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Effects of ESOP Adoption and Employee Ownership: Thirty years of Research and Experience

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Research does confirm that individual employee-owners benefit from ESOPs. Equity comes on top of, not in place of, other compensation. Employee ownership is also associated with considerably greater employment stability and, in firms that simultaneously increase worker participation in decision making, the result is increased job satisfaction, organizational commitment, identification, motivation, and workplace participation. High profile cases accentuate potential risks through lack of diversification, but most employee-owners are less vulnerable than counterparts.

Research confirms also that employee ownership, on average, leads to increased firm productivity, profitability, and longevity. Evidence suggests that combining employee ownership with increased employee participation may generate astounding returns on investment.

Little is known, however, about management of employee owned firms and few projects even attempt to justify societal claims. Economists, managers, and financiers remain skeptical of employee ownership, and few studies directly counter their concerns. Problems associated with employee ownership go unstudied. For all the extent and appeal of employee ownership, it is on the fringe of both social consciousness and the academic literature.

Employee ownership is one of the few issues on which the political left and right can agree, and is thereby capable of attracting strong support across the US political spectrum. Recent concerns about social security solvency suggest further inducements to widening ESOPs. Given this opportunity, increased knowledge can help promote employee ownership, help ensure its wise adoption and successful implementation, and intelligently influence public policy.

Keywords
employee involvement/participation, ownership stakes/society, organizational effectiveness/performance, social change

Disciplines
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Steven F. Freeman
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Key words / Subject Areas:
1 Employee Involvement/Participation
2 Ownership Stakes/Society
3 Organizational Effectiveness/Performance
4 Social Change

Effects of ESOP Adoption and Employee Ownership: Thirty years of Research and Experience

A quiet transformation has occurred in the ownership structure of US businesses over the past third of a century. Prior to the passage of the Employee Retirement and Income Security Act (ERISA) in 1974, employee ownership was a fringe phenomenon in the US, limited to a few worker co-operatives in the northern corners of the nation. Although direct employee ownership and control is still rare, more than one in six US private sector employees now own shares in their company; and more than one in 12 US private sector employees now participate in an Employee Stock Ownership Plan (ESOP)[1]. As indicated in Table 1, more than 10 million employees now participate in over 9,000 ESOPs; the net value of these employee holdings exceeds $600 billion (NCEO, 2006).

A Brief History of Employee Stock Ownership Plans (ESOPs)

The creation of the ESOP is usually credited to Louis Kelso, a San Francisco attorney and investment banker. In 1956, Kelso implemented for a San Francisco newspaper the first ownership transfer to employees by means of what later became known as *The Kelso Plan*. In 1958 he collaborated with the philosopher Mortimer Adler to write *The Capitalist Manifesto* outlining the economic, social and political benefits that would ensue from broad based employee ownership.

In the early 1970s, the concept attracted an important ally, Senator Russell Long of Louisiana, the long time Chairman of the Senate Finance Committee. Kelso and Long claimed that employee ownership builds commitment, which leads to productivity and profits, and argued that legislation facilitating broader-based ownership would not only increase corporate performance, but also ease workplace tensions, reduce disparities of wealth, and help build a better society.

1 Sources: Logue & Yates (2001:1). Roughly the same number of employees own shares in their company through a 401(k) plan as through ESOPs, but 401(k) shares carry far more limited ownership rights.

ESOP legislation emerged amidst questions in this period over the future solvency of Social Security. When the Social Security Act was signed by President Roosevelt in 1935, one out of 70 Americans were eligible for Social Security benefits. In 1939, Social Security was expanded to cover dependents and survivors. A 1967 comprehensive study revealed that one out of 17 Americans were then eligible for Social Security benefits, but that by the year 2000 one out of every three Americans would be eligible and that by the year 2010 it would be one out of two. To address this looming shortfall, Congress adopted ERISA, and within this context passed legislation established the ESOP as a means to supplement Social Security. The legislation included attractive tax and financing advantages to induce company owners to sell company stock to employees.[2]

The number of ESOP plans grew rapidly such that by 1993, more than 9,000 plans were in effect. Although accounting rule changes caused most public companies to replace ESOPs with 401(k) plans, new adoptions have brought the number of plans back up to that 1993 level and the number of plan participants has steadily increased throughout the period. Rosen (2006) speculates that this is due to increasing use of ESOPs in larger private companies and faster employment growth among ESOP companies.

Table 1[3]		# Plan Participants (,000s)
Year	# Plans	
1975	1,600	250
1980	4,000	3,100
1990	8,080	5,000
1993	9,225	7,500
1999	7,600	8,000
2002	8,450	9,300
2005	9,225	10,150

ESOP advocates believe that plan adoptions would be much higher yet if more business owners knew about the advantages of ESOPs. They also note that the same conditions under which ESOPs were established in 1974 characterize current US political

2 ESOPs are retirement plans, not only for employees, but for qualified owners as well. Since 1974 there have been over 20 pieces of legislation that encourage owners of private-held companies to implement ESOPs and share equity with employees. Tax incentives have been enhanced and modified by the Economic Recovery Tax Act of 1981, the Tax Reform Acts of 1984 and 1986, the Comprehensive Retirement Security & Pension Act of 2000 and the American Jobs Creation Tax Act of 2004.

Seller(s) are entitled, in most cases, to long term capital gains tax rates, and an S corporation that is 100% ESOP owned becomes totally exempt from all federal and state corporate income taxes on the above basis. Lesser percentages held by an ESOP also enjoy the same exemption. As legislation has evolved, benefits have been specifically targeted to independent business owners and employees who participate in these plans. The owner of a privately-held business can sell to an ESOP and defer all Federal income taxes, although Section 1042 of the Internal Revenue Code excludes tax deferment eligibility if the stock of the subject company is publicly traded.

3 "Plans" include statutory ESOPs and also plans not formally designated as ESOPs but which are primarily invested in employer stock and offer distributions in employer stock.

debates. President Bush and influential think tanks have called for policy developments furthering their goal of an "ownership society."[4] Current concerns about social security solvency suggest further inducements to employee ownership legislation. A literature review of ESOP research is especially valuable now given both this lack of knowledge and opportunity for favorable government action.

ESOP and Employee Ownership Research

We now have had more than three decades of experience with ESOPs and a surprisingly vast research literature including hundreds of studies. Most of the employee ownership research seems credible, especially the cumulative findings on the benefits to individual employee owners and the firms themselves. Nevertheless employee ownership remains on the outskirts of academic thinking. Mainstream economic theory predicts employee ownership leads to underinvestment, inefficient decision making, inadequate supervision, or some combination of these (see Bonin, Jones & Putterman, 1993, for a review), and few employee ownership advocates have directly engaged these arguments. Few mainstream management journals publish articles on employee ownership. Rather, such studies are principally conducted and published within a small close-knit community; relatively few are peer reviewed or indexed. For all the potential appeal and, in fact, the extent of employee ownership, it seems to be on the fringe of both social consciousness and the academic literature.

