits takes precedence over the preservation of jobs and the compensation of employees. Employee compensation is a major cost item of most firms that managers try to minimize to gain a competitive advantage or to stay profitable. For the vast majority of workers, earnings from work are potentially limited (although reliable) as compared with potential earnings from investment.

As employees become familiar with the perspectives of the investors, there is more appreciation of these value differences and potentially more accommodation to them. Further, as more and more employees invest in equities of their own and other firms, the traditional division between employees and owners (investors) diminishes, the polarization of the population towards pro-employee or pro-investment policies that characterizes the industrial democracy should be lessened. Conflicts of interest between workers and investors regarding such policies as reducing capital gains taxes or trade liberalization subside or become less acute when ownership is widespread. Businesses can implement pro-business policies such as outsourcing and pension reforms more easily as the improving wealth distribution modifies social polarization. Disputes between labor and management would be reduced.

In order to promote its benefits, businesses must consider the forces favoring and limiting the growth of equity ownership, and improve the management practices to facilitate business benefits. HR departments can take the lead in improving the appropriate management practices with an HRD effort addressing education, training and career development of employees. The forces favoring and limiting equity ownership expansion, and a HRD action agenda for business are presented and addressed in subsequent sections.

The final section presents a brief summary of the business opportunity related to equity ownership expansion.

Forces Favoring Equity Ownership Expansion

The set of forces that seems responsible for the arrival and expansion of the MEIS (mass equity investment society) includes the expected higher earnings from equity investment, and a personal responsibility movement by companies and the government that shifts risk to individuals as in defined contribution retirement plans and government policies to promote saving through IRA's, and the new HSAs. Along with the acceptance of personal responsibility is the desire for financial independence and work mobility. Evidence of government interest in risk transfer is shown in the changes proposed by President Bush to the Federal Old Age, Survivors, and Dependents Insurance program (Social Security) that included a partial move toward equity investments and a defined contribution approach. If encouraged, these forces clearly suggest that in the future, we will have a society with significant and increasing amounts of the average individual's income dependent on his/her equity investment decisions.

Expectation of Higher Earnings from the Equity Investment

Historically, equity investments have provided substantially higher long-term returns than CDs and bonds. The average return of equities in the hundred-year period from 1899 to 1998 is 11.86% (Alexander, Sharpe, & Bailey, 2001)[7]. Considering the recent (1992 - 2005) lower interest rates on fixed income investments, equity investments seem to be an attractive alternative. The total value of the equity holdings of households was over nine trillion dollars in 2002. Using

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[7] Refer Alexander et al. (2001). pp. 4-5, Table 1.1.

the average rate of equity return, household equity holdings would have generated about one trillion dollars of earnings. In the same year, the total compensation paid to employees was about six trillion dollars[8]. This observation indicates that equity investment accounts for a significant portion of the total income of a large number of households.

The growing number of specialized mutual funds such as sector funds, index funds, international funds, and other investment products such as ADR's (American Depositary Receipts) provide useful opportunities for individual investors to make equity investments and manage their risk. Internet-based on-line brokerage makes equity investment affordable and convenient. Information needed to manage equity investment is becoming more accessible and affordable.

Personal Responsibility Movement

Businesses and government have been transferring management of some activities that are traditionally managed by them to individuals under a broad trend called "Personal Responsibility' or the "Ownership Society". These transfers include healthcare (HSAs) and product liability limits in addition to the retirement plans. These transfers shift the risks from the government or businesses to individuals (Hacker, 2006). This is being driven partially by the benefits noted above to corporations, but is also presumed to benefit employees.

Among the 57 million equity-owning households, about 66% of the households own equity through employee retirement plans offered by their employers,

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[8] The personal dividend income alone in 2002 was $397 billions, Council of Economic Advisors. (2004). Economic Report of the President. Washington D.C.: United States Government Printing Office, pp. 318-319.

e.g., 401k, and 403b. About 69% own equity through outside retirement plans such as Roth and traditional IRAs. According to the Equity Ownership in America report (ICI & SIA, 2005), retirement is the primary purpose of equity investment for 60% of equity owners[9].

There is a clear trend toward defined contribution plans (Braude, 2005) and away from defined benefit plans. In a defined contribution plan, employers make a pre-determined amount of contribution into employee retirement accounts, and employees, not the employers, manage their retirement accounts. An article in The New York Times reported that only 16 percent of active workers had a defined contribution plan in 1979, but the number had grown to 62 percent by 2004, while about 63% of all active workers were covered by defined-benefit pensions in the late 1970's, the number decreased to 13% by 1997[10]. As more firms shift to the defined contribution plans, the number of employee-investors will continue to grow.

