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A non-financial perspective on employee ownership

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IAFP Autumn Round Table

Employee ownership holds many positive effects for employees and companies



Identification

Bonding with the employer

Retention

Less absenteeism

Motivation

Satisfaction

Productivity

References: Dawkins, S., A. W. Tian, A. Newman, and A. Martin. 2017. Psychological ownership: A review and research agenda. *Journal of Organizational Behavior* 38 (2): 163–183; Pierce, J. L., S. A. Rubenfeld, and S. Morgan. 1991. Employee ownership: A conceptual model of process and effects. *Academy of Management Review* 16 (1): 121–144; Dyne, L. Van, and J. L. Pierce. 2004. Psychological ownership and feelings of possession: Three field studies predicting employee attitudes and organizational citizenship behavior. *Journal of Organizational Behavior* 25 (4): 439–459; Pierce, J. L., T. Kostova, and K. T. Dirks. 2003. The state of psychological ownership: Integrating and extending a century of research. *Review of General Psychology* 7 (1): 84–107.

Our recent study demonstrates a strong retention effect of ESOPs

- Research cooperation with Siemens AG for detailed investigation of the ESOP
- Linking of internal and external data to investigate the effect of share plan participation on individual rank-and file employee behavior; here: retention (firm exit)
- Analyses over a multi-year period, as well as inclusion of several hundred thousand individual observation points and over 9,600 organizational units in 39 countries

Panel A: OLS regressions			
VARIABLES	(1)	(2)	(3)
	Firm Exit	Firm Exit	Firm Exit
ESOP Participation	-0.024*** (-34.939)	-0.024*** (-34.784)	-0.023*** (-33.202)
ESOP Participation * Labor Market Conditions		-0.002*** (-10.004)	
Labor Market Conditions		0.001*** (5.932)	
ESOP Participation * Uncertainty Avoidance			0.000*** (5.049)
Uncertainty Avoidance			-0.000*** (-3.866)
Gender	-0.001 (-1.035)	-0.001 (-1.008)	-0.001 (-1.133)
Age	-0.000 (-2.243)	-0.000 (-2.322)	-0.000 (-2.357)
Tenure	-0.003*** (-6.174)	-0.002*** (-6.000)	-0.002*** (-6.094)
Education	0.003*** (3.442)	0.003*** (3.560)	0.003*** (3.604)
Total Cash	0.005*** (4.072)	0.005*** (3.970)	0.005*** (3.724)
Year fixed effects	Yes	Yes	Yes
Business unit fixed effects	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes
N	654,706	654,706	654,706
Adjusted R ²	0.24	0.24	0.24

The retention effect is stronger for employees more likely to change jobs

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Main results

ESOPs can help to strengthen the relation between the employee and the firm

This effect is stronger in more favorable labor markets when retention is of higher concern

This effect is stronger in cultures with lower uncertainty avoidance

The retention effect also holds for smaller ESOP investments

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Additional findings

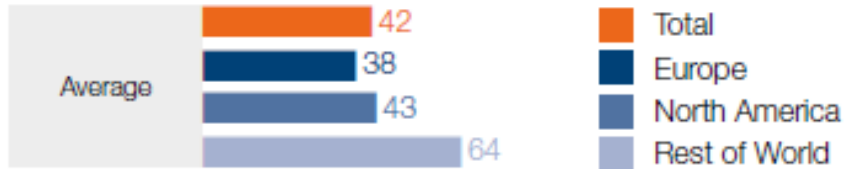
The retention effect of ESOPs is slightly stronger for rank-and-file employees compared to senior managers despite relatively and absolutely smaller investments

The retention effect of ESOPs is stronger for blue-collar (e.g., production) than for white-collar (e.g., higher hierarchy) workers

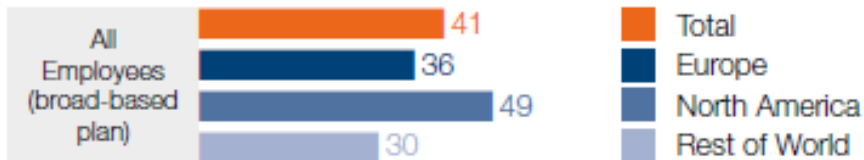
For rank-and-file employees' retention, the effectiveness of ESOP participation does not depend on the height of ESOP investment

