SCOMM

#32:26

TECHNICAL ASSISTANCE PROJECT

ECONOMIC DEVELOPMENT ADMINISTRATION · U.S. DEPARTMENT OF COMMERCE

TAP

EMPLOYEE OWNERSHIP

Report to

the Economic Development Administration

United States Department of Commerce

Project Number 99-6-09433

SURVEY RESEARCH CENTER

INSTITUTE FOR SOCIAL RESEARCH

UNIVERSITY OF MICHIGAN

This technical assistance project was accomplished under a grant with the Economic Development Administration. The statements, findings, conclusions, recommendations, and other data in this report are solely those of the grantee and/or its consultants and do not necessarily reflect the views of the EDA.

Broad access to property is fundamental to the American economic system. Throughout our history, there has been a steady growth of institutions especially designed to help the average citizen acquire and safeguard property of one sort or another. The early Homestead Acts, Federal Deposit Insurance Corporation, credit unions, cooperatives, aid to small business, and more recently minority enterprise ownership assistance are just a few examples of broadening the property base of "expanding ownership."

One of the most recent variations to emerge is the Employee Stock Ownership Plan, or ESOP, which permits employees to acquire up to 100 percent of the equity of the firm for which they work. This plan not only affords a real increase in property ownership for the workers as individuals, but also serves as an instrument for new corporate capital formation.

The transfer of ownership is accomplished by an ESOT (Employee Stock Ownership Trust), a separate entity designed to receive the stock, or give it to the employees, repay such loans as have been made to acquire the stock, and to act as agent for the corporation.

The ESOP/ESOT may have any number of objectives apart from stock transfer and management. It can raise new capital, enhance current pension trusts, develop second incomes for stockholder-workers, or pursue any other set of legitimate corporate objectives. The ESOP principle finds both interest and support among a wide variety of disciplines, from investment bankers to social scientists. Many students of the quality of working life perceive positive correlations between worker participation and productivity, between job satisfaction and the sharing of decision-making responsibilities.

Despite growing interest in expanded ownership in general, and ESOPs in particular, little organized research has been done. There are several success stories, to be sure, but appearances do not define causality.

EDA is the Federal agency most directly responsible for economic development in areas which suffer unemployment, underemployment, or sudden economic downturn. The Public Works and Economic Development Act of 1965, as amended, authorizes the use of various economic stimulants — public works assistance, business development and loan guarantees, research and development, technical assistance, and other special impact forms of aid.

The question has arisen whether newer forms of employee ownership, such as the ESOP-ESOT models, are reliable tools for redevelopment. Can failing business firms be saved? Will areas which have resisted other forms of development incentives be stimulated into growth and new work opportunities by expanded ownership devices?

EDA put these and other related questions to the Institute for Social Research of the University of Michigan. This report is their response and and represents, we believe, a pioneer effort. The study is divided into two parts. The first is a general overview and analysis of a variety of employee participation expanded ownership programs — including many ESOPs. The second part is a study of one specific ESOP, 100 percent of whose stock is owned by the employees.

The overall findings are necessarily tentative, particularly in the case of ESOPs included in the sample, whose history is too short for absolute conclusions to be drawn. Nevertheless, it appears that optimism would not be inappropriate, and that further study of long-term performance is warranted.

Office of Technical Assistance
Economic Development Administration

I. Employee Ownership

This section concerns firms that have adopted a plan of employee ownership. Employees at all levels in these firms own stock varying from a very small percent of the company's equity in some cases to as much as 100 percent in other cases. We have located 472 such firms. Ninety-eight were identified through information in newspapers, magazines, and professional journals, as well as through information provided by persons who are familiar with employee owned companies. In some of these companies employees own stock through an employee stock ownership trust (ESOT); in others employees own stock directly. The remaining 374 firms were identified through information provided by the Internal Revenue Service from applications by these firms for ESOT status.

We have collected detailed information in the first 98 of the above firms, including such information as industry type, number of employees, magnitude of sales volume, the percent of employees who participate in the ownership plan, the percent of equity owned by non-managerial as well as managerial persons, whether ownership is direct or through a trust, whether ownership implies voting rights and whether employee representatives are on the board of directors. We also measured the attitudes of managers toward the ownership plan and their judgment about the effect of the plan on productivity and profit. In thirty of the companies we were able to obtain actual data about profit, and we therefore analyzed for this sub set of companies the relationship between profit and some of the above aspects of ownership.

