



EPiC Series in Built Environment

Volume 5, 2024, Pages 795–803

Proceedings of 60th Annual Associated Schools
of Construction International Conference



Attracting and Retaining Talent Through Employee Ownership: A Study of ESOP Ownership

Danny A. Wyman, MSCM

Purdue University
West Lafayette, Indiana

Research has begun to study ways for the construction industry to win the war on the global labor shortage, it has become more of a challenge to attract and retain talented employees. The labor shortage makes it difficult to match positions with candidates in the first place, but keeping the talent you already have is an equally pressing matter. Together, these factors paint a challenging picture of the road ahead for the industry. To attract and retain talent, some construction companies are transforming themselves into a place where people want to work and stick around. Employee ownership is one business strategy companies have found to help attract and retain long term employment. The initial idea was designed to increase wealth after retirement and develop a culture that allows employees the opportunity to be active and engage in company strategies. The focus of this paper will show how successful Employee Stock Ownership Plans (ESOPs) impact employee retention, productivity, and engagement in becoming the employers of choice. The research shows how a positive employee attitude towards ownership will lead into a long career in construction, all the way to retirement.

Key Words: Ownership, Retirement, Retention, Engagement, Career.

Introduction

An ESOP is the most popular type of employee stock ownership plan where you acquire, and own shares of company stock funded by a profit-sharing plan. You must be an employee to own company stock and are then allowed to become vested (a full member of the ownership group) in two to five years, depending on the company. This type of business started to increase in popularity in the 1980s. The growth of ESOPs went from 250,000 to 14 million plan participants from 1975 to 2020. ESOP companies tend to lead the way and are more likely to allow employees the opportunity to be active and offer solutions to make the company a better place to work. This research includes data collected from 330 surveyed employee owners from five companies. In a research study, (Logue and Yates, 2001) found that more than one in twelve private sector employees participate in an ESOP. This new plan gained popularity after the passage of the Employee Retirement and Income Security Act (ERISA) in 1974. This was a way for the average employee to be part owner in a company, build wealth for retirement, and have a voice in the way their company would operate. Research found that employee-owned companies increase sales and employment, by more than 2% per year over what would be expected minus an ESOP (Kruse and Blasi 2000). They also found that ESOP companies

would be more likely to be in business several years later due to offering other retirement plans in addition to the ESOP benefits. Like any company, employee owners need direction and an aligned path for the company to have success. An environment must be created to allow employees the opportunity to be active and offer solutions to make the company a better place to work. In a study by (Quarrey and Rosen, 1987) they found a link between employee ownership and corporate performance.

Employee-owned companies with participative management structures showed the largest gains in sales and employment growth. This is what an “ownership culture” promotes to keep the participation going. One way to become the employer of choice is through employee involvement. Ownership and participative management can be a very powerful competitive tool. Ownership without participation accomplishes very little towards company growth. Employee involvement and participation is the culture that all high performing ESOPs will build their companies around. Employee ownership does not guarantee a firm’s performance or lower employee turnover, but when you allow the employee to have a voice on an issue that will involve effectiveness inside the company, then you have created a true employee-owned culture. This research looked at the attitudes of today’s employee owners and updates some of the outdated research from the past thirty-five plus years.

Background

In 1956, a San Francisco banker and attorney named Louis Kelso created a broad -based employee ownership, known today as an ESOP. (Kelso & Adler, 1958) *The Kelso Plan* implemented the first ownership transfer to employees of a San Francisco newspaper. In the early 1970’s, the concept began to attract attention on Capitol Hill. The Chairman of the Senate finance Committee was Senator Russell Long of Louisiana. Kelso and Long prompted that legislation for broader-based ownership which could increase corporate performance, ease workplace tensions, address the future shortfalls of Social Security and help to build a better society. In 1974, Congress passed ERISA and within the legislation was an attractive tax and financing advantage to promote the sale of company stock to employees. Current laws allow employee owners to foster a broader distribution of wealth among employees who, as owners, will help their companies perform better, while also accumulating significant retirement savings.

