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Employee Ownership: A Look at the Evidence

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Outline of talk

I. Why are we interested? 4 broad reasons
II. Current prevalence of employee ownership
III. Research evidence on:
   a. Economic performance
   b. Economic stability and layoffs
   c. Employee pay, wealth, and quality of work life
   d. Inequality

IV. The two big objections
V. Implications for companies and policy-makers

I. Why are we interested?

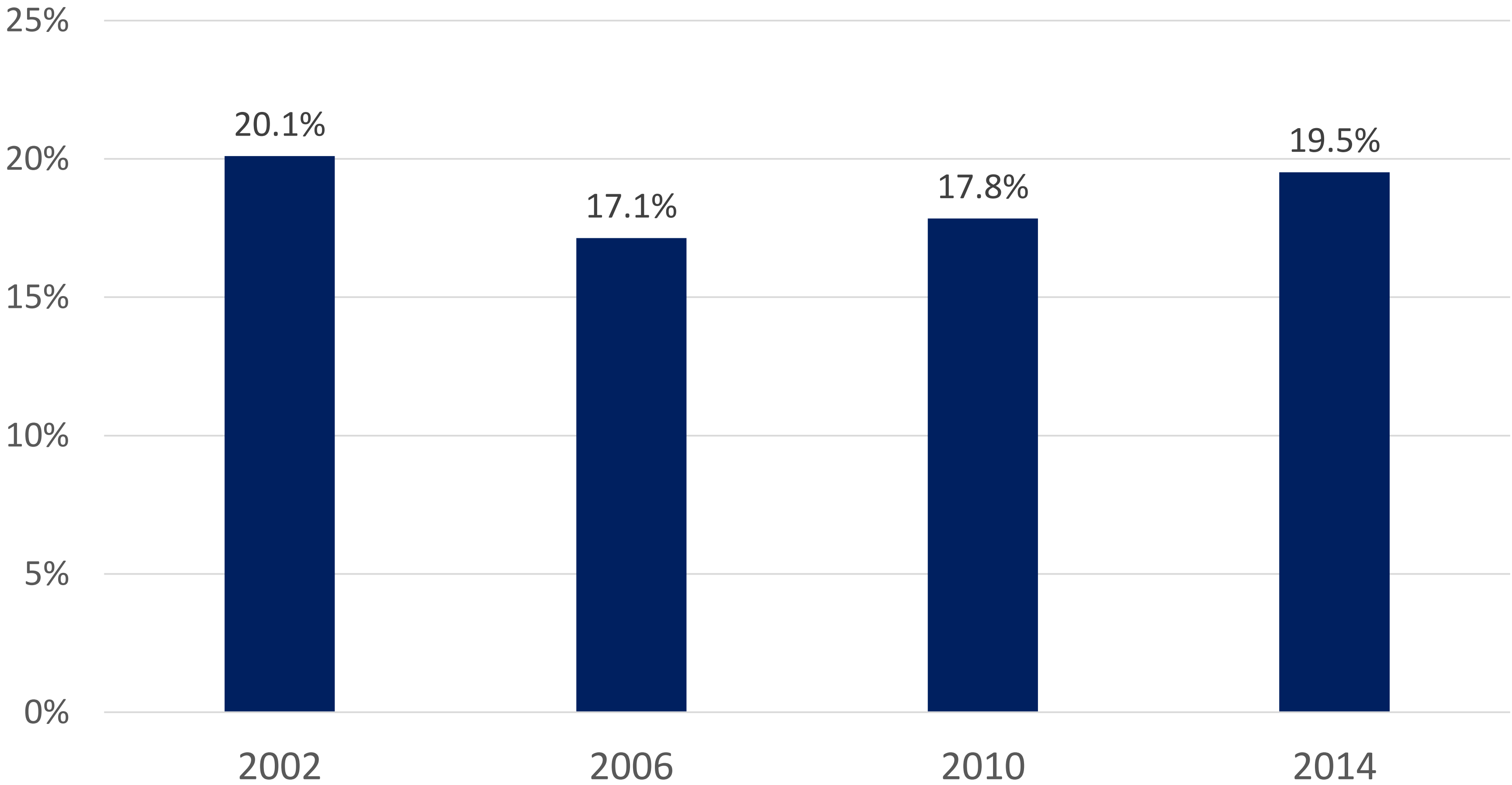
Employee ownership may:

1. Affect economic performance through effort, cooperation, info-sharing, commitment, turnover, etc.
2. Increase economic stability and decrease unemployment by enhancing job security and company survival
3. Affect overall employee pay and wealth, employee-mgt. relations, and quality of work life
4. Affect societal income and wealth distribution and generally broaden participation in the economic system

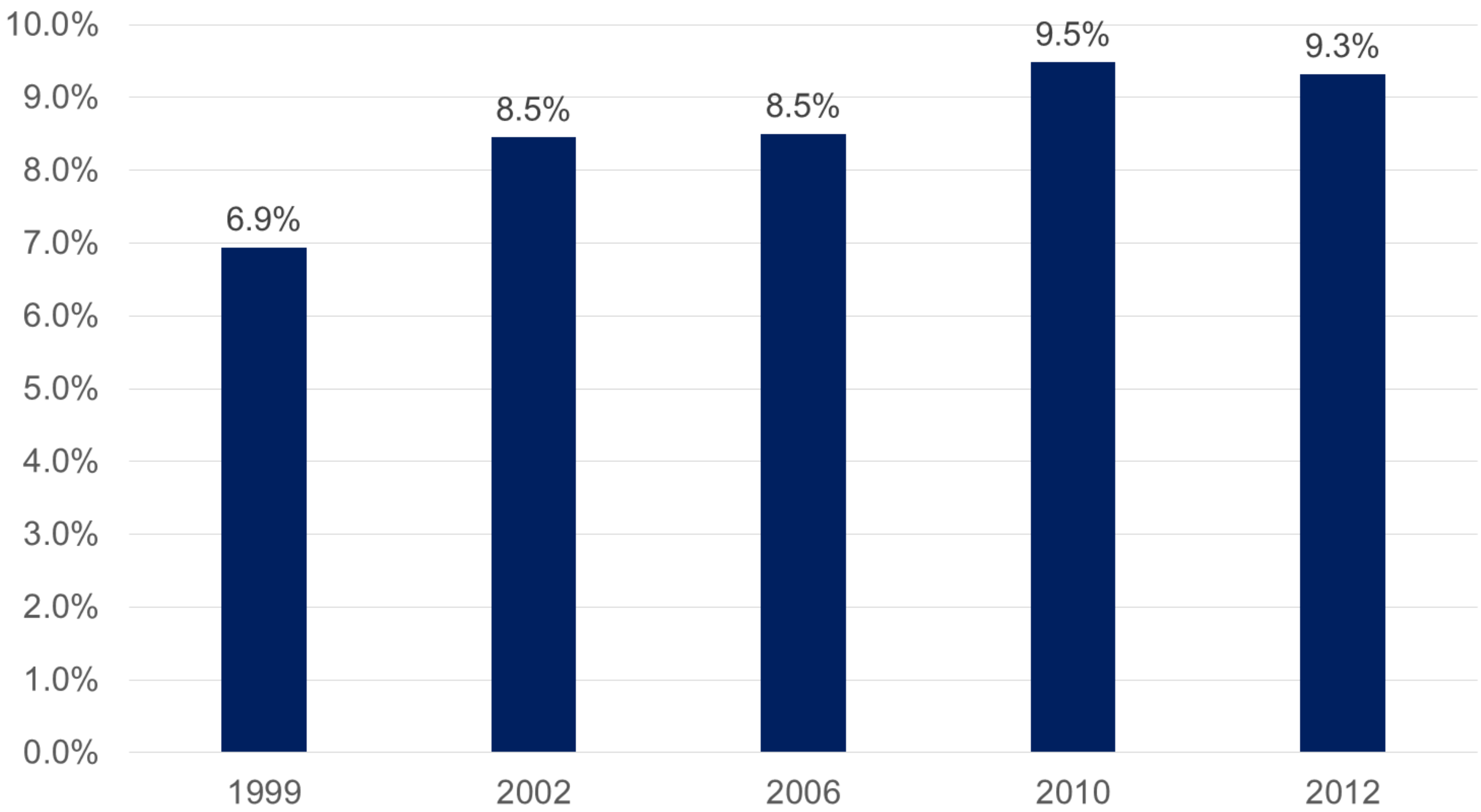
II. Current prevalence of employee ownership