The data that we have collected along with the analyses that we have performed offer preliminary evidence concerning the possible impact of expanded ownership on the economic viability of firms and on their ability to save jobs.

Summary of Findings[1]

We estimate that more than a thousand firms in this country have some form of employee ownership plan (not including profit sharing and pension trusts), although in most of these firms the percent of equity owned by employees, particularly by non-managerial employees is small. We were able to identify and to collect data from 68 firms in which at least 50 percent of the equity is owned by employees. In 20 of these firms, non-managerial employees themselves own at least 50 percent of the equity either directly or through an employee stock ownership trust.

Managers offer a number of reasons for having established an employee ownership plan. The incentive that it provides to employees and the tax advantages that it affords the company were among the prominent reasons given by managers in firms with employee stock ownership trusts. Reasons that are related to the creation or maintenance of employment were also mentioned by some of the managers of ESOT firms, but these employment-related reasons were offered more frequently by managers of firms in which employees own stock directly.

Managers in both types of firms are in general very supportive of the ownership plan and they see the plan as contributing to the productivity and profit of the firm. In fact, the thirty firms in our sample for which data about profit are available do show a higher level of profit than do similar conventional firms in their industry, although it is not possible to assert on the basis of this comparison that employee owned firms in general are more profitable than conventional firms, since the firms in our sample may be select with respect to profit. It is clear, nonetheless, that employee

[1]This section of the report was prepared by Michael Conte and Arnold Tannenbaum.

owned firms can function efficiently and profitably. Furthermore, analyses concerning the possible determinants of profitability of these thirty companies indicate that the single most important correlate of profitability among the aspects of ownership that we measured is the percent of the company's equity owned by non-managerial employees. The greater this percent, the greater the profitability of the firm.

Introduction

Examples of expanded ownership can be found throughout the history of the United States. An unpublished survey, for example, has found that 389 firms in which a large proportion of the stock is directly owned by employees were established in this country between 1791 and 1940.[1]

Employee ownership can take two forms: direct, in which employees own shares in the company as would any shareholder in a joint-stock company; or "beneficial," in which employees own shares through a trust. Since the passage of the Employee Retirement and Income Security Act of 1975 (ERISA), the only type of trust which may legally accommodate large amounts of investment by employees in their company's stock is the Employee Stock Ownership Trust (ESOT).

Contributions to an Employee Stock Ownership Trust are governed by an Employee Stock Ownership Plan (ESOP) which requires that the trust invest primarily in employer securities, unlike a normal pension trust or profit-sharing trust which must diversify its holdings. The plan may leave the method of contribution entirely to the discretion of a single party or parties or it may specify one of several methods of contribution. Contributions may be made on the basis of a profit-sharing principle (whereby some fixed percentage of company profits is annually transferred to the trust), a cost principle (whereby a fixed percentage of labor costs is annually transferred to the ESOT), or a fixed contribution principle (whereby a fixed dollar amount is transferred to the trust). The central requirement, however, is that the ESOT invest "primarily" in employer securities, and that disbursements from

---

[1] Jones, D. The economics and industrial relations of producer cooperatives in the United States, 1790-1940 , n.d.

the ESOT be made in employer securities. Dividends that may be declared are not usually distributed immediately to employees but rather are held in trust. Nonetheless, the financial well-being of the "beneficiaries" of stock in the ESOT is tied to the success of the company.

We include in this study data from both these types of plans but not from other types of stock ownership trust, such as profit-sharing and pension trusts. Under present law these latter trusts are not permitted to hold large blocks of employer's securities.[1]

Method of Selecting Companies for Study

We compiled a list of 148 companies in the United States and Canada that we thought might have some degree of employee ownership. This list was culled from articles in newspapers, magazines and professional journals, from conversations with colleagues, and finally, from references given by persons in employee-owned companies whom we contacted. A letter was written to the president of each of these companies, asking permission to conduct a fifteen to twenty minute telephone interview. These persons were generally willing to participate in our survey, although many of them delegated responsibility for the interview to another officer, usually a financial officer. Interviews were finally conducted in 132 companies, of which 98 actually proved to have some component of worker ownership. These 98 cases, seven of which are in Canada, serve as the main basis for the analysis of this section.