In 1987, the US General Accounting Office (GAO) performed a study on 110 firms, which focused on productivity and profitability. The study found that participative managed employee-owned firms increased their productivity growth rate by 52% per year. So, if a company’s productivity growth rate were 3.0% per year, it would be 4.5% after an ESOP. Due to the particular methodology used in this study, the results may be considered conservative. The study also found no real impact on profits. The ESOP plans took off in the 80’s and 90’s and grew from 1,600 plans to over 6,400 in 2020. As of 2020, more than 250 new ESOPs are added each year. ESOP’s currently total about 14.5 million employee owners with the assets valued at \$1.675 trillion. This is due to larger private companies and faster employment growth among ESOP companies. Many believe that if more business owners new of the tax advantages for an ESOP, the numbers could be much higher.

Literature Review

With more than 32 years of research and survey studies compiled, most of what was found seems credible and accessible. By 1993, (Bonin, Jones, and Putterman, 1993) explain that a few employee owners argue that employee ownership leads to underinvestment, inefficient decision-making, and inadequate supervision. Based on most, if not all, the research found one would lead to believe this is the exception and not the rule. A very small but close-knit group of research conduct almost all the current research and a large percentage is not peer reviewed. Articles on employee ownership, for the

most part, have been published in labor relation journals and not in the economic or business publications.

Employee owners can obtain many benefits. Often, they can gain sizeable wealth for retirement, increased job security and work satisfaction. Risk to participants is not usually associated with employee ownership but can arise from lack of diversification and management control. Probably the best benefit for an employee owner is compensation gains for the individual employee. Overall compensation gains for employee owners suggest that pay for workers were found to be as high as or higher than non-employee-owned companies. (Kardas and Keogh, 1998) found that on average 100% ESOP companies receive from 5% to 12% higher wage compensation than comparable employees in non-ESOP companies. Three broad studies on employee compensation in relation to employee ownership, (Blasi, Conte, & Kruse, 1996) found that company stock is given on top of, and not in place of, other types of compensation. This tells us that ownership wealth from ESOP's does not substitute for present day income, but rather comes in addition to employee pay and benefits, and thus results in far greater overall compensation.

Job security is an area that most employees give high importance to. Based on a Gallup poll in 1994, (Kruse and Blasi, 1997) summarized that many Americans said that if they owned company stock and an outside investor was attempting a takeover, they would not sell the stock to them even for twice the market value. (Blair, Kruse, & Blasi, 2000) found increased job security in broad-based employee-owned companies as compared to similar firms in their industries. Employee-owned firms owning more than 17% of the company stock from a period between 1983 and 1995 had significantly longer employee tenure than the same type firms without the employee ownership.

Job Satisfaction, Motivation and Workplace Participation

Research looked at the relationship between employee ownership and satisfaction where surprisingly they found that no link was observed between the size of ownership stake and the satisfaction level. The study did indicate that satisfaction and motivation come from increased participation and not from the size of ownership (Blasi, Kruse, & Bernstein, 2003). Many companies of all sizes have attributed extensive well-being to people who feel a sense of commitment, identification, motivation, and participation in their work. They claim that these are the most important elements of work life and balance is this attachment to and identification with work that makes for a life of meaning and satisfaction (Seligman and Csikszentmihalyi, 2000). A report in 2017 conducted by National Center for Employee Ownership (NCEO, Wiefek) compared workers early in their careers, ages 28 to 34, with employee ownership to their peers without employee ownership and found they have 53% longer median job tenure. In 2023, a study by NECO (National Center for Employee Ownership, 2023) found employee-owned companies reported a voluntary quit rate of their employees were roughly one-third of the national average.