Peer reviewed research seems to have declined significantly over the past decade and a half, and a small group of researchers conduct almost all the research. A large percentage of the current research, including the work in the domain's principal journal, *Journal of Employee Ownership Law and Finance,* is not peer reviewed. And although articles on employee ownership are still published in labor relations journals, there is little, if any, mention of the phenomenon in leading journals of economics or business administration.

Moreover, employee-owned firms are rarely, if ever, the domains in which general management issues are studied. Business cases and teaching notes in management, strategy, and other business

[4] See for example, the extensive Cato Institute writings and website dedicate to the "ownership society" http://www.cato.org/special/ownership_society

courses rarely present employee ownership scenarios or conditions.[5] Aside from a few high profile problem cases – UAL and Enron – employee ownership is rarely mentioned in the business press either.

Research findings are mostly quite positive; Blasi et al. (2003) claim a confluence of favorable outcomes among nearly all empirical research studies on employee ownership. Yet few scholars outside this close knit group seem to be aware of the topic. Economists remain suspicious if not outright dismissive, and research published outside the small group of employee ownership researchers – mostly by finance scholars (Pugh et al., 2000; Weston et al., 1990) – emphasizes problems related to ESOP adoption and suggests that ESOPs have *not* led to significant increases in corporate performance. Although the quantity and cumulative findings of research on employee ownership may be impressive, lack of engagement with critics means that the research and the idea of employee ownership have limited impact in the larger world of knowledge and ideas, and leaves doubts about the assertions. I'll discuss these issues further in the conclusion.

Research Methods

Almost all studies on the effects of ESOP adoption involve one of three kinds of comparison:

- between-groups, cross-sectional comparisons of employee-owners and non-owners (who may be in the same firm or in other firms)
- longitudinal comparisons, before and after the adoption or termination of employee ownership
- within-groups, cross-sectional comparisons of employee-owners with different plan or employee characteristics

To help identify and analyze what we have learned from research about the effects of ESOP adoption, I consider the effects upon (1) individual employee owners, (2) the firms themselves, and (3) the larger society. I follow with some general observations about ESOP research and suggestions for future investigation.

[5] In the 10 years I spent in the MIT, Harvard, and University of Pennsylvania business school systems, I never once heard of employee ownership in a research seminar, read of employee ownership in a journal article, or seen a case or topic covered which centered on an ESOP or employee owned firm -- with the exception of UAL, and a course on organizational design in the 1990s, discussing the unique tiered structure of a trendy Brazilian firm.

Effects of Employee Ownership and ESOP Adoption on Individuals

The clearest beneficiaries of employee ownership are the employees on whom ownership is initially bestowed. They often, if not usually, gain substantial wealth; sizable ESOP benefits accrue, usually without the risk or sacrifice associated with business creation or purchase. Employee owners derive other benefits as well, including increased job security and work satisfaction, although these may be contingent on increased participation, not ownership *per se*. Employee ownership is NOT *in general* associated with increased risk to participants, but risks can arise from potential lack of diversification and increased management control.

Increased Employee Wealth and Wages

Of all the benefits ascribed to ESOPs, overall compensation gain for individual employees is the most unequivocal. Not only do workers gain a great windfall of company equity, but overall average pay of workers in firms with employee ownership is at least as high as—and may be higher than—that of comparable workers in non-employee owned firms. Three broad studies of employee compensation in relation to employee ownership conclude that company stock appears to come on top of, and not in place of, other compensation.

Blasi et al. (1996) found 8% higher average compensation levels among public companies in which broad-based employee ownership plans held at least 5% of company stock as of 1990 as compared to other comparable public companies.

Studies of pay and benefits in ESOP and non-ESOP firms in Massachusetts (Scharf & Mackin, 2000) and Washington State (Kardas et al., 1998) found that the levels of pay and other benefits were similar between these two types of firms, which indicates that ownership wealth from ESOPs does not substitute for present day income, but rather comes *in addition* to worker pay and benefits, and thus results in far greater overall compensation. By some indices, the overall average pay of workers in these plans appears to be slightly higher than that of other workers. This may partly reflect higher average productivity levels in employee ownership companies, the use of high wages in combination with employee ownership to motivate workers, the influence of workers in setting wages, or

beneficence on the part of management that adopts ESOPs.

The exception to this is that in the early 1980s unionized employees at several firms accepted employee ownership in exchange for concessions in pay or benefits. In addition, some employees have taken lower wages as part of employee buy-outs, such as occurred in the United Airlines case (Lamberg et al., 2003). Among the nearly 1000 public firms that developed employee ownership stakes of 4% or greater over the 1980s, however, there were only 40 reports of wage and benefit restructuring linked to employee ownership (Blasi & Kruse, 1991).

Greater Employment Stability

Given the importance that most workers place on job security[6], we might expect employee-owners would exert formal or informal pressures to increase job security. Accordingly, Craig and Pencavel (1992, 1993, 1995) found that U.S. plywood cooperatives in the Pacific Northwest tended to adjust pay rather than employment as plywood demand changed. Blair et al. (2000) found increased job stability in U.S. public companies with broad-based employee ownership plans as compared to otherwise similar firms in their industries. Firms holding more than 17% of company stock over the 1983-95 period had significantly longer average employee tenure than matched firms without the employee ownership.

Mildly Increased Job Satisfaction, Organizational Commitment, Identification, Motivation, and Workplace Participation

Blasi and Kruse (2003) identified ten studies, summarized in Table 2, analyzing the relationship between employee ownership and satisfaction. Surprisingly, no link was observed between size of ownership stake and satisfaction levels. The studies indicate that satisfaction and motivation derive not from size of ownership stake or even ownership *per se,* but rather from increased participation.

Two studies find higher satisfaction, commitment, and motivation among employee-owners. One study on behavioral effects (Kruse, 1984, *see Table 4*) found lower satisfaction among employee-owners compared to a nationwide sample, this in an ESOP company where the union had lost a

[6] A majority of Americans say that if they owned company stock and an outside investor was attempting a takeover, they would not sell even for twice the market value of the stock (EBRI/ Gallup poll, 1994, summarized in Kruse & Blasi, 1999).

bitter strike the year before. (Reminders by management that the strike would hurt ESOP account values brought the responses "We don't vote. We don't control the company. We don't care."). The remaining studies found only highly contingent differences between owners and non-owners, or before and after an employee buyout. A surprising finding is the absence of any link between size of ownership stake and satisfaction levels.