- Most following stats from General Social Survey (GSS)
- Representative sample of adult Americans
- Conducted every two years by the National Opinion Research Center at the University of Chicago
- Support from the Employee Ownership Foundation has supported modules on employee ownership and profit sharing in 2002, 2006, 2010, and 2014

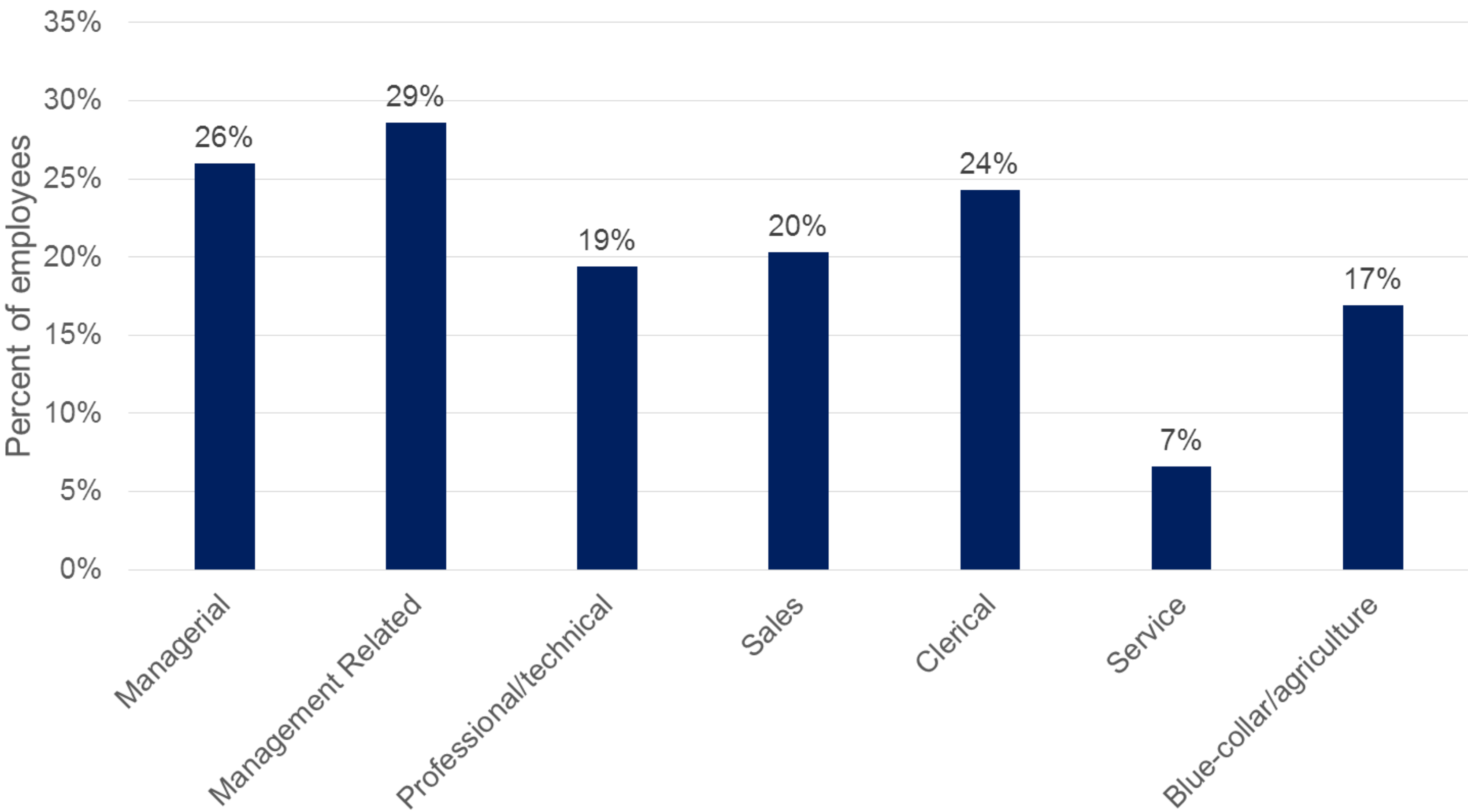
Employee owners among all private sector employees, 2002-2014 (GSS data)



