Mutuality in Business:

Future Governance Options for the Mars Corporation

Working Paper No. 5 | June 2017

Mutuality in Business:
Future governance options for the Mars Corporation

Working Paper No. 5 | June 2017

Jonathan Michie | Kellogg College, University of Oxford

Kate Roll | Saïd Business School, University of Oxford

Saïd Business School, Egrove Park, Oxford OX1 5NY
www.sbs.oxford.edu

About the Authors

Professor Jonathan Michie

Professor of Innovation & Knowledge Exchange
jonathan.michie@kellogg.ox.ac.uk

Jonathan is Professor of Innovation and Knowledge Exchange at the University of Oxford, Director of the University's Department for Continuing Education, and the 2nd President of Kellogg College. From 2004-2008 Jonathan was Director of Birmingham Business School and a member of Council at the University of Birmingham, where he was Professor of Management.

He previously held the Sainsbury Chair of Management at the University of London where he was Head of the School of Management & Organizational Psychology at Birkbeck College. Prior to that he was at the Judge Business School, University of Cambridge, where he was also a Research Associate of the ESRC Centre for Business Research, and a Fellow and Director of Studies in Economics at Robinson College. He worked for the consultancy company Analysys Ltd, and as an Expert to the European Commission in Brussels, before moving into academia.

Dr Kate Roll

Senior Research Fellow
kate.roll@sbs.ox.ac.uk

Kate is a Senior Research Fellow at Saïd Business School and manages the Mutuality in Business Project. She brings a background in international development and politics, and she is particularly interested in emergent, business-led approaches to poverty reduction.

Her most recent research has focused on bottom of the pyramid development, particularly route-to-market programmes, and she is currently engaged in an RCT study working with Kenyan micro-distributors. Kate also serves as a Lecturer in Politics, Somerville College, University of Oxford, and teaches on poverty, business, conflict, and technology.

Contents

Summary

This paper argues that ownership forms and governance arrangements will play a critical role in ensuring the future of mutual practices and outcomes for the Mars Corporation. Mutuality is one of the company's five core principles, and members of Mars Incorporated have increasingly been exploring how mutuality can be harnessed and embedded, thereby producing positive outcomes for both the corporation and its stakeholders. This paper looks specifically at how ownership structures can contribute to the mutuality of the corporation.

There are plenty of member-owned 'mutual' businesses that fail to develop and implement the necessary policies and practices to take full advantage of their mutuality for business purposes: it is an opportunity lost. Conversely, there are non-mutuals, in the sense of organisations that are not member-owned, but which pursue mutuality as a business principle. These companies gain some advantage from so doing, but perhaps not to the full extent that would be possible were those principles to be supported by a degree of actual mutual ownership, and with less chance of that mutuality being sustainable. Companies that do not reward their employees or customers with any actual ownership stakes may nonetheless seek to engender a 'sense of ownership' amongst them: this may pay dividends, but it is likely to be more effective and sustainable if underpinned by a degree of actual ownership.

This paper argues firstly, that to get the most out of mutuality, and to make is sustainable, requires a degree of mutual ownership. Using 'trust' or 'foundation' structures has proved successful at delivering such outcomes in a range of companies across the leading industrialised economies.

Looking forward, to the question of how Mars Incorporated may choose to structure its own ownership and governance arrangements in the future, the company is involved in a range of interesting activities globally that might usefully seek to develop forms of mutuality with their suppliers and other 'stakeholders' in their distributional value chain. In so doing, Mars would be promoting mutual ownership within other, new companies. This would have three beneficial effects. First, it would strengthen the sustainability of those ventures themselves. Second, it would contribute positively to the degree of corporate diversity and resilience within those economies. And third, it would contribute in imaginative and innovative ways to the growth and development of the mutual sector itself, globally and over time.

1. Introduction: what is a mutual?

Mutuals are organisations owned by their members. Typically, in most countries, the term 'mutual' has been used to denote member-owned companies in the financial services sector, such as the UK's building societies. But the term, in the UK particularly, increasingly over the past two decades has been used to denote any member-owned organisation, regardless of the industrial sector. The member owners are typically either the customers or the employees, but ownership stakes may also be held by or on behalf of the local community in which the organisation operates, or other such interest groups. For example, Foundation Trust hospitals within the UK's National Health Service are legally constituted as mutuals, in the sense of that being their corporate form, with the member-owners being drawn to represent three constituencies: the employees, the 'customers' (i.e. patients), and the local community. In this case national government and other national bodies also have an interest, as funders and regulators.

Because the term 'mutuals' has typically been used to denote companies in the financial services sector, such as building societies, the member owners are generally thought of as the customers. But in the UK particularly, the term has come increasingly to be used to describe the whole member-owned sector, thus encompassing, say, the John Lewis Partnership, which is owned by a trust whose trustees must act in the interests of the organisation's current and future employees. Increasingly, mutuals are adopting a hybrid structure to incorporate membership by or on behalf of different interest groups, including customers, employees, the community that the organisation seeks to serve, and possibly others. In terms of governance, such a hybrid model would be the appropriate form to consider in the case of the Mars Corporation, where mutuality is seen as encompassing the interests of (although not ownership by) a range of stakeholders.

The term 'mutuality' is of course used in other more general terms than simply to define organisations as being member owned. Specifically, the Mars Corporation has had a long-standing commitment to mutuality as enshrined in a document drafted in 1947 by Forrest Mars Sr., the son of the company's founder, describing the corporation's objective as 'providing a mutuality of service and benefits' with consumers, suppliers, competitors and others. Mutuality is one of the 'five principles' of the Mars Corporation: quality, responsibility, mutuality, efficiency, and freedom. On mutuality, Mars state that:

> We believe that the standard by which our business relationships should be measured is the degree to which mutual benefits are created. These benefits can take many forms, and need not be strictly financial in nature. Likewise, while we must try to achieve the most competitive terms, the actions of Mars should never be at the expense, economic or otherwise, of others with whom we work. Our Mutuality Principle has guided us reliably as we have established successful enterprises in new geographies and cultures. It has enabled us to act as a good corporate citizen, to minimize our impact on the environment and to use the natural resources of our planet wisely and efficiently.[1]

In this sense mutuality is taken to mean recognising the mutual – or common – interests that the company will have with its various stakeholders – customers, employees, and the communities in which the company operates, as well as with others, including its suppliers,

[1] See Mutuality: http://www.mars.com/global/about-us/five-principles/mutuality

and also the natural environment. Recent explorations of the principle have focused on the way in which the idea of mutuality – the creation of the shared and sustained benefits for the company and it stakeholders – can be used to inform management practices as well as is currently deployed within the organisation.

However, this use of mutuality raises two questions: firstly, is the application of the term 'mutual' to describe an organisation that is not member-owned accurate, and helpful, or misleading and possibly unsustainable? Secondly, can both definitions and understandings of the term be held and used simultaneously, or do we need to choose one or the other, and either assert or argue that the chosen definition is the legitimate one, perhaps along the lines of Humpty Dumpty in Lewis Carroll's *Through the Looking Glass* (1872):

> 'When I use a word,' Humpty Dumpty said in rather a scornful tone, 'it means just what I choose it to mean — neither more nor less.'
>
> 'The question is,' said Alice, 'whether you can make words mean so many different things.'
>
> 'The question is,' said Humpty Dumpty, 'which is to be master — that's all.'

This paper argues that both uses of the term are independently legitimate, and that the two definitions are related. The paper suggests that there is a close parallel to the use of the term 'ownership', which like the term 'mutual' certainly has a rather narrow legalistic meaning, but can be – and is – used also in other less legalistic settings.

The paper is structured as follows. One of the drivers behind the pursuit of mutuality in business, and of establishing member-owned businesses – that is, one of the drivers behind the utilisation of either of the definitions of mutuality – is to promote organisational success and sustainable growth, most especially *via* the potential for either form of mutuality to motivate employees to contribute discretionary effort at work. The sort of management practices and policies that aim to enhance productivity and profitability in this way are often referred to as constituting 'high commitment work systems', so these are discussed in this context in Section 2.

The nature and purpose of ownership is then analysed in Section 3. This is both important and useful for an analysis of mutuality in business – important because mutuality implies ownership, and useful because the ambiguity in the use of the term mutual or mutuality is mirrored in the use of the term ownership. This section also specifically considers the way in which mutualism can be adopted and developed in the world of business by companies that are not member owned. An important point running through Sections 2 and 3 is the idea that just as we can have mutuality as both an organisational form (of member ownership) and a business practice (as pursued by Mars), so we can have legal ownership and also 'psychological ownership', so this latter concept is analysed in Section 4.

