

EMPLOYEE-OWNED FIRMS IN THE COVID-19 PANDEMIC

How Majority-Owned ESOP & Other
Companies Have Responded to the Covid-19
Health and Economic Crises



**EMPLOYEE
OWNERSHIP
FOUNDATION**



RUTGERS

School of Management
and Labor Relations





Majority ESOP Firms Drastically
Outperform Other Firms at
Retaining Jobs by a

4 to 1 Rate.



Majority ESOP
firms maintained
standard hours
and salaries at
**significantly
higher rates** than
other firms.



Majority ESOP firms were more likely
to provide **protective measures** for
employees than other firms.



Long-term public policy encouraging
employee ownership produces **greater job
stability** during a crisis than emergency
government spending.

A significant new study has shown that majority employee-owned companies with Employee Stock Ownership Plans (ESOPs) are outperforming non-employee owned companies during the COVID-19 pandemic in the areas of job retention, pay, benefits, and workplace health safety. The study revealed that ESOPs have been more proactive about ensuring the safety of employees during the pandemic and are generally more optimistic that they will return to business as normal at some point.

Those are the key findings from a new study conducted by Rutgers University and SSRS, and funded by the Employee Ownership Foundation, an affiliate of The ESOP Association. They echo similar findings regarding the performance and behavior of employee owned companies during the 2008-2010 recession, although the addition of an international health emergency adds a significant new element to the employee/employer response dynamic.

BACKGROUND

This study compared companies in which the ESOP owns a majority of the firm's shares to a broad sample of other companies.

An ESOP is a retirement plan that purchases shares of a company and holds them on behalf of employees who participate in the plan. When the company share price rises, plan participants share in the financial gains. When the share price falls, plan participants share in the loss. When the employee retires or leaves the firm, she or he is paid market value for their ownership stake in the business.

For this reason, employees at ESOPs are known as employee owners—because they share in the risks and rewards of ownership. An important element of ESOPs is that in the vast majority of cases employee owners incur no out-of-pocket expense to acquire shares in the company.

For more information about employee ownership and ESOPs, see the Employee Ownership Foundation's [blog](#) and [research pages](#), and the page titled "[What is an ESOP?](#)" on The ESOP Association website.

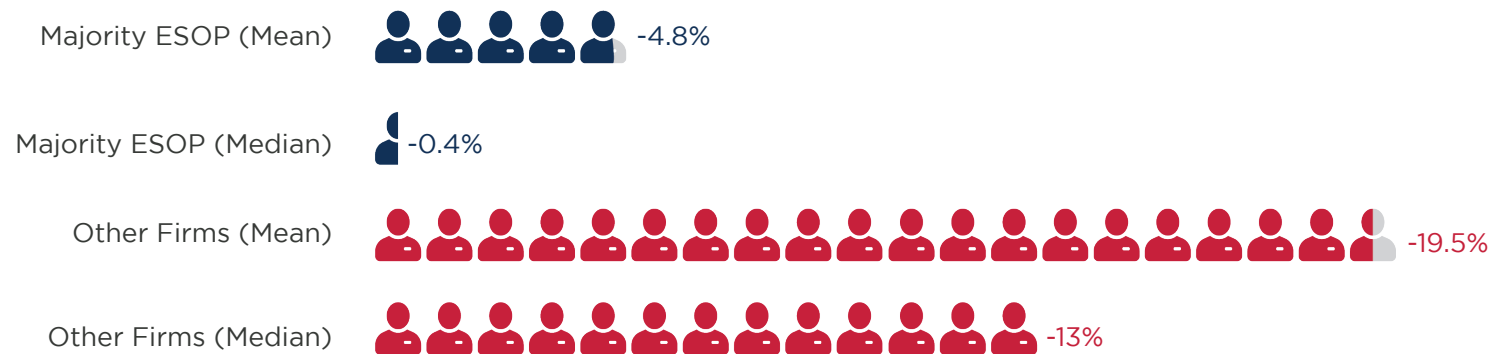
FINDINGS

Differences in COVID Response Effects on Job Retention; Income in ESOP Versus non-ESOP Firms

Employees were retained at significantly higher rates by employee owned companies during the pandemic.

ESOP companies were between 3 and 4 times more likely to retain staff, at all levels, the study found. ESOPs were 3.63 times more likely to retain non-managers, and 3.95 times more likely to retain managers. Stated differently, employee owned businesses experienced job loss at a rate of less than approximately 25% of non-employee-owned firms.