Employee Share Plans and Company Performance

Over the past twenty-five years, ESOPs have seen a growth in compensation and a link between workers' pay and company performance, including profit sharing and stock option plans. According to a 2003 study, (Blasi et al., 2003) one-fifth of the private sector employees, in the US, own stock in their own companies. In a 2000 stock option study, (Blasi, Kruse, & Sesil, 2000) many findings were produced. The key one was a comparison of the performance of broad-based stock option companies with non-broad-based companies both before and after they implemented their option plans. This study included 490 companies where 105 companies had broad-based stock option plans and 385 companies that offered broad-based stock options to many of their full-time employees. The results

showed that broad-based stock option companies had 6.3% higher productivity levels than non-broad-based companies before option plans were implemented, and 14% higher productivity levels than non-broad-based companies after the implementations of option plans. The 7.7% difference is a significant change. In a 2021 study by NECO (National Center, Employee Ownership, 2021) research found that S chapter corporation ESOP companies had more retirement savings and more employer contributions compared to companies offering only a 401(k) plan. On average, retirement contributions were 2.6 times of companies offering only 401(k) plans. Additionally, research found many total contributions to these ESOPs, 94% were from employers, compared to 31% for 401(k) plans. The study also found the average S ESOP participant retirement balances were \$67,000 higher than the comparison group.

Professor Hamid Mehran, in partnership with Hewitt Associates (1998) found that ESOPs in 382 publicly traded companies increased the return on assets (ROA) by 2.7% over what would otherwise have been expected. Mehran also found that 303 ESOP companies surviving the entire four-year, post ESOP research study period, ROA was 14% higher than the comparison group scores, and for the 382 companies as a group, ROA was 6.9% higher for the four-year period. More than 60% of the companies experienced an increase in their stock prices. In the two-day period following the public announcement of the ESOP, average stock prices increased by 1.6%. (Blair et al., 2000) found a link between company stability and the percent of employee ownership. Publicly traded companies that are 20% or more owned by an ESOP were found to be more stable than companies with no employee ownership. The research study of companies between 1983 and 1996, found that 74.1% of the ESOP companies remained as independent operations while only 37.8% of the comparison's companies did not. None of the ESOP companies went bankrupt during this period but 25% of the comparison companies did file for protection.

Research has proven time after time again that dramatic increases can be found in sales, profits, productivity, and participation after an ESOP was established. (O'Boyle, Patel, and Gonzalez-Mule, 2016) studies indicate that firms with ESOPs significantly outperform firms not offering ESOPs. Further, with ESOP participation increases, so does firm profitability. The Michigan Center for Employee Ownership conducted a study in 1990 and found very positive results with companies that established participative management programs. The study found that many companies increased participation by more than 50% after the employee ownership plan was put in place. Other findings of the study show that sharing ownership (as well as profit sharing and gain sharing programs) is correlated with increased employee involvement and point of attack decision-making.

Methodology

ESOP research has always used written surveys. The broad hypothesis is that employee ownership share plans will increase the levels of company commitment, employee participation and general satisfaction with the firm. Using single methods tends to produce one-dimensional results. The decision was made to keep the results of the data collection separate to obtain two-dimensional results. Some of the survey questions asked about individuals' respondents' experience, perception, and feelings towards their company. This added a dimension of individually oriented information to the informant perspective and gave the individual an opportunity to express their own views about their own circumstances. Survey respondents are more candid and objective about the groups of which they are members than about themselves personally. The main areas surveyed were feelings of ownership, effects of ownership on company practices and perceived effects on attitudes and behavior. The companies selected were 100% employee -owned, S chapter corporations only.

Procedures

The research included a fifteen-question survey, written and e-mailed to employee owners of construction companies only, for all five companies. The confidential survey was voluntary, anonymous and the participants could stop at any time. The survey was made available to the respondents on a website that collects and organizes the data. A link to the survey site was attached to the e-mail that was sent to all possible respondents. The process was made to be quick and easy to complete taking only 5 to 10 minutes to access the survey site, complete the questions and send the results to data collection site.

Table 1

Employee Reported Responses – Industry

Dependent Variable	Range	Dep. Var. Mean	Standard D.
		Mean	S.D.
Feelings of Ownership: FEEL			
“I feel my work is more satisfying because of employee ownership.”	3	5.35	1.52
“My company makes me feel like I own part of the business.”	3	5.45	1.47
“I am proud to own shares of stock in this company.”	3	6.55	.95
“I feel I need more information to understand how employee ownership works.”	4	4.95	1.51
“I have comfort that my retirement funds are safe from risk.”	5	5.45	1.49

Notes: All dependent variables are on a 1-7 scale, with 1= “strongly disagree,” 4= “neutral,” and 7= “strongly agree.”