Section 5 approaches the 'mutuality as ownership form and business practice' dichotomy from the other direction than in Section 3, namely to consider the extent to which member-owned organisations actually in practice utilise – and benefit from – the principles of mutuality. Thus, if the 'legalistic' use of mutuality refers to member ownership, and the 'Rawlsian' one to corporate behaviours, then Section 3 considers how the latter concept could be utilised by and for the advantage of companies to which the former concept does not apply – that is, how family- or shareholder-owned companies might boost productivity and profitability through the use of mutual principles and practices, while Section 5 considers the extent to which firms defined by the former concept, of being member owned, might use this corporate form to their advantage by developing and utilising policies and practices that are consistent with the latter idea of mutual obligations.

The result of the discussion in these two sections (3 and 5) is that there is much to be learned and gained from both sides. Member-owned organisations will often fail to take full advantage of the potential that such member ownership offers. Conversely, family-owned businesses that benefit from adopting mutuality in their business practices may find that the potential benefits to be had from this can only be fully realised by embedding such practices within the ownership and governance structure of the organisation itself. In addition to mutuality being of potential benefit to individual companies, it can also benefit the economy as a whole, through promoting a degree of corporate diversity. Section 6 therefore reports on this aspect and considers mutuality as a succession option for firms. In the UK there is a problem of constituting a mutual in perpetuity, which is discussed, while in the U.S. there are legal obstacles to the use of industrial foundations, which would need to be tackled were the Mars Corporation to consider this option.

The final two sections look specifically at the Mars case and examine both the key questions that the business would need to resolve were it to adopt a mutual ownership structure (Section 7) and suggest the possibility of experimenting with mutual ownership in Catalyst business pilots (Section 8). More specifically, Section 7 considers the sort of mutual ownership models that might be available to be developed, including trust ownership. Section 8 considers one of the projects in Kenya that the Mars Corporation is promoting, and whether a degree of mutual ownership might be introduced into this initiative. If so, this might illustrate a separate and additional way in which Mars might promote mutual ownership, namely within new firms that are established to promote the sort of joint working that the company is already pursuing as part of its commitment to the ethos of mutuality. Mars might thus be a catalyst for mutual ownership in the economy more widely, thereby promoting a greater degree of corporate diversity. Section 9 concludes.

2. High Commitment Work Systems

Employment contracts can go so far in setting out what each individual employee is expected to contribute during the working day to the achievement of organisational outcomes and corporate success – but only so far. Work can be monitored, but this is costly. Ultimately, almost all employees will have a good degree of discretionary effort that they can choose to either contribute or not. They can do the minimum, or they can go the extra mile. High Commitment Work Systems aim to bring together whatever the appropriate range of measures, policies and practices (sometimes referred to in the literature as 'bundles' of such practices) to enable, encourage, motivate and facilitate employees to contribute such discretionary effort – and on a long-term, sustainable basis.

These policies and practices need to achieve three broad categories of outcomes. Firstly, they need to ensure that the employees have the **capabilities** to deliver the desired discretionary effort – which may include innovating on the job, not just 'working harder'. This might include policies around both recruiting the right people and training and developing the existing workforce. Secondly, employees need to be afforded the **opportunity** to contribute the discretionary effort. If they are working on a production line, there may be little opportunity to contribute anything beyond performing the number of tasks that the production line speed dictates. So, work organisation is key. If the discretionary effort is to include devising and proposing product and process innovations then the employees will need to be well informed and probably involved to some degree in decision-making, so policies around information sharing, consultation, involvement and participation may all prove vital. Already it is clear how mutuality in business might pay dividends.

In addition to capabilities and opportunity, there is the issue of **motivation**. One can lead a horse to water but one cannot make it drink. Policies to motivate employees may include explicitly economic ones such as profit sharing, including in the form of employee share ownership. Here one can see a potential link already from the one definition of mutuality in business – whereby information sharing and participation in decision making may create the opportunity for enhanced output from which all can benefit – through to the other definition, where this leads to such employees coming to have a stake in the business as an owner, acquired as a reward for discretionary effort, but which will equally prove to be a motivation to continue to contribute discretionary effort on a sustained basis.

This is a very brief summary of the issues, and the literature is reported and discussed in much greater detail by, for example, Guest, Michie, Conway and Sheehan (2003); Michie and Sheehan (2005), Michie (2009), and Michie and Zumitzavan (2012). This literature considers the potential links between 'high commitment' policies and practices on the one hand, and organisational outcomes and performance on the other. In the context of mutuality, it should also be recognised that there is then a further question as to what 'performance' means in the context of mutuality, since there will be more and different goals than would be the case for a company with a simple and single 'profit-maximising' objective; for a discussion of these issues, see Tischer *et al.* (2016).

3. The purpose of ownership

The purpose of ownership in this context is to influence outcomes, and in particular the practices of the organisation. Returning to the idea of member-owned organisations, historically, consumer co-operatives were established to ensure that the organisations would seek to provide food that could be trusted by the consumer. This was in contrast to privately-owned or shareholder-owned companies that might prioritise the financial return to their owners or shareholders, even if this were to be at the expense of the quality of the food and possibly the health of the consumer.

The question of how healthy the foods being produced by companies will be for the consumer has today become a much wider issue than just avoiding adulteration; it also relates to the health of the population and the contribution or otherwise of different foods towards this. This is clearly an important issue for Mars. It raises the question of whether 'mutuality' should relate primarily to the interests of its customers in terms of the nature of the food products supplied, and only in a derivative sense to that of employees and suppliers. This paper takes the Mars approach as seeking to embrace five 'constituencies' or stakeholders, namely employees, suppliers, customers, community, and the environment, reflected variously in five types of 'capital', namely human capital, social capital, consumer capital, natural capital, and shared financial capital, with suppliers potentially included through human and social capital, and also possibly via shared financial capital depending how that is utilised (as discussed in Section 8 below).

Ownership and governance

The link between ownership and outcomes or practices is *governance*: there needs to be a mechanism to ensure that managers do actually prioritise the interests of the owners, rather than, for example, their own interests. Hence the original, historic case for the establishment of member-owned organisations – to seek to ensure that such organisations would operate in the interests of its members. This we return to in Section 5.

There is a separate question of time-scale – namely, whether the organisation should or will operate in the long-term interests of its members, as against the short-term interests of its members. The short-term interest might be interpreted as selling the organisation to, say, a shareholder-owned business, with the members enjoying a financial windfall. But that may mean the end of the mutual's existence as a mutual (or indeed as an organisation). So, if it is the long-term interests that one wishes to safeguard, perhaps to ensure that the desired behaviours and outcomes will be sustained over time, then this needs to be ensured *via* the organisation's ownership and governance structure, with the necessary legal or regulatory frameworks. In the case of the John Lewis Partnership, discussed in Section 7, this is achieved by requiring that the trustees act not just in the interests of the *current* employees, but rather in the interests of the current *and future* employees of the company.

Unless such governance arrangements are thought through and incorporated, there is a danger that mutuality might result in member-owners being even more short-term than shareholders, since in a partnership (if one were to think of that as akin to a mutual, in that it is member owned) the partners as members may be interested primarily in their current benefits, whereas shareholders do have invested capital, to which there may be various impediments or costs to withdrawing. Hence the importance of the idea advocated in this paper of a trust form of mutual ownership, which commits the ownership and governance to the various mutual principles, and their concomitant 'capitals', in perpetuity – as discussed further below.

Ownership and employee motivation and innovation

In the case of employees, one incentive behind giving an ownership stake to the employees is to motivate them to prioritise the financial outcomes – the profitability – of the organisation, as this will benefit them directly. This ownership stake may take the form of individual share ownership, or ownership being held in trust, with the trustees obliged to act in the interests of the employees. In the case of individual share ownership, increased profitability may lead to a rise in the value (price) of the shares, so that the employee will benefit financially if and when the shares are sold. In the case of shares being held in trust, a rise in profits may lead to a rise in dividends paid on those shares, and this may be distributed to the employees as an annual financial bonus.

These financial incentives may lead to employees being more loyal to the organisation and motivated to contribute additional discretionary effort at work, becoming more productive and innovative, with beneficial outcomes potentially including lower staff turnover, higher rates of innovation, increased productivity, higher quality of outputs (of goods and services as appropriate) and increased profitability.

The extent to which these positive outcomes are actually achieved will depend not only on the governance arrangements in place, but also on the policies and practices pursued, including whether there are policies of information-sharing, consultation and participation in decision making. It is particularly important that there is confidence amongst the workforce in the management, and in the intentions of management to pursue such policies as long-term strategies, and not just short-term fashion or fads. Thus, the need for such mutuality to translate into mutual *values* that are believed by all concerned to be fundamental and lasting, where a powerful way of fostering and sustaining that belief is if those values are underpinned by at least a degree of corresponding ownership and governance – in other words, that in so far as the values relate to delivering for the benefit of various groups or communities, that those groups or communities are represented through an ownership stake with governance rights.