Following the personal responsibility perspective noted above, government has been introducing policies that promote equity ownership. The need for financial security against the widely publicized insolvency problem of the Federal Social Security System and the introduction of various IRAs provide additional incentives for the public to save and invest. Perhaps in recognition that the defined benefits of Social Security will be limited in the future, the federal government has established IRAs with built-in tax benefits. According to the IRS, at the end of 2000, 46.3 million taxpayers hold IRAs worth a total of $2.6 trillion in fair market value[11]. Continued extension of the direction of gov-

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[9] Other purposes include current income (10%); education (9%); and emergency, inheritance, major purchases and tax saving (21%).

[10] More companies ending promises for retirement, The New York Times, (January 9, 2006). Section A, Column 6, National Desk, p.1.

[11] IRS Spring Statistics of Income bulletin, IR-2004-102, (July 30, 2004).

ernment policies in favor of equity ownership will be an important factor in the growth of equity ownership.

The culture of lifetime employment with one firm has changed. As firms adjust to global competition, they modify their workforces dramatically. The amount of compensation of an individual employee is usually limited by the employee specific characteristics in the delivery of work to a firm, for example, the geographical proximity to the workplace, available labor hours, and acquired job-specific skills. In contrast to the limited interchangeability of labor, investment capital can be transferred electronically at any time to any place and to anyone. Investment opportunities are more broadly available than job opportunities. Equity investment is an activity based on knowledge. It is non-discriminatory in age and sociopolitical grouping, and can easily move across national boundaries. This means that investment income can liberate individuals from reliance on a specific workplace. As equity ownership expands individual's income will be less dependent on the organization for which one is currently working.

In order to enable businesses and the government to continue to shift risk to individuals in defined contribution retirement plans, HSAs or through tort reforms for product liability, it is important for businesses to help their employees to embrace these shifts by supporting their ability to manage the risks. The Pension Protection Act of 2006[12] indicates the government's support for the personal responsibility movement. The Act specifically reduces the liability for employers providing investment advice for employees in their pension plans. The law provides a timely support both for employers and for employees.

[12] On August 17, 2006, President Bush signed into law.

Forces Limiting Equity Ownership Expansion

While there are significant forces favoring the expansion of equity ownership, there are also limiting forces. As noted above, one possible limiting force is the capability of investors to manage the risk associated with investment. Another limiting force is the quality of and access to information needed to manage one's equity investments effectively. In addition, the absence of an effective participant management program will limit the benefits obtained from a more informed and committed workforce.

Lack of Capability to Manage Risk

Although there is a potential benefit in terms of higher returns and mobility, income from equity investment is less reliable than employment income, and is more speculative and less secure than bonds and CDs. Equity investment is a knowledge intensive activity; an investor needs skills and knowledge to manage the risks involved in equity investment. As noted above, the defeat of the Social Security reforms proposed by the Bush administration might indicate a wide spread resistance to self-managing a part of Social Security and likely a lack of confidence in managing investment risks on the part of many individuals. In order to search for and analyze investment opportunities, trade, and monitor the performance of their equity investments, investors need knowledge of investment fundamentals and business management as well as the business environment that determines future equity value.

For some individual investors, skills and knowledge can come from informal self-motivated learning such as reading books and magazines, attending conferences, and prior investment experience. Formal education is available for professional investors. The basic topics in investment fundamentals, accounting and business strategy have been taught to managers and specialists in management schools. However, without formal education and training to manage investments, most individual investors likely lack the confidence to manage risks. As equity investors learn more from their investment experience, their investment portfolios include relatively more individual stocks than mutual funds[13].

Lack of Access to High Quality Information

While not perfect, the SEC has ensured that the needs of investors for descriptive information both in access and in quality will be met. The descriptive information that includes financial statements, descriptions of company business and management, and the specific security to be offered for sale has been generally adequate for the professional investors but the non-professional investors need more. In particular, individual investors need forward-looking information regarding future equity performance, namely, equity research and rating information. Both the quality of and access to forward-looking information are significant barriers for individual investors.

Except for a few independent research firms, most of the security research available has been developed as a supporting activity or as a by-product of investment management. Using the security research of their own or selected independent research firms, investment management firms have provided professionally managed portfolios of investments for investors with different investment goals and risk preferences. Security researchers could move the security prices by making seemingly credible but deliberately misleading or wrong recommendations (Song, Adams & Rhee,

[13] Investment Company Institute & the Security Industry Association. (2005). Equity Ownership in America, p. 3, Figure 3.

2007). Investment managers, in turn, could take advantage of these moves by selling or buying when the security prices move up or down in response to their recommendations. The independence of research from investment management is necessary to protect investors, especially the growing group of self-managing investors.

