RESEARCH BRIEF

Institute for the Study of
Employee Ownership and Profit Sharing

Sharing is Caring: Employee Stock Ownership Plans and Employee Satisfaction in U.S. Manufacturing

Questions: Are employees more satisfied at employee-owned firms? What factors enhance their satisfaction?

Summary: Examining workers' reviews of their employers on Glassdoor, we compare employee satisfaction between firms in which workers own company shares through an employee stock ownership plan (ESOP) and conventional firms in which they do not. Focusing on workers in U.S. manufacturing, we find **employees report greater satisfaction in employee-owned firms** overall and with specific aspects of jobs such as firm culture. **This satisfaction premium is greater when the ESOP is the product of collective bargaining** or **employees own a larger stake of firm equity**.

This research finds that employees in employee-owned firms are more satisfied with their workplace. This satisfaction can be further enhanced by introducing collective bargaining and increasing the size of ownership. These findings align with the theory that employee representation and financial stake promote psychological ownership and lower agency costs, which leads to greater productivity and amenities that better fit with employee preferences.

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Employee Ownership and Satisfaction

- Employee ownership may be implemented in several ways and degrees. They differ in how ownership shares are held and how decision-making is exercised, influencing the mechanisms of how it affects employee satisfaction.

- Employee Stock Ownership Plans (ESOPs) are a prominent form of employee ownership.[1] It is a mechanism through which employees can own a part or all of their firm. In an ESOP, shares are allocated to employees based on factors such as compensation, tenure, or, in some cases, equally among employees.

- As owners, employees in an ESOP firm have the right to enjoy returns (dividends and stock value appreciation). In a strong ownership culture, employees actively participate in the decision-making process and are given more access to firm information, fostering trust between employees and management.[2] These factors increase psychological ownership and lower agency costs, and, in turn, employees become more motivated and productive.[3]

- ESOPs can differ in their implementation. Most are established unilaterally by management, involving minimal employee input, while others are negotiated through collective bargaining, ensuring employee representation in governance and ESOP administration. ESOPs that are introduced on the basis of collective bargaining agreements between unions and the management likely exhibit stronger effects on employee satisfaction. In these firms, various forms of employee participation may be introduced, generally raising the influence employees have on establishment and corporate-level decision-making, such as when the ESOP committee is elected with more substantial participation of employees or union.[4]

- ESOP can also differ by ownership intensity (i.e., the proportion of the firm employees own). For the most part, ESOPs have a minority employee ownership share (70%). Employee satisfaction likely rises with the proportion of the firm owned by employees. Employee-owners have their employment and wealth linked to the same firm and hold their shares for an extended period of time. Hence, their time horizon is longer than outside shareholders. This indicates stronger incentives for employee productivity and greater influence on resource allocation and alignment with employee preferences. A prior study shows that stock ownership triggers motivation if it surpasses a minimum threshold.[5]

Employee Reviews from Glassdoor

- Measures of employee satisfaction are obtained from Glassdoor, an online platform where workers can go to search for jobs, compare their labor market earnings with others, and learn about a firm's workplace amenities through reviews written by current and former employees.
- Glassdoor reviews offer a unique look into the hard-to-observe aspects of satisfaction that may differ between ESOP and non-ESOP firms.
- When providing a review, workers are asked to provide a 1–5 star rating for their job satisfaction overall and five sub-categories: career opportunities, compensation and benefits, culture and values, senior leadership, and work-life balance.
- This study considers reviews submitted by current or former employees from 2012 through the first half of 2023.
- A list of ESOP firms was obtained from the NCEO and matched with Glassdoor through their names. The analysis focuses on ESOP firms in the U.S. manufacturing sector, an industry that accounts for one-fifth of U.S. ESOPs.
- The final sample consists of 199,737 reviews spanning 17,655 establishments representing 5,564 firms, of which 260 are ESOP firms, as shown below.