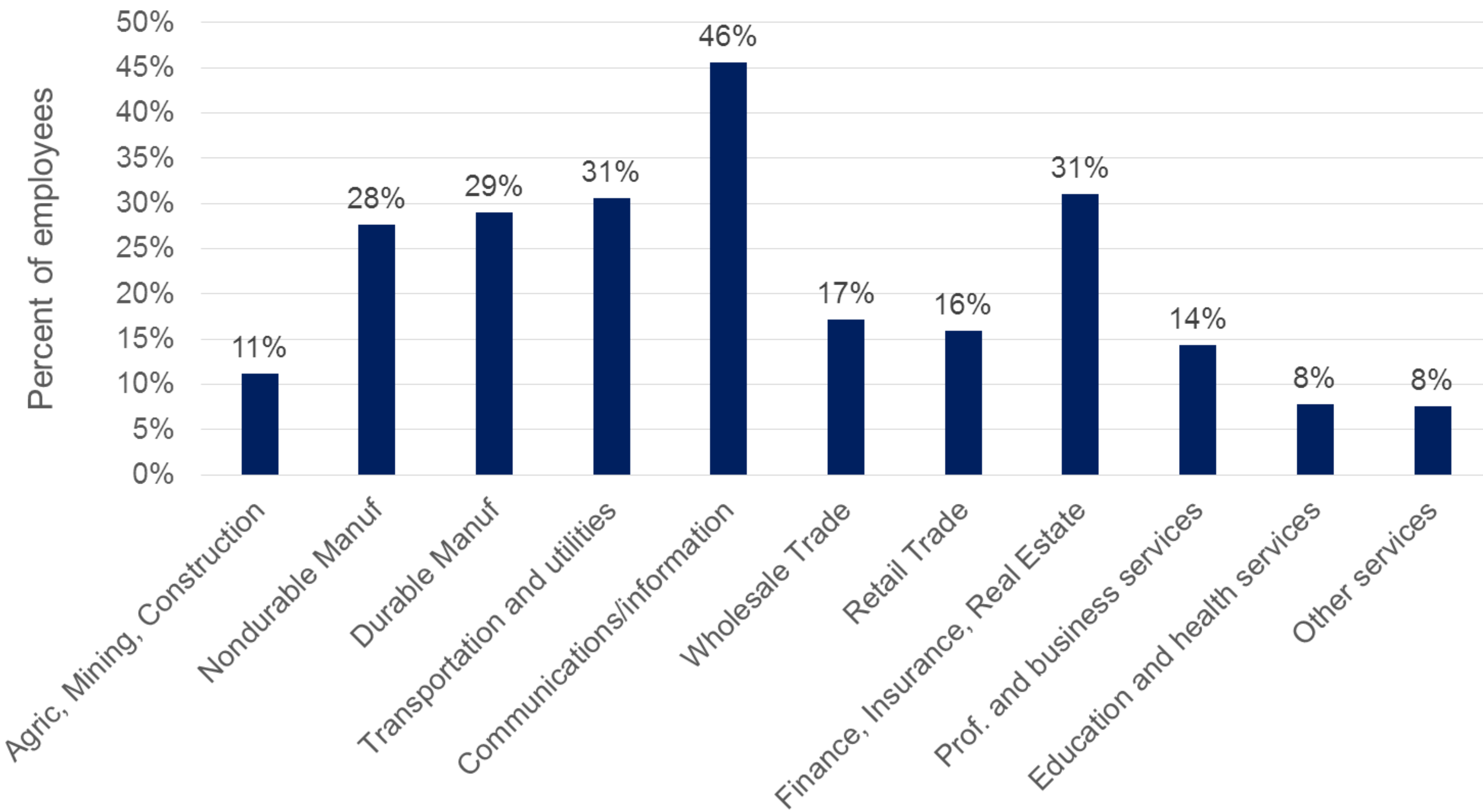
ESOP participants among all private sector employees, 1999-2012 (DOL data)



Employee ownership is common across occupations (GSS data 2002-2014)



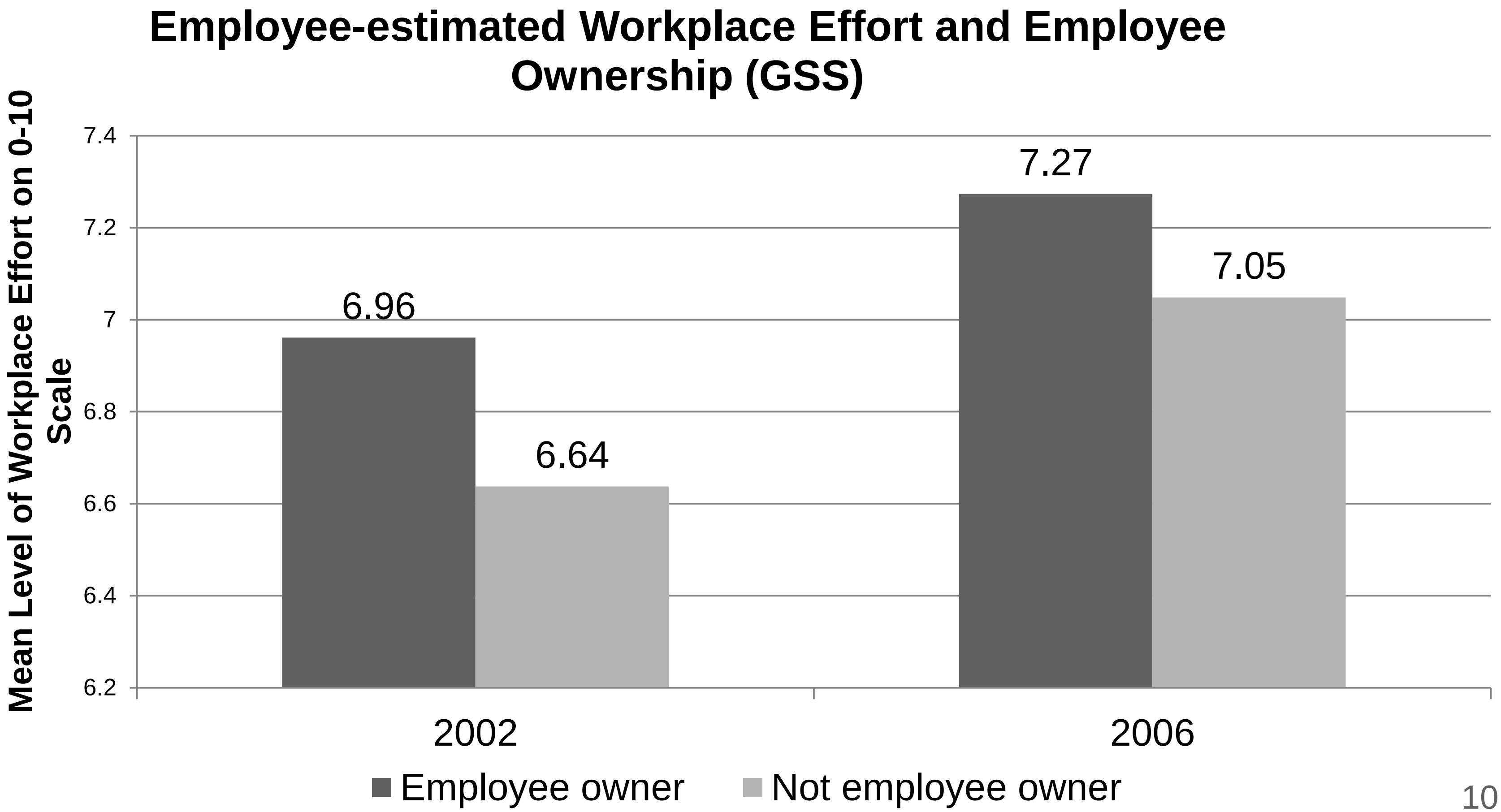
Employee ownership is common across industries (GSS data 2002-2014)



ESOPs in NJ and NY
(from 2014 Form 5500 data)

		Total plans	Total active participants	Total plan assets (billions)	Average assets per participant
ESOPs based in:					
	New Jersey	148	500,584	$108.0	$215,677
	New York	304	728,145	$134.8	$185,066

III. Research evidence on source of interest #1: Economic performance



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New meta-analysis of 102 samples with combined 56,984 firms:

- Positive but small relation to hard performance measures on average (4-5% higher productivity)
- Similar results in pre/post comparisons of ESOP adoption as in comparing EO and non-EO firms
- Similar results among small and large firms
- Positive effect has grown stronger over time
- But substantial dispersion in outcomes: some firms do great and others do not

Ernest O'Boyle et al., "Employee ownership and firm performance: a meta-analysis," Human Resource Management Journal, forthcoming 2017

Results from workers also support positive performance effects.