Table 2. Key Employee Owner Satisfaction Studies

Comparison	Authors	Source of data	Explanatory variables	Main results
Between employee owners and non-owners	Greenberg (1980)	Surveys of 550 employees in 4 US plywood coops and large non-employee owned firms	Co-op member-ship	Higher work satisfaction for co-op members
	Hammer, Stern & Gurdon (1982)	Surveys of 233 employees in 2 firms saved by employee buyouts, 1-2 years later	Owner-ship status, stake	Lower alienation from work among owners in both firms; Satisfaction similar for owners and non-owners in one firm; higher for some owners in other; Not linked to ownership stake
	Long (1978a, b; 1980)	Survey of 87 employees 6 months after 70% bought trucking co., and at knitting mill w/30% owners	Owner-ship status	Higher satisfaction for owners, but due to perceived participation rather than simple ownership status
Pre-ESOP/ Post - ESOP	Pendleton, Wilson & Wright (1998)	Three surveys of 234 employees in UK Bus Co, ESOP adopters.	Perceptions of ownership, process participation	Opportunities for participating in decision-making are more important than ownership per se in generating feelings of ownership, which are significantly associated with higher levels of commitment and satisfaction
	Long (1982)	Three surveys of 147, 184, and 248 employees, first one prior to employe purchase of Canadian electronics firm	Employee buy-out after first survey, Ownership stake	Satisfaction up for those perceiving increased participation, but down for those perceiving no change in participation. No relation to ownership stake
	Tucker, Nock & Toscano (1989)	Two surveys of 38 & 39 employees at small, fast growing US firm	ESOP adoption after first survey	Satisfaction up (but sample too small for significant results)
Between groups of employee-owners	Buchko (1993)	Survey of 218 employees in an ESOP company, 1987	ESOP account value, perceived influence	Perceived influence had positive effect on satisfaction, while ESOP account value had no significant effect.
	French & Rosenstein (1984)	Survey of 560 employees in firm with direct ownership	Ownership stake, perceived influence in job & co.	

Related studies tend to show an association between employee ownership and organizational commitment and identification (12 studies), motivation (6 studies), and participation and influence in decisions (11 studies). I review these in the next section because they are understood primarily as instrumental goods that improve performance for the firm, rather than a direct benefit to the employees themselves. That said, Seligman and Csikszentmihalyi (2000) and others in positive psychology (e.g., Turner, Baring & Zacharatos, 2002) and positive organizational scholarship (Cameron, Dutton & Quinn, 2003) attribute extensive well-being to people who feel a sense of commitment, identification, motivation, and participation in their work. Prominent scholars such as

Csikszentmihalyi (1990) claim that these are precisely the most important elements of work life, and that it is this attachment to and identification with work that makes for a life of meaning and satisfaction.

Increased Risk is Generally *Not* the Case

One of the most important threats that ESOPs hypothetically pose to employee well-being is risk from lack of diversification. This risk has been highlighted in big news stories about collapses at Enron,[7] Polaroid,[8] and United Airlines.[9] In the latter two cases, the failures seem at least partially due to poorly designed mechanisms of employee ownership. Any time a firm goes bankrupt, nearly all equity is lost, so if workers hold a significant portion of their retirement portfolio in their corporate stock can lose not only their jobs and careers, but their retirement stakes as well. Counterpoised against this risk are benefits posited – that workers who own stock will be more productive, loyal, and profit conscious, and thus decrease the likelihood of firm decline.

Kruse (1996) suggests that employee owners generally have superior retirement provisions even excepting their ESOP stake, because their firms are far more likely than their industry counterparts to maintain defined benefit pension plans. But of course, if a company goes bankrupt, defined benefit pensions are lost too. More research is needed on the extent of this risk and whether ESOPs result in too many eggs in one basket, or if, in fact, the eggs best belong right there with the hens that make them.

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7 At Enron, ESOP employee losses were further exacerbated by precipitous decline of the Enron 401(k), 58% of which was invested in Enron stock. And much of that investment seems not only violated plan managers' fiduciary responsibilities, but was criminally invested so as to artificially prop up share price.

8 In 2001, six thousand Polaroid workers, lost not only retirement health care severance packages and in many cases their jobs, but also a $300 million ESOP investment. Beginning in 1988, workers at the Waltham, Mass. instant camera manufacturer gave up 8% of their salary to underwrite an ESOP, created to thwart a corporate takeover. Unfortunately, Polaroid was slow to react to the digital revolution and began to lose money in the 1990s. From 1995 to 1998, the company racked up $359 million in losses. As its balance sheet deteriorated, so did the value of its stock, including shares in the ESOP. In October 2001, Polaroid sought bankruptcy protection from creditors. A company-appointed trustee sold the employee stake for 9¢ per share, having plummeted from $60 in 1997.

9 Lamberg, et al (2003) argued that lack of central authority caused suboptimal strategic stakeholder negotiation at United Airlines, causing the firm to fall into bankruptcy (and employees to lose their investment). The empirical generalizability of the United Airlines case is questionable because it is an ESOP that many proponents considered ill-advised, and most considered badly structured. On the other hand, economists are inclined to see United Airlines' problems as representative. Ronald Coase won a Nobel Prize in Economics for identifying internal negotiations and suboptimization as a general economic problem for which his "Theory of the Firm," that is to say the conventionally governed firm is a solution.

Summary of ESOP Effects upon Individuals

Research suggests almost entirely positive effects for individuals of ESOP adoption and, more generally, employee ownership. Significant valuations of company stock appear in addition to, and not in place of, other compensation. Likewise, company stock accumulations tend to complement diverse retirement benefits, although employees can be vulnerable to irresponsible concentration *á la* Enron. Another valuable benefit is increased job security. Finally, job satisfaction is positively correlated with ESOP adoption, although not markedly so.

Limited gains in job satisfaction may be attributable to provisions of ESOP law that maintains or even concentrates voting shares in the hands of management. Thus, although ESOP employees automatically gain a share of the wealth, they do not automatically gain a share of power. Increases in satisfaction seem to come only from an increase in participation, which is not always forthcoming.

An important gap in the literature on ESOP effects upon individuals is lack of even a single study documenting the effects upon the owners who lead the transition. In our interactions with ESOP officers[10], we see sometimes profound sentiments relating to ESOP transition. The decision whether to adopt an ESOP and the nature of the ESOP to adopt is in the hands of the owner; research on the impact of the adoption for him or her could provide a much stronger basis for helping others to make that decision.