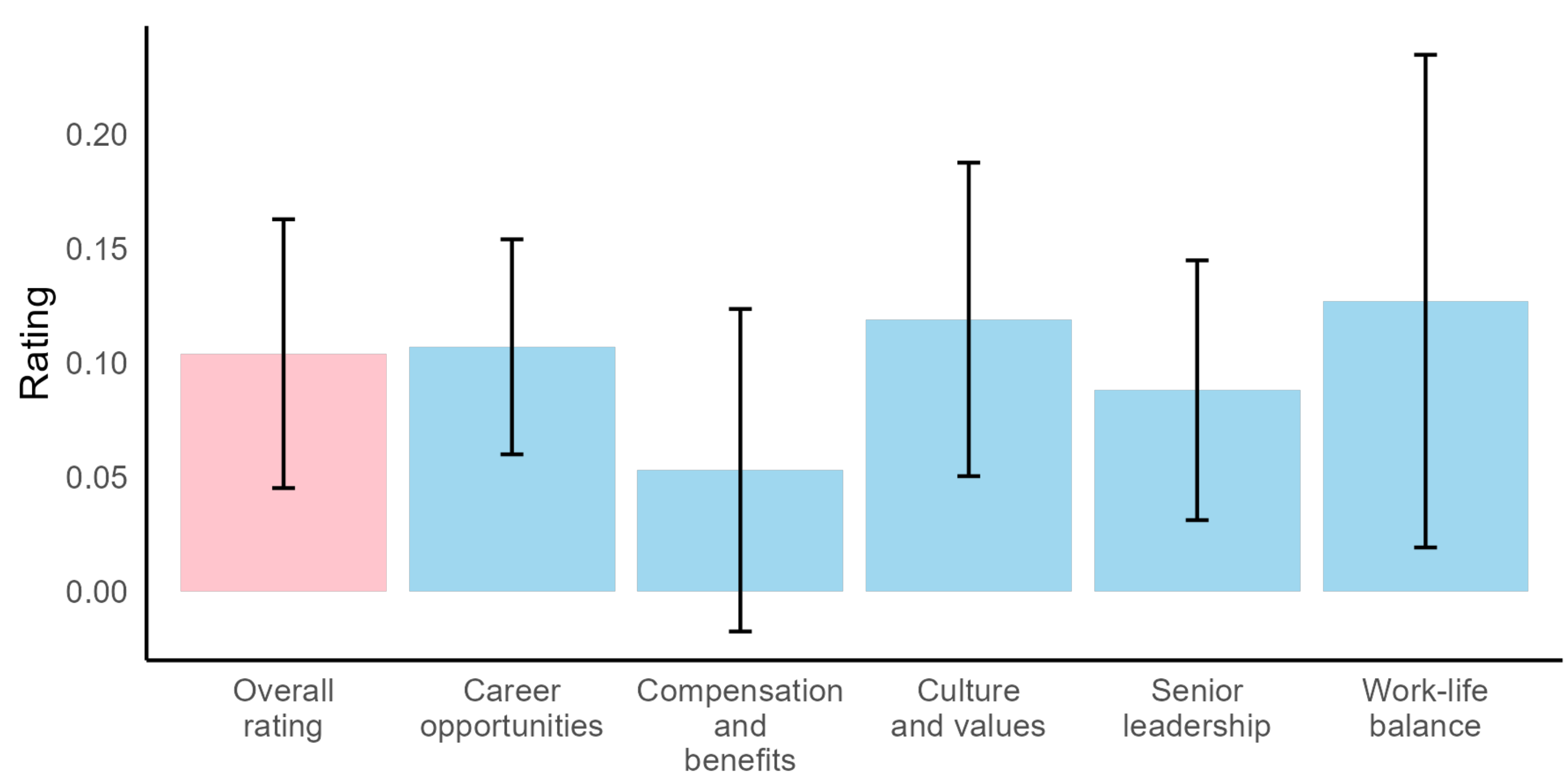
Sample of firms, establishments, and reviews from Glassdoor, 2012-2023

	All firms	Non-ESOP	ESOP		
			All	Minority	Majority
Firms	5,564	5,304 (91.1%)	260 (4.5%)	192 (3.3%)	68 (1.2%)
Establishments	17,655	14,330 (68.3%)	3,325 (15.8%)	3,209 (15.3%)	116 (0.6%)
Reviews	199,737	147,774 (58.7%)	51,963 (20.6%)	51,259 (20.4%)	704 (0.3%)

Is employee satisfaction higher in ESOP firms?