In addition to the concern over the conflicts of interest between research and investment management, the evaluation of the quality and reliability of security research has been limited. Theories being used to value investments are insufficient. The methods used to make security recommendations are generally not well understood by investors, and the metrics used to measure the performance of research related recommendations are underdeveloped. The independent research industry is highly fragmented and is just a small fraction of the total securities industry. Research reports are distributed mostly through a subscription base rather than through a spot market (Song, Adams & Rhee, 2007). A large part of the production cost of a research report is unrecoverable cost and research reports are perishable products. An equity research report is an experience good; investors do not know what it is worth to them until they experience it. Investors, especially inexperienced ones, are reluctant to pay for research reports. Considering its importance, the independent research industry warrants further development and growth.

As the demand for equity research grows, the need for research performance ratings is also apparent. Most research and investment management firms provide security research recommendations and a summary of their past performance records with a typical reminder that past performance does not guarantee the future. Rating is an integral part of a research report, but the rating should be done independently from the research. Developing a performance database of research firms that investors can depend on in valuing and selecting security research is a process that requires a constant and continued long-term attention that is difficult for an individual investor to maintain.

Performance databases, knowledge bases for security research and ratings are insufficient and underdeveloped. The high current prices of subscribing to the research, uncertain content quality, and the lack of transparency of the methods used in research reports and ratings, make individual investors reluctant to buy research and rating reports. This lack of confidence in forward looking information is a serious barrier for long-term equity investment.

Need for Participant Management

The commitment and effectiveness of managers and workers requires a management practice that provides additional motivation and allows non-managerial employees to participate in traditional managerial actions and decisions. This participant management takes a variety of forms in practice, but all of the variants share common elements including employee training and empowerment, sharing information, and benefits sharing for employee contributions. Participant management is designed to move away from traditional management practices and has been gaining nation-wide acceptance in the workplace today (although some forms are more popular than others are). Some examples of participant management forms include 1) team-based organizations or self-managed teams where the members of the teams share the responsibility and authority in completing projects assigned to the teams (Doucouliagos, 1995), 2) open-book management which involves sharing key financial data, teaching employees how to read financial reports and to control costs, empowering employees to make necessary changes and decisions for success, and paying employees a fair share of profits through bonuses, incentives, and stock ownership (Aggarwal & Simkins, 2001), and 3) employees sitting on the board of directors as in some UAW companies. A participant management program not only complements equity ownership, it can be a part of an HRD program of career development.

HRD Action Agenda for Businesses

Encouraging equity investment involves enhancing the favorable forces and mitigating the limiting forces noted above. HRD programs are needed to 1) educate employees to the benefits of equity ownership in increased returns and mobility, 2) provide education to employees that gives them the capability to manage equity investments, and 3) introduce and strengthen participant management to complement efforts to expand employee equity ownership and provide the opportunity to develop a career path in management. Promoting personal responsibility rather than entitlements and providing access to the information needed to manage their equity investments are provided by the employee education programs.

Educating about the Benefits of Equity Ownership

Employers who want to expand employee equity ownership can address the issue of educating them about ownership benefits by arranging for appropriate programs for their employees. This might be as simple as arranging lunch break presentations and discussions. Alternatively, the company might sponsor special sessions outside the workplace where recognized professionals make the presentations. Similarly, companies might subsidize tuition at local educational institutions for appropriate classes. These educational offerings could emphasize issues relevant to the specific sponsoring company or simply address the benefits of equity ownership in general. The culture of personal responsibility will support the employee education.

Personal responsibility involves the transfer of responsibility, authority, and burdens from the government and business organizations to individuals. While the personal responsibility movement seems to be strong in our culture at the current time, it would help to reinforce government programs that encourage self-reliance in economic matters. This encouragement could include assisting institutions that provide appropriate information, ensuring access to relevant information and developing the capability of individuals to use appropriate information. This could also involve participation in the development and delivery of government educational programs. It may even require lobbying the various levels of government to establish programs that promote personal responsibility.

Building Employee Investment Capability

Investors need an understanding of and ability to manage risks to be successful. They need to know how to reject, accept, prevent, and mitigate these risks. HRD should provide investment education, which includes coverage of mechanisms and techniques to manage investment risks. Coverage should include the basics of accounting principles, investment fundamentals, and assessment of business strategy. Providing these areas of material knowledge to employees in the organization will help them in their own investment practices as well as in the performance of their organization roles.

When considering business strategies, HRD must identify the specific business strategy and ascertain the closeness of business performance to that strategy. Currently, formal education in high schools and universities is structured largely toward employment and job preparation, leaving a significant gap for HRD to fill. Put differently, HRD can fill the charge of providing the knowledge and skills to align workers interests with those of the organization and with their personal interests as investors in the market.

