Employee Attitudes towards Ownership: ESOPS in the Construction Industry

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Abstract

With the introduction of Employee Stock Ownership Plans (ESOP's), many of today's construction employees find themselves being both an employee and employee owner. Employee attitudes toward becoming an employee owner were well-researched and documented up to the year 1986. However, over the last 20 years, new research in this area has been limited. Therefore, this study is designed to survey and analyze the attitudes of today's construction employee owner. Data was collected separately to obtain two-dimensional survey results. Survey questions were asked to gain information regarding their experiences, perception, and feelings toward their company. Conceptually, an employee's feeling toward employee ownership--positive or negative--depends on the established company culture. When an employee feels the pride of being a "real" vested owner, they are self-motivated to be less wasteful, to perform at a higher level, and to show greater initiative. However, some ESOP companies were formed strictly for financial reasons and do not take in consideration the spirit of employee ownership. It is recommended that further studies should be done to identify the differences between firms that encourage and promote broad-based participation with those that created an ESOP as a financial benefit, as well as a comparative study based on the extent of employee stake and participation.

Keywords: employee owner, employee stock ownership plans, employee attitudes towards ownership

1. Introduction

In 1956, a San Francisco banker and attorney named Louis Kelso created a broad-based employee ownership plan, known today as an Employee Stock Ownership Plan (ESOP) (Kelso & Adler, 1958). *The Kelso Plan* implemented the first ownership transfer to employees of a San Francisco newspaper. In the early 1970's, the concept began to attract attention on Capitol Hill. The Chairman of the Senate Finance Committee was Senator Russell Long of Louisiana. Kelso and Long prompted that legislation for broader-based ownership which could increase corporate performance, ease workplace tensions, address the future shortfalls of Social Security, and help to build a better society. In 1974, Congress passed ERISA, and within the legislation was an attractive tax and financing advantage to promote the sale of company stock to employees. Current laws allow employee owners to foster a broader distribution of wealth among employees who, as owners, will help their companies perform better, while they accumulate significant retirement savings.

In 1987, the U.S. Government Accountability Office (GAO) performed a study on 110 firms, focusing on productivity and profitability. The study found that participatively managed employee-owned firms increased their productivity growth rate by 52% per year. Thus, if a company's productivity growth rate had been 3.0% per year, it would be 4.5% after an ESOP was adopted. Due to the particular methodology used in this study, the results may be considered conservative. The study also found no real impact on profits.

The ESOP plans took off in the 80's and 90's from 1,600 plans to over 9,000 in 1993. As of May 2007, more than 9,600 ESOP's exist totaling about 10.5 million employee owners with assets valued at $675 billion. Rosen et al. (2007) believes this is due to larger private companies and faster employment growth among ESOP companies. Many believe that if more business owners knew of the tax advantages for ESOP's; the numbers could be much higher. The following table shows the growth:

Table 1:Growth of ESOP's identified by NCEO

Year	*# Of Plans*	*Plan Participants*
1975	*1,600*	*250,000*
1990	*8,080*	*5,000,000*
2005	*9,225*	*10,150,000*

Source: www.NCEO.org

Note: In this table, the "Plans" row shows number of plans and the "participants" row shows the number of employee participating in those plans.

1. Includes ESOP's and plans not formally designated as ESOP's, but which have been primarily invested in employer stock. From "A Statistical Profile of Employee Ownership," updated May 2007 on the NCEO.org website.

ESOPs have also been around in the construction industry itself since 1974. However, as noted by Rusk (2005), it wasn't until the mid-'80s that these plans became truly popular, in part because "newly created tax incentives made these plans financially effective, particularly as a structure for leveraged buy-outs." Government's varied legislative changes allowed these plans to become more attractive to the construction industry and the employees working within. ESOPs have grown extensively in the engineering industry, where 50% of the largest firms in the United States are employee-owned, and at least 20 firms are specifically in the engineering and construction arena. So with the larger construction firms, employee ownership has become more and more well-established and accepted over the last 30 years.

1.1. Current Employee Attitudes towards Employee Owners

Employee attitudes toward becoming employee owners were well-researched and documented up to the year 1986. However, over 20 years have now passed with very little new research attempted or performed in this area. Employee attitudes may have changed with the younger age of today's workforce. Therefore, this report is designed to survey and analyze the attitudes of today's employee owners.

Very few surveys have been performed on employee ownership with stock option or 401(k) plans. The National Center for Employee Ownership, Rosen (2007) states, "Efforts to do employee surveys have not gotten very far" and "few companies have been willing to participate." These plans have different ways for employees to become owners and most companies would not be willing to share this type of financial information. Kruse (1996) suggests that employee owners generally have superior retirement provisions. More research is needed on the risks the ESOP's face by putting all of their eggs in one basket.