- Employees in ESOP firms report **higher ratings in overall satisfaction.** The difference is about 3% higher than the average rating. The greater satisfaction does not differ between non-managers and managers.
- One additional star in Glassdoor overall rating is valued on average by workers as the equivalent of about $10,000 in annual income.[6] According to this estimate, **employees at ESOP firms experience $1,040 in additional amenity value**, or 1.3% of the average wage, each year from their jobs.
- Greater levels of satisfaction are observed across **four aspects of work**. The smallest and non-significant difference is for compensation and benefits—suggesting that pecuniary differences are not the driving force behind the satisfaction premium in ESOP firms.
- The improvement in job satisfaction is significantly **greater for former employees**, which could reflect less frequent involuntary separations or how employees receive ESOP benefits upon separating.
- What contributes to greater satisfaction? An additional analysis shows that employees are **more optimistic about their firms' prospects** for the future and ESOP firms are **safer workplaces**.

Estimated Satisfaction Premium Overall and in Five Work Aspects

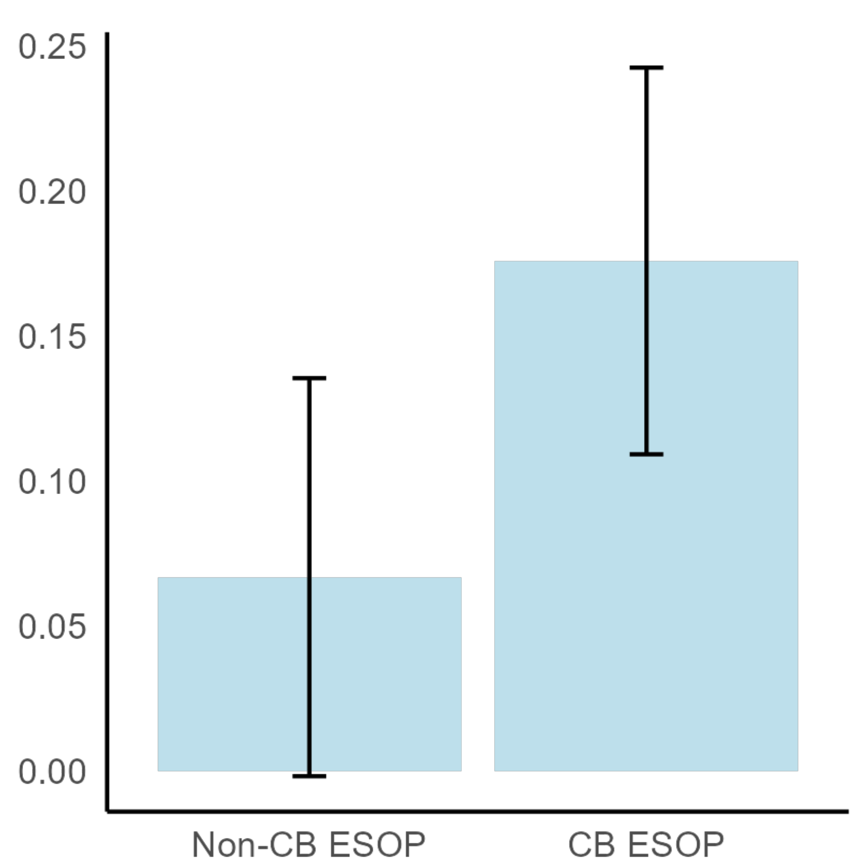


Notes: Each bar shows the marginal Glassdoor rating in an employee-owned firm relative to a conventional firm after controlling for postings per establishment, establishments per firm, and indicators for whether the firm is publicly traded, the establishment is unionized, and the worker is a current employee. Whiskers show 95-percent confidence intervals.