In the case of innovation, it can be appreciated that if an employee in a company can see a way in which work could be reorganised to do away with that employee's job, it is not *a priori* straightforward to predict whether that employee will volunteer this information to their manager, or not. If they think that the information would be used to make them redundant, it is likely they may withhold the idea. If on the other hand they had confidence that the information would be used to improve the performance and profitability of the company, *and* that the resulting gains would be put to good use and shared equitably amongst the stakeholders – including through training and reassigning employees to new tasks as appropriate, then such suggestions and proposal are more likely to be forthcoming. The degree of belief and confidence that such an approach would be taken may be enhanced in general by the organisation being committed to mutuality – and in particular by its commitment to policies and practices to promote consultation and participation (for evidence that appropriate High Commitment Work Systems can enhance organisational innovation, see Michie and Sheehan, 1999).

The sort of loyalty and commitment to an organisation, and concomitant incentive to see it prosper, might be termed a 'sense of ownership'. As discussed above, corporate efforts to engender this are often focussed on the organisation's employees, with the aim of enhancing productivity and profitability through bundles of HR policies and practices that are utilised for this purpose, often referred to as 'High Commitment Work Systems', designed as they are to promote employee commitment to the firm. Such systems will typically include policies and practices to facilitate employee consultation and representation, sometimes including a degree of ownership *via* employee share ownership schemes. However, such a sense of ownership can also be engendered amongst other stakeholders such as the organisation's customers.

How can this sense of ownership be established, sustained, and enhanced? There are two aspects: one is ownership itself, and the other is the collection of policies and practices that translate this ownership into practical differences including being reflected in the organisation's values and culture, its governance, and the extent to which the owners have a voice – on the actual behaviours of the organisation and of its managers. Thus, having ownership will not by itself engender such a sense – any more than small shareholders in major PLCs will have any sense of ownership. Mutual ownership needs to be underpinned by mutual values, governance, and behaviours to deliver the desired results in terms of motivation, commitment, and the delivery of discretionary effort, high quality work, and innovativeness.

Conversely, organisations can and do seek to enjoy these benefits of commitment and loyalty – amongst employees, customers, suppliers and others – by developing and promoting the appropriate values and ethos, and behaviours, policies and practices, without necessarily including any ownership element. This is seeking to create a 'sense of ownership' without actually providing any ownership itself. How successful and sustainable can this be?

There is no doubt that such strategies can enjoy a degree of success, at least for a time. The key advantages of underpinning such policies with some actual ownership structures, though, are twofold. Firstly, this can embed such commitments as long-term, continuing, permanent commitments. Without this, any gain may prove to be just temporary. And even during that temporary period, the understanding that the commitment is not necessarily permanent may itself undermine the impact that the concomitant policies are likely to have, reliant as they are on perceptions and attitudes. The second advantage follows directly form this last point, namely that the causal mechanisms depend crucially upon subjective attitudes of trust, loyalty, and commitment, and without the organisation actually committing to the ownership aspect of mutualism, the other aspects are likely to be that much weaker. So it is a matter of degree, and of time horizons.

4. Psychological ownership

What organisations that pursue mutuality as a business practice without including mutual ownership are in effect doing is attempting to nonetheless promote a sense of psychological ownership (even in the absence of actual ownership) amongst the relevant stakeholders. The study of psychological ownership describes individuals' behaviour towards objects, organisations, or undertakings as if they possess an ownership stake. A sense of ownership – the feeling that this is *my* neighbourhood, for example – need not be tied to actual ownership rights or even the possibility of ownership, as with a non-rival goods. Psychological ownership is about identification, responsibility, and the 'rights' that it infers. Thus, one might have actual (legal) ownership, yet little or no psychological ownership – in other words, despite actually having an ownership stake, one might not feel much connection with or ownership of the entity in question; this is most likely the case for many shareholders of companies. Conversely, one may have a degree of psychological ownership despite not having any actual (legal) ownership. And then the overlapping segment in a Venn diagram of the relationship would be where one has both actual (legal) and psychological ownership.

Ownership not only defines the object (for example, that is my team), but also, more importantly, the owner (in 'my team is Oxford United'; 'I am an Oxford United fan'). Individuals become invested in objects, organisations, or nations as expressions of who they are and that to which they belong (see Dittmar, 1992). The individual becomes invested in the performance of the object, as its performance reflects upon his or her identity. As Pierce *et al.* summarise: 'One's possessions are felt as extensions of the self' (2001, p. 299).

The creation of a strong identification and commitment between an individual and an organisation has attracted significant interest in management studies. Within the firm setting, psychological ownership provides an avenue for resolving principle-agent conflicts that arise between the owners and workers of a firm. Psychological ownership – whether or not it is accompanied by formal ownership – helps align the behaviour of employees to the interests of owners or stockholders (Wagner *et al.*, 2003, p. 848; see also Duncan, 2001).

Psychological ownership has been associated with a range of positive behaviours, including increased motivation, company stewardship, and loyalty. It also has potentially negative effects, such as failure to delegate responsibility, although these have received less attention. Overall, psychological ownership has been approached as an important way of understanding and shaping employee behaviour, and various studies have sought to understand how to foster psychological ownership. The following two sub-sections describe work on the effects of psychological ownership, and studies on the conditions that encourage and mediate psychological ownership.

4.1 Effects of Psychological Ownership

Since the breakthrough study of psychological ownership by Pierce *et al.* in 2001, the management literature has paid increased attention to the concept, exploring its association with positive or altruistic employee behaviours. A systematic review by Olckers and du Plessis (2012) document these findings. Reviewed authors found positive correlation between psychological ownership and:

i. Positive attitudes toward the firm (Wagner *et al.*, 2003)
ii. Financial performance (Wagner *et al.*, 2003)
iii. Employee retention (Mayhew *et al.*, 2007)
iv. Job satisfaction (Mayhew *et al.*, 2007)
v. Organisational commitment (Mayhew *et al.*, 2007)
vi. Organisational citizenship behaviours (Olzer *et al.*, 2008)
vii. Extra-role behaviour (VandeWalle *et al.*, 1995)

Regarding the mechanisms connecting psychological ownership and positive employee behaviour, Pierce *et al.* approach the effects of psychological ownership by exploring the expectations that ownership creates. The more that an individual identifies with an organisation, the greater his or her desire to ‘maintain, protect, or enhance that identity’ (Pierce *et al.*, 2001, p. 303). This growing investment in his or her corporate identity ‘results in an enhanced sense of responsibility for work outputs’ (*ibid.*). This focus on responsibility and burden sharing connects to the literature on psychological ownership and stewardship (see Hernandez, 2007, p. 126; Wasserman, 2006).

However, the feeling of ownership not only enhances an individual’s sense of responsibility but also his or her perceived rights. Ownership implies rights over (or participation in) decisions regarding the organisation or object of ownership (see for example Pierce *et al.*, 2001, p. 303). Taking these rights seriously, individuals may thus be more engaged in decision-making, governance, or pro-active in their work. Taken together, these and other authors find that psychological ownership results in individuals investing more of themselves in their work – whether in terms of their time, effort, or long term commitment to the organisation.

4.2 Fostering Psychological Ownership

The connection between psychological ownership and positive employee behaviour towards the firm (such as an alignment with owners’ and stockholders’ interests) raises the question of what managers or owners can do to encourage this attitude. Studies have generally focused on increasing employee autonomy, participation, and access to information and resources. Pierce *et al.* argue that such practices are effective because, psychologically, feelings of ownership are derived from desires for efficacy and 'effectance,' self-identity, and 'having a place' (2001, p. 300). Practices that engage these desires encourage psychological ownership. Based on this reasoning, Pierce *et al.* propose four key relationships between work practices and psychological ownership (emphasis added):

i. There is a positive and causal relationship between the **amount of control** an employee has over a particular organizational factor and the degree of ownership the employee feels toward that factor.

ii. There is a positive and causal relationship between the extent to which an employee **intimately knows** a particular organizational factor and the degree of ownership the employee feels toward that factor.

iii. There is a positive and causal relationship between the extent to which an individual employee **invests himself or herself** into the potential target of ownership and the degree of ownership the employee feels toward that target.

iv. Employees' psychological ownership toward organizations or organizational factors is positively related to **expected rights and presumed responsibilities** and leads to a number of particular behaviours associated with such rights and responsibilities.

These hypotheses relate to various management practices, namely the devolution of control to employees, transparency, engagement, and the conferral of rights and responsibility (see Table 1). These hypotheses, with the exception of the final one, map onto Pierce *et al.*'s suggestion that psychological ownership relates to three factors: the investment of employees in the organisation, employees' ability to control their work or the organisation, and the extent to which they intimately know the organisation. Echoing these findings, Chi and Han discuss management practices that encourage psychological ownership in terms of rights: the right to share profits, the right to participate in decision-making, and the right to access business information (2003, p. 694).

