



# Employee Stock Ownership Benefits

By The ESOP Association

Why should you consider employee ownership in your company? Does it work? What are the advantages? These questions and more answered in this ESOP Brief.

Since the most commonly used ownership broadening device that creates widespread ownership is the Employee Stock Ownership Plan (ESOP), our discussion of broadened ownership deals solely with ESOPs. Their track record is a promising start to greater economic democracy.

A fundamental purpose behind the ESOP concept is to broaden the ownership of wealth, not through taxation and redistribution, but by broadening access to capital ownership. Many other benefits derive from this central concept, such as increased productivity, improved management-labor cooperation, greater support for the free enterprise system and improved economic vitality through local ownership of business.

## Conservative or Liberal?

A number of studies conducted over the past decade by the Joint Economic Committee of Congress, the Federal Reserve Board and the General Accounting Office have confirmed that approximately 1 percent of the U.S. population owns nearly 50 percent of the privately owned stock in the country.

Previous efforts to “spread the wealth” have often focused on taxation and redistribution through government programs. Such efforts have often proved to be counterproductive in the long run by fostering undue dependence on the federal government. These programs have also met with strong resistance from business interests who have complained of government intervention in free markets and objected to the disincentives that result from high rates of taxation.

Employee stock ownership is intended to spread wealth by providing workers with access to capital ownership at no cost to themselves by making them owners of stock in the company where they work. By giving workers “a piece of the action” the incentive for wealth distribution is based on free enterprise initiatives which give every worker a stake in the free enterprise economy, an incentive to improve productivity which can also result in financial benefits for the workforce.

## Does it Work? Employee Ownership and Productivity

The employee ownership concept works on the common sense notion that if workers share in the benefits of increased productivity, they will have a clear incentive to improve corporate performance. Though there is no guarantee that employee ownership in and of itself will improve productivity in every company, strong evidence indicates that it can play an important role.

The 2018 Employee Ownership Foundation survey conducted among members of The ESOP Association reinforced indicated that 67.4 percent of respondents believed implementation of the ESOP increased the company’s overall productivity.

Other studies have found that employee-owned companies outperform their non- employee owned counterparts.

In the largest and most significant study to date, Dr.’s Joseph Blasi and Douglas Kruse, both of Rutgers University, found that ESOPs appear to increase sales, employment, and sales/employee approximately 2.3 percent to 2.4 percent per year over what would have been anticipated, minus an ESOP. The research also indicated that ESOP companies are more likely to continue operating as independent companies over the course of time. Conducted over a period of ten years, and funded in part by the Employee Ownership Foundation, further details on the Rutgers study can be found at [www.employeeownershipfoundation.org](http://www.employeeownershipfoundation.org).

## ESOPs and Labor Management Relations

By giving workers a vested interest in their employer, ESOPs provide a means of breaking down confrontation between labor and management since everyone has a vested interest in the success of the enterprise. Though an ESOP will not guarantee improved labor/management relations, evidence is growing that such improvements often occur in employee owned companies.

A 2000 Company Survey provides some insight with regard to labor/management relations. The data indicates that by utilizing extensive means to involve employees in the day-to-day operations of the company, the management communications more frequently with the employees (63 percent), more financial information is provided to

employees (48 percent), and more employees have direct input in both corporate and job-related decisions (48 percent).

The existence of an ESOP will not necessarily improve poor labor/ management relations, but employee ownership on a broad scale can clearly begin to alleviate some of the destructive labor/management conflicts that impede productivity improvements. And by uniting the interests of employees for financial gain with the interests of the company for improved corporate performance, the ESOP can serve as an incentive for companies to adopt more participatory management programs.

Modern management tools such as work circles, participatory management, TQM, and open book management all fit easily into an employee ownership environment. Though ESOPs are installed in a wide variety of companies for many different reasons, the dynamics of employee ownership can provide an effective means of encouraging greater use of participatory techniques and in established ESOP companies the trend towards greater employee involvement is clear.