

Employee Ownership and ESOPs

What We Know from Recent Research

Joseph Blasi and Douglas Kruse, June 2023

EMPLOYEE OWNERSHIP IDEAS FORUM



Introduction

Employee ownership has a long and important tradition in the US. Today, approximately 18% of employees have some form of ownership stake in the company where they work. Employees participating in ownership in the US do so through a variety of means, including employee stock ownership plans (ESOPs), equity compensation programs, worker-owned cooperatives, and employee-owned trusts (EOTs). About 10.1 million employees participate in ESOPs, and an estimated 11.8 million employees participate in different combinations of equity compensation plans, including grants of restricted stock, stock options, and employee stock purchase plans. Estimates show that approximately 10,000 workers are employed in between 900 and 1,000 worker-owned cooperatives, and an estimated 13,000-60,000 employees are employed by 31 EOTs.

In this short brief, we provide some updated statistics and analysis regarding workers' participation in employee ownership plans and the wealth and job quality benefits those workers realize from their participation. ESOPs are the most common form of broad-based employee share ownership in the US, and, likely for that reason, there is more robust data related to ESOPs. For these reasons, this brief focuses primarily on workers who participate in ESOPs.

What Is an ESOP?

An ESOP is a retirement plan where employees typically receive grants of company stock without buying the stock with their wages or savings. Typically, when an ESOP is used to buy out a retiring business owner, a company sets up an ESOP, and credit is used to finance the buyout of shares of the retiring business owner with tax incentives. The company (not the individual employees) provides collateral and promises to repay the loan out of the income generated by all employees through company operations over several years. As the loan is repaid, shares are

granted to individual employee accounts in the ESOP. Employees then receive market value for the shares upon retirement or departure from the firm. Sometimes cash contributions to an ESOP to buy company stock over a multiyear period are used to increase the percentage of employee ownership in these plans. ESOPs are retirement plans regulated under the Employee Retirement Income Security Act of 1974 (ERISA).

ESOPs, Equity Compensation Plans, and Employee Wealth Creation

An important benefit of employee ownership is the potential to help employees build wealth and assets. Data for ESOPs and equity compensation plans show:

- The 10.1 million employees in the 6,447 corporations with ESOPs have total wealth of \$1.8 trillion, or an average of \$180,292 per employee. Employees who are 55 years or older, or who have been with their ESOP employer 10 years or longer, have an average of \$315,000 in wealth through their ESOP.
- Approximately 8.8 million employees in ESOP plans are employed in 580 publicly traded corporations. ESOPs in publicly traded firms typically only own 1-3% of the shares outstanding. Nonetheless, ownership stakes in these ESOPs are substantial, collectively worth \$1.6 trillion, or an average of \$183,744 per employee.
- Another 1.4 million employees participating in ESOP plans are employed in 5,887 closely held or private corporations. These ESOPs taken together are worth \$221.5 billion, or an average of \$158,604 in wealth per employee. Most of these closely held or private companies are majority or 100% ESOP owned.
- Equity compensation plans have an average employee ownership value of \$90,298. These plans, however, are much less likely to offer broad-based ownership than ESOPs, which are required to be broad-based by ERISA.

The Job Quality of Employees in ESOP Companies

In addition to wealth building opportunities, employee-owned companies often outperform non-employee-owned companies on a range of measures related to employees' job quality.

- In a nationally representative survey of employees in ESOP companies, ESOP employees reported that their wages are equal to the market wage or higher than the market wage for their job.
- In a survey of S corporation ESOP companies, researchers found a majority of companies offered other benefits in addition to the ESOP. All the companies

- surveyed reported that they provided medical insurance, and 97% provided dental benefits. Of the responding companies, 87% provided on-the-job training, 77% offered an additional 401(k) plan, 74% offered tuition reimbursement, 59% provided flexible work schedules, and 56% had paid maternity or paternity leave.
- A study following 5,000 women and men from birth to 2013, when they were 28-34 years old, found those working in employee-owned companies had significantly higher wages, more household wealth, higher job tenure, and a greater incidence of healthcare, education, and other benefits.
 - 71% of ESOP employees report that they receive profit-sharing, compared to 34% of non-ESOP employees in the economy, twice as likely.
 - 64% of ESOP companies have a diversified 401(k) retirement plan in addition to the ESOP.
 - 70% of ESOP employees report receiving training in the last year, compared to 34% of non-ESOP employees in the economy, twice as likely.
 - 38% of ESOP employees report having employee involvement teams, compared to 26% of employees without any employee share ownership in the economy.
 - 0% of ESOP employees report being laid off in the past year compared to 6% of non-ESOP employees, suggesting that ESOP employees have greater job security.