Table 2.

Employee Reported Responses - Industry			
Dependent Variable	Range	Dep. Var.	Standard D.
		Mean	
		Mean	S.D.
Perceived effects on company practices: PERCEPTION			
“I have more say in company decisions because I own shares in my company.”	4	5.1	1.8
“Because of employee ownership workers hear are treated as equals.”	3	4.9	1.75
“Because of employee ownership, workers cooperate more with each other.”	3	5.4	1.26
“Employees have more say than if they did not own shares in this company.”	4	5.9	1.18
“Employee ownership will help me to grow in this company.”	5	5.65	1.55

Notes: All dependent variables are on a 1-7 scale, with 1= “strongly disagree,” 4=“ neutral,” and 7=“ strongly agree.”

Table 3.

Employee Reported Responses – Industry

Dependent Variable	Range	Dep. Var. Mean	Standard D.
Effect on attitudes and behavior: EFFECT			
“I believe that owning shares in this company has influenced why I continue to work here.”	3	6.6	1.64
“I believe that owning shares in this company increases my interest in company finances.”	3	6.55	1.53
“I am more conscientious about waste in this company because I am an owner.”	3	6.02	1.29
“I work smart and more efficient because I own shares in the company.”	4	5.01	1.50
“Because of this experience, I would only work for employee-owned companies.”	5	4.50	1.50

Notes: All dependent variables are on a 1-7 scale, with 1= “strongly disagree,” 4= “neutral,” and 7= “strongly agree.”

The sample was 1836 possible respondents, in five total companies, and research received 330 completed surveys, which equals an 18% response rate. In addition, an executive respondent with inside knowledge about the ESOP plan and results from each of the five companies were also interviewed to gain background information on the company and insight about the ESOP. The entire interview was conducted in telephone conversations. By conducting the surveys, the authors focus has always been to look at the employee’s attitude toward being owners.

ESOP Characteristics

The respondents were asked during the interviews what was the single best reason to work for an employee-owned company. The top three responses were employee benefits (retirement income), employee ownership, and influence in company decisions. All three responses are positive attitudes towards ownership and their respective company. One hypothesis the author did have is how does the employee view their company. If the employee is very satisfied with the company, their view towards the ESOP will be more positive. If the employee has a negative attitude, they will not be supportive

and will have a hard time believing that all the money and wealth that has been promised, will be available when they are ready to retire.

Variation in Employee Responses

The surveys produced many positive correlations, as displayed in the tables. Both groups were “proud to own shares of stock in their company” and displayed very low standard deviations. Employees have strong positive feelings towards “work being more satisfying” and “feeling like they own part of their company”. Respondents appear to be somewhat neutral on understanding exactly how does the employee ownership work. In the perception area of the survey, the responses were found to be somewhat “flat”. The mean for these five questions ranged from 4.9 to 5.9 as reported in table 2. All the correlations are positive, though when asked about “having more say in company decisions” and “having more say than if they did not own shares”; the responses did vary by almost a full mean point. This research also seems to indicate that employees tend to “cooperate more with each other” with two thirds of the respondents in agreement with this question. The spread of the responses was also very consistent as shown in the standard deviations. The final perception survey question did show that only 16% disagreed that “employee ownership would help them grow in their company”.

The survey question asked about attitudes and behavior: effects produced some of the highest mean results and smallest standard deviations. The correlation between the first two questions regarding “owning shares in the company has influenced why I work here and interest in company finance” shows a sense of pride, interest and positive productive behaviors as indicated by the high mean numbers. This survey also produced results of 5 and 5.7 that said, “Employees work more efficient and smarter” because they are employee owners. The final question of the survey had a large spread with 33% slightly in agreement and 28% in disagreement that “they would only work for employee-owned companies”. This was also the only question that had responses in all seven categories. The results were consistent across all three surveys conducted. I thought, when I wrote this question, this would score much higher in the 5 to 5.5 ranges. Employees like the advantages and perks associated with an ESOP, but do not want to narrow the search when and if it comes to looking for new employment sometime in their careers. Most new hires look at the ESOP as just another benefit like paid vacations and 401K accounts.

