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ORGANIZATIONAL DYNAMICS WORKING PAPERS

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

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Abstract

An important, but little reported development in US business has been increasing numbers of employees with ownership rights in the corporation with an increasingly large economic value. Most comes through Employee Stock Ownership Plans (ESOPs), which were established in 1974 partly as a response to anticipated shortfalls in Social Security, but also with the hope of invigorating the economy and distributing the benefits of capitalism more widely through broad-based business ownership. Experience and research indicate that ESOPs and employee ownership more generally do accomplish these aims, but large knowledge gaps remain.

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

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