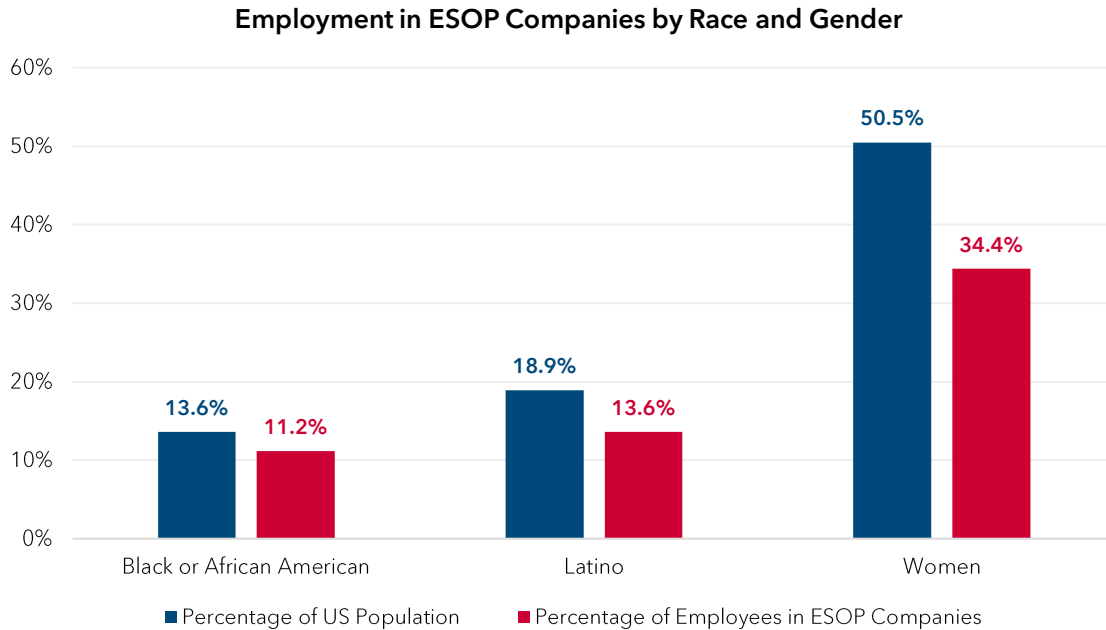
Employee Ownership and the Impact of Workplace Culture

Employee-owned firms are known for having workplaces and organizational cultures that foster high levels of employee engagement. Studies show several benefits when these cultures are combined with employee ownership, including:

- Cooperation among employees is higher in companies when broad-based employee ownership is combined with a supportive culture (as indicated by factors such as employee training, job security, and structures for employee participation).
- Turnover is substantially lower in companies that combine broad-based employee ownership with a supportive and empowering culture. Annual voluntary employee turnover decreases from about 13% per year to about 2% per year when these two strategies are implemented together.

ESOPs and Race and Gender Diversity

The job quality and wealth-building opportunities provided through employee ownership have potential to help address race and gender income and wealth gaps. Recent estimates, however, show that some groups are not yet well represented in ESOP companies. Women, Black or African Americans, and Latinos, for example, are underrepresented among employers with an ESOP.



Challenges to Growing and Diversifying ESOPs

Despite the benefits of employee ownership, recent numbers suggest that the model faces challenges in growing and diversifying:

- ESOP growth has been modest, at an average of 244 new ESOPs created per year between 2015 and 2020, according to the National Center for Employee Ownership.
- Lower representation of women, Black or African Americans, and Latinos is concerning as noted above. Lower representation of women in ESOPs may be reflective of the industry mix and larger challenges that have limited women's employment in industries in which ESOPs are concentrated, such as manufacturing, construction, professional services, and wholesale trade.

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Learn More

We are pleased to present this brief as part of the Employee Ownership Ideas Forum, a two-day convening bringing together leading policymakers, practitioners, experts, and the media for a robust discussion on how we can grow employee ownership for the shared benefit of American workers and businesses. The Forum is co-hosted by the Aspen Institute Economic Opportunities Program and the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University. Learn more at as.pn/eoforum.

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Sources

Introduction

The number of employees owning stock based is on the 2022 General Social Survey (GSS), National Opinion Research Center, University of Chicago, with analysis by Rutgers University's Institute for the Study of Employee Ownership and Profit Sharing in June 2023. The data collection on employee share ownership questions was made possible by Google.org. The GSS is mainly funded by the US National Science Foundation.

The number of ESOPs is based on the 2020 retirement plan filings of the US Department of Labor (Form 5500), with analysis by the National Center for Employee Ownership (NCEO) in 2022. The analysis of stock market companies is by Douglas Kruse of Rutgers University, who matched COMPUSTAT to the US Department of Labor's Form 5500 to identify stock market corporations. The percentage of ESOPs that are majority- or 100%- owned is an estimate by NCEO's research director, Dr. Nancy Wiefek. For a general overview of ESOPs by the numbers, see NCEO's data at <https://www.nceo.org/articles/employee-ownership-by-the-numbers>.

The numbers for equity compensation plans are based on the combined 2014, 2018, and 2022 General Social Survey, National Opinion Research Center, University of Chicago, with analysis by Rutgers University's Institute for the Study of Employee Ownership and Profit Sharing in June 2023. The data collection for employee share ownership questions was made possible by Google.org in 2022 and by the Employee Ownership Foundation for 2014 and 2018.

The estimates on worker cooperatives are provided through analysis by the Democracy at Work Institute. Verified worked-owned cooperatives can be found at the 2021 *Worker Cooperative State of the Sector Report* at <https://institute.coop/resources/2021-worker-cooperative-state-sector-report>.