Analysis of GSS, NBER dataset (40,000+ employees) and Great Place to Work applicants (780 companies, 300,000+ employees) show that employee owners are:

- Less likely to look for other jobs
- More likely to take action when co-worker not working well

But effects depend on other workplace policies . . .

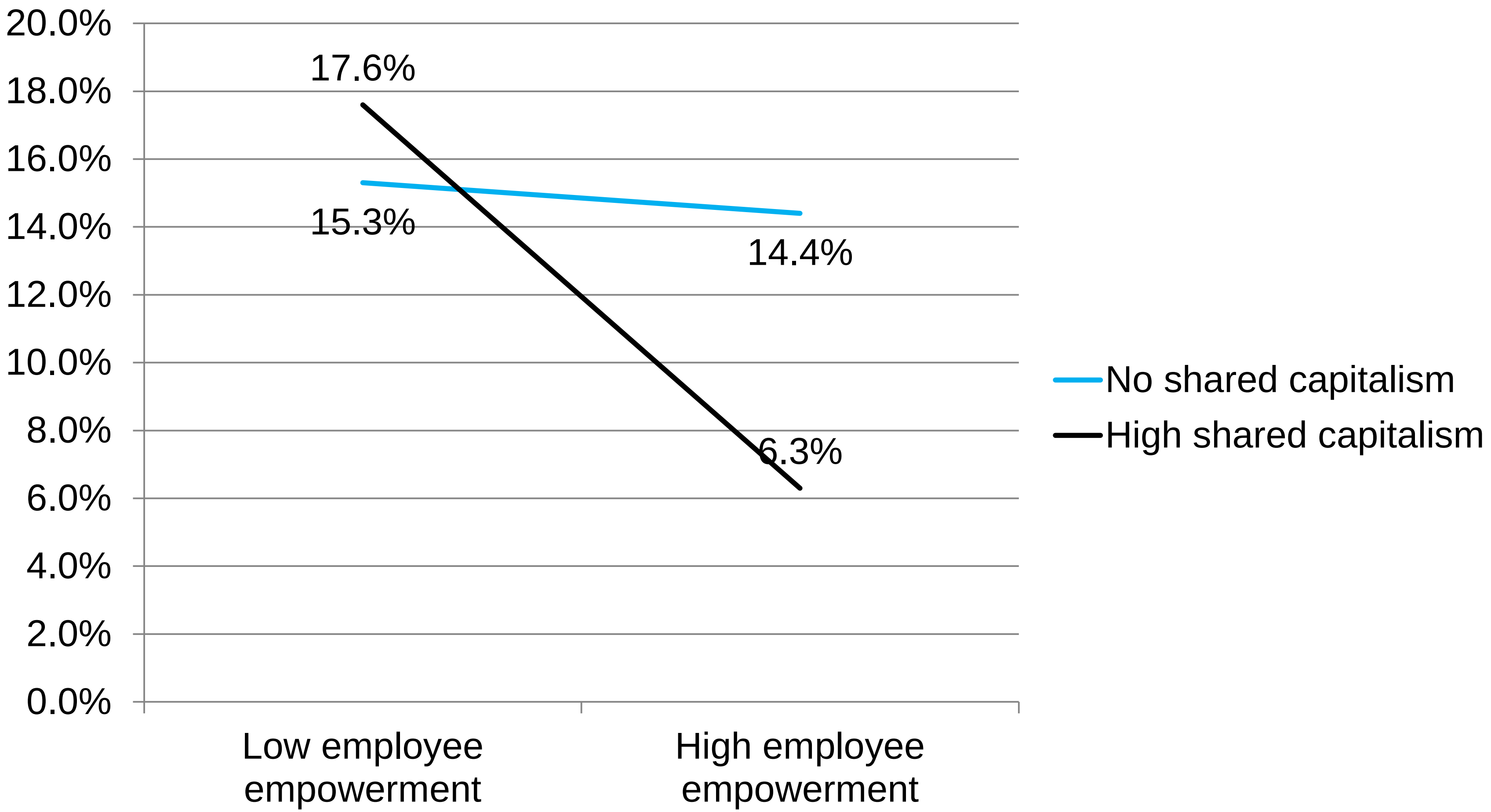
Complementary policies

In all three datasets, employee ownership and profit sharing:

- are linked to policies of greater employee empowerment (employee involvement, training, job security)
- are linked to lower turnover and other favorable outcomes only when combined with employee empowerment policies

(Blasi, Freeman, and Kruse, “Do Employee Ownership and Profit Sharing Help the Best Firms do Even Better?” *British Journal of Industrial Relations)*

BJIR results on Shared Capitalism, Empowerment, and Voluntary Turnover



What We Think Is Happening?

The increased productivity is not caused mainly by increased effort.

One major factor is mutual monitoring by employees.

Another major factor is low levels of supervision with greater employee discretion.

Another major factor is lower turnover and better selection of workers (better workers want you.)

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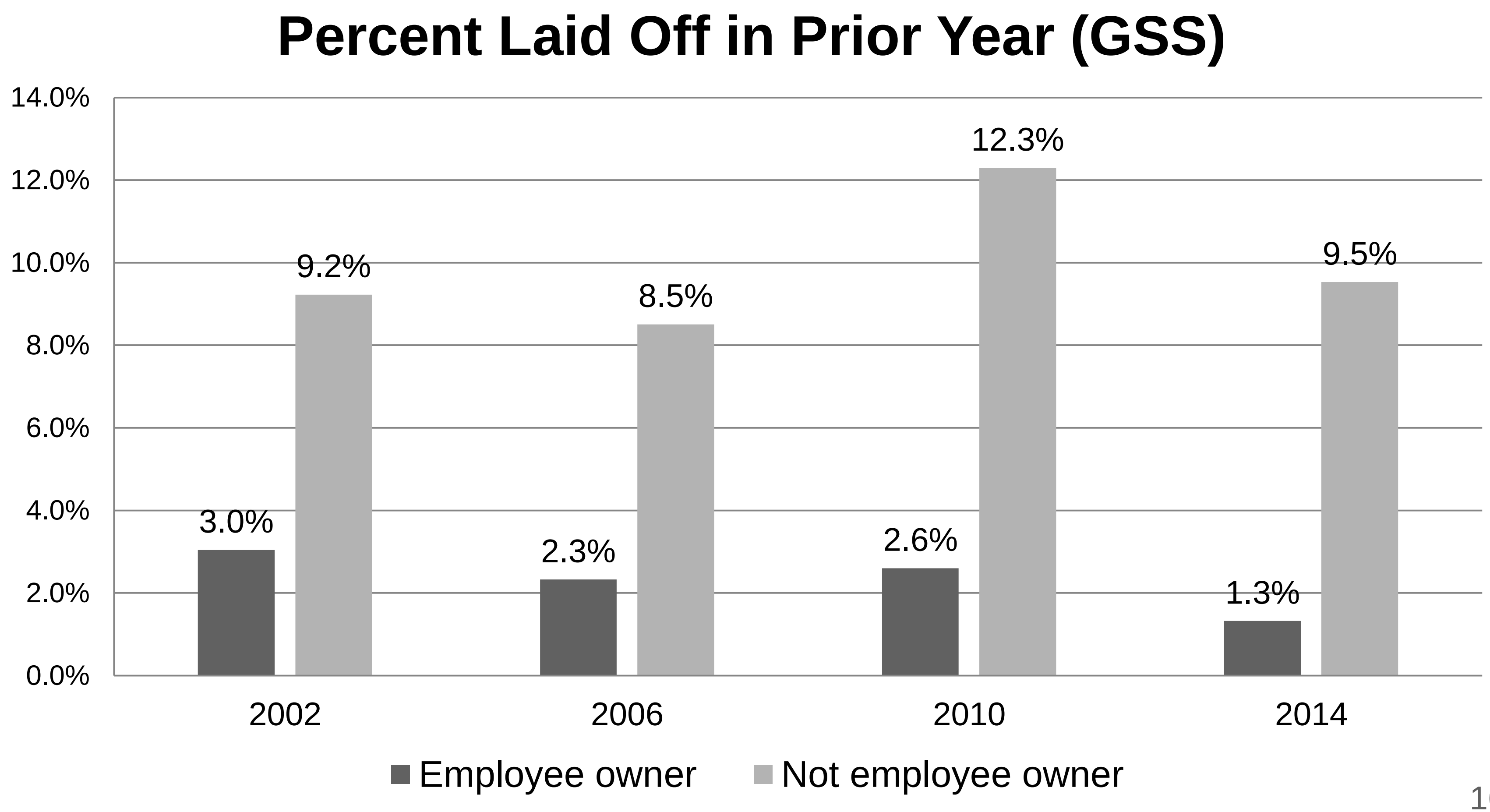
Research evidence on source of interest #2: Economic stability and layoffs