However, Chi and Han deepen Pierce *et al.*'s analysis by asking why holding a stake in a company changes a person's behaviour. These authors introduce perceptions of procedural and distributive justice as mediating mechanisms to explain why formal ownership leads to psychological ownership within an organisation (see Figure 1, 2008, p. 693). Chi and Han argue that practices associated with formal ownership affect perceptions of distributive and procedural justice; these perceptions affect employees' feelings towards the firm (*ibid.*). If it is the case that formal ownership does not change employees' perceptions of distributive and procedural justice within the firm, then it is likely that psychological ownership may fail to take root.

Chi and Han's distinction between procedural and distributive mechanisms maps broadly on to distinctions made by Wagner *et al.* (2003). These authors put forward two models: one instrumental, the other extrinsic. In the latter, self-interested employees are motivated to be more involved in decision-making and invested in their work (to take psychological ownership) as a means to ensure their company's profitability. In the former, profit sharing increases an employee's involvement in and knowledge of the firm, which generates feelings of agency and psychological ownership.

A number of studies have examined which management practices are correlated with psychological ownership. Reinforcing the recommendations made above, Chi and Han (2008) found that profit sharing, participation in decision-making, and access to business information were all positively correlated with measures of psychological ownership. Olzer *et al.* (2008) found that job satisfaction and a participative organisational climate tended to strengthen employees' feelings of ownership. Wagner *et al.* (2003) found positive correlations between management practices promoting self-determination and psychological ownership. Doh and Quigley (2014) argue that open, participative management styles create a virtuous cycle, resulting in psychological ownership and improved performance:

> As leaders are more inclusive of the perspectives of various important stakeholders, those stakeholders are more likely to trust the leader, feel committed to what the organization is trying to accomplish, feel more psychological ownership over the tasks at hand, perhaps feel more of an emotional connection to the work and to the organization, and be more motivated at the individual level as a result.

These authors extend the analysis of conditions for fostering psychological ownership to the team level. Finally, the connection between formal ownership and psychological ownership remains contested (on which, see the excellent discussion in Olckers and du Plessis, 2012, p. 2). As an alternative, such changes in behaviour and attitude may be dependent on how ownership is experienced. In the absence of certain management practices, individuals may not feel psychological ownership. As such, financial ownership may be neither sufficient nor necessary to produce the desired positive effects.

Figure 1: Model Linking Formal and Psychological Ownership (Chi and Han, 2003

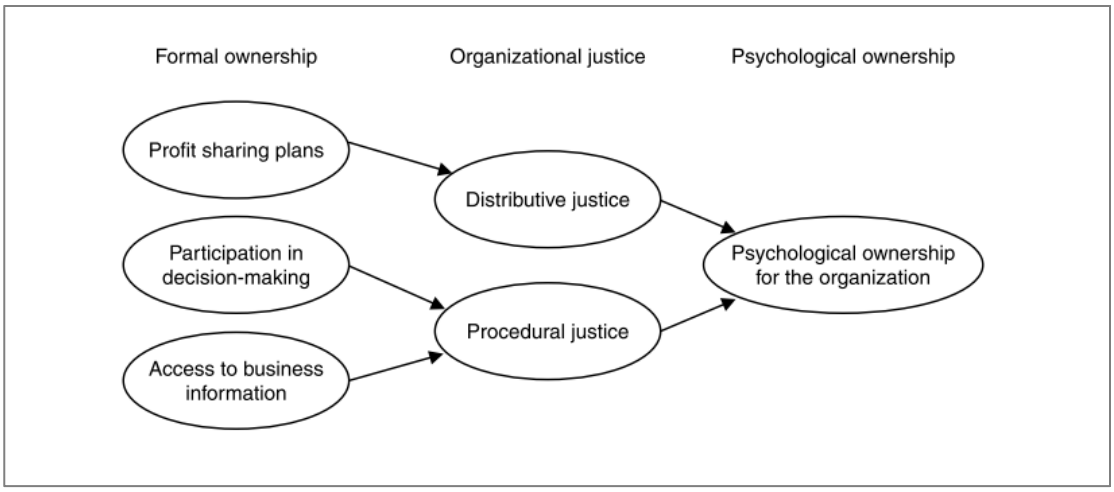

Table 1: Management Practices and Psychological Ownership

PRACTICE	EXAMPLE
Autonomy	• Google's '20 per cent' program encouraged employees to spend 20 per cent of their time on self-driven projects[2]
Transparency	• The John Lewis Partnership uses a robust system of reporting and information sharing to inform employees and engage them in decision-making processes
Engagement	• Profit sharing plans invest employees in the performance of the business • At Gore Associates, employees form their own work teams, encouraging deeper personal investment in projects
Rights & Responsibilities	• The Mondragón group involves employees in democratic governance, including through representative councils

5. To what extent do Mutuals realise the 'mutual advantage'

Just as the use of mutual practices in business may be more effective if this is underpinned by a degree of actual (legal) ownership – as argued above – so such legal ownership will not by itself necessarily deliver anything. The ownership needs to be accompanied by the values, culture, and policies and practices that put the mutual ownership model into practice, for the 'mutual advantage' to be realised and delivered. Some member-owned organisations devote a good deal of time, effort and resources into putting into practice 'mutuality in business'. The results can be – and have been – measured and tracked. Such work has demonstrated a number of things:

i. Firstly, mutual ownership on its own may deliver very little, if anything. To enjoy any benefits in terms of organisational outcomes and corporate performance, as measured for example by productivity, innovativeness, and profitability, sustained effort needs to be put into developing and applying an appropriate culture, ethos and principles, and concomitant governance arrangements and management policies and practices need to be put into place and applied consistently.

ii. Secondly, such work needs to cover a range of areas, requires considerable commitment, and also, crucially, needs to be sustained over time.

iii. Thirdly, the management and organisational commitment to these policies and practices needs to be believed by the employees, and by any other relevant stakeholders. If such policies and practices are thought to be the result of a

[2] See discussion of changes to this programme: http://www.wired.com/2013/08/20-percent-time-will-never-die/

> management fashion or fad, or the result of a particular Chief Executive's preferences and hence unlikely to outlast that CEO's term of office, then it is unlikely that employees or other stakeholders will themselves invest their time and effort to 'buying into' the 'mutuality in business' principles.

Three such areas in which mutual ownership needs to be accompanied by concomitant mutual practices are in encouraging and facilitating 'employee voice', managing employees who are 'member owners', and encouraging innovation and organizational change. These are discussed in the below sub-sections.

5.1 Employee Voice

The role of 'employee voice' in mutuals will clearly depend on whether it is a consumer or an employee-owned mutual. Where the mutual includes at least a degree of employee-ownership (that is, where employees are included as members, within the member-owned structure), the challenge is to translate that legal ownership into an ownership culture, which allows for concomitant levels of involvement, representational structures, policies and practices. A balance has to be struck between the needs and interests of the directors and managers taking expedient decisions; and at the same time remaining accountable and inclusive of owner (employee) interests. Such representational structures will generally include:

i. having a vote on the membership of the relevant governing board or council;

ii. having the right to the sort of information that the owners of a company should properly expect; and

iii. participating in discussions and decisions as appropriate, both at the level of strategy through the AGM and other means, and at an operational level through team meetings.

Mutuals may seek to create various channels for employee voice, as it may prove challenging to get employees to become more involved in the decision making processes of the company. Parfetts, a medium sized retail business based in the North West of England which became an employee-owned mutual, struggled with the most effective way to involve employees, many of whom were in comparatively low skilled work, in the new employee-owned structure. Some employees were simply not interested in being more involved; others found the consultative meetings too big, or too long, and they saw elections for the central council as 'popularity contest' (Davies, 2009). However, these views did vary across the company, with some employees previously uninterested in the changes becoming more supportive over time. As Davies, aptly puts it, transferring out of established hierarchies can be disconcerting for all involved. A further problem is that when the organisation is performing well, successful arrangements for employee 'voice' may come to be taken for granted. But if the continual effort that is a necessary condition for such arrangements to operate successfully is not sustained, or if economic difficulties put the decision makers under pressures not previously encountered, then it is possible that those arrangements for employee voice may fail to deliver what is required.

5.2 Managing employees who own the company

One fundamental question for newly formed mutuals where the employees become member-owners – possibly alongside other stakeholders also becoming member-owners – will be how to manage effectively employees who are now also the owners. It is of course vital to have the appropriate organisational arrangements – including transparency about where duties, responsibilities and boundaries lie for decision-making, consultation and accountability. Where problems emerge in employee-owned businesses regarding the managing of employees, it is often at the level of middle management. And in the case of mutuals, it may be particularly difficult for line-managers and middle managers that have operated all their working lives in privately or family owned companies to transfer into one that is (at least in part) employee-owned, where the requirements are quite different. The need to share information, consult with those one is managing, and encourage their participation in decision-making are skills that line-managers may or may not have practice in.