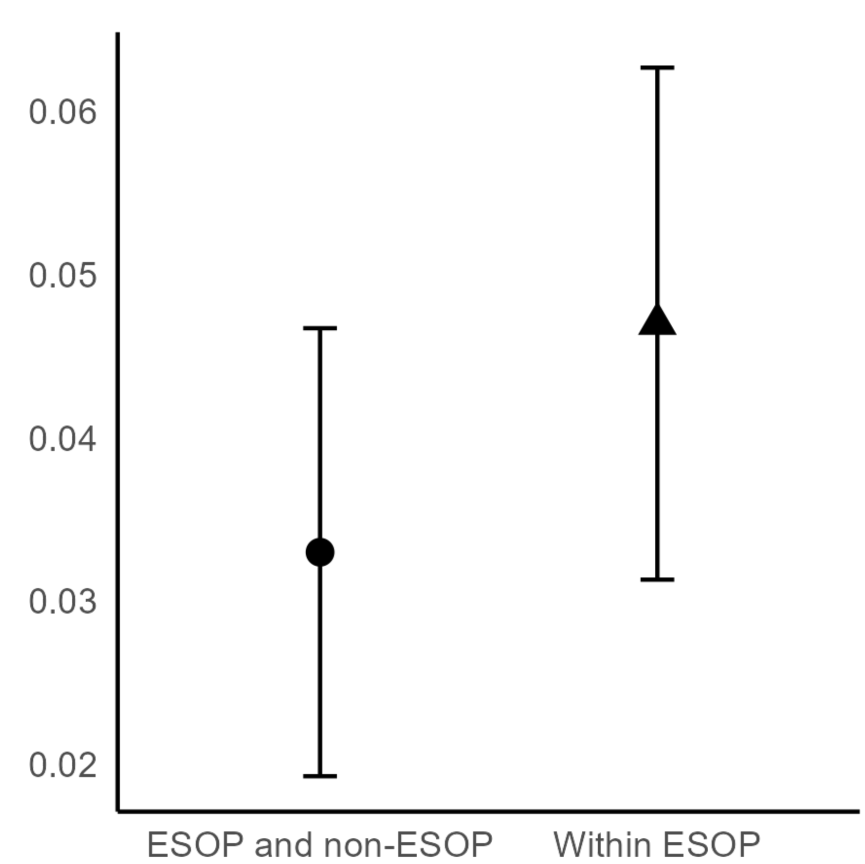
What enhances the satisfaction premium?

- In the study sample, 35% of firms are under a collective bargaining arrangement. **Collective bargaining appears to redouble the improvements in job satisfaction** among ESOP firms.
- The premium among ESOPs with collective bargaining is **0.176 stars overall** (relative to non-ESOP firms), whereas for non-collectively-bargained ESOP firms, the satisfaction premium is 0.067.
- The premium is **largest for work-life balance**, with workers at collectively-bargained ESOPs enjoying on average 0.243 stars higher than those in non-ESOP firms.
- There is an increasing relationship between the intensity of ownership and job satisfaction.
- Within ESOP firms, one additional percentage point of firm equity in assets under management by the ESOP is associated with **0.047 stars of job satisfaction overall**. The premium is largest for **work-life balance**, with 0.08 stars per additional percentage point of firm equity in assets under management.
- This suggests that the degree to which employee satisfaction is improved in ESOP firms could increase with the ownership stake employees have in the firm.[7]

