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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 sense-making 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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** Article received: July 16, 2014

Revised version accepted after double blind review: February 15, 2016.