5.3 Innovation and organisational change

If the employees are member-owners of the organisation, having collectively a significant ownership stake, and if this is buttressed by policies of engagement and participation that make a reality of that ownership in practice, then opportunities to improve efficiency and work organisation can be used for the benefit of the whole organisation. This could mean that workers are much more likely to suggest changes to their roles, and working practices because this would involve employees being reassigned as appropriate, and with the necessary training and other support being provided. Thus, companies that combine employee ownership with participation in decision making, which such ownership enables, are able to create a more innovative organisational culture than may be possible in a shareholder-owned firm where employees may be less forthcoming with new ideas because of the fear of making their posts redundant.

6. Using mutualism to promote corporate diversity

In addition to the potential benefits of mutuality for the individual companies and organisations involved, there is also a potential benefit to the economy as a whole in the form of an increase in the degree of corporate diversity. Economies generally have a range of ownership forms, including family ownership, shareholder ownership, state ownership, and mutual ownership (including financial mutuals, co-operatives, employee-owned businesses, and other mutuals). The balance between these varies across economies and over time. Thus the German financial system, for example, has a rough balance between shareholder-owned banks, state ownership (at both national and regional level), and mutual ownership.

The UK, though, is peculiarly dominated by shareholder-owned companies. This was exacerbated by the privatisations and demutualisations from the 1980s onwards. The UK's

2010-2015 Government thus pledged to bring about greater corporate diversity across the financial services sector, and to support the mutual sector as a way of delivering on this pledge (although these aims were not achieved in practice, as measured and documented by Michie and Oughton, 2013, 2014). The point is not necessarily that any one corporate form is preferable in any absolute sense to others. It may be that some corporate forms are preferable for some purposes, and others for others. The aim is therefore to keep options open, and to promote a degree of 'biodiversity' across the economy (for a discussion of these points, see Michie, 2011, and the Report of the Ownership Commission, 2012.)

Thus, for example, in Denmark many of the largest companies are controlled by non-profit foundations. Carlsberg is majority owned by a foundation that uses its profits to fund scientific research. The shipping company Maersk is also majority controlled by a foundation. The Lundbeck pharmaceutical company is majority owned by a foundation that funds around $75m worth of medical research and educational programs a year. Novozymes has 69 percent of its voting stock owned by a foundation. These foundation-owned companies appear to deliver just as good financial returns as their competitors with traditional ownership structures (on which, see Thomsen & Rose, 2004). Firms owned partially by a foundation comprise a quarter of the largest 100 Danish corporations and their market value represents around half the market value of the Danish stock exchange (Hansmann and Thomsen, 2013). In Sweden, IKEA is foundation owned.

Similarly in Germany, many companies are fully or partially owned by a foundation, including Bertelsmann, Bosch, Korber, Mahle, ThyssenKrupp, ZF Friedrichshafen, Aldi, and Lidl. The median return on assets of such foundation-owned firms was found by Gunter & Matthias (2015) to be about 6.7 per cent, compared to 7.5 per cent of matching firms: thus, 'the difference is fairly small'. This study also found that such foundation-owned firms tend to follow a more conservative financing policy, which stabilises their long-term existence. Their leverage tends to be lower than in matching firms. It should be noted that whether or not firms are listed on the stock market was found to make no difference to their returns, regardless of whether they were foundation owned or shareholder owned.

The Mars-SBS research project considered a range of additional corporate case studies from across the globe, with varying ownership and governance structures. Thus for example the Mahindra Group was ranked by Forbes in 2009 as among the top 200 most reputable companies in the world; in 2011 it launched a new corporate brand Mahindra Rise, which seeks to unify Mahindra's image and brand as aspirational, supporting customers' ambitions to 'rise'. The Group is involved extensively in philanthropy and social responsibility. This includes supporting the Mahindra United World College (UWC), one of the sixteen UWC colleges globally.[3] At perhaps the other extreme, Al-Sanabel Catering is a Public Benefit Company (and thus prohibited from distributing any private profit) in Israel whose purpose if the delivery of school meals. The global company Unilever was also included, along with various other interesting cases and examples.

A particularly interesting case is the LEGO Group, founded in Denmark in 1932 and still family-owned, in 1986 25 per cent of the company was constituted as a Foundation whose 'activities are based on the belief that all children should have access to quality play and learning experiences' (www.legofoundation.com). Thus, 25 per cent of the company's dividends go each year to the Foundation, which uses them to further these aims. The

[3] On which one of the current authors, Michie, has to declare an interest, being a member of the UWC Council and Chair of Governors for UWC Atlantic College. Bosch, above, also supports the UWC in Germany.

Foundation is chaired by the son of the company's original founder. There are two important aspects to this, the first being the obvious one, namely that it is a mechanism for the company to put into practice the positive values which the company wishes to promote. The second is that it makes this outcome much more sustainable than if it were the company simply making an annual charitable donation. Without the Foundation, then if the management changed, the practice might cease – and certainly were the company to be floated on the stock exchange, with shareholders wanting maximum returns on their shares. Having 25 per cent of the company protected by its Foundation status makes it less likely that the company would be taken over by owners seeking maximum financial returns, and even if it were, the Foundation status ensures that funds would continue to be dedicated to the charitable purposes. Translated to Mars, Incorporated, such a holding could be dedicated to the pursuit of the company's principles of mutuality, towards those in the communities in which it operates, as well as to the environment.

Were Mars Incorporated to develop in such a direction, it would give both a governance mechanism and the resources to apply the company's principles of mutuality, and would ensure that the pursuit of such principles would be sustainable over future generations. It would also have a benefit to the economy as a whole – across all the economies in which it operates – of helping to deliver a healthier degree of corporate diversity and resilience. As discussed in Section 10 below, an additional and quite separate way in which Mars might promote mutual structures beyond its own boundaries, is by the various initiatives that Mars is currently developing around the world, being pursued through new companies formed and registered for these purposes, and with these new companies being incorporated as mutual organisations.

6.1 The John Lewis Partnership and the Rule Against Perpetuity

In terms of maintaining and sustaining the Mars commitment to mutuality in business, a major issue is that of creating permanent ownership structures and arrangements. In the UK, Employee Benefit Trusts (EBTs) are governed by the 'rule against perpetuity,' which currently limits EBTs in England and Wales to 125 years (previously 80 years). The law 'has its origins in 17th century common law and was developed in order to restrict a person's power to control perpetually the ownership and possession of his property after death and to ensure the transferability of property.'[4]

In the case of John Lewis, an EBT has held all the shares of the company on behalf of employees, current and future, since 1950. The trust is governed by three trustees and the John Lewis chairperson; the trustees hold sixty per cent of the shares, the chairperson the remaining forty per cent. Trustees are elected through a system of representative councils. In this regard, John Lewis differs from labour-managed firms (see Pendleton, 2001, pp. 26-29).[5]

The John Lewis trust uses a specific version of the perpetuity rule 'dating back to the era of the Crusades' that fixes the longevity of the EBT at 'twenty-one years after the death of the last survivor of the descendants then living of the British monarch at the time – King George

[4] http://www.fieldfisher.com/publications/2014/01/employee-ownership-one-year-on

[5] See John Lewis case study: http://cets.coop/moodle/pluginfile.php/43/mod_folder/content/0/Cases/John%20Lewis%20Partnership.pdf?forcedownload=1

V' (Erdal, 2011, p. 212). In this case, this means that the John Lewis trust shall continue until 'twenty-one years after the death of the Queen or, if the seventh Earl of Harewood lives longer, twenty-one years after his death' (*Ibid*). This creates a potential problem for John Lewis, with its legal team looking for alternatives to the projected dissolution of the trust. One example of circumventing the rule against perpetuity comes from the Baxi Partnership, which successfully pursued an Act of Parliament to allow for the Baxi trust to last as long as the company lasts. This solution, however, remains ad hoc and has not been codified in law (*Ibid*).

The 2012 Nuttall Review[6] recommended that the rule against perpetuities be re-evaluated in relation to EBTs due to the additional risk and uncertainty that the rule introduces; such a change has been made in both Jersey and Guernsey. The Department for Business, Innovation and Skills (BIS) began this review process in November 2013. The John Lewis Partnership made a submission complaining that 'banks may also be less willing to lend to companies approaching the end of their term, so stultifying growth.'[7] Despite such arguments, this review concluded in 2014 with the recommendation against changing the rule.

In the U.S., the Tax Reform Act of 1969 has virtually eliminated trust ownership by restricting how much of a for-profit business a private foundation can own. This effect appears to have been deliberate, to prevent foundations such as Rockefeller or Carnegie from wielding corporate power over current firms. However, there is a good deal of employee-ownership, co-operative forms, and mutual ownership, so if the Mars Corporation were to consider embedding its mutual principles in its corporate ownership and governance structure, there would undoubtedly be interesting avenues that could be explored – both in the U.S. and in the other countries in which Mars operates (in terms of production as well as sales).