In addition to these direct effects, employees and owners are also affected by the impact of ESOP adoption on the firm.

Effects of Employee Ownership and ESOP Adoption on Firms

Most research on employee ownership shows robust, positive, firm-level effects. These studies show that employee owned firms are more productive and profitable, survive longer, and result in better shareholder returns. Adoption of ESOPs result in better post-adoption performance compared to pre-adoption performance and also compared to matched firms. The mechanisms by

10 The ESOP Association and the University of Pennsylvania Center for Organizational Dynamics, have partnered to offer Chief Executive Officers of ESOP companies a Certificate Program on Leading in an Employee Ownership Setting, http://www.esopassociation.org/meetings/meetings_2005_CEOLead.asp

which these gains are realized are still not well understood, but researchers have begun to investigate.

Some studies from prestigious journals of economics and finance challenge these claims, and economic theory is generally suspect of employee ownership. Two opposite risks are identified – control that is either too highly centralized despite broad ownership, or insufficiently centralized.

Increased Productivity and Profitability

Kruse and Blasi (1997: 134-136) summarize eleven studies evaluating comparison of (a) performance before and after adoption of the ESOP, (b) ESOP to non-ESOP firms, and (c) post-adoption performance to matched non-ESOP firms. Most of the studies find small positive, but statistically insignificant effects. Only two of the studies – on post-adoption performance (Kumbhaker & Dunbar 1993; Mitchell et al., 1990) – find significant differences. Park and Seng (1995), additionally, find significantly better post-adoption performance, but only in firms with outside blockholders (possibly due to greater monitoring of management). Conducting meta-analytic statistical tests on all eleven studies, however, Kruse and Blasi (1997: 137) are able to conclude that on average in all the performance categories, ESOP companies do better per year than non-ESOP companies and that companies do better post-adoption than pre-adoption. They estimate the average effect across tests and across studies to be approximately 4% annually.

Increased Resilience and Likelihood of Firm Survival

Research indicates not only that employee-owned firms are more profitable and productive, but that they also survive longer. Several large-scale studies show that employee-owned firms are significantly less likely than their counterparts to go bankrupt or disappear for any reason at all.

Park, Kruse and Sesil (2004) tracked data on all U.S. public companies as of 1988, following them through 2001. Companies with employee ownership stakes of 5% or more were only 76% as likely as firms without employee ownership to disappear in this period. Out of 245 firms in which employees owned 5% or more of the company in 1988, 124 (50.6%) were still in business in 2001; only 97 (41.8%) out of a matched sample of 232 non-employee-owned firms were still in business in 2001. (The entire 1988 population of non-employee owned public firms consisted of 5432, of which 2301,

42.4%, had survived.) In every category tracked (Merger or Acquisition, Bankruptcy, Liquidation, Reverse Acquisition, Leveraged Buyout, Privatization, Other, and Missing) non-employee owned firms disappeared at a greater rate than employee-owned firms

These findings were congruent with those of Blair et al. (2000). Their study tracking U.S. public companies from 1983, found that those with substantial employee ownership stakes were 20% more likely than their industry counterparts to survive through 1995.

In a current project reported on the NCEO website, Blasi and Kruse (2007) track all *privately* held companies with ESOPs in 1988, and found they had similarly higher survival rates than closely matched firms without ESOPs. Among 1176 private companies with ESOPs in 1988, 69.6% survived through 1999, compared to only 54.8% of non-ESOP companies in the same industry and of the same size.

Benefits of Firm Survival and Employment Stability

Although firm survival may seem to be a clear-cut good, economists have traditionally been dubious about the benefits of enhanced organizational survival. Schumpeter coined the term "creative destruction," of firms dying a timely death, but in our rapidly changing times, we can increasingly appreciate the value of organizational stability even aside from the benefits to individuals with ownership stakes. It can take decades to develop a robust organizational model. Premature organizational collapse leads to squandered resources and intellectual capital disintegrates as teams disperse – it takes years to redeploy people. Moreover, firms are vessels into which we pour energies and passions; their longevity can be seen as a good in itself.

In the previous section, it was noted that employee ownership results in greater employment stability. But does that benefit the firm? Traditionally, economists and many investors have suspected that job stability comes at a cost to organizations. But as job stability has declined over the past generation, the benefits of job stability for the firm (as well as the employees themselves) have become more apparent: Work groups (Freeman et al., 2003) and organizations (e.g., Pfeffer, 2005) that hold together longer function better. Blair et al. (2000) and Craig and Pencavel (1995) find that

employee owned firms with higher job stability also had higher productivity and better stock market performance than comparable non-employee owned firms.

No one has studied ESOP resilience or an ability to deal with adversity (e.g., Freeman, 2004) per se, but Estrin and Jones (1992) found that French worker cooperatives were more likely to survive than their non-employee owned counterparts under a variety of conditions. Iqbal et al. (2000) found that firms with ESOPs were able to improve operating performance when their stock prices were falling as well as when stock prices were rising.

Shareholder Return – The Positive View

Blasi et al. (2003: 155-157) analyzed the entire universe of seventy empirical studies they could find on the effects of employee stock ownership, broad based stock options, profit sharing, and employee participation (which they describe as the four key aspects of "partnership capitalism"). They report,

> The results surprised even us, not because they were so positive, but because they were so extensive and so uniform.… The most striking conclusion: Every major study found that investors came out ahead if their company adopted key elements of partnership capitalism.…

They found that adoption of any of the four forms of partnership capitalism results, on average, in the gains listed in Table 3:

Table 3. Investor Gains from Sharing Ownership (Blasi et al., 2003)

Performance measure	Gain from employee ownership
Average employee ownership	8% -- after dilution
Productivity	4%
Return on equity	14%
Return on assets	12%
Profit margins	11%
Total shareholder returns	2% -- after dilution!

They explain:

> In other words, the studies show that on average, companies and their investors made a profit on partnership approaches, including stock options, over and above any ownership they dished out to employees. They gave workers an 8 percent ownership stake, and in return enjoyed an average of a 2 percentage point higher return on the diluted shares they still held.

Mechanisms by which ESOPs Perform Better?

Assuming that ESOPs do, in fact, perform better (see dissenting views in the next section), the mechanisms through which ESOPs may affect performance are not well established.

Many studies investigate the relationship between employee ownership and organizational commitment and identification (12 studies); motivation (6 studies); participation and influence in decisions (11 studies); and behavioral measures such as turnover and absenteeism (7 studies). All these presumably have a beneficial effect on the firm (McGregor, 1960), but the link has proven surprisingly elusive and contingent (Thompson, 1967). So while it is a good bet that these relate to overall firm improvement, few studies as yet verify the links.

