EMPLOYEE STOCK OWNERSHIP PLANS**

1. General


An Employee Stock Ownership Plan, or ESOP, is a stock bonus plan that invests primarily in the stock of the employer's company—as defined by the ESOP Association of America. In fact, the scope and the form of ESOPs vary greatly, as do the motives of the corporations setting up the plans. Some firms are owned entirely by their workers while other firms give out relatively small allotments of stock as a form of incentive bonus. Because the definition of worker ownership varies, the concept is controversial and has drawn both political support and opposition. An early and vocal advocate was Senator Russell Long who sponsored major tax bill legislation which fostered the spread of these plans. This report offers an overview of the major issues surrounding ESOPs including: labor union concerns, workplace democratization, and future directions.


This annual survey is produced by the ESOP Association, a national, non-profit organization representing companies with Employee Stock Ownership Plans and professionals in the field. Twenty-two areas are covered including: ESOP line of business, number of participants and union membership, leveraging, wage reductions, percent of ownership, employee communications programs, voting pass through, and ESOP influence on motivation and productivity. Among other findings the 1983 survey results indicate that of all respondents working for a company with an ESOP, over 72% reported improved productivity.


This handbook describes the various types of ESOPs and explains the philosophy and conflicting interests that underlies them. The book is made up of nine chapters and covers such areas as the historical development of ESOPs, an economic and tax analysis of the concept and the planning and

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** Items from this list should be ordered directly from the publisher. Addresses are given in connection with each reference.
implementation of such a plan. In addition to a chapter of case studies, the author offers other useful how-to information.


Louis Kelso, an investment banker and lawyer, is considered the pioneer of ESOP financing who gave birth to the leveraged ESOP. In this book, Kelso and Adler advance the notion that the benefits of capitalism should be and could be made available to the average American worker.


A survey of 229 firms with ESOPs was conducted. Among other findings, employee ownership appeared to be responsible for productivity increases. A comprehensive discussion of ESOPs is offered.


This article reports on the findings from a recent survey conducted by the National Center for Employee Ownership, a non-profit association which promotes awareness of ESOPs and sponsors national research projects. Among the findings of the survey are: the average employee-owned firm has 630 employees; many of the plans provide for “substantial” employee control over company policy; most ESOPs are set up in profitable ongoing companies.


ESOPs in American corporations are setting a new trend in employee compensation. The plans have spread because they are attractive for owners and employees alike. ESOPs provide substantial tax advantages to a company and although controversial, studies indicate that they improve productivity and labor-management relations. Two often cited negative aspects of ESOPs include 1) the financial payoff to an employee is relatively small in any one year, 2) some management is reluctant to have employees own stock because they don’t want to call attention to their proxy statements. Major firms such as AT&T, Sears, General Motors and hundreds of others have already set up ESOP benefit programs.


The number of ESOPs in the U.S. has increased rapidly in the last few years to about 6,000. Despite this fact, the ESOP concept is still largely misunderstood. It is often seen as a means of bailing out a failing firm or
just a “tax gimmick” for corporations. The bail-out case at Weirton Steel and the anti-takeover leveraged ESOP situation at Dan River epitomize these extreme views. In fact, the majority of ESOPs are established at successful corporations for tax break purposes that also have the side benefit of providing employee benefits. The debate over the various means and ends of ESOPs is complicated and it will be several years before their success can be determined.

Whyte, William F. et al. *Worker Participation and Ownership: Cooperative Strategies for strengthening local economies.* Ithaca, NY 14853. ILR Press (New York State School of Industrial and Labor Relations, Cornell University). 1983. 152 pp. (ILR Paperback No. 18) $10.00. This book represents the work done at Cornell University's New Systems of Work and Participation Program. The subjects are varied and include: options in structuring an employee-owned company; various styles of management and worker participation; the impact on unions after the transition to employee ownership. Unions are puzzled and usually react negatively to employee ownership because it is perceived as blurring the division between labor and management and weakening the workers' commitment to the union. However, the authors believe that employee ownership and labor-management cooperation can play a significant role in the economic “revitalization of America.”


In the context of studying personal wealth in the U.S., this report offers a comprehensive study of both the advantages and disadvantages of ESOPs from both a corporate and employee perspective. Several small surveys were conducted to determine which types of companies would find ESOPs most attractive and what structure their ESOPs would take. In addition to establishing ESOPs to “increase employee incentive,” companies reported that a strong reason was to “provide a retirement benefit.” Corporate financing for expansion was not a dominant concern.

2. PLANT CLOSINGS


This report describes in detail the functioning of this type of ESOP and offers a number of case studies, including Weirton Steel, Bates Fabrics, and Hyatt Clark Industries. The author attributes the growing interest in ESOPs to the recession. Employee buyouts are not a panacea, she states, and the buyout option is realistically available in a few plant-closing situations. However, out of an estimated 60 companies that have been bought by their employees, only two have ended in financial failure. Employee ownership is said to have saved approximately 50,000 jobs directly.

"Plant shutdowns have a potentially devastating impact on individuals and communities." This study report examines the prospects of community-employee purchase of plants as one alternative to plant shutdowns. The authors offer a case study of such plant ownership and analyze the economic and social costs and benefits which were critical in the decision of purchasing a plant. Although buy-out financing is complex and requires coordination of individual employees, local organizations, and government agencies, the authors conclude that employee ownership is a viable strategy for communities facing plant shutdowns.

3. Employee Attitudes and Productivity


The authors conducted a survey of 98 firms which had some component of worker ownership. They examined such factors as worker performance, attitudes of managers toward the plan, management judgment about the effect of the plan on productivity, and the relationship between profit and other characteristics of these companies. The authors conclude that employee ownership may be associated with better attitudes toward the job and higher productivity and profits. A related study by these two authors is: *Employee Ownership: Report to the Economic Development Administration*. (University of Michigan, Survey Research Center, 1977).


In view of America's decline in labor productivity, this article discusses ESOPs as a means of productivity improvement. Establishing an "ESOP environment" is complicated. In this context, this article focuses on analyzing union-management relationships and the role of union leadership. The Hyatt-Clark experience confirms that there are circumstances in which unionized labor will cooperate with retrenchment.


The theoretical benefits to companies that are often cited in support of employee ownership such as improved employee attitudes and morale, better labor-management relations and improved motivation are questioned in this article. After a two-year field study, the author found that "Employee ownership does not necessarily result in the beneficial consequences." Managerial reluctance to include employee involvement in decision making and poor communications were major influential factors in these findings.