7. A model of trust ownership for Mars

So, to gain the most on a long-term, sustainable basis requires both a real commitment to 'mutuality in business' as a permanent feature of the organisation, into which time, effort and resources will be devoted on a continuing basis, and also for this commitment to be underpinned by a degree of mutual ownership. This section discusses what this 'degree' might constitute, and identifies seven key questions for the Mars Corporation were it to consider a mutual ownership model.

1. Firstly there is the question of who the 'member' owners would be? In the case of Mars, there would seem to be five key stakeholders, all of whom might be incorporated within a system of mutual ownership, namely the employees, customers, suppliers, local communities within which the company operates, and the natural environment.

[6] The full Nuttall report can be found here:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31706/12-933-sharing-success-nuttall-review-employee-ownership.pdf

[7] BIS findings here, John Lewis comment on page 11:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/337988/bis_14_963_bis_response_to_call_on_amending_the_rule_against_perpetuities_2.pdf

2. Secondly there is the question of what weighting each of these stakeholders might enjoy within any mutual ownership structure. In principle it would be possible to assign whatever weightings – or 'shares' – might be thought appropriate following a serious analysis of the matter. But for the sake of argument, they might all be assigned equal weights.

3. Thirdly there is the question of whether, were the current owners to decide to embed mutuality in perpetuity through such a mutual ownership structure, they would wish to retain any direct ownership stake. It might seem obvious that they would, but this would depend in part on time horizons. The purpose of the exercise would be to secure the current commitment to mutuality in perpetuity. The alternative to embedding this commitment in a mutual ownership structure would almost certainly be that this commitment to mutuality would be lost at some point in the future, just as it has with other companies that once were based on similar principles guaranteed by family ownership – Cadbury's, Barclays Bank, and so on. The only question is whether mutuality in Mars would survive another twenty, fifty or a hundred years before perishing – but perishing would seem to be the only realistic outcome in the long term, unless the mutuality were to be secured through developing a new mutual ownership and governance structure.

   There would then be a question for the current owners as to how long into the future they might wish their descendants to retain ownership stakes and income streams from the company. If the answer is in perpetuity, then a direct ownership stake would need to be retained, from which income would continue to be derived in perpetuity. If on the other hand it was thought that family ownership could be relinquished within say one hundred years from now, then it would be possible to transform the whole company ownership into one of mutuality, but for the shares (or the share of the company) to be paid for by the new 'mutual trust' or 'mutual trusts' over the desired time period, such as the next one hundred years.

4. Fourthly, if the answer to the above question were that some portion of the company would remain in private ownership alongside the mutual ownership stakes, then there would a question of what the relative weightings might be.

5. Fifthly, if a proportion of the company were to be placed in a trust, would that trust be required to pay subsequently (out of future profits or dividend payments) for what was transferred to it? If the answer to question three were that the entire company would move to mutual ownership, then there would need to be some payment made in return, to compensate the current owners (and this payment might be spread over a number of years – in the above example this might be one hundred). If on the other hand a proportion of the company were to be retained by the current owners, then there would be no necessary reason to expect or wish for the 'stakes' to be paid for. In this option, the alternative to the income of that trust or those trusts being used to pay retrospectively for the ownership stake would be to use that income for the purpose for which the trust was established – such as the interests of current and future employees, and of the environment. I could thus be expected that such expenditures would be to the benefit of the company and its financial performance and profitability, such that the family owners of the private stake would benefit directly and financially from the trust income being used for those purposes, for the benefit of the company, rather than being transferred to the family owners.

6. Sixthly, if the purpose is for trustees to ensure that the company acts in the best long-term interests of the mutual owners, there is a question of whether there would be a single trust with a range of objectives and trustees, or whether there would be a number of trusts, each dedicated to just one of the five interests identified above – employees, customers, suppliers, local communities, and natural environment. There are good arguments to be made for either of the two models, and this would certainly be worth further exploration (the single trust model is described and advocated by Mayer, 2013). Alternatively, a single trust could oversee a number of subsidiary trusts, each of which were responsible for upholding the interests of the different parties.

7. Finally, corporate and trust law varies from jurisdiction to jurisdiction, so there would be a good deal of detail to be worked out concerning which countries such trust ownership would be established in. Whilst complex, this area of work could prove extremely useful in terms of embedding the long-term objectives being sought, since a complex global structure could prove far more resilient than a simpler national-based one.

To illustrate one possible answer to the above questions, it might be that there would be five trusts established, where the trustees were obliged to act in the interests of the current and future employees, customers, suppliers, local communities and natural environment, respectively. Each might be the same size as each other, namely representing, for example, one tenth of the company, so that in total half the company would be under the ownership, control and guidance of these trusts, with the other half of the company continuing to be held by the current family owners. A dividend would be paid on shares. The current family owners would thus receive these dividends as direct income. Each of the five trusts would receive their share of the total dividend pay-out, and it would be up to the trustees to ensure that such income was invested in the most appropriate way in accordance with the trust deeds. The mutual owners would thus receive a share of the profits (or rather of the dividends), which would be spent in the interests of that stakeholder group or interest.

For the reasons given above, it would not be expected that the trusts would be required to make any payment for the share of the company they represented, as they would have other objectives for the expenditure of that income, and such expenditure would be expected to enhance the long term success and profitability of the company, thus benefiting the family owners, not just in the sense of securing the company's long term commitment to mutuality but also in direct financial terms, through the company's future profitability delivering enhanced future dividend pay-outs.

8. Using mutual corporate forms to deliver Mars business pilots

Mars Incorporated has for some years, and even decades, been promoting a number of interesting initiatives with suppliers and others in different countries across the globe, with the broad aim of applying mutual business principles to draw into economic activity individuals who are either struggling to participate or who might not otherwise have the opportunity at all. These are not charitable ventures – the aim is to promote and conduct the business that falls within the scope of the Mars Incorporated commercial arena. But the primary aim is to share consequent value creation with those being engaged, to raise sustainable living standards including through the creation of social capital. Where such initiatives are successful, it can be expected though that they will contribute to the overall turnover and profitability of Mars Incorporated. There is thus a solid business case and component to the various activities, albeit that this is not the primary purpose, and hence a greater degree of risk can be entertained than might otherwise be the case.

These initiatives are being promoted and pursued *via* Mars Catalyst, whose role within Mars Corporation is precisely to act as the Mars internal ‘think tank’ to find long-term, breakthrough solutions to help Mars do business the ‘right way’. These initiatives are generally pursued either as part of Mars Corporation, or as an activity that Mars Corporation conducts with others through commercial relations.

In examining these business pilots, there may be an opportunity to transform this way of working to make it more explicitly mutual, by creating new mutual organisations to own and develop each of these initiatives, thereby experimenting with the mutual corporate form in interesting ways which may help to contribute to the mutual sector itself, globally (on which, see for example the International Co-operative Alliance’s strategic vision, Davies and Mills, 2012). This could also help secure the various activities on explicitly sustainable business models, and it could contribute to the local economies not just through the direct economic activities involved, but also by helping to add to the degree of corporate diversity within those economies, which should add to their resilience (on which, see for example Michie, 2011). Here we focus on one such initiative, the Maua Programme in Kenya.

8.1 The Maua Programme

In the context of the Mars Corporation’s ‘economics of mutuality’ program, Mars Catalyst has been researching the question of how business model innovation might assist the corporation in reaching the billions of consumers globally at the so-called ‘base of the pyramid’; this means doing business in the informal markets that generally dominate that market segment. The aim is to do this through addressing the multiple needs of the business ecosystem, at the level of (i) individuals (e.g., hygiene, nutrition), (ii) communities (e.g., jobs), and (iii) institutions (e.g., infrastructure, rule of law). Where informal markets dominate, traditional metrics such as GDP do not fully capture the potential business value hidden in latent, non-monetary exchanges. Rather, what is required are strategies that deliver both economic and social value, recognising and building upon the value of social interaction patterns within a community that are conducive to building collective trust (i.e. social capital).

Maua in Kenya is a micro-distributor-centered program that brings people into the Mars value chain to reach the ‘last mile’ (urban slums and rural areas) through empowering individual entrepreneurs and creating large networks of micro-distributors. The business models operate on two pillars: (i) partnerships with non-profit organizations, and (ii) measurement of human, social and financial capital. The pilot focuses on investing in human and social capital first – if the micro-entrepreneur succeeds, profits for Mars naturally follow – enabling the sustainability of the distribution ecosystem where other ‘micro-distributor’ models have failed. The aim is to focus on the means (how to do business ‘the right way’), on the assumption that the ends (increased turnover and profit) would thereby follow. The pilot thus ‘leverages’ human and social capital to increase earnings, promoting a mutual form of prosperity. This pilot has now been reproduced by Catalyst in Manila, Philippines, and Jakarta, Indonesia.