Despite their benefits, ESOPs lack popularity

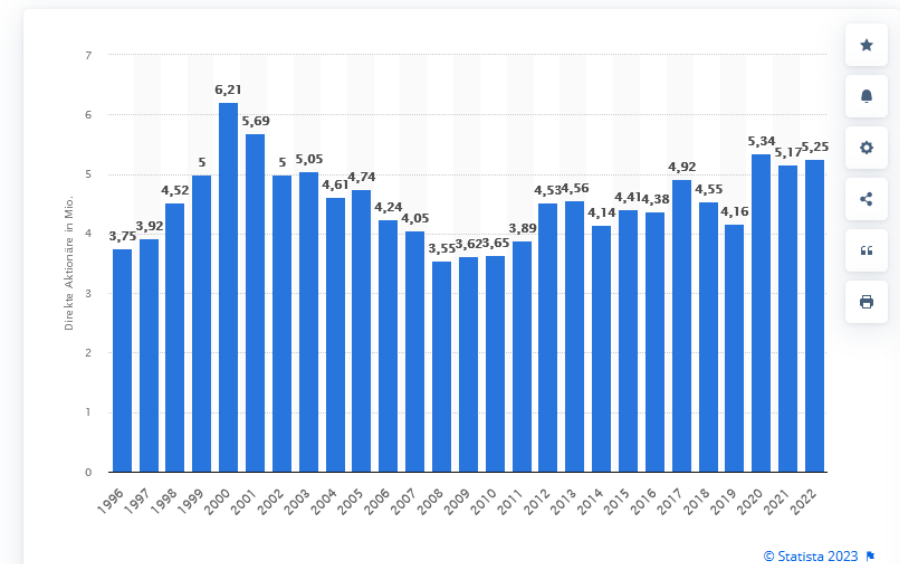
Actual participation rate of share purchase plans



LTI-eligible employees by level* and region



Zahl der direkten Aktionäre in Deutschland von 1996 bis 2022
(in Millionen)



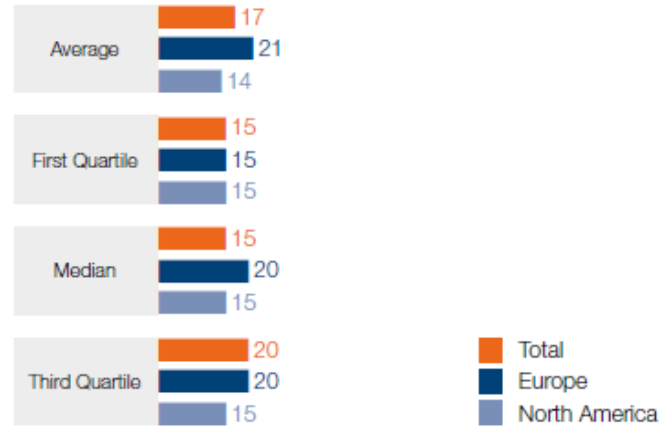
- Europe is lacking behind in participation rates in ESOPs
- In Austria and Germany the number of shareholders in general is particularly low

We need to change the narrative and perception of ESOPs

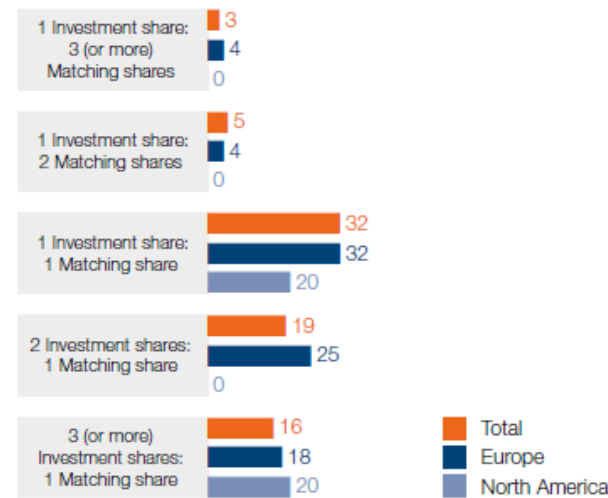


How can we convince the employees?