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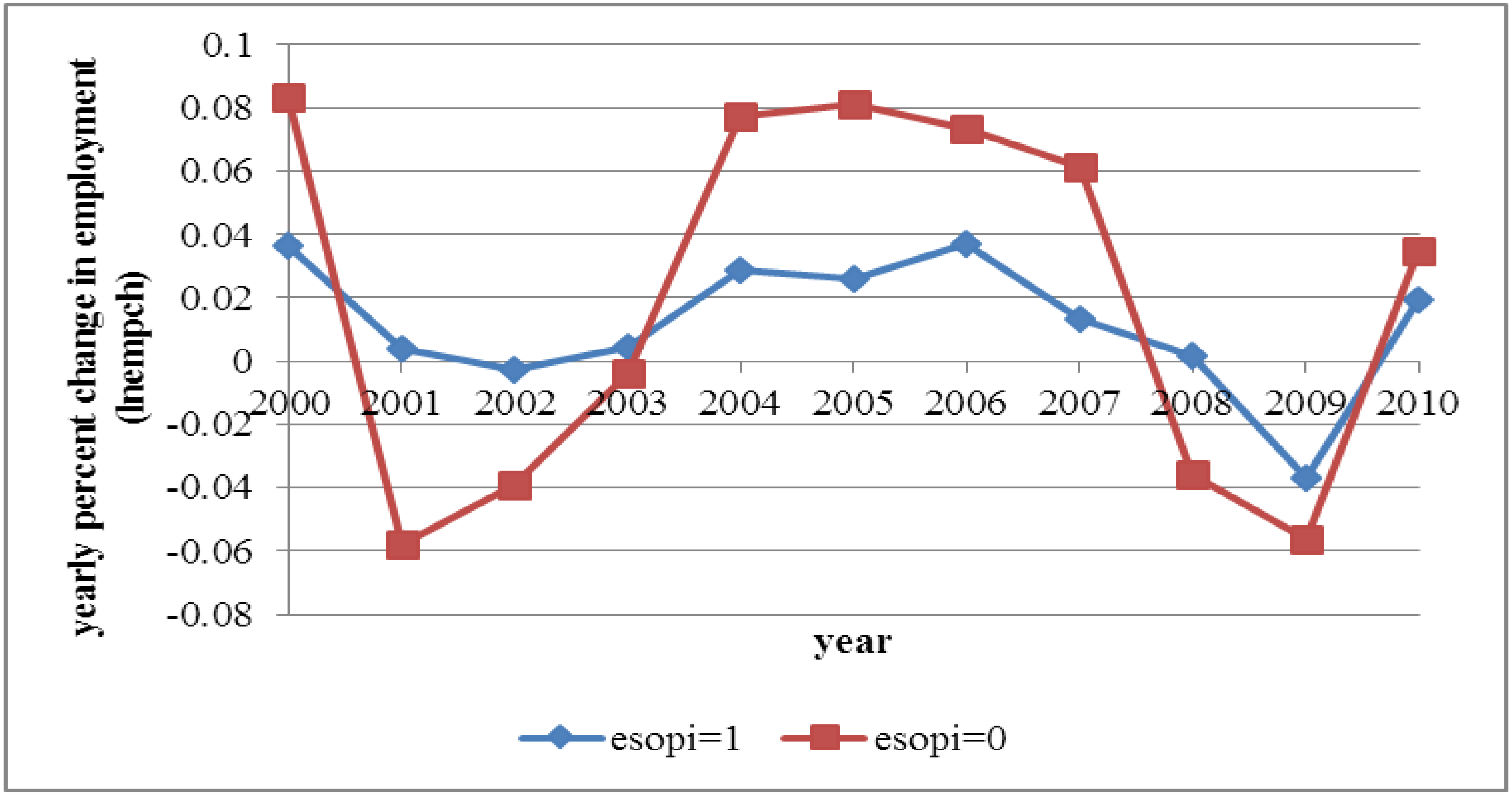
Stability of publicly-traded ESOP companies, based on S&P Compustat matched to Form 5500



Kurtulus and Kruse, *How Did Employee Ownership Firms Weather the Past Two Recessions?* (Upjohn Institute 2017)

Apart from stability, other research shows greater survival of EO firms compared to similar non-EO firms

Why the greater stability? Results cast doubt on compensation flexibility as explanation. More likely that EO firms retain workers to maintain ownership culture and promote long-term productivity.

Policy implications: Fewer layoffs and greater survival help decrease unemployment and increase macroeconomic stability, creating positive externalities for economy and society that can justify supportive public policy.

Research evidence on source of interest #3: Employee outcomes

Several studies show:

- EO companies have higher total compensation levels
- ESOP firms generally do not cut base pay when adopting ESOP: base pay is stable or increases (despite occasional concessions)
- ESOPs add to employee wealth (not substituting for other assets)

How can this be? Why doesn't employee ownership substitute for wages or other benefits?