Partnerships with non-profit organisations is seen as a way to position Mars at the forefront of how to do business in these markets, while fulfilling development needs. These 'hybrid value chains' rely on the core assets of Mars Wrigley (such as brand, operational capacity, infrastructure and logistics) and the particular areas of expertise of partners that have a deep understanding of community needs and dynamics and social networks (including mobilization, social support, access to finance, and behavioural change). Such partnerships can together gain market access in a way that neither can deliver on its own: empowering entrepreneurs and growing sustainable routes to market. While this approach is appealing – representing an efficient strategy to start filling institutional voids, create social capital, and provide social benefits to the communities in which Mars operates – the element of partnership is quite innovative to Mars and different route-to-market pilots have used it to a greater and lesser degree. Given the company's historic culture of discretion and do it yourself, such strategies may prove delicate to operate.

The joint research project undertaken by Mars Catalyst and the University of Oxford's Saïd Business School seeks amongst other things to develop methods for evaluating the economic and social impact – over the short- and long-run – of such programs. Three tools used by Catalyst to measure impact include:

i. **Shared Financial Capital:** Shows how economic benefits are shared among the participants, to ensure a sustainable margin and wage, i.e., evaluates mutuality in the value chain.

ii. **Social Capital:** An index of social capital at the community level – which makes it possible to compare social capital (trust, social cohesion, and capacity for collective action) across geographies, communities, and groups, as well as to describe trends over time.

iii. **Human Capital:** A metric of 'well-being at work', at the individual level (i.e., workers, employees, micro-entrepreneurs).

Since its launch with Wrigley in September 2013, with an initial seven micro-entrepreneurs operating in one slum area (Dandora), Maua has achieved total retail sales exceeding US $7m, excellent profitability, and more than 450 micro-entrepreneurs in the Maua network. Because it has become a substantial part (over 11%) of Wrigley Kenya's annual revenues, Maua is now managed as a separate business unit led by a Maua Business Development manager. This paper argues that the Maua business might usefully be incorporated as a stand-alone company, constituted as a mutual, with member-owners, where both the Mars Corporation and the micro-entrepreneurs would be member-owners).

Of note, research by Saïd Business School is underway to test new, mutuality-driven ways to support the micro-distributors. In their work, many participants distribute the product (Wrigley's chewing gum) by foot. In preliminary interviews with over 70 participants, these micro-distributors voiced the aspiration of purchasing a bicycle. Indeed, the research team observed that a key way to increase participants' incomes would be to increase their sales volume and efficiency – or, more simply, for participants to reach more customers each day. Interview data suggest that access to a bicycle can double sales as compared to walking, and access to a motorbike can more than quadruple the figure. The ability to carry more stock reduces trips back to the wholesaler and thus makes participants more efficient, benefiting sales. For those living in poverty, this is potentially transformative.

As a result, the researchers have designed an experiment that offers asset financing for a bicycle using two different types of contract, one that uses traditional debt financing and the other that has a more equity-like structure. In the second contract type, the repayment amount each month is tied to the individual's sales. The research, which launched as a pilot in 2016, has three key objectives:

i. The **first objective** is to improve the incomes of Uplifters, targeting Uplifters who are committed to the Maua business and who wish to grow their businesses. This would be achieved through improving their access to a transportation asset, namely a robust bicycle.

ii. The **second objective** is to test two different types of finance contracts, using three treatment arms, thereby exploring whether or not a debt-based or equity-based contract leads to better performance, measured across a range of indicators. This also engages with the question of whether more mutual instruments and practices can lead to better outcomes.

iii. The **third objective** is to introduce cutting-edge, randomised control trial (RCT) methodology to Mars-Wrigley.

This research uses an RCT methodology, which allows for the empirical observation of causal effects through the comparison of a 'treatment group' and 'control group'; the latter is monitored but does not receive the treatment or intervention at that time. Individuals who meet certain selection criteria are divided randomly between treatment and control groups. The 'treatment' is the provision of financing for qualified participants to purchase a bicycle, a productive asset. The treatment group will be further divided into three groups, as follows:

i. T1: The first group provides an initial payment (~10% of asset value) and then receives the bicycle. The participant repays the remaining balance in regular installments at a fixed amount over a nine- month period, as in a conventional, debt-based contract.

ii. T2: The second group also provides an initial payment (~10% of asset value) and then receives the bicycle. The participants pay a smaller fixed amount than T1 as well as a variable amount, specifically a percentage of his or her monthly sales, over the course of nine payments. In this treatment, the project shares both in the profits and losses of the seller, aligning incentives.

iii. T3: The final group provides an initial payment (~10% of asset value) and then receives the bicycle. As with the second group, participants pay a fixed amount plus a variable amount, specifically a percentage of his or her monthly sales. However, instead of having a fixed term of nine months, participants make monthly payments until they have repaid the value of the bicycle.

Thus, the research aims to test the performance of an equity-like contract against a conventional, debt-based model, with the equity-based model including a profit-contingent payment.

Certainly if the profit-contingent payment model is associated with more positive outcomes, this might suggest pushing the model – or at least the research – further along the mutual road. Thus, the venture might be incorporated as a mutual, with the participants as member-owners (along with other member-owners – presumably Mars Incorporated, and perhaps the vendors and others involved in the overall process). In an extension of this on-going research, the bicycle might be considered to be part of the asset base of the mutual, and when issued to the participant as member-owner, this represents their share of the overall business, to be paid for along the lines of the above profit-contingent contract. This might go further, such that when surpluses permitted, a financial distribution might be made to the member-owners, and that payment would go towards paying for that member's capital share (in other words the bicycle) in those cases where that payment had not yet been completed.

Once the payments had been completed, the participants would not only be member-owners of a successful (mutual) business, but their payment – which might be thought of as being for the bicycle, or alternatively as being for their membership – would have been completed. Such a process might need to be repeated at regular intervals as the bicycles were written off and needed to be replaced, or perhaps upgraded to a motorbike, but the same principle could apply, namely that the member's distributed share of the mutual's surplus could be used towards the payment for any such replacement or increased assets. Psychologically, this might strengthen the idea of these members having an ownership of the business, with their ownership manifest not only be being issued with the bicycles or motorbikes but also by the fact that these company assets, the use of which they were enjoying, were being paid for through the collectively generated financial surpluses. A mutual structure would also give the participants a clear voice and key role in governance of the program, something that is currently not part of the model.

8.2 Spreading mutuality

The above is one example of how the initiatives being pursued by Mars Catalyst might continue to develop the concept of mutuality in business by delivering those initiatives through new corporate ventures incorporated as mutual companies. Mars Corporation might become one of the member-owners of the new ventures. Crucially, the micro-entrepreneurs and others (such as vendors) might also become member-owners. The aim of the Mars Corporation to contribute towards social and natural capital might be productively pursued by relevant NGOs, community groups, and local authorities becoming member-owners. These would be hybrid-mutuals, with more than one category or type of mutual owner – including possibly suppliers, employees, customers and others. Such an approach might help make the above initiatives more sustainable by putting them on a clear business basis but with a wide business membership, ownership, and participation; contribute positively to the local communities and economy – and indeed the national economies – by promoting greater corporate diversity and hence resilience; and by contributing to the dynamic growth and development of the mutual sector itself, in innovative and interesting ways.

The Mars-SBS project has reviewed a number of interesting corporate models globally, many of which have interesting parallels with the sort of ventures that Mars catalyst is already undertaking, or with the sort of activities that those ventures might develop into over time.

9. Conclusion

One motivation for the creation of mutuals – in the sense of member-owned organisations – has been in response to the problem of succession for family-owned businesses. Such issues may include when the next generation does not have the necessary enthusiasm to take on the running of the company, but where the family does not wish to see the company lost, which will often be the eventual outcome of either a trade sale or a flotation (see Davies and Michie, 2012). In this case the employees, or possibly a combination of stakeholders, can ensure that the company continues in existence. Another motivation for the creation of mutuals is to encourage positive employee behaviours, such as innovation and commitment, and to further aligning the interests of employees and the firm by sharing benefits.

Mutuality as a business practice can enhance organisational outcomes and corporate performance through a range of causal mechanisms, including employee motivation and discretionary effort, customer loyalty, and the ability to work with suppliers on a long-term basis. No doubt the Mars Corporation has benefited from this over the years. Underpinning such practices that we associate with psychological ownership with a degree of actual mutual ownership can enhance the positive impact through reinforcing the belief that such policies will be maintained, so that it becomes worthwhile for stakeholders to invest in this mutual relationship.

There are many forms that such mutual ownership structures and corresponding governance arrangements might take. These might sensibly differ across the different stakeholders, and would certainly need to vary according to legal jurisdictions and different regulatory environments. An important aspect would be to seek to match the mutuality as a business practice with the ownership and governance structure, along with the corresponding values, principles and culture. This needs to be worked at – and re-worked – continually. All the evidence suggests that there is no 'magic bullet', and that without continued investment, the benefits will be lost – not least due to turnover of staff, management, customers, suppliers and other stakeholders. The need for continual investment over time is one reason why a degree of mutual ownership would be beneficial to ensure the continued successful development and application of mutuality as a business approach, as the ownership stake could generate the funds for the necessary investment on a sustainable basis over time.