In addition to information about the above 98 companies, we obtained copies of recent applications to the Internal Revenue Service from 374 firms for ESOT status. These applications represent the work in progress in the 13 IRS key districts at the time of our request to the IRS. Some of the information included in the IRS records overlaps with information obtained through interviews with the 98 firms and a limited comparison can therefore be made between the

[1]For an analysis of some firms that have substantial profit sharing programs, see Profit sharing in 38 large companies, piece of action for 1,000,000 participants. Vols. 1 and 2. Evanston, Ill.: Profit Sharing Research Foundation.

two sets of firms. For example, 41 percent of the employees in the average firm of the IRS set participate in the ownership plan compared to 77 percent of the employees in the average firm of our first set. Our initial selection procedures, which were designed to locate firms with "substantial" employee ownership have understandably led to firms that have a higher participation rate for employees in ownership than the norm. The plants in this set, however, are comparable in size to those of the IRS set, the average number of employees in the former case being 1,448 compared to 1,334 in the latter.

Description of the Companies

Data from the IRS records. Table 1 presents data from the IRS applications that describe several features of ESOPs and that illustrate how ownership through an ESOT may differ from direct ownership. The vesting period is one such feature. Stock that is held in trust but is not yet vested to an employee may be forfeited if the employee leaves the company for reasons other than sickness or death. This condition, which applies to ESOPs, does not apply to direct ownership and, as the first two columns of Table 1 show, the vesting period in the average ESOT begins about three years after the employee has joined the plan and is completed seven years later. Large firms, however, may commence and complete the vesting process faster than small firms. (In some companies, the vesting period may be as long as 20 years.)

A second feature of ESOPs concerns the right of employees to sell their shares, which right they do not have until the shares have been "distributed" to the employees. Column 3 of Table 1 indicates that in 72 percent of the firms in the IRS "sample" distribution does not occur until after the employee leaves the company. This prevailing feature of ESOPs may not differ in principle from that in cases of direct ownership, where ownership of stock is a condition of employment.

Column 4 of Table 1 provides information about the basis upon which stock is allocated to employees. In 82 percent of the cases the amount of stock an employee receives is proportional to the employee's wage or salary, although the allocation formula need not be linear, and it may take into account other considerations, such as seniority.

Column 5 indicates that in some ESOP firms employees themselves must make a contribution toward the purchase of their stock, but this feature occurs in only seven percent of the ESOP firms in the IRS set. It may be somewhat more frequent in larger than in smaller firms.

Column 6 presents information concerning the percent of employees in each firm who participate in the plan. A larger proportion of employees participate in small firms compared to large ones.

Data from telephone interviews. Of the 98 companies where we interviewed a managerial representative, 68 have ESOPs and 30 have direct ownership. The firms differ a good deal from one another in number of employees, as shown in Table 2, although in general they are relatively large by conventional standards. Furthermore, ESOP firms in this set are larger than directly owned firms, even though both types include a broad distribution of size.

Size as measured by sales is presented in Table 3. Forty-five percent of the firms in our set had sales of at least $25,000,000.

Table 4 indicates that as many as 50 percent of the ESOP firms in our set are wholly owned by employees including managers while only 19 percent of the directly owned firms are wholly owned by employees. However, in 78 percent of the directly owned firms at least half of the equity is owned by employees. Table 5 shows the percent of equity owned by the ESOT. The percent of stock owned by workers themselves is, of course, lower than the above figures, as Table 6 indicates.