I review in this section important studies that credibly explain the relationship between employee ownership and these theorized performance factors, emphasizing those that directly test factors as mechanisms affecting ESOP performance.

Benefits from Employee Participation in Decision Making?

The studies previously related on satisfaction (Table 1) highlighted the importance of participation. Two additional studies interacted productivity growth explicitly with measures of employee participation in decisions. Quarrey and Rosen (1993) found significantly higher post-adoption growth for ESOP companies that had participation groups and for ESOP companies in which management perceived higher worker influence (compared to both similar non-ESOP companies and to pre-adoption growth). The U.S. GAO (1987) study found significant increases in productivity where the companies reported high levels of worker influence, but only when the companies reported an increase in employee voting rights or worker influence after adoption. In addition, Kardas (1994) and Kardas, et al. (1994) found higher sales and employment growth in participatory ESOP companies compared to non-participatory ESOP companies and non-ESOP companies.

While employee participation may be important in how employees view employee ownership, there is no automatic connection between degree the size of an employee ownership stake and the

rights associated with that ownership, or, for that matter, between ownership rights and the *perceived,* or even *desired,* influence and participation in decision-making.[11]

Greater Organizational Commitment and Identification?

All eight studies of employee owner satisfaction (Table 2) also measured organizational commitment. The results suggest that employee ownership is slightly more highly correlated with organizational commitment than with employee satisfaction. But as with satisfaction, the results are mixed and contingent, as they also were for four additional studies (Rhodes & Steers, 1981, 141 employees at a US Plywood coop as compared with a conventional firm; Russell et al., 1979, comparing 165 employee owners at a refuse collection firm with 565 non-owners; Oliver's 1984 study of 6 Scottish co-ops, and his 1990 survey of employees at a longstanding employee-owned UK petrochemical firm). Employee owners have higher commitment in most studies, but not all (Hammer et al., 1982; Long, 1980). As with satisfaction, the role of perceived influence/ participation in decisions appears strong (Rhodes & Steers, 1981; Long 1980; Buchko, 1993; French et al., 1984). Oliver (1990) found that employee-owners with "participatory" values (putting a premium on the opportunity to participate in workplace decisions, and on good relations with co-workers and managers) had higher commitment than those with "instrumental" values (focusing on size and fairness of income, job security, and work conditions).

The link from commitment to firm performance is not rigorously made in any study, although Brady (1995) provides anecdotal evidence that this deeper commitment improves companies' possibilities to create sustainable competitive advantage.

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[11] Some employee ownership cases involve formal employee participation in decisions (particularly in cooperatives), while others involve no change in workplace decision making. Just as the size of the ownership stake seems to make very little difference in employee satisfaction and commitment, it is not important in either perceived or desired participation or influence. Actual participation levels were perceived to be higher for employee-owners in two cooperatives (Rhodes & Steers 1981, Russell, et al 1979), and for certain groups of workers in two studies (Goldstein 1978, Hammer, et al 1982; Kruse 1984), but Long (1979, 1981, 1982) found no significant differences.

Whether or not employee ownership results in changes in workplace decision making, one might imagine that employee ownership raises employee desires and expectations for participation in decisions. While this idea is borne out in some case studies and interviews, it does not receive much support in the attitude surveys. Hammer & Stern (1980) and Kruse (1984) found that ownership status made no difference in desired participation or allocation of power in two studies. Long (1981, 1982) found a decline in desired worker participation after an employee buyout. He speculates that company growth made employees wary about worker participation given the uncertainty about commitment levels of new employees, and that employee ownership may have made employees put more trust in managers to make decisions maximizing firm value.

Greater Motivation?

ESOPs are not always associated with higher motivation (Kruse 1984), but studies generally find (slightly) higher motivation in employee-owned firms. The link between size of stake and motivation is not strong, but Goldstein (1978) found expressed motivation related to size of stake in an Australian firm saved by employee buyout. Long (1978a, 1978b, 1980, 1982) found motivation related to perceived participation in decisions.

The only direct link from motivation to firm performance is made by Russell et al. (1982) who found higher quality of work among employee-owners (fewer customer complaints).

Increased Employee Effort?

One means by which employee ownership might improve firm performance is through greater effort or dedication, measurable in variables such as reduced turnover and absenteeism. Table 4 summarizes six studies that provide some behavioral measures that could improve overall firm performance. Once again, simple existence of employee ownership appears to have no automatic effect on dedication, but may have an effect combined with worker participation or influence. Kruse (1984) found no reduction in turnover or grievances in an ESOP that was sold without worker vote or input. Rhodes and Steers (1981) and Buchko (1992) found lower turnover, whereas Hammer et al. (1982) did not. One study on injury levels found lower rates associated with employee ownership (Rooney, 1992) whereas one did not (Rhodes & Steers, 1981); three studies on absenteeism all had differing results.

Reduced Salaries and Other Expenses?

Buchko (1992) hypothesized that ESOPs strengthen employees' commitment to the company as well as to motivate employees to, for example, lower their salaries and other expenses. Evidence suggests, however, that employee wages, at least, are actually higher in employee-owned firms.

Table 4. Effects of Employee Ownership on Effort and Dedication

Authors	Source of data	Dependent variables	Explanatory variables	Main results
Kruse (1984)	Manufacturing co. with ESOP owning 52% of stock, 1981	Turnover, Union grievances	ESOP termination	Turnover and grievance rates unchanged after company was sold (without worker vote or input)
Rhodes & Steers (1981)	141 employees at a US Plywood coop vs. a conventional firm	Turnover, Grievances, Absenteeism Tardiness, Injuries	Co-op membership	Lower turnover and grievances in co-op; no difference in accidents, but higher absenteeism & tardiness
Buchko (1992, 1993)	Survey of 218 employees in an ESOP company, 1987	Turnover	Perceived influence, ESOP account value. Satisfaction with ESOP	Perceived influence and ESOP Satisfaction → decreased turnover. Account value indirectly → decreased turnover.
Hammer, Landau, & Stern (1982)	Attendance data from 112 employees in furniture co. before and after 1976 buyout	Absenteeism	Employee purchase of ownership stake	No significant change in overall absenteeism, some decrease in "voluntary" absenteeism, especially with large capital stake
Rooney (1992)	275 US firms, 206 majority employee-owned through ESOP or cooperative	OSHA injury in 1985	Percent of stock held by employees, alone and with participation measures	Employee ownership with worker participation had lower injuries, but mixed results for measures individually

Improved Labor-Management Relations?