As discussed above, there are legal difficulties in using the trust model within the United States. One option might be to register the entire Mars Corporation in a jurisdiction that was permissive of whatever the chosen form might be. Another option might be to register in a number of different countries, utilising the various legal options available, and the successful practices that have been adopted and are currently pursued successfully in those various economies. Such an option might provide the benefit of enabling a degree of experimentation and learning, and might also provide a degree of resilience, since the corporation would not be reliant on a single jurisdiction.

Finally, the Mars company is applying and developing its mutual ethos through a number of interesting and successful ventures across the globe. Many of these ventures might usefully be promoted by and through new stand-along companies, in which case the obvious corporate form for these new companies would be as member-owned mutual. In such an arrangement, Mars might be one of the members, hence holding an ownership stake, and with those micro-entrepreneurs and others involved in these collaborative ventures also becoming member-owners. Thus, Mars would be extending both mutual practices and mutual ownership and governance structures, which as argued above, is the best combination for delivering on such objectives over the long run. This would also have the additional advantage of promoting a greater degree of corporate diversity within the economies in question, which itself would be a healthy and welcome development. Thus, the current mutual agenda, which the Mars Corporation is actively promoting, would itself be opening up new opportunities for further mutual advance and benefit, across countries and over time.

10. References

Carroll, Lewis, 1871. *Through the Looking-Glass, and What Alice Found There*, original edition Macmillan, Collins Classics

Chi, Nai-Wen, and Tzu-Shian Han. 2008. 'Exploring the Linkages between Formal Ownership and Psychological Ownership for the Organization: The Mediating Role of Organizational Justice.' *Journal of Occupational and Organizational Psychology* 81 (4): 691–711.

Davies, William (2009), *Reinventing the Firm*, Demos, London

Davies, William and Jonathan Michie, 2012. *Employee Ownership: Defusing the business succession time-bomb in Wales*. The Wales Co-operative Centre, Cardiff.

Dittmar, H. 1992. *The Social Psychology of Material Possessions: To Have is to Be.* New York: St. Martin's Press.

Doh, Jonathan P, and Narda R Quigley. 2014. 'Responsible Leadership and Stakeholder Management: Influence Pathways and Organizational Outcomes.' *Academy of Management Perspectives* 28 (3): 255–274.

Duncan, W. 2001. 'Stock Ownership and Work Motivation.' *Organizational Dynamics* 20: 1-11.

Guest, David, Jonathan Michie, Neil Conway & Maura Sheehan, 2003. Human Resource Management and Corporate Performance in the UK (with), *British Journal of Industrial Relations*, Vol. 41, No. 2, June, pp. 291-314.

Hansmann, H. & S. Thomson, 2013, Virtual Ownership and Managerial Distance: The Governance of Industrial Foundations, Copenhagen Business School Working Paper

Hernandez, Morela. 2007. 'Promoting Stewardship Behavior in Organizations: A Leadership Model.' *Journal of Business Ethics*, 80 (1): 121–128.

Davies, Will and Cliff Mills, 2012, *Blueprint for a Cooperative Decade*, International Cooperative Alliance

Franke, Gunter & Matthias Draheim, 2015, Foundation Owned Firms in Germany – a Field Experiment for Agency Theory, http://hdl.handle.net/10419/113217

Mayer, Colin, 2013. *Firm Commitment: Why the corporation is failing us and how to restore trust in it*, Oxford, Oxford University Press.

Mayhew, M.G., Ashkanasy, N.M., Bramble, T., and J. Gardner. 2007. 'A study of the antecedents and consequences of psychological ownership in organizational settings.' *Journal of Social Psychology* 147(5): 477–500.

Michie, Jonathan, 2009. HRM and National Economic Performance, in A. Wilkinson, N. Bacon, T. Redman and S. Snell (Eds), *The SAGE Handbook of Human Resource Management*, Part III, Chapter 24, pp. 407-420, Sage Publications Ltd.

Michie, Jonathan, 2011. Promoting Corporate Diversity in the Financial Services Sector, *Policy Studies*, Vol. 32, Issue 4, pp. 309-23.

Michie, Jonathan, 2012. *Mutual advantage? The future implications of mutualism for employment relations.* Acas Future of Workplace Relations discussion paper series (www.acas.org.uk/future)

Michie, Jonathan and Christine Oughton, 2013, *Measuring diversity in financial services markets: a diversity index*, Working paper 097_DP113, The Centre for Financial and Management Studies, The School of Oriental and African Studies, University of London

Michie, Jonathan and Christine Oughton, 2014, *Corporate diversity in financial services – an updated diversity index.* Building Societies Association, London, November 2014.

Michie, Jonathan and Maura Sheehan, 1999. No Innovation without Representation? An analysis of participation, representation, R&D and innovation, *Economic Analysis*, Vol. 2, No. 2, pp. 85-97

Michie, Jonathan and Maura Sheehan, 2005. Business Strategy, Human Resources, Labour Market Flexibility, and Competitive Advantage (with M. Sheehan), *International Journal of Human Resource Management*, Vol. 16, No. 3, pp. 448-468

Michie, Jonathan and Vissanu Zumitzavan, 2012. The impact of 'learning' and 'leadership' management styles on organisational outcomes: a study of tyre firms in Thailand (with), *Asia Pacific Business Review*, Vol. 18, No. 4, pp. 607-630

Olckers, Chantal and Yvonne Du Plessis. 2012. The Role of Psychological Ownership in Retaining Talent: A Systematic Literature Review, *SA Journal of Human Resource Management* 10(2): 1–18.

Olzer, H., Yilmaz, A., and A. Ozler. 2008. ‘Psychological ownership: An empirical study on its antecedents and impacts upon organizational behaviors.’ *Problems and Perspectives in Management* 6(3): 38–47.

Ownership Commission, 2012. *Better owned firms are the key to responsible capitalism*, London, Mutuo.

Pierce, Jon L, Tatiana Kostova, and Kurt T Dirks, 2001. ‘Toward a Theory of Psychological Ownership in Organizations.’ *The Academy of Management Review* 26 (2): 298–310.

Thomsen, Steen & Caspar Rose, 2004, Foundation Ownership and Financial Performance: Do Companies Need Owners? *European Journal of Law and Economics*, 18(3): 343-64

Tischer, Daniel, Ruth Yeoman, Stuart White, Alex Nicholls & Jonathan Michie, 2016, An Evaluative Framework for Mutual and Employee-Owned Businesses, *Journal of Social Entrepreneurship*, DOI: 10.1080/19420676.2016.1190396

VandeWalle, D., Van Dyne, L., and T. Kostova. 1995. 'Psychological ownership: An empirical examination of its consequences.' *Group and Organization Management* 20(2): 210–226.

Wagner, Stephen H., Christopher P. Parker, and Neil D. Christiansen. 2003. 'Employees That Think and Act Like Owners: Effects of Ownership Beliefs and Behaviors on Organizational Effectiveness.' *Personnel Psychology* 56 (4): 847–871.

Wasserman, N. 2006. 'Stewards, Agents, and the Founder Discount: Executive Compensation in New Ventures?' *Academy of Management Journal* 49: 960–976.

Yeoman, Ruth, 2016, Meaningfulness and Mutuality in a Critical Conception of the Corporation, American Academy of Management conference paper

Yeoman, Ruth and Kate Roll, 2014. *Mutuality in Management Practices*, Working Paper.

Saïd Business School

Saïd Business School at the University of Oxford blends the best of new and old. We are a vibrant and innovative business school, but yet deeply embedded in an 800-year-old world-class university. We create programmes and ideas that have global impact. We educate people for successful business careers, and as a community seek to tackle world-scale problems. We deliver cutting-edge programmes and ground-breaking research that transform individuals, organisations, business practice, and society. We seek to be a world-class business school community, embedded in a world-class university, tackling world-scale problems.

The Partnership

Mutuality in Business is a multi-year joint research programme between Saïd Business School and the Catalyst think tank at Mars, Incorporated. Established in June 2014, the Mutuality in Business joint research partnership has focused on the development of a business management theory for the Economics of Mutuality with corresponding teaching curriculum, new management practices, and case study research. The research programme has combined the pursuit of normative questions – what is mutuality and how should it be enacted? – with grounded, ethnographic research on current thinking and practices. This has led to the development of field experiments and case studies examining how large corporate actors conceive of and pursue responsible business practices, and how these relate to their financial and social performance.

To date, this research has been undertaken with Mars Catalyst, but in 2016 it expanded to include work by Danone Ecosystem and it is envisaged that other companies will participate in the research programme in the future.

Mutuality in Business
Saïd Business School, Egrove Park, Oxford OX1 5NY
www.sbs.oxford.edu

T: +44(0)1865 422875
E: responsiblebusiness@sbs.ox.ac.uk
W: sbs.oxford/edu/mutuality