Table 1

Some Characteristics of ESOP Firms in the IRS Set

	Average number years till vesting begins	Average number years till fully vested	% cases where "distribution" not allowed before termination of employment	% cases where allocations are made on basis of total compensation	% cases where employees must contribute	Average % of employees participating in ESOP
Size of Firm: (number of employees)						
14-74 (N=100)*	3.5	10.8	75	86	0	77
75-149 (N=79)	3.2	10.2	71	90	2	68
150-424 (N=101)	3.2	10.2	81	82	2	58
425-46842 (N=94)	2.2	7.6	60	72	25	49
All (N=374)	3.0	9.7	72	82	7	62

*Number of cases

Table 2

Number of Employees in ESOP and Directly Owned Firms

Number of Employees	ESOP (N=68)	Direct Ownership (N=30)	All Firms (N=98)
	Percent of Firms		
4-99	18%	20%	18%
100-249	18	37	23
250-999	38	23	34
≥ 1000	26	20	25
Total	100%	100%	100%

Table 3

Sales Volume of ESOP and Directly Owned Firms

Sales (in millions of dollars)	Percent of Firms: ESOP (N=68)	Direct Ownership (N=31)	All Firms (N=97)
less than 1	6%	10%	8%
1-10	22	24	22
10-25	20	35	24
25-100	32	17	28
>100	20	14	18
Total	100%	100%	100%

Table 4

Distribution of Percent Total Equity Owned by Employees (including Managers)

Percent Total Equity Owned by Employees	Percent of Firms ESOP (N=60)	Direct Ownership (N=27)	All firms (N=87)
<9.9%	4%	4%	4%
10-49.9%	18	18	18
50-99.9%	28	59	38
100.0%	50	19	40
Total*	100%	100%	100%

*Eleven firms did not provide sufficient data to determine the percent of equity owned internally. They are eliminated from this table.

Table 5

Percent of the Firm's Equity Owned by the Employee Stock Ownership Trust

	N	Percent of Firms
Percent of equity owned by trust:		
0-9.9%	15	26%
10-24.9%	20	34
25-49.9%	11	19
50-100%	12	21
Total*	58	100%

*Ten firms did not provide data on the percent of equity owned by the trust.

Table 6

Percent Total Equity Owned by Workers

Percent Total Equity Owned by Workers	ESOP (N=58)	Direct Ownership (N=25)	All firms (N=83)
	Percent of Firms		
less than 3%	34%	8%	27%
3-9.9%	16	8	13
10-49.9%	43	20	36
50-100.0%	7	64	24
Total*	100%	100%	100%

---

*Fifteen firms did not provide data relevant to the percent of equity owned by workers. They are eliminated from this table.

A measure of equity owned by workers in each ESOP firm was obtained by multiplying the percent of the company's equity owned by the ESOT times the percent of the ESOT's equity owned by the workers. Because of the way records are kept in most of the ESOP firms, we found it necessary to rely on the distinction between salaried and non-salaried personnel as the basis for distinguishing rank-and-file workers from managers in these firms. Furthermore, while all of the respondents in the directly owned firms were able to provide information about the allocation of ownership between managers and non-managerial personnel, only about half of the respondents in the ESOT firms were able to provide precise information concerning the allocation of stock within the ESOT. In these firms, 54 percent of the ESOT stock on the average is owned by non-salaried employees and we assume that this average defines the amount of stock belonging to workers within each ESOT of the remaining cases.[1] The percent of total equity owned by workers in these remaining cases, as we estimate it, is therefore directly proportional to (i.e., 54 percent times) the percent of the company's equity in the ESOT itself.

Table 7, based on the above assumptions, provides information about the amount of equity owned by workers in firms of different size. Substantial ownership by workers occurs predominantly in firms of moderate size rather than in the very small or the very large ones. For example, workers own at least half of the equity in 42 percent of the firms having between 100 and 249 employees. By way of contrast, workers own this much equity in only 12 percent of the

[1] The definition of "worker" implicit in the above procedure differs somewhat in the two types of firms. "Worker" may include foremen and salaried clerical workers in some directly owned firms, but not in the ESOP firms. Table 6 may, therefore, overstate the difference in worker ownership between ESOP and directly owned firms, although we do not believe that the definitional inconsistency accounts for the entire difference shown in the table. Furthermore, we "control" for this variation in definition in the regression analyses shown below.