Employee ownership may often function like an "efficiency wage" from economic theory: The cost of paying above market can be offset by

- attracting better workers
- decreasing turnover
- discouraging shirking
- increasing morale

So employee ownership may increase worker performance if on top of standard wages and benefits, but have no effect if used as wage substitute

--If a substitute, workers see it as shift of financial risk rather than empowerment

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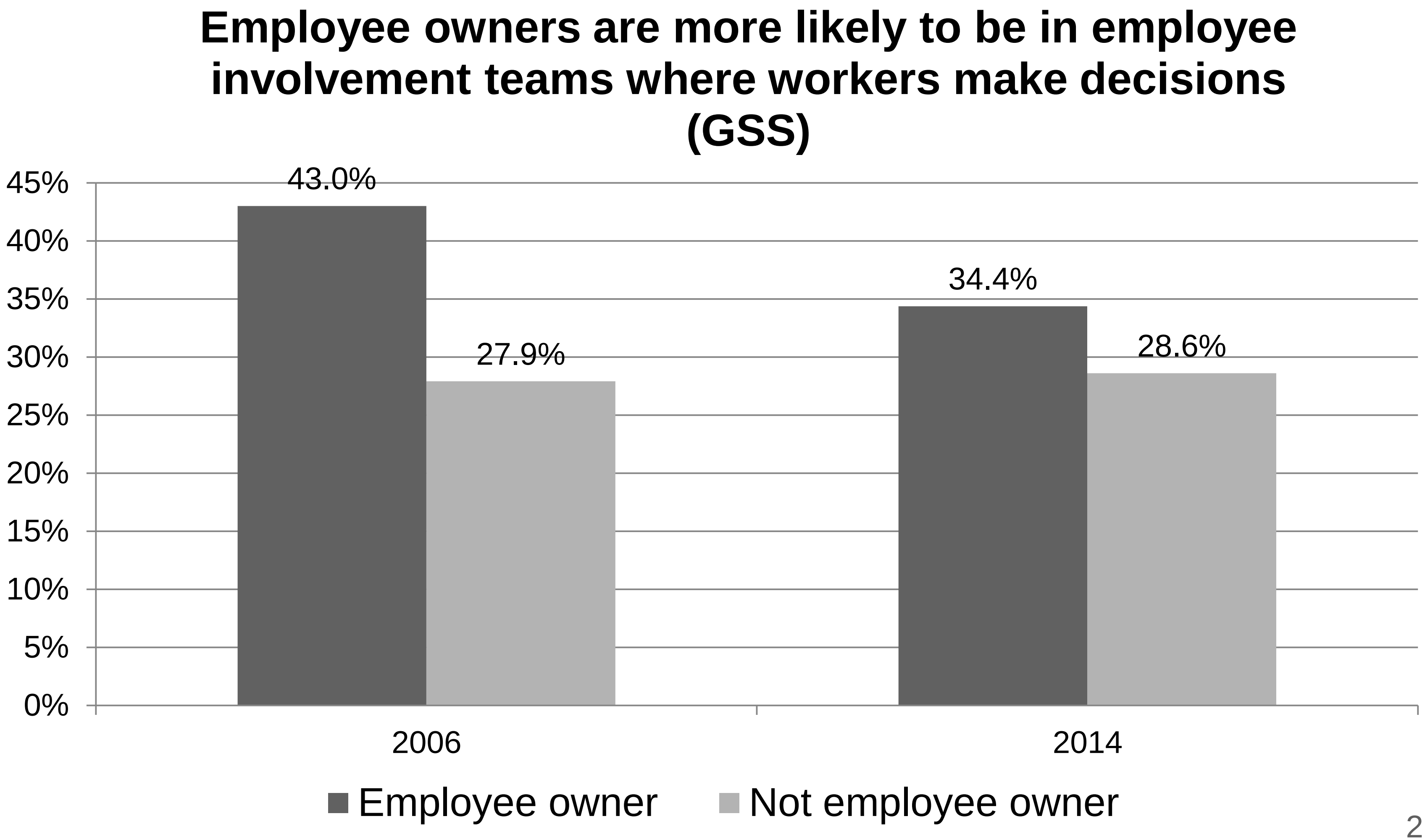
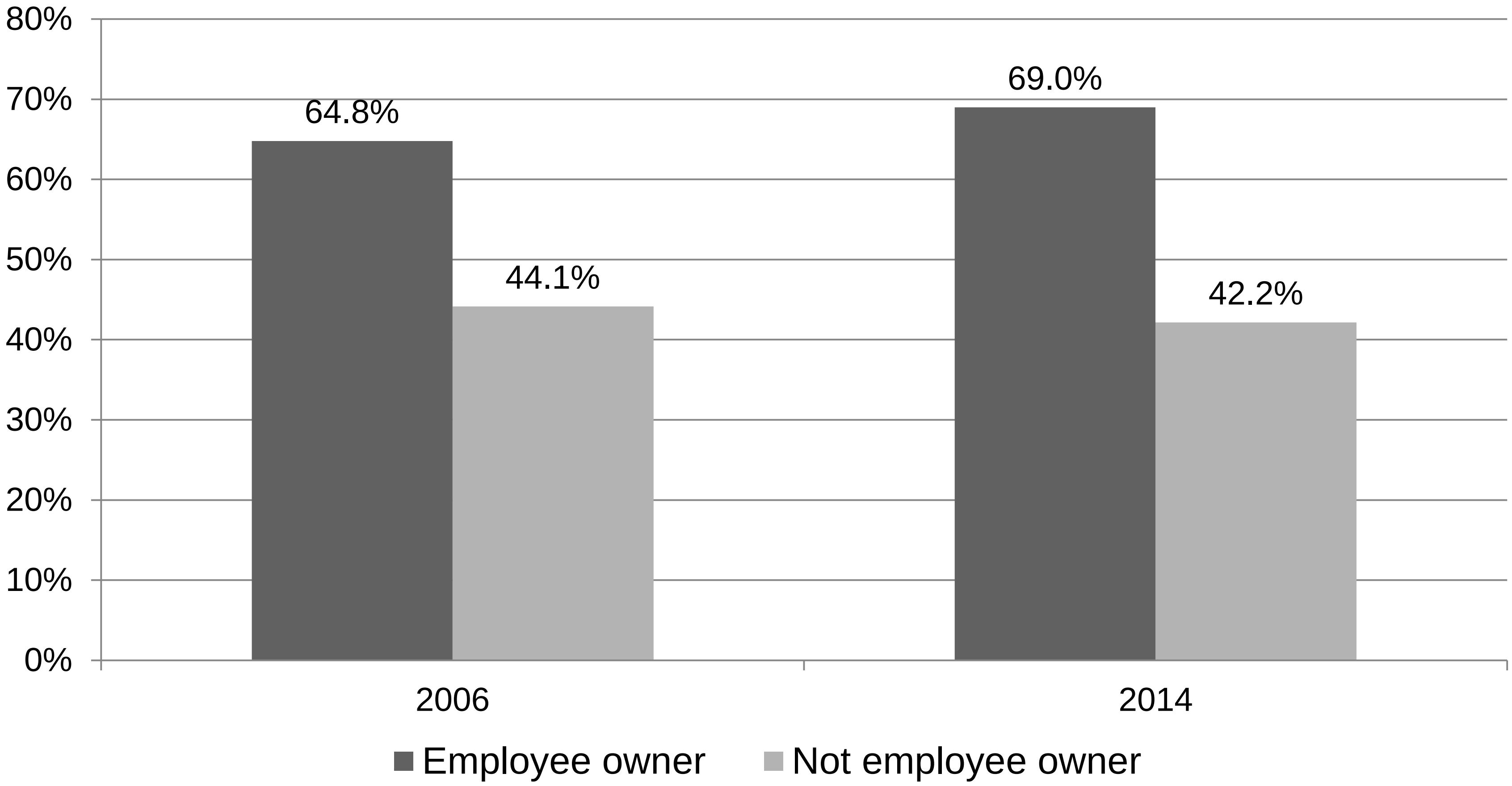
Other employee outcomes