Difference in Glassdoor rating relative to non-ESOP, non-CB firms



Change in rating per additional increase in share of plan assets to firm equity



Conclusions

- Although ESOPs are the most prominent form of employee ownership in the U.S., prior work offers limited evidence on the effect of having these arrangements on employee satisfaction.[8] This study analyzes the implications of ESOPs for employee satisfaction, focusing on the U.S. manufacturing sector.
- In ESOP firms with strong ownership cultures, employees enjoy returns from their equity stakes, actively engage in the decision-making process, and are given wider access to firm-related information. These practices enhance employees' psychological ownership and lower agency costs, fostering employee motivation and productivity. The increased surplus generated can be redistributed to employees in the form of better pay and working conditions, leading to greater satisfaction.
- Using 199,737 Glassdoor ratings from 17,655 establishments, this study finds that firms with ESOPs exhibit greater employee satisfaction overall and with non-pecuniary aspects of their jobs, but the association between employee satisfaction and employee ownership also varies by the implementation of ESOPs.
- The premium in satisfaction is the largest for ESOPs established through collective bargaining between management and unions. This supports the idea that employee representation in choosing the features of implementing employee ownership and the enhanced and formalized channels of employee participation in decision-making reinforce the mechanisms that improve employee satisfaction.
- The satisfaction gain is also larger when employees have a greater stake in ownership, which indicates stronger incentives for employee productivity and greater influence on resource allocation and alignment with employee preferences.

Working paper available:

[Sharing is Caring: Employee Stock Ownership Plans and Employee Satisfaction in U.S. Manufacturing]

Endnotes

1. According to data from the National Center for Employee Ownership (NCEO), although only about 6,300 U.S. firms have an ESOP, because such employers are large, about 14.7 million workers participate in an ESOP. Although most ESOPs are in privately-held firms (92%), the majority of participants (84%) are in publicly-traded firms. ESOPs extend beyond the United States to other large economies. In Europe, as of 2022, there were about 6.8 million employee shareholders who collectively held €447 billion in capitalization. In China, by the end of 2019, at least 430,000 employees were participating in an ESOP (Li et al., 2022). Employee ownership is a global phenomenon involving millions of workers.

2. The extent of employee participation and information sharing varies considerably in ESOP firms. McHugh, Cutcher-Gershenfeld, and Bridge (2005) find that employee influence in operational decisions and effective information sharing have a positive impact on firm performance, suggesting the two factors play a critical role in aligning employee interests with organizational outcomes in ESOP firms.

3. For discussions on the mechanism, see Klein, K. J. (1987). Employee stock ownership and employee attitudes: A test of three models. *Journal of Applied Psychology*, 72 (2), 319–332; Pierce, J. L., Kostova, T. and Dirks, K. T. (2001). Toward a theory of psychological ownership in organizations. *The Academy of Management Review*, 26 (2), 298–310; and Connelly, B. L., Hoskisson, R. E., Tihanyi, L. and Certo, S. T. (2010). Ownership as a form of corporate governance. *Journal of Management Studies*, 47 (8), 1561–1589.

4. Yates, J. (2006). Unions and employee ownership: A road to economic democracy? *Industrial Relations: A Journal of Economy and Society*, 45 (4), 709–733.

5. Kruse, Douglas. (1992). Profit sharing and productivity: Microeconomic evidence from the United States. *The Economic Journal*, 102 (410), 24–36.

6. Sockin, J. (2022). Show me the amenity: Are higher-paying firms better all around? *CESifo Working Paper 9842*.

7. In ESOP firms with collective bargaining and high ownership stakes, the satisfaction premium is even greater. An average collectively bargained ESOP with a high share of employee ownership (i.e., the share of plan assets to firm equity is more than 5 percent) has an overall satisfaction premium of 0.250 or 2.4 times higher than an average ESOP firm. However, such firms are relatively rare in the Glassdoor sample.

8. For studies on employee satisfaction in employee-owned firms with more limited sample, see Kruse, Douglas, Richard Freeman, and Joseph Blasi (2008) “Do workers gain by sharing? Employee outcomes under employee ownership, profit sharing, and broad-based stock options,” National Bureau of Economic Research; McQuaid, Ronald, Emma Hollywood, Sue Bond, Jesus Canduela, Alec Richard, and Gemma Blackledge (2012) “Fit for work? Health and wellbeing of employees in employee-owned business,” *London: Employee Ownership Association*; Bryson, Alex, Andrew E Clark, Richard B Freeman, and Colin P Green (2016) “Share capitalism and worker wellbeing,” *Labour Economics*, 42, 151–158.