Employee-Ownership Briefing Paper

Research Highlights 1

The Performance of ESOP Companies

OA

Ownership Associates was founded in 1987 to provide consulting, communications, survey and organizational design services for employee-ownership companies.

Brief 1.3 **June 24, 2003**

In the 28 years since Congress established Employee Stock Ownership Plans (ESOPs), over 10,000 U.S. companies have adopted and maintained ESOPs—dozens of studies have evaluated the effects of ESOP on company performance. After reviewing the research literature, Dr. Douglas Kruse concluded: "25 years of research shows that employee ownership often leads to higher-performing workplaces and better compensation and work lives for employees."*

Study 1 (below) indicates that this "ownership effect" averages 2 to 3% per year on a variety of measures. The effect is significantly enhanced in companies which encourage employees to think and act like owners by developing an ownership culture (see Study 2 below).

Study 1: National ESOP Comparison Study (2000)

Authors: Joseph Blasi and Douglas Kruse, Rutgers University

Method: All ESOP companies in the Dun & Bradstreet database were paired with similar non-ESOP companies which served as a control group.

Conclusion: Adoption of an ESOP was associated with:

- an increase in annual sales growth of 2.4%,
- an increase in annual employment growth of 2.3%, and
- increased likelihood of corporate survival.

More Info: The results of the study are summarized at: www.nceo.org/library/esop_perf.html

Study 2: Comparing Growth Rates in Employee Ownership Companies to their Participatory Competitors (1994)

Author: Peter Kardas

Method: To study the interaction between employee-ownership and participatory management, companies from Washington State were classified as ESOP or non-ESOP, and as participatory or non-participatory. Business results were compared.

Conclusion: Participatory ESOP companies have:

- sales growth rates 6 to 7% higher than expected, and
- employment growth rates 13% higher than expected.

These results also hold when participatory ESOPs are compared with participatory non-ESOPs. Dr. Kardas concludes: "The combination of employee ownership and significant participation makes it possible for employee ownership companies, on the average, to have an advantage unavailable to their competitors."

More Info: Kardas, Peter, *Comparing Growth Rates in Employee Ownership Companies to their Participatory Competitors*, Washington State Department of Community Development, Olympia, WA, February, 1997, p.i.

* Kruse, Douglas, "Research Evidence on the Prevalence and Effects of Employee Ownership," *Journal of Employee Ownership Law and Finance,* Vol. 14, No. 4, Fall 2002, Oakland: National Center for Employee Ownership, p. 77.

Ownership Associates: "Helping maximize your return on ownership."

122 Mt. Auburn Street • Harvard Square • Cambridge, MA 02138 oa@ownershipassociates.com
Tel: (617) 868-4600 • Fax: (617) 868-7969 www.ownershipassociates.com