Employee owners are more likely to receive company-sponsored training (GSS)



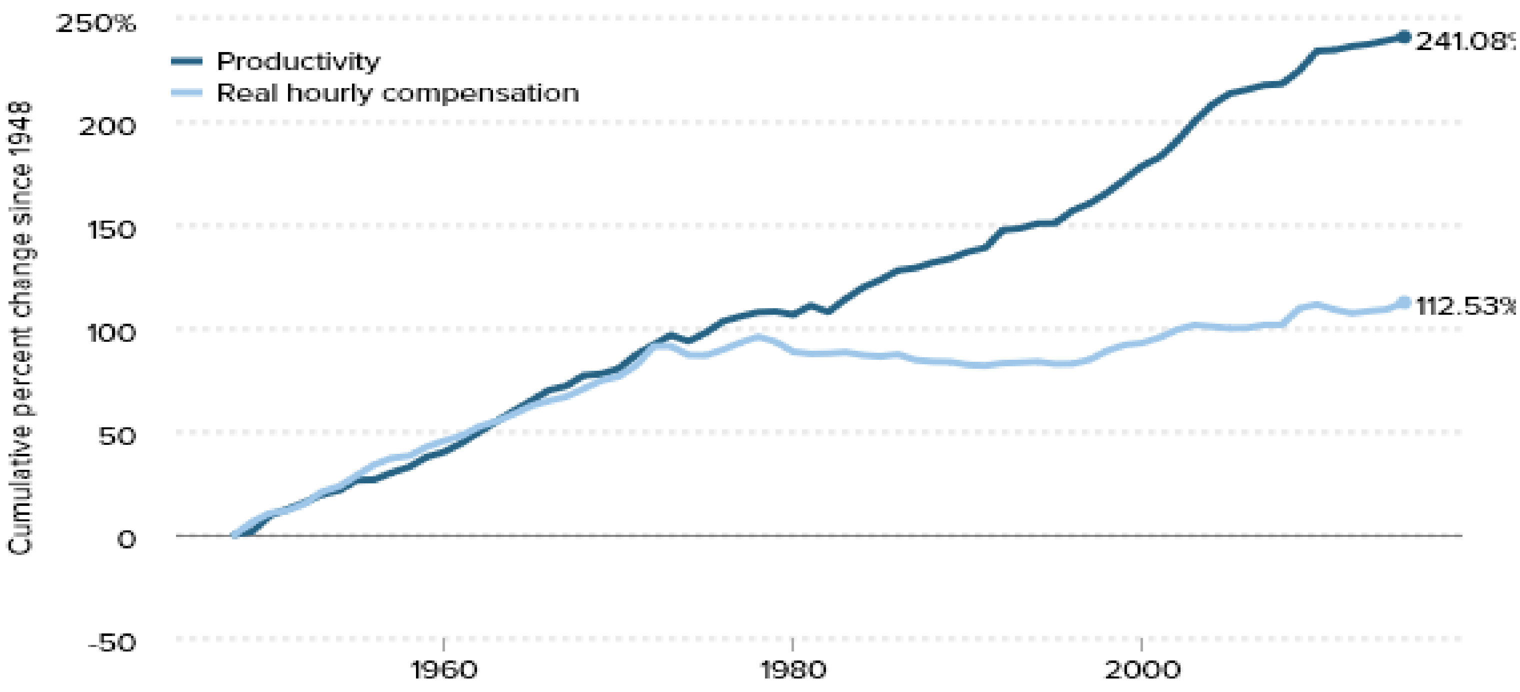
Employee owners are also more likely than non-owners to report:

- Better views of management-employee relations
- Company is fair to employees
- Co-workers can be relied on for help
- Greater job security (consistent with layoff data)
- Higher job satisfaction, but only if combined with other "high-performance" policies (training, job security, employee involvement, pay at or above market)

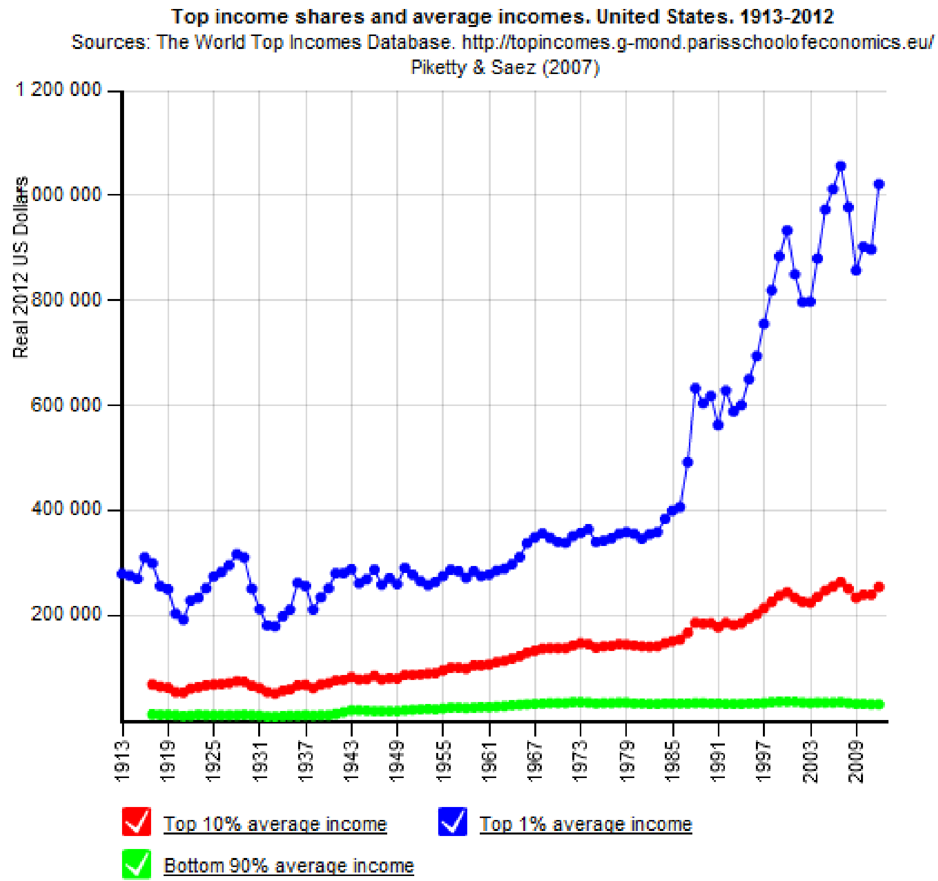
Research evidence on source of interest #4: Economic inequality

Productivity has been going up, but most workers haven't benefited from productivity gains since 1970's

Cumulative change in total economy productivity and real hourly compensation of production/nonsupervisory workers, 1948–2015



Where have the productivity gains gone? Disproportionately to those with high incomes



Other evidence shows that:

- Part of the growth in inequality is due to a shift in favor of capital income at the expense of labor income
- Capital income is more concentrated than labor income
- The shift to capital income is unlikely to change soon (Piketty)

Can employee ownership and profit sharing play a role here, tempering inequality through broader access to capital ownership and income for middle and lower classes?

