

EMPLOYEE STOCK OWNERSHIP, PARTICIPATION, AND PRODUCTIVITY

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Abstract

The paper assesses the relationship between employee stock ownership plans, other forms of participation, and workplace productivity performance. The literature to date has claimed a strong complementarity between stock ownership plans and other forms of participation, but surprisingly this assertion has been rarely tested. A review of the literature indicates that the evidence for this complementarity is often weak or inconsistent. A number of methodological problems are highlighted including a tendency to use measures which do not account for the 'quality' of participation, and a tendency to interpret interaction terms incorrectly.

Against this backdrop, this paper examines the relationships between stock plans, employee participation, and productivity, and specifically assesses whether the conjunction of participation in decisions and return rights increases or decreases any productivity effects associated with the use of stock ownership plans. We therefore investigate the conditional effects of participation on the relationship between stock ownership plans and productivity, and our analysis draws on comparisons of models with and without interaction terms. A key aspect of the paper concerns the correct interpretation of interaction terms in models with limited dependent variables, and the importance of reporting marginal effects at various values of the interaction term.

The data source is the nationally representative British Workplace Employment Relations Survey. A series of ordered probit regressions with interaction terms for the combination of stock plans and participation are run. The results indicate that the addition of employee direct participation schemes can increase the productivity effects of stock plans. However, when we use a richer measure of stock plans (majority participation in the plan), the addition of direct employee involvement detracts from productivity effects. This is so for measures of the extent of participation (number of schemes) and of the quality of employee involvement (actual worker 'voice'). It is shown that, whilst positive effects of the combination of stock ownership and participation can be observed, participation nevertheless detracts substantially from the independent productivity effects of stock ownership plans. It is suggested that ownership may give employees inflated expectations of their influence in direct participation, and that this brings employees into conflict with management, thereby limiting the productivity gains of stock ownership.