Table 7

Distribution of Percent Total Equity Owned by Workers in Firms of Different Size

	Percent Equity Owned by Workers				
	0-2.9%	3-9.9%	10-49.9%	50-99.9%	Total
Number Employees					
4-99	31%	13	44	12	100%
100-249	24%	15	29	42	100%
250-999	22%	19	37	22	100%
1000-18000	31%	16	37	16	100%
Total	27%	13	36	24	100%

firms of under 100 employees and in 16 percent of the firms of over 1,000 employees.

Reasons for Adopting Employee Ownership

Respondents were asked their reasons for adopting an employee ownership plan. Answers were classified as follows:

Incentive: e.g., "Ownership provides an incentive for employees to work harder" or Employees will be "more conscientious about their work."

Financial: e.g., "ESOP provides us with a tax advantage" or "ESOP permitted our company to raise needed capital."

Moral: e.g., "Employees should own part of the company that they work in."

Employment: e.g., "The company would have closed down if the employees had not bought it" or "It [employee ownership] is a good way to start a business."

Miscellaneous

Each respondent was permitted to indicate three reasons and Table 8 gives the percent who mentioned each of the above categories as one of their responses. While the "incentive" and "financial" motives appear to be the more prominent ones among the ESOP firms, "employment" stands out as a reason for the creation of the direct ownership plans.

The relative importance attached to financial reasons for the adoption of an ESOP undoubtedly reflects the tax incentives associated with ESOPs as well as other features of an ESOP that might prove advantageous under some circumstances. For example, the principal owners of a business may wish to divest themselves of their holdings while retaining control of the business. The owners can accomplish this through an ESOP in two ways: by passage of nonvoting stock to the ESOP or by passage of voting stock but not permitting "pass through" voting. In the latter case, the trustee of the ESOT, who may be accountable to the board of directors of the company rather than to the

Table 8

Reasons for Adopting Employee Ownership Plan

	Percent of Firms*		
	ESOP (N=68)	Direct Ownership (N=30)	All firms (N=98)
Incentive	41	13	32
Financial	37	0	25
Moral	12	7	10
Employment	12	53	24
Miscellaneous	53	43	50

*Percents are based on the total number of firms represented in each column and these percents add to more than 100 since respondents might provide more than one reason.

employees, may be entitled to vote the shares in the ESOT. By making one of these two arrangements, the principal stockholder in a closely held company can retain control over the company without actually holding a "controlling interest."

Ownership and Control

We asked two questions of respondents in ESOP firms in order to determine the extent to which voting rights are included along with ownership. (1) "Do the shares in the ESOT have a voting right which may be exercised by either the employee owner or the trustee, that is, does the ESOT hold voting stock?" (2) "Does the ESOT have pass-through voting, i.e., can the employees direct the trustees on how to vote the shares in the trust?" One question was asked about voting rights in directly owned firms: "Are employees entitled to vote if they own a share in the company?" The answers in response to these questions show a marked contrast between ESOP and directly owned firms. Of the 64 ESOPs which responded to the first question, 17 indicated that the stock in the ESOT is voting stock. On the other hand, of the 30 cases of direct ownership for which we obtained an answer to the relevant question, 29 companies indicated that employees who own shares in the company could vote their stock. In 28 of these cases, the vote is direct; in one, it is by proxy. Table 9 presents some of these data.

The large disparity between the answers from ESOP and directly owned companies indicates the complexity of the ownership concept. Ownership is essentially a set of rights. In legal terminology, two basic ownership rights are "right to corpus" and "right tc control." Right to corpus permits the owner to sell the property that he or she owns and is usually associated with

Table 9

Voting Rights

	ESOP (N=64)	Direct (N=30)	All firms (N=93)
Can employees themselves vote, or direct the voting of the stock that they own?			
Yes	27%	97%	50%
No	73	3	50
Total	100%	100%	100%

a claim to all the profits generated by the property. Owners in an ESOT share in the capital gains and losses of their stock and are entitled to dispose of their stock once it has been distributed to them. Their ownership rights, however, generally do not include the right to vote their stock. Nonetheless, some control may be exercised by employees in other ways, such as through a union. Workers on the board of directors of the company, which is becoming increasingly popular in some European countries, is a further way in which employees might exercise influence in employee owned firms.