Decline in Total Employment



Reducing Hours

Two important findings: Majority ESOP companies were significantly less likely to cut employee hours, and in instances where ESOPs did reduce employee hours, those reductions affected fewer numbers of employees.

About a third (35.5%) of majority ESOP companies cut hours for one or more employees; by comparison, nearly two thirds (62.9%) of other companies cut hours for one or more employees. Further, at majority ESOP companies only 16.4 percent of the workforce saw their hours diminished; at other companies, 25.7 percent of employees saw their hours reduced.

However, for those employees who experienced a reduction of hours, the rate of reduction in majority ESOP companies was similar to that of other companies. The maintenance of employment is likely to have enabled many employees to maintain key employee benefit programs such as health insurance coverage.

FINDINGS

From an economic perspective, ESOPs kept considerably more money in employees' hands—and in the economy—than non-ESOPs.

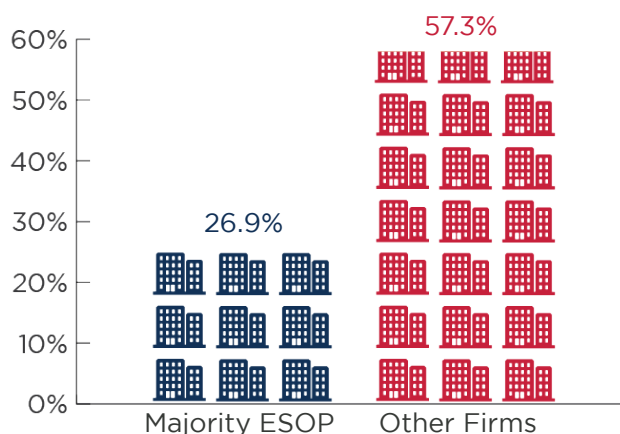
Just as importantly, by maintaining employment at a higher level, ESOPs ensured that more employees had reliable and consistent access to key employer sponsored benefits, such as retirement and health care. When employees' hours are cut significantly, they can become part time workers and lose these key benefits. Especially in a pandemic, the loss of health benefits could cause employees and their families to experience health and financial catastrophes.



Pay

Majority ESOP companies were far less likely to cut employee pay, compared to other companies. Only about a quarter (26.9%) of ESOPs cut pay for any employee, compared to more than half (57.3%) of other firms.

Pay Cuts for All Employees



When ESOPs did cut pay, however, the cuts were significantly deeper than at other firms. Pay cuts at ESOPs averaged 41.3%, versus 28.6% at other companies. This is likely due to deeper cuts in management salaries at majority ESOP firms.

FINDINGS

Differences in Motivation

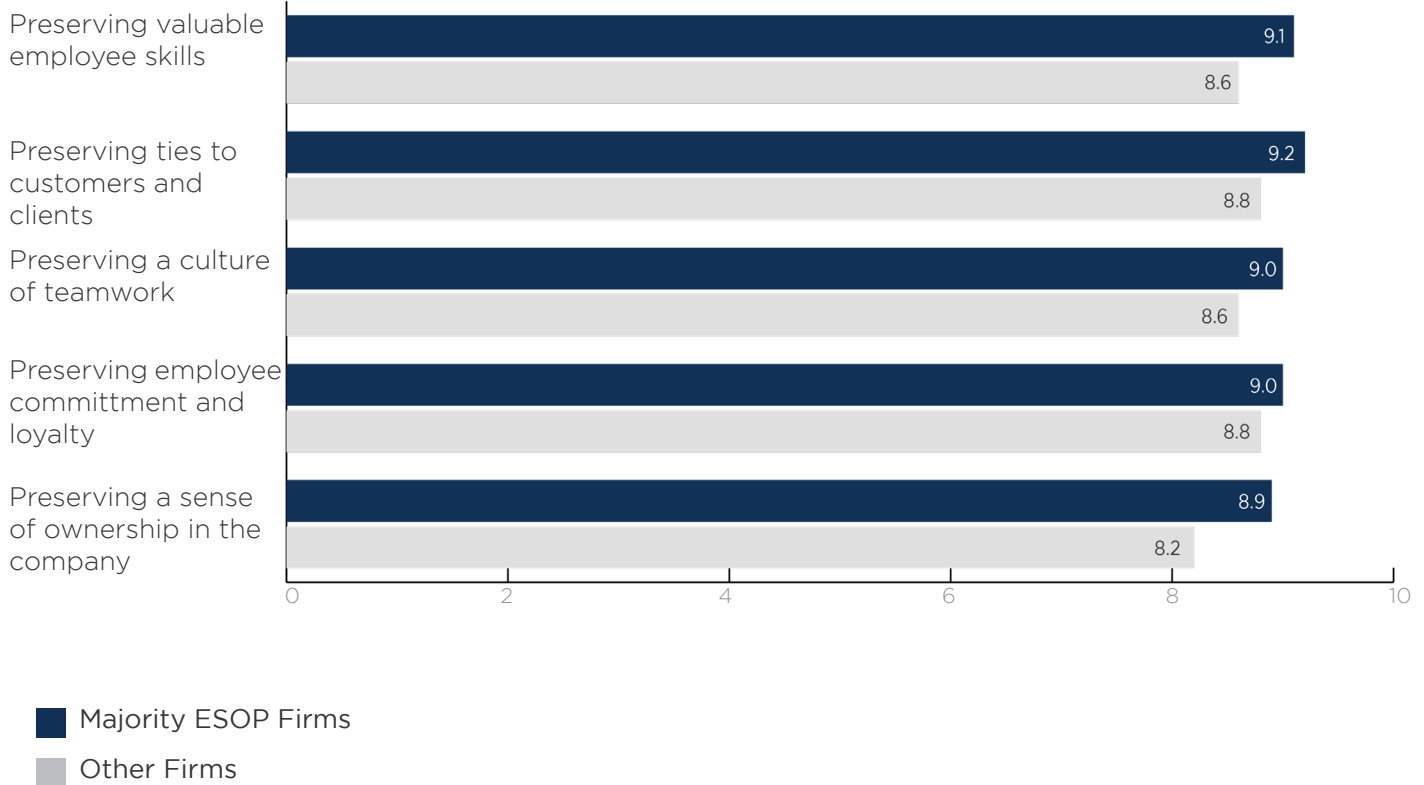
When deciding to retain staff, ESOP companies ascribed higher levels of importance to preserving:

- Valuable employee skills.
- Ties to customers and clients.
- A culture of teamwork.
- A sense of ownership.

The differences in a fifth area—preserving employee commitment—were not statistically significant.

Motivation Research Comparison (average scores on 0-10 scale)

Importance of:



FINDINGS

Effects of the Pandemic on Employee Owned Versus non-Employee Owned Firms

Essential vs. Nonessential Businesses

Not all businesses faced equal financial risks during the early stages of the pandemic. Those deemed essential were allowed to remain in full operation, ensuring an ongoing stream of revenue to those firms that mitigated, but certainly did not eliminate, financial risks.

Some businesses deemed nonessential—including restaurants and bars—were forced to close, losing significant revenue.

Job retention data was analyzed for essential versus non-essential businesses. While the differential between majority ESOP and other firms narrowed, ESOPs still dramatically outperformed other businesses in job retention, rate of pay, and hours.

Among essential businesses, ESOPs laid off staff at only one-fourth the rate of non-ESOP companies. **Put another way, for every person who lost a job at an ESOP company, four people lost their jobs at other companies.**

When risks were even greater, for businesses that were non-essential, the gap narrowed but ESOPs continued to retain staff at a far greater rate—2.77 times—when compared to non-ESOPs. **So, for every person who lost a job at an essential ESOP company, nearly three people lost their jobs at essential companies** that were not majority employee-owned.

Employee Ownership Outperforms Government Assistance at Retaining Employees During Economic Crisis

Congress apportioned \$349 billion in the Paycheck Protection Program (PPP) to encourage businesses to retain employees during the pandemic. While the PPP was effective at promoting employee retention in both ESOP and non-ESOP companies, employee owned firms that took no government assistance were better at retaining employees than non-ESOP firms that received government assistance.

ESOP companies that received no PPP funding laid off employees at a rate 3.2 times lower than companies without majority ESOPs that did receive PPP funding.

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In short, while the PPP was effective at promoting employee retention at both employee-owned and non-employee owned firms, employee ownership as a public policy proves to be a superior bulwark against job-loss in an economic crisis than emergency government programs.

From a public policy standpoint, this is a key finding. The results of this study indicate policies that encourage more employee owned firms will provide a future hedge against job loss in an economic crisis, thereby reducing the volatility and durability of a negative economic cycle.

Costs of employee ownership versus PPP.



The Joint Tax Committee estimates that proposed tax incentives under consideration in the Congress for the sale of privately held companies to employees through an ESOP would result in a net reduction of Treasury income of approximately \$10 billion over a 10-year period (S. 177 and HR 2258). This amount pales in comparison to the \$349 billion allocated to the PPP for a single year and intended specifically to encourage employee retention.