Although Kelso and others speculated that employee ownership would improve labor-management relations, ten studies on labor-management relations indicate no decrease in the perceived need for the union, nor reduced employee commitment to union activities. French and Rosenstein (1984) found that both owners and non-owners had increasingly favorable views of union-management cooperation. Not one out of the ten studies, however, indicates a perceived decrease in the need for union representation, but three studies indicate a perceived increase. This may be attributable to ESOP structures that provide ownership but not necessarily any formal voting rights. Employees in these firms now feel they need a union not only to protect rights associated with the jobs, but also to protect their financial stake in the firm.

Skepticism about Performance of ESOPs and/or Employee Ownership

Although most ESOP and employee ownership researchers find improved firm performance, mainstream economic theorists and many investigators still see employee ownership as suspect. Most economists predict either underinvestment and inefficient decision-making, inadequate supervision, or both (see Bonin et al., 1993, for a review).

This circumspection over the viability of employee ownership was compounded by the use of ESOPs in the 1980s as a takeover defense. Employee ownership would seem to imply distribution of

power and control, but because of the legal structure of some ESOPs vesting full fiduciary power in management, ESOPs can and have been used as defensive control mechanisms (Pugh et al., 1999). ESOPs are an effective takeover defense because they increase both the number of shares under management control and corporate debt -- making them simultaneously less vulnerable and less attractive. Beatty (1994) and Scholes and Wolfson (1990) claimed that the increase in ESOPs in the 1980s was largely prompted by the surge at the time in hostile corporate takeovers.

Concentration of Control and Management Entrenchment

Nasar (1989) contended that ESOPs can eventually harm shareholders because the plans can entrench weak or ineffective management while offering little motivation for employees to become more productive. Gordon and Pound (1990) suggested that ESOPs were less effective than other types of large investors at monitoring management decisions since ESOPs are unilaterally undertaken by management, ESOP shares are held only by incumbent managerial and non-managerial employees, and ESOP trustees are frequently appointed by management.

In sharp contrast to the findings of Blasi and Kruse (2003), Pugh et al. (2000) claim that, "The literature, to date, has generally provided inconsistent results." In their own study, they conclude that ESOPs provide, at best, only a short-term boost to corporate performance. In a current paper (Pugh et al., forthcoming), however, the authors make a more competent case that some ESOPs have been used by corporations as part of a takeover defense and that these ESOPs do not outperform the market (but others do).

Other works seem to support this notion of differential ESOP outcomes depending on motive. Park and Seng (1995) documented that the market reacts unfavorably to ESOP adoptions when it seems to concentrate management control, but reacts favorably to ESOP adoptions when other large outside shareholders are present who have the capability to offset the influence of inefficient managers who might choose to use the ESOP to further entrench themselves in their positions. Gamble (1998) found that ESOPs adopted prior to the availability of the tax benefits provided by the Tax Reform Act of 1986 (TRA) experienced improved financial performance on six observed

financial ratios, while the performance of ESOP firms adopted after the passage of the Act declined on each ratio observed. The sample of 32 pre-TRA firms significantly outperformed a 147 post-TRA sample on three of six financial ratios observed. The study's results suggest that firms that adopted ESOPs prior to the availability of Tax Reform Act benefits have successfully reduced agency costs and that many firms that adopted plans after the passage of the Act may have likely done so for reasons other than incentive alignment.

Insulated and Non-Innovative

Gamble (2000) argues that the basic problem with management entrenchment is insulation and failure to innovate. He documents that as ESOP stock concentration increases, R&D spending declines. He posits that an entrenched management behaves in a risk-reducing manner and decreases its commitment to innovation.

A Threat to Firm Survival

Based on the case of United Airlines, Lamberg et al. (2003) argued that employee stock ownership programs could threaten a firm's survival. Lamberg argues that lack of central authority caused suboptimal strategic stakeholder negotiation at United Airlines, causing the firm to fall into bankruptcy (and employees to lose their investment). The empirical generalizability of the United Airlines case is dubious because most observers considered it an ill-conceived structure from the start. On the other hand, internal negotiations and suboptimization is a general economic problem, for which the Theory of the (conventionally governed) Firm (Coase, 1937; Williamson, 1975; Jensen & Meckling, 1976) is a solution, and ESOP proponents' failure to address the questions lead economists to see United Airlines as more representative than ESOP proponents do.

Gaps and Shortcomings in Research on ESOP Effects upon Firms

Like many academic areas of inquiry, studies on ESOPs have more to do with internal lines of development than problems of the firms themselves. In our conversations with ESOP CEOs and other officers, we identify problems completely unaddressed in the literature, e.g., capital formation, maintaining liquidity, managing retirements and payouts. There are often problems between "haves"

– employees who reap a windfall from participation in the initial plan adoption – and "have-nots," – employees doing the same work, sometimes with greater skill and education, but who do not share in the big gains. There are, in fact, many issues unique to employee-owned firms including, perhaps, some those hypothesized in the economics literature; but among the hundreds of empirical studies done, virtually none address, or even identify, these issues.

Empirical Shortcomings

Even viewing the research on ESOP firm level effects on its own terms, most studies, and the research in its entirety fails to follow through and thoroughly document their findings. Blasi, Kruse, Rosen, Logue and others provide data and statistics indicating that employee ownership may supersede even Kelso's rosiest predictions. The assertions are astonishing. By most empirical accounts, ESOPs are highly productive and profitable; they survive longer, and achieve a higher rate of shareholder return. If Blasi et al. (2003) are correct, firms could give away 8% of the company to employees and *still* expect to come out 2% ahead. Unfortunately, few employee ownership authors publish in peer reviewed journals, especially not top tier journals. Even the best employee ownership researchers such as Blasi and Kruse often do not provide their data and documentation. Their claim of an average 2% return on investment *after 8% dilution* is difficult to accept without full data disclosure and peer review.[12]

The economic and finance literature which is skeptical about employee ownership and/or ESOPs is even weaker both in quantity and quality of empirical studies. In Pugh et al. (2000), of the few such empirical articles, citations are wrong and in conflict. For example, the authors state, "Conte and Tannenbaum (1978) and Tannenbaum et al. (1984) found no significant correlation between ESOP ownership and profitability." In the next paragraph, they say, "Conte and Tannenbaum (1978) reported that employee-owned firms were 1.5 times more profitable than those employing more

12 Even aside from the general requirement to see the data and the calculations and a breakdown of the numbers, the book leaves some basic questions unanswered. For example: Are tax benefits part of the equation; what component does that represent, if any, of shareholder return? How quickly does this "bump" happen? They explain the "the higher levels are sustained indefinitely," but when exactly does the level rise?

traditional ownership structures." To top it off, the citation is wrong.[13] The Conte and Tannenbaum study itself fails to show N's for the research.