The numbers for employee ownership trusts (EOTs) are from *Purpose Trusts in the United States* and were assembled by Rutgers Institute Fellow Mark Hand of the Dedman College Interdisciplinary Institute at Southern Methodist University. Data are available at <https://dataverse.harvard.edu/file.xhtml?fileId=6697043&version=3.0>. The number of employees in EOTs are based on Dr. Hand's estimates.

ESOPs, Equity Compensation Plans and Employee Wealth Creation

Average ESOP dollar values are based on the 2020 retirement plan filings of the US Department of Labor (Form 5500), with the analysis by the National Center for Employee Ownership in 2022 and the computation of the averages by Douglas Kruse and Joseph Blasi of Rutgers in June 2023.

The average for ESOP employees over 55 years of age or with 10 years of tenure is based on a combined ESOP sample from the 2014, 2018, and 2022 General Social Survey, as noted above.

For equity compensation plans dollar values, average and median dollar values are based on the 2014, 2018, and 2022 General Social Survey.

The number of firms and employees is based on 2020 retirement plan filings of the US Department of Labor (Form 5500), with analysis by the National Center for Employee Ownership in 2022.

The analysis on stock market companies was conducted by Douglas Kruse of Rutgers University matching COMPUSTAT to the US Department of Labor's Form 5500.

The percentage of ESOPs that are majority- or 100%- owned is an estimate by NCEO's research director, Dr. Nancy Wiefek. For a general overview of ESOPs by the numbers, see NCEO's data at <https://www.nceo.org/articles/employee-ownership-by-the-numbers>.

The Job Quality of Employees in ESOP Companies

The results for ESOP employees compared to other employees in the economy are based on a combined ESOP sample from the 2014, 2018, and 2022 General Social Survey. The percentage of ESOPs with retirement plans is from the Department of Labor's Form 5500 annual reports, analyzed by Douglas Kruse of Rutgers University. For data on benefits other than the ESOP, see *S Corporation ESOPs and Retirement Security* by Nancy Wiefek and Nathan Nicholson (Oakland, Ca.: National Center for Employee Ownership, March 2018, p. 12), available at

<https://www.nceo.org/assets/pdf/articles/NCEO-S-ESOPs-Retirement-2018.pdf>. The impact of ESOPs on young people is based on *Employee Ownership and Economic Well-Being: Household Wealth, Job Stability, and Employment Quality among Employee-Owners Age 28 to 34* by Dr. Nancy Wiefek. (Oakland, Ca.: National Center for Employee Ownership, May 15, 2017) and is available at <https://www.ownershipeconomy.org/>. See the 2018 update at <https://www.ownershipeconomy.org/research/2018-update/>.

Employee Ownership and the Impact of Workplace Culture

The research on mutual cooperation is based on employee surveys of over 40,000 employees in 14 companies of the National Bureau for Economic Research (NBER) Shared Capitalism Research Project funded by the Rockefeller Foundation and the Russell Sage Foundation and co-directed by Richard Freeman of Harvard University and Douglas Kruse and Joseph Blasi of Rutgers University.

NBER working papers summarizing the results were first published by NBER at <https://www.nber.org/search?page=1&perPage=50&q=shared%20capitalism>. The final book published by the University of Chicago Press and NBER was in 2010. A copy of the entire book on the NBER website is at <https://www.nber.org/books-and-chapters/shared-capitalism-work-employee-ownership-profit-and-gain-sharing-and-broad-based-stock-options>. The book is available from the University of Chicago Press at <https://press.uchicago.edu/ucp/books/book/chicago/S/bo8056093.html>.

A national control group with comparison data was made possible by the Employee Ownership Foundation's support of the General Social Survey in 2002 and 2006.

The research on turnover is based on the analysis of 230,465 employee surveys in 780 companies with six million employees who applied to the 100 Best Company to Work For competition of Fortune magazine from 2005 and 2007. The Great Place to Work Institute did a random survey of their employees, and the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers analyzed some of the data under a confidentiality agreement. This was published as: "Do Broad-based Employee Ownership, Profit Sharing and Stock Options Help the Best Firms Do Even Better?," Joseph Blasi, Richard Freeman, and Douglas Kruse, *British Journal of Industrial Relations*, Volume 54, Issue 1, March 2016, 55-82.

ESOPs and Race and Gender Diversity

The proportion of different ethnic groups in the US population in 2021 is from the US Census at <https://www.census.gov/quickfacts/fact/table/US/PST045222>.

The proportion of employees who are of different ethnic groups among ESOP versus non-ESOP employees is from the 2014, 2018, and 2022 combined General Social Survey. These are preliminary estimates because of smaller sample sizes. For industries where ESOPs are concentrated, see <https://www.nceo.org/articles/employee-ownership-by-the-numbers>. Figure 1: Industries of Privately Held ESOP Companies.

Challenges to Growing and Diversifying ESOPs

For the annual growth of closely held ESOPs, see the National Center for Employee Ownership at <https://www.nceo.org/articles/employee-ownership-by-the-numbers>.