Conclusion

What might explain the correlation between employee ownership and participation? Does ownership without participation improve work effort or promote productive behavior? ESOP’s need incentives and opportunities to work together and grow the employees so performance can be improved. Freeman and Dube (2000) found that productive behaviors were higher in companies that combined employee ownership or profit sharing with participation in decision-making. In an ESOP, the incentive is sharing the profits to build a wealthy account for all employee owners in retirement and being involved to make decision to help guide the company to keep evolving towards the future. Data from the firms that research examined provides a useful snapshot in time of how employees view their ESOP companies, even with a lower-than-expected survey response of 18%. The survey was able to obtain more than 330 responses. Ownership must be combined with employee involvement and participation in decision-making to generate the types of behavior that will improve the company. Conceptually, an understanding of how employees feel about ownership, positive or negative, depends on the company culture that has been established. When an employee feels the pride of being a vested owner, they become self-motivated to be less wasteful, perform at a high level, and put in the extra effort to be the best they can. Employee owners know the more they help to grow the profits, the more money they will have in their accounts when they are ready to retire.

Reference

- Blair, M., Kruse, D., & Blasi, J. (2000). ESOP, unstable form? Or a stabilizing force? *Corporation and Human Capital*. Washington, DC: The Brookings Institution.
- Blasi, J., Conte, M., & Kruse, D. (1996). Employee stock ownership and corporate performance among public companies, *Industrial and Labor Relations Review*, 50 (1), 60-79.
- Blasi, J., Kruse, D., & Sesil, J. (2000). Public companies with broad based stock options: Corporate performance from 1992-1997. Oakland, CA: NCEO
- Blasi, J., Kruse, D., & Bernstein, A. (2003). *In the company of owners: the truth about stock options (and why every employee should have them)*. New York: Basic Books.
- Freeman, R. & Dube, A. (2000). Shared Compensation Systems and Decision Making in the U.S. Job Market, a draft from Harvard University Department of Economics.
- General Accounting Office. (1987). *Employee stock ownership plans: Little evidence of effects on corporate performance*. GAO/PEMD-88-1. Washington, D.C.
- Kardas, P. & Keogh, J. (1998). Wealth and income consequences of ESOP's and employee ownership: a comparative study from Washington State, *Journal of Employee Ownership Law and Finance*, 10, 4-5.
- Kelso, L. O. & Alder, M. J. (1958) *The Capitalist Manifesto*. Westport, CT: Greenwood Press
- Kruse, D. & Blasi, J. (1997). Employee ownership, employee attitudes, and firm performance: a review of the evidence. In J. B. Mitchell, D. Lewin & M. Zaidi (Eds.), *Handbook of Human resource Management* (pp.113-151). Greenwich, CT: JAI Press.
- Kruse, D. & Blasi, J. (2000). *Employee Ownership and Corporate Performance*. National Center for Employee Ownership. Retrieved October 10, 2007, from the NCEO Website. Web site: <http://www.nceo.org/library/corpperf.html>
- Logue, J., & Yates, J. (2001). *The real world of employee ownership*. Ithaca, NY: Cornell University Press.
- O'Boyle, E.H., Patel, P.C. and Gonzalez-Mule, E. (2016) "Employee ownership and firm performance: a meta-analysis" *Human Resources Management Journal* doi: 10.1111/1748
- Quarry, M., & Rosen, C. (1987) How Well is Employee Ownership Working? *Harvard Business Review*, 65 (5), 126-128, 132.
- Rosen, C (2007). *A Statistical Profile of Employee Ownership*. National Center for Employee Ownership. Retrieved October 9, 2007, from the NCEO Website. Web site: http://www.nceo.org/library/eo_stat.html
- Seligman, M., & Csikszentmihalyi, M. (2000). Positive psychology: An introduction, *American Psychologist*, 55, 5-14.
- Wiefek, N. (2017) Employee Ownership & Economic Well-Being, *National Center for Employee Ownership, Employment Quality among Employee-Owners. Ages 28 to 34*.