Theoretical Shortcomings

To make the case for employee ownership at the higher levels of intellectual discourse also requires theoretical development. Economic theory suggests important challenges for employee ownership. If employee-owned firms succeed, how does it happen? Is economic theory wrong? How so? Empirics are important, but so is theory. Until theory is developed, scientists will remain circumspect, particularly given a lack of rigor in the presentation of empirical findings.

Proponents likewise do not answer some obvious practical questions: What part, if any, of ESOP performance gain is due to tax benefits? And, if ESOPs do so well, why are there not more of them? The number of ESOP plans in effect has grown only very slowly over the past decade and a half (Table 1).

Mechanisms

If scientists are circumspect about data without theory, managers and policy-makers are even more suspect about claims without mechanisms. It does limited good to say that employee-owned firms achieve better performance unless one is able to say when, how and why. Yet questions about mechanisms are almost entirely unanswered: how exactly *do* employee-owned firms achieve better performance? Aside from failing to fully document the relationship, some important variables seem overlooked entirely. One cannot simply assume that ownership shares result in increased motivation and thereby performance; in fact, the findings suggest that there are no such direct links.

There is, rather, an indication in the Craig and Pencavel (1992, 1993, 1995) studies that *flexibility*

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[13] *Managerial and Decision Economics* is peer reviewed (so much for that safeguard). I did not obtain Tannenbaum et al. (1984), which they list as a Research Report, University of Michigan's Survey Research Center. Nor did I obtain Weston et al. (1990), of whom they write:

> … in their review of the literature through 1986, concluded that ESOPs have not led to significant increases in corporate performance.

When I was able to track down Conte and Tannenbaum (1978) – in *Monthly Labor Review*, not the more rigorous *Academy of Management Review* that they listed, I learned that it was a simple, inconclusive study suggesting that employee-owned firms were, in fact, more profitable.

plays an important role in the success of plywood cooperatives. Firms with motivated, highly participative employee-owners may more readily adapt to environmental change than their counterparts do. Another suggestive mechanism is resilience. Studies such as Iqbal et al. (2000) suggest that the survival advantage, and even the performance advantage, of employee ownership may be a willingness and ability to come together under adversity. If so, employee ownership provides yet another firm-, employee-, and community-level benefit – smoothing out the ups and downs of economic cycles.

Dialectical Shortcomings

Ideally, ESOP proponents would seriously engaged their critics and the critiques, and make the case for employee ownership at the higher levels of intellectual discourse. Trying to reconcile the two distinct streams of research should be illuminating. If, in fact, proponents and critics are both correct, employee owned firms may be accomplishing even more than anyone is now suggesting. Critics are almost certainly correct in saying that some significant percentage of poor performing firms that have adopted ESOPs for reasons that have nothing to do with the spirit of employee ownership, but rather as a legal loophole to protect and entrench inefficient management. Researchers also document that a large percentage of well intentioned firms apparently do not gain anywhere near the full benefit of ESOP adoption; studies indicate only those with high levels of participation reap the benefits of employee ownership. (In many firms, it is a largely unappreciated benefit; anecdotal evidence indicates that employees greatly undervalue their ownership shares.)

If ESOPs nevertheless, on average, outperform the market by 10% *despite* these laggards, it suggests that firms which adopt ESOPs in the spirit of the employee ownership and participation may be doing astoundingly better than comparison firms.

Effects of Employee Ownership on Society

In contrast to the abundance of research on the effects of employee ownership on individuals and on firms, very limited research has been conducted on the effects of employee ownership on society. The social case for employee ownership is stronger in rhetoric than in research. Kelso and

associates (1958, 1986), Greenberg (1978), Long and others have claimed the ownership builds commitment, could ease workplace tensions, reduce disparities of wealth, and help build a better society. But little research has been conducted which might justify the claims of advocates that ESOPs and employee ownership help builds a better society.

Economic Growth

The few studies suggesting social goods above and beyond those that benefit employee owners and the firms themselves pertain to economic growth. Kumbhakar and Dunbar (1993) found significantly higher sales growth among 123 U.S. public firms that adopted ESOPs or profit-sharing plans between the years 1982-1987. Rosen and Quarrey (1987) found that a sample of ESOP firms outperformed a non-ESOP control group in terms of sales and employment growth and that the sales growth of the sample of ESOP firms significantly improved after ESOP adoption. Rosen (1989) found similar results with a smaller sample of 20 ESOP firms.

Quarrey and Rosen (1993) and Winther and Marens (1997) compared companies before and after the adoption of ESOPs, and found faster employment growth after ESOP adoption, particularly among firms that had greater levels of employee participation in decision-making. In a study of Ohio firms, Logue and Yates (2001) also found that ESOPs grew faster than their industry counterparts did. These six studies indicate nearly two-and-a-half percentage points greater annual sales and employment growth among ESOPs as compared to conventional counterpart firms. It can be argued that this represents a clear societal benefit not only in terms of expanded economic activity, but an expanded tax base as well.

Reducing Inequality?

One of the high hopes of ESOP legislation was the prospect that employee ownership could help mitigate the disparities in wealth that capitalism foments. Study, however, has been limited. One of the few studies on the wealth distribution effects of ESOPs has been Kardas et al.'s (1998) Washington State study. The principal finding, presented in Table 5, was that, although average and low-level workers did considerably better within ESOPs than in comparable companies, those at the

high end of the pay scale did even better.

Table 5. Hourly Wages for ESOP and Control Companies

	ESOP companies	Control companies	Difference
Mean hourly wage	$19.09	$17.00	12.29%
Median hourly wage	$14.72	$13.58	8.39%
Hourly wage at 10th percentile	$8.85	$8.47	4.49%
Hourly wage at 90th percentile	$30.91	$26.12	18.34%
Ratio of 90th to 10th	3.49	3.08	

The outcome seems to raise doubts as to whether ESOPs are the wealth distribution tool that Kelso and Long foresaw. But wages are only one element of income; ESOPs explicitly promote not equality of wages, but rather a broader distribution of capital earnings and gains. Onaran (1992) conducted a broader study of intra-firm inequality, measuring by means of survey questions disparities of wealth, decision-making and status in three small employee-owned and seven other firms (all in Ohio). He found intra-firm inequality lower in employee-owned firms on most measures. If, in fact, ESOPs fail to reduce income distributions, why is that? It is not necessarily a function of employee ownership per se; rather it may be a function of voting rights, for example.