Investment capability should be supported by information access. Providing needed information requires improvement of the predictive information and enabling employee access to relevant information. Currently equity research and rating information are quite limited. Thus, businesses need to support through government or privately: 1) a move to make the equity research firms independent of investment management firms and to make rating firms independent of research firms, 2) studies to understand the forecasting of security value, 3) the creation of a limited set of "good" forecasting models and periodic estimates related to industry sector forecasts of performance, and 4) the creation of a performance data base for equity analysts including mutual funds that supports evaluation of analysts over time and access to the database by the workforce.

Businesses should also support their investing workforce by providing easy and affordable access to a variety of equity research and rating reports. The limited sets of good quality research reports that are currently available are expensive. Subsidizing employee access to research reports can enable individual investors to make smart equity investment decisions, and enhance their confidence and trust in securities research. Further, significant use of research by businesses will help develop an independent research industry.

Encouraging Participant Management

HRD should play the role of demonstrating how equity ownership is a complement to incentive programs of the organization, promoting the incorporation of the corporate strategy in the array of activities across the systems. Many have studied (Blassi, Klause, Sesil & Kroumova, 2003; Hallock, Salazar & Venneman, 2003) the benefits of employee ownership and incentive programs; HRD has the role of carrying forward the benefits of these activities in implementation. Our concern is that the employee, from manager to rank-and-file, be fully aware of the returns to investment activities. Management should support HRD efforts to enlighten employees to all of these opportunities and engage in the interaction necessary to ensure that the company strategy in this area is formulated and implemented fully.

Summary

The expansion of equity ownership is taking place and its development holds advantages for businesses. There are forces favoring and limiting equity ownership expansion and management practices supporting workforce participation. Businesses should take actions through HRD programs to influence the forces and implement the management practices to reap the benefits that expanded equity ownership presents. The HRD programs are needed to educate employees to the benefits of equity ownership and to give them the capability to manage equity investments, and should promote participant management both to complement equity ownership and to develop a career path in management for employees.

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Jae H. Song is a professor at the G R Herberger College of Business, St Cloud State University, St Cloud, Minnesota. He received his MBA and PhD degrees in Management Sciences from the Carlson School of Management, University of Minnesota. His current research focuses on information economics, financial information infrastructure, and information technology in supporting investors, customers and employees. He has published articles in Strategic Management Journal, International Journal of Information Management, Information & Management, Business Horizons, Journal of Health Care Management, Journal of Consumer Marketing, Journal of Financial Services Marketing and MIS Quarterly. He has taught at Korea University and Carlson School of Management, University of Minnesota.

Yinsog Rhee is an associate professor at the G R Herberger College of Business, St Cloud State University, St Cloud, Minnesota. He received his PhD in Labor Relations from University of Minnesota and joined the faculty at St Cloud State University in 1988. His research interests include economic sociology, labor market and collective bargaining, and compensation theory and productivity. His current research focuses on productivity and employment impacts of profit sharing and knowledge management and inter-employee knowledge transfer in the workplace. He has published his works in such journal as Business Horizons, Journal of Labor Research, Journal of Financial Services Marketing, Compensation Quarterly, Journal of Collective Negotiation, and Journal of East-West Studies. He teaches courses in the areas of general management and employee compensation.

Carl R. Adams is a professor in the Carlson School of Management at the University of Minnesota. He received his doctorate in management sciences from the Krannert School at Purdue University. His research focuses on IS strategy, organizational design and governance; IS organizational capabilities and business alignment; and IS structure and performance. His writings have been published in a number of academic journals and international conference proceedings including: MIS Quarterly, Decision Sciences, Business Horizons; Journal of Decision Support Systems; Journal of Health and Human Resources; Journal of Consumer Marketing; Journal of Financial Services Marketing; and Information and Management. He served as the Department chair of the Management Sciences and Information and Decision Sciences at the Carlson School for 17 years. Currently he is the Director of the Management Information Systems Research Center and is Co-director of the CIO Research Consortium on IS Organizational Design and Governance at the Carlson School.

Ross E. Azevedo is an Associate Professor in the Department of Human Resources and Industrial Relations, Carlson School of Management, University of Minnesota, Twin Cities. Holding M.S. and PhD degrees in Industrial and Labor Relations from Cornell University, his current research and teaching have focused on agency theory and its application to organizations, Human Resource Development, organizational development, training, compensation programs, employee benefits, and labor relations. His consulting has included improving productivity, the use of statistics in compensation practices, and the development of labor market analyses in compensation systems. He has taught at UCLA and the State University of New York and has worked as an economist for the U.S. Department of Labor.