1.2. Benefits of employee ownership

Construction employees need to accept that a large number of companies in their industry have failed to use ESOPs when compared to other industries. Construction contractors, in general, have a number of different characteristics than those of companies in various other industries. "The construction business is very competitive and very cyclical, with many companies regularly leaving the market for reasons within and out of their control" (Wrixon, 2005). As a result, the use of ESOPs may not appear to be financially viable, especially for the smaller construction firms or firms with a mobile and unstable employee base. However, if the firm is of greater size and stability, the employees within usually derive the greatest benefits from employee ownership. The employees can accrue both substantial wealth toward retirement and growth in compensation. Employee owners derive other benefits as well, which can include job security and work satisfaction. The construction surety bond works as "a three-party instrument whereby a surety company joins with the contractor to guarantee to a project owner that the contractor will comply with the terms and conditions of the contract. Should a contractor fail to fulfill its contractual obligations, the surety must step in to satisfy the obligations" (Wrixon, 2005). With the ESOP, the employees are enabled to purchase the bonds and guarantee business continuity after initial business ownership is succeeded, by establishing a general and available market for the purchase of bond shares. This study provides new research and answers to the questions of how the construction employees of today feel toward becoming the truly vested owners in their companies.

1.3. Employee Stock Ownership Plans (ESOP)

In a research study, Logue and Yates (2001) found that more than one in twelve private sector employees participate in an Employee Stock Ownership Plan (ESOP). This new plan gained increasing popularity after the passage of the Employee Retirement and Income Security Act (ERISA) in 1974. The Act provided a way for the average employee to become a partial owner in a company, build wealth for retirement, and have a voice in the manner that the company would operate. Kruse and Blasi (2000) found that employee-owned companies increase sales and employment, by more than 2% per year over what would be expected without an ESOP. They also found that ESOP companies are more likely to be in business several years later due to the fact that said companies offer other retirement plans in addition to the ESOP benefits. Like any company, one owned by employees needs direction and an aligned path for that company to have success. An environment must be created to allow employees the opportunity to be active and, similarly, must offer solutions to make the company a better place for said employees to work.

In a study by Quarrey and Rosen (1986), these researchers found a link between employee ownership and corporate performance. Employee-owned companies with participative management structures showed the largest gains in sales and employment growth. This is what an "ownership culture" promotes to keep the participation going. One way to become the employer of choice is through employee involvement. Ownership with participative management is a very powerful competitive tool. Ownership without participation accomplishes very little toward company growth. Employee involvement and participation is the culture upon which high-performing ESOP's have built their companies around. Employee ownership does not guarantee a firm's performance or lower employee turnover, but when the firm's employees have been given a voice on an issue that will involve effectiveness inside the company, then a true employee-owned culture has been created and the individuals within the organization are often satisfied to a greater level.

Some ESOP's have less than a 100% employee ownership, and this report did not survey or study these companies. This survey includes results only from 100% employee owners who have a voice in the decisions made on a day-to-day basis. In addition, the report did not study any non-ESOP publicly held companies. Employee-owners who have a personal stake in total shareholder returns were the focus of this survey. Additional information on publicly held companies was included for support only or for necessary reference to make a point.

Past research has demonstrated that very few privately held companies would be willing to provide financial accounting data--making studies that rely on productivity, profits, return on investments, or stock prices almost impossible. And the data available for public companies can be much more ambiguous. The focus of this report is employee attitudes; therefore, financial information was used for support or reference only.

2. Research methodology

ESOP research has almost always been based on written surveys. The broad hypothesis is that employee-ownership share plans will increase the levels of company commitment, employee participation, and general satisfaction within the firm. Using single methods tends to produce one-dimensional results. Therefore, the original plan for this study did change when the collection of data began.

This study collected data separately to obtain two-dimensional survey results. Some of the survey questions were asked to collect information regarding the individual respondents' experience, perception, and feelings toward their company. This added a dimension of individually oriented information to the informants' perspectives and gave each individual an opportunity to express personal views about his/her own circumstances. Survey respondents tend to be more candid and objective about the groups of which they are members than about themselves personally. The main areas surveyed were feelings of ownership, effects of ownership on company practices, and perceived effects on attitudes and behavior.

2.1. Survey procedures

A 15-question survey was written, approved, and emailed to employee owners at all six companies. The confidential survey was voluntary, anonymous, and participants could stop at any time. The survey was made available to the respondents on a website that collected and organized the data. A link to the survey site was attached to the e-mail that was sent to all possible respondents. The process was made to be quick and easy to complete, requiring the respondents only 5 to 10 minutes to access the survey site, complete the questions, and send the results back to the data collection site.

3. Results

3.1. Respondents' response rate

The sample was composed of 1,836 possible respondents in five companies. Completed surveys were received from 330 participants, which is equivalent to an 18% response rate. In addition, a managerial respondent was interviewed at each of the five companies to gain background information on the company and insight about the ESOP. The entire interview was conducted through telephone conversations. In conducting the surveys, the focus was always to look at the employees' attitudes toward employee ownership. Additionally, it was considered useful to see where the individual company stands when compared to other similar employee-owned companies.