Discount (of share price) in percent



Matching ratio of share matching plans (matching in shares)

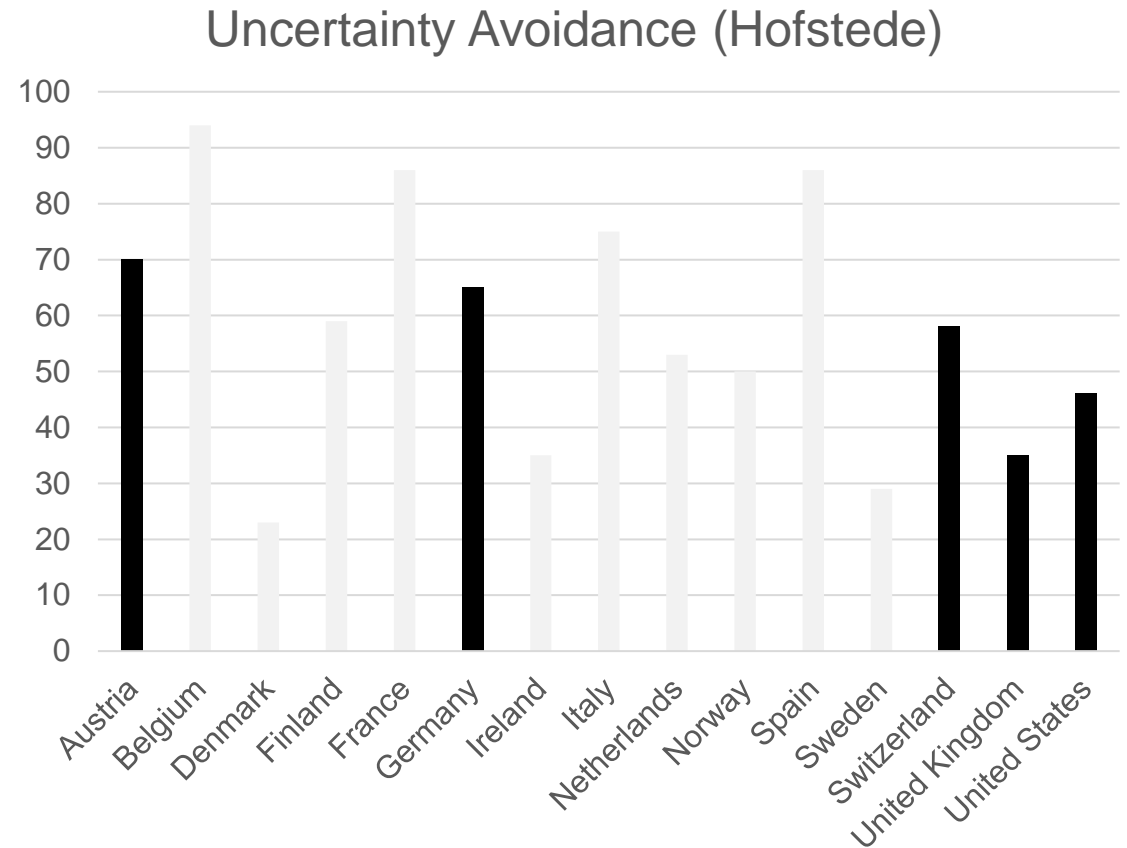


- Financial benefits are (most of the time) substantial
- Why do employees forego these benefits?
- Non-financial (behavioral) reasons?

The role of non-financial factors or behavioral economics and personal preferences

Example: Culture

- Uncertainty avoidance closely related to risk-taking behavior
- Uncertainty avoidance quite high in Germany and Austria
- Stocks are not popular



What can we do to overcome these non-financial challenges? (1/3)

Knowledge & familiarity

We find the following employees to be more likely to participate in ESOPs...

- Employees being more familiar with the program (higher tenure, HR department, closer to HQ, etc.)
- Employees with greater financial literacy (higher education, finance department, regions with relatively more shareholders, etc.)

What can we do to overcome these non-financial challenges? (2/3)

Change the culture

We find higher ESOP participation for employees...

- In groups/cultures with a stronger entrepreneurial focus
- This effect is stronger in more cohesive groups

What can we do to overcome these non-financial challenges? (3/3)

Set ESOP as default

We find that...

- A profit sharing payout in the form of shares significantly increases the number of participants
- Many previous non-participants started to participate in the ESOP after the profit sharing

Final remark