ESOPs More Active in Employee Safety and Health

Overall, majority ESOPs were slightly more active than other companies in taking steps to protect employees from COVID-19. Among ESOPs, 98.3% took protective measures for employees, compared to 88.9% of non-ESOP companies.

Differences exist, however, between the groups' approaches and timing.

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ESOPs Acted More Quickly to Protect Employees Than Other Companies

More than half (53.7%) of ESOP companies initiated protective measures for employees by March. Among other companies, 41.3% implemented protective measures in the same time frame. (On March 11 the World Health Organization declared COVID-19 a pandemic.)

Months Initiated Protective Measure for Employees

	Majority-Owned ESOPs	Other Firms
January	1.6%	1.5%
February	2.3%	3.9%
March	49.9%	35.9%
April	19.8%	29.9%
May	8.5%	10.2%
June	11.4%	12.8%
July or Later	6.6%	5.9%
Subtotal: Jan - March	53.7%	41.3%

Among the Protective Measures That Companies were Asked About, Statistically Significant Differences Emerged in Four Areas

ESOP companies were more likely to:

- Send employees to work from home (85.1% of ESOPs sent employees home, versus 66.8% of non-ESOP companies).
- Offer employees personal protective measures, such as masks and gloves.
- Provide additional sanitizing/professional cleaning.

ESOP companies were more likely to provide, and more thorough in providing, pro-active protection, while other companies were more likely to conduct COVID-19 testing. The difference in rates of testing may be partially explained by the differential between employees who were sent home to work verses those who were required to continue to come to the workplace. ESOPs sent employees home to work at significantly higher rates, thereby obviating the need for testing for workplace entry. The results show that the rate of testing

FINDINGS

was close to equal for ESOP and non-ESOP firms (actually slightly higher for ESOP firms) among those that did not send anyone to work at home.

Another reason for this difference in approach on testing may be that ESOP companies generally took action more quickly (by March, as noted above) when COVID-19 tests were still being perfected.

In short, majority ESOP companies seemed to focus more on preventing infections, while other companies seemed to focus more on identifying infections after they occurred.

Outlook for the Future

The pandemic was a major shock for companies nationwide. Both majority ESOP companies and other firms in the economy reported their estimation of this shock's overall effect on the company similarly. The stark differences between the ESOP and other firms was not in their recognition of the shock of the pandemic, but their response to it. The results show that ESOPs firms were more resilient in responding to the shock in specific ways.

Other companies are generally less optimistic about their current performance and chances for future success. In fact, they were nearly 6 times more likely to report that the business would never return to its usual level of performance than ESOP companies.

This suggests that ESOPs are more resilient than other companies in the economy.

“I do not believe this company will return to its usual level of operations”

Majority ESOPs - 1.0%



Other Companies - 5.7%



METHODOLOGY

The Employee Ownership Foundation partnered with Rutgers University's Institute for the Study of Employee Ownership and Profit Sharing and the SSRS survey firm to survey majority employee-owned ESOP firms and other firms about their responses to the COVID-19 pandemic. The survey included 247 executives from ESOP Association member companies and 500 executives from an SSRS business panel constructed to be representative of U.S. companies with 50 or more employees. In this study an employee-owned firm refers to a firm that is majority or 100% owned by its workers through an ESOP.

Joseph Blasi is the J. Robert Beyster Distinguished Professor, and Douglas Kruse is a Distinguished Professor, in the Rutgers School of Management and Labor Relations (SMLR), where Blasi is Director of the Institute for the Study of Employee Ownership and Profit Sharing and Kruse serves as Associate Director. They are also both Research Fellows at the IZA Institute of Labor Economics. Professor Kruse served as Senior Economist at the White House Council of Economic Advisers in 2013-2014 and is a Research Associate of the National Bureau of Economic Research. Blasi served as a Senior Fellow of The Aspen Institute. They have researched and written extensively on the causes and consequences of employee ownership plans, especially in two recent books published by Yale University Press and the University of Chicago Press.

SSRS is a highly-regarded survey firm that conducts polls for many clients, including CNN, the Kaiser Family Foundation, Annenberg Public Policy Center, Harvard Opinion Research Program, and the New York Times. SSRS is a member of the American Association of Public Opinion Research (AAPOR).

Both samples were weighted to represent the populations of ESOP and non-ESOP firms nationally. The survey started on August 5 and ended on September 23, 2020.

A key purpose of the survey was to estimate firm-level changes in employment from mid-January to August (current employment figures were adjusted to August 5 using industry payroll employment trends from the U.S. Department of Labor's Bureau of Labor Statistics). The survey also looked at other forms of adjustment and responses to the pandemic.



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