3.2. Correlation between employee ownership and participation: A hypothesis

What might explain the correlation between construction employee ownership and participation? Does ownership without participation improve work effort or promote productive behavior? ESOP's need incentives and opportunities for employees to grow and work together so performance can be improved. Freeman and Dube (2000) found that productive behaviors were higher in companies that combined employee ownership or profit sharing with participation in decision-making. In an ESOP, the incentive is sharing in the profits to build a wealthy account for retirement, and, for the larger firms, to lock in the on-going work force. In the end, employee ownership and the ESOP plan may be "particularly advantageous for companies whose rapid growth has required the reinvestment of profits, resulting in a shortage of cash available for employee benefits. A collateral benefit is that the ESOP often serves to diminish employee interest in unionization" (Wrixon, 2005). The employees will feel more satisfied knowing that as the business goes through growth and change, with the ESOP and employee involvement it is still an established firm, with guaranteed future benefits. Industrial and economic stability are provided, without the need for organizations to otherwise protect the employees, because the firm itself is designed for employee wealth protection. In the construction work world, with its rapid changes, this offers guarantees that are not otherwise provided to the worker.

Table 2 reflects responses to questions that primarily surveyed feelings of ownership.

Table 2.

Employee Reported Responses- "Industry"			
Dependent Variable	*Range*	*Dep. Var. Mean*	*Standard D.*
Feelings of Ownership: FEEL		*Mean*	*S.D.*
"I feel my work is more satisfying because of employee ownership."	*3*	*5.35*	*1.52*
"My company makes me feel like I own part of the business."	*3*	*5.45*	*1.47*
"I am proud to own shares of stock in this company."	*3*	*6.55*	*0.95*
"I feel I need more information to understand how employee ownership works."	*4*	*4.95*	*1.51*
"I have comfort that my retirement funds are safe from risk."	*5*	*5.45*	*1.49*

Table 3 reflects responses to questions that primarily surveyed the effects of ownership on company practices.

Table 3.

Employee Reported Responses- "Industry"			
Dependent Variable *Perceived effects on company practices: PERCEPTION*	*Range*	*Dep. Var. Mean* *Mean*	*Standard D.* *S.D.*
"I have more say in company decisions because I own shares in my company."	*4*	*5.1*	*1.8*
"Because of employee ownership workers here are treated as equals."	*3*	*4.9*	*1.75*
"Because of employee ownership, workers cooperate more with each other."	*3*	*5.4*	*1.26*
"Employees have more say than if they did not own shares in this company."	*4*	*5.9*	*1.18*
"Employee ownership will help me to grow in this company."	*5*	*5.65*	*1.55*

Table 4 reflects responses to questions that primarily surveyed perceived effects on attitudes and behavior.

Table 4.

Employee Reported Responses- "Industry"			
Dependent Variable *Effect on attitudes and behavior: EFFECT*	*Range*	*Dep. Var. Mean*	*Standard D.*
"I believe that owning shares in this company has influenced why I continue to work here."	*3*	*6.6*	*1.64*
"I believe that owning shares in this company increases my interest in company finances."	*3*	*6.55*	*1.53*
"I am more conscientious about waste in this company because I am an owner."	*3*	*6.02*	*1.29*
"I work smarter and more efficiently because I own shares in the company."	*4*	*5.01*	*1.5*
"Because of this experience, I would only work for employee owned companies."	*5*	*4.5*	*1.5*

Note: Ranges, as defined in Table 2, 3, and 4, are based on a 1 out of 5 scale, 1-strongly disagree and 5-strongly agree.

4. Conclusion and recommendations

Conceptually, an understanding of how employees feel about construction ownership--positive or negative--depends on the company culture that has been established. When an employee feels the pride of being a "real" vested owner, that employee then becomes self-motivated to be less wasteful, performs at a higher level, and puts in the extra effort to be the best worker one can be. Employee owners know that the more they help to develop the company and build profits, the more money they will have in their retirement accounts. Some ESOP companies were formed strictly for financial reasons and have nothing to do with the spirit of employee ownership. Participation and getting involved with the ESOP is the key to longevity/sustainability for the employee owners. Further studies should be done to identify the differences between firms that encourage and promote broad-based participation with those that provide ESOP's only as a means of retirement benefits; between firms that provide voting rights and those that do not; and a comparative study based on the extent of employee stake and participation. Rusk (2005) comments that because the greater part of ESOP ownership, unlike that researched in this survey study, is typically "held to a manageable level – often between 30 and 50 percent – the ESOP stock redemption liability is less burdensome to manage. This is a formula that has proven successful for many engineering firms." Since this study has been focused on 100 percent employee ownership, said conflict in conceptualizations leaves room to continue research on total employee ownership and its benefits for the employees and construction firms. Further surveying the larger construction firms and employees may indicate that the greater to total ownership is more desired by the work force. What is essential is to establish the broader survey method, looking to obtain a greater percentage of results, and focusing on details that are not only of employee reported responses but also of a comparison of the employee-owned construction businesses to the construction industry as a whole. Over time, the room for employee ownership may be found to be very much alive on both the individual and corporate levels, for benefits that far exceed the economic.

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