"Spillover": The Participating Worker and Better Citizenship

Greenberg (1978) speculated on a "spillover" effect from employee ownership. At the time that Kelso and Long were promoting the idea of ESOPs, political theorist Carole Pateman (1970) was suggesting industrial democracy as a means to encourage political democracy. The question has taken on new salience given the continuing decline in various forms of political and civic participation in the United States (Conway, 2000; Putnam, 2000). I could find no study directly testing the link between employee ownership and citizenship, but political scientists have begun investigating the relationship between workplace participation and citizenship. Schur et al. (2005) looked at the implementation of a high involvement work system (HIWS), using both cross-sectional and longitudinal comparisons. Political efficacy did not change overall, but increased in one department where the HIWS was strongly supported and very successful, and decreased in another department characterized by bad labor-management relations and little management support. The authors

conclude that social connections, a sense that one's work is meaningful, and positive labor-management relations can increase workers' feelings of political efficacy.

Gaps in the Research on Social Effects

Although benefits to individuals and firms from ESOP adoption are all well and good, for matters of public policy, questions about the social benefits and costs of employee ownership are paramount. Yet this research barely exists. Some important unaddressed issues include:

Benefits to Society of Widespread Ownership Stakes

It is widely presumed that home ownership is a cornerstone of society, adding stability to neighborhoods, and anchoring people in the civic life. Presumably, some research exists to back up these claims. It would seem parallel to claim the comparable importance of work ownership. "The Ownership Society" was a phrase used during the creation of ESOPs, and it will likely be used as justification for maintained or increased public support for employee ownership. It is not easy to operationalize, measure, and document such social goods; but such research would be invaluable in any effort to promote public support.

Social benefits may also extend to clients, suppliers, and other external stakeholders. Because employees have rich links to the community, the community likely benefits by having employee-owners. As compared with straightforward measures such as sales or employment growth, using ownership stake or stakeholder relations as intervening variables is not easy, but stakeholder studies and theory (e.g., Freeman 1984; Friedman & Miles 2002) are fairly well established and could also provide the data and theory that might justify further public support.

Continuity and Orderly Transition

Social benefits can also arise from continuity and orderly transition. Firm survival is not generally understood by economists as a social benefit, and may even be seen as a social cost, the failure of the old to die and make way for new, innovative firms. Research on resilience however (e.g., Freeman, 2004), suggests that there is a major social gain from organizations that survive – people need time to fit into an organization, teams need time to coalesce, organizations take years to develop successful

business models – and a loss from lack of organizational continuity. Markets provide only crude mechanisms for reallocating resources. Bankruptcy and other breakups result in the disintegration intellectual capital. Start-ups, for all their vibrancy, are generally inefficient. When individuals, teams, and organizations break up frequently, clients and other stakeholders often go poorly served. In short, the current model of transfer every two or three years may result in great social losses; if employee ownership, in fact, allows for resilient, organizations that can withstand adversity and adapt to changing circumstances, they may add a greatly beneficial stability to an all-too-rapidly changing economy and society.

Explicit Acknowledgment of ESOP Costs and Quantification of Benefits

One big reason why ESOPs may flourish is the big federal tax incentive given to founders and family owners when they sell thirty percent or more to employees. From a public policy perspective, it would be helpful to try to quantify in some weigh the social benefits, and to acknowledge explicitly and calculate the costs to US taxpayers.

Conclusions and Implications for Further Research

The surprisingly large volume of research on ESOPs and employee ownership is overwhelmingly positive and largely credible. Nevertheless, it remains on the outskirts of academic theory. To raise the level of understanding and impact would require methodological variety and innovation as well as increased rigor, filling in some important gaps, and fully engaging the agnostics and the critics.

Methods

ESOP research has overwhelming used written surveys. Because all methodologies have their limitations, using a single method yields one-dimensional results. Complementing survey research with open ended interviews, experimental studies, action research, and case studies, including matched pairs and ethnographies could enrich the understanding dramatically. Methodological creativity is especially important in trying to document some of less tangible benefits such as improved stakeholder relations. Well-focused surveys on theoretical questions could also shed light on some of the larger questions of interest to economics, sociology, management, and political

science.

Gaps in the ESOP/ Employee Ownership Research

In the sections above, I have identified several important gaps in the literature:

- The outcomes for the owners who lead the transition
- Identify and address real problems faced by employee owned firms
- Rigorous documentation of firm performance benefits
  - What part of, if any, of this advantage is due to tax advantages?
  - How well do firms that adopt participation policies and voting rights do?
- Mechanisms by which employee ownership leads to better performance (e.g., the role of flexibility, resilience, commitment, identification, and motivation)
- Explanation of why new growth of employee ownership is stagnant
- Theoretical explanations for the desirability, benefits, and challenges of employee ownership
- Reconcile data and empirical findings on employee ownership with existing theory of the firm findings from distinct fields, and received wisdom
- Explicit acknowledgment of ESOP costs and quantification of benefits
- Documentation of social benefits
  - the role of ESOPs in enabling continuity & orderly transition
  - benefits of (employee) ownership stake and ownership society

Differentiating ESOPs

ESOPs are an unusual, even quirky, corporate form. The finance literature seems to have made an insightful distinction between firms that have adopted ESOPs for reasons that have nothing to do with the spirit of employee ownership, with those that do. Likewise, management researchers have drawn an important insight about the importance of participation. Further study should identify the differences between firms that encourage and facilitate broad participation with those that provide ESOPs strictly as a financial (retirement) benefit; between firms that provide voting rights with those that do not; and comparative study based on extent of employee stake and participation.

Predicting ESOP Adoption and Conditions which Give Rise to Employee Ownership

An additional gap that falls outside these categories is prediction of the conditions which give rise to employee ownership and what firms will adopt ESOPs. This is useful both as a test of understanding how much, if anything, we really know about them and useful for understanding the

benefits perceived by those who adopt them.

One beginning towards understanding this is the survey by Hochner and Granrose (1985) of 943 supermarket employees facing shutdown. To avert shutdown, organizers asked for an employee pledge of $5000 to buy out the stores. The authors found that entrepreneurial ideals (risk-taking, importance of ownership) and collective/participative ideals predicted willingness to pledge for employee buyout.

Abundant Research, Strong Data, but Still a Fringe Phenomenon

Research on the employee ownership parallels the phenomenon of employee ownership itself. For all the potential appeal and in fact, the extent of, employee ownership, it goes unheralded. A move to the front and center stage of political life and economic theory could be aided by an attempt to publish in more mainstream journals.

This will require, in many cases, more stringent documentation and presentation of methods, more active consideration of alternate perspectives, including open acknowledgement of critiques of ESOP law and practice, and employee ownership in general. The data and arguments on the merits of employee ownership and ESOPs are strong; there is no good reason that they remain on the fringes of academic, political, and social consciousness.

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