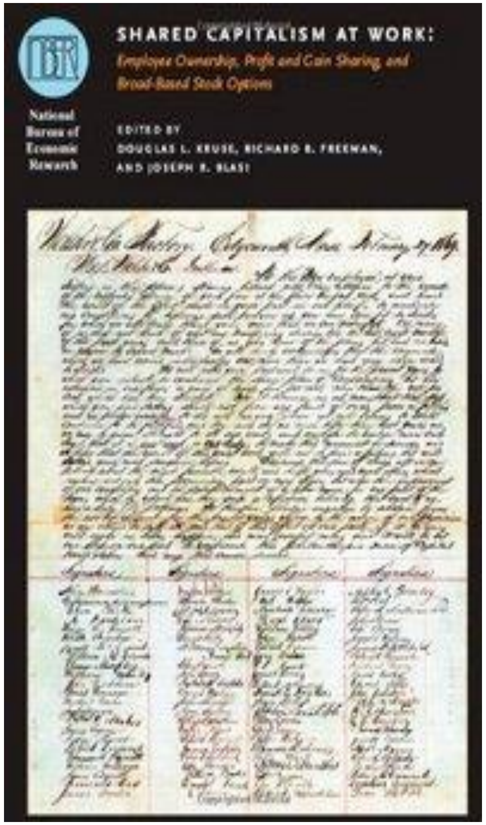
•Was key motivation for Sen. Russell Long who put ESOPs into 1974 ERISA law

•Freeman argues that “Who owns the robots (i.e. technology) rules the world!” and that we need broader capital ownership: workers need to own the “robots” that are increasingly taking their jobs in order to keep economic progress broadly shared and avoid a two-tiered society

IV. Two key objections:
1) Free rider problem

2) Risk aversion

James never left his bed, seeing nothing but danger in the financial world.



What about the free rider problem?

Productivity is generally higher in EO firms. As shown earlier, a study of over 40,000 worker reports finds that worker co-monitoring helps overcome the incentives to free ride: workers with a greater stake in performance monitor each other more closely and are more willing to take action against shirkers.

Such efforts work best with other “high-performance” empowerment policies and practices (training, job security, employee involvement in decisions, and pay at or above market level).

What about the risk aversion problem?

Excessive risk is a danger, but:

- Even among the most risk-averse of 4,000+ employees surveyed, two-thirds want at least some ownership, profit sharing, or stock options in their pay package
- These plans generally come on top of market level pay and benefits, greatly reducing risk since workers are not sacrificing fixed pay.
- The biggest financial risk faced by most workers is job loss, which studies suggest is reduced by employee ownership.
- Harry Markowitz, a Nobel winner for portfolio theory, explicitly rejects the idea that risk aversion condemns employee ownership. His theory concludes that workers can prudently have 10-15% of assets in employee ownership if rest of their household wealth portfolio is well-diversified.

V. Implications for Companies and Policy-makers

For companies:

Employee ownership *can* improve performance, commitment, retention, innovation, *but* a company can't just install a plan and expect automatic positive effect

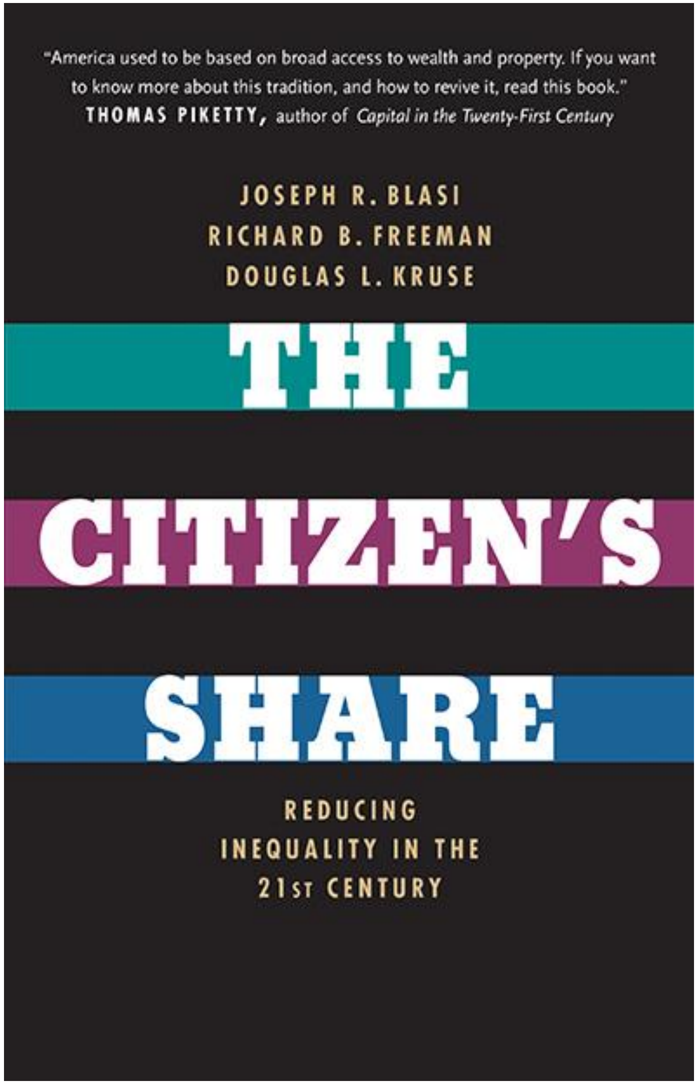
--may even be harmful if employees just see it as attempt to shift financial risk without giving employees discretion and skills to improve performance ("We want you to work harder because you own stock, but we're still going to look over your shoulder every minute")

Maximize the value of employee ownership by combining it with supportive HR policies to give employees the <u>skills</u> and <u>opportunities</u> to make a difference.

Such policies can include:

- employee involvement in decisions (informal or formal)
- information-sharing
- increased training
- selective recruitment
- fewer levels of hierarchy and lower levels of supervision
- more job security

For policy-makers:



- U.S. has rich history, going back to the founding fathers, of support for sharing economic rewards and ownership broadly

- A variety of policies are available to increase broad-based sharing, from low-cost ideas (e.g., commissions, bully pulpit) to more aggressive approaches (e.g., restructuring tax incentives)

Rutgers National Fellowship Program

- Created in 2008 -- more than 100 fellows to date
- Most are junior scholars, with senior professors from many universities as faculty mentors
- Kelso Workshop supported by John Menke and Employee Ownership Foundation every January
- Beyster Symposium supported by Employee Ownership Foundation and Foundation for Enterprise Development every June
- Growing number of young scholars now tenured around the country

A new way of working?

Bicycle built for seven, where riders all face each other (made by Hammacher Schlemmer)