Companies with ESOPs and those with direct ownership do not differ greatly in the extent to which employees are unionized, as Table 10 indicates. About one third of the companies in both groups have some employees who are unionized. (We did not inquire about the extent of unionization within the company. It is our impression that directly owned companies have significantly fewer unionized employees than do comparable ESOP companies.) Large differences are apparent in the table, however, when it comes to other measures of employee influence over company decisions. For example, 36 percent of the respondents in companies with ESOPs report that worker representatives sit on the board of directors, while 77 percent of the companies with direct ownership report the presence of workers on the board. Similarly, 51 percent of the respondents in companies with ESOPs compared to 77 percent in companies with direct ownership indicate that employees influence "important" decisions in the company. In some of the companies, according to our respondents, this influence extends to such decisions as whether or not to make major capital acquisitions.

Employee Ownership and Profitability

Thirty of the companies provided data about profit and we rely on this subset of companies for the analysis of profitability. We employ the ratio

Table 10

Responses to Questions Relevant to Employee Participation in Decisions

	ESOP (N=66-68)	Direct (N=30)	All firms (N=96-98)
Are employees in your company represented by a union?			
Yes	32%	33%	32%
No	68	67	68
Total	100%	100%	100%
Is there employee representation on the Board of Directors of your company?			
Yes	36%	77%	49%
No	64	23	51
Total	100%	100%	100%
Do employees have any direct input into any important decisions besides through a union?			
Yes	51%	77%	56%
No	49	23	44
Total	100%	100%	100%

of pre-tax net profits to sales as a basis for gauging profitability. Furthermore, the ratio for each firm is divided by the ratio in 1976 for the industry as a whole to which the firm belongs.[1] This final ratio is the primary measure of pre-tax profitability of a firm. We made one further adjustment, however, for five firms in our subset: because these firms are directly and wholly owned by employees, the firms follow the practice of distributing a part of their "profit" to employees in the form of wages. This allocation of funds has the effect of depressing the conventional statement of profit, although it has the corresponding advantage of reducing the base upon which tax on profits is computed. The firms justify this adjustment as a cost to the firms of the additional effort and productivity that presumably characterize them.[2] Nonetheless, these monies should be considered part of the profit of the firm for purposes of comparison with the other firms in our set. We therefore took the wage differential between the worker-owners of the firms in question and non-owner-workers (who perform essentially the same jobs as the owners and who receive the union wage rate) as a basis for calculating the amount of money that was diverted from profits to wages. This differential was added to the formally stated profit figure for each of the five firms in question and this final value is taken as the basis for computing the profitability of these firms. While this adjustment seems appropriate as a way of maintaining comparability among firms that employ different accounting procedures, we have also retained, for purpose of analysis, the unadjusted statement of profit. This unadjusted value, we believe, is an overly conservative statement for these firms, but there may be some utility, nonetheless,

[1] Robert Morris Associates. Annual statement studies. (1976 ed.) Philadelphia: Credit Division, 1976.

[2] Berman, K. V. Comparative productivity in worker-managed cooperative plywood plants and conventionally run plants. Mimeo, 1976.

in examining profitability defined in this way as well as through the adjusted figure.

The average adjusted profit ratio for the firms in our subset is 1.7; the unadjusted ratio is 1.5. In either case, these values, which are greater than 1.0, indicate that the profitability of the firms in our subset is greater than that of comparable size firms in their respective industries—although we are not able to claim statistical significance for these figures since the variance in profitability among firms is relatively large and the number of cases is small. It is also possible that our "sample" of firms may be select with respect to profitability. We take these figures as suggestive, nonetheless, that employee ownership, in one form or another, may be associated with the profitability of a firm.[1]

Table 11 helps to elaborate this implication. In this table we present the results of a regression analysis in which each of the two indices of profitability (adjusted and unadjusted) is predicted by several aspects of employee ownership. The predictors include:

1. the form of employee ownership, whether direct or through an ESOT (ESOT is scored "0"; direct ownership is scored "1")
2. the percent of employees who participate in the plan
3. the percent of company equity owned by employees (by managers and workers)
4. the percent of company equity owned by the workers themselves
5. whether employees have representatives on the board of directors
6. whether employee stockholders have voting rights.

These predictors jointly explain a substantial amount of the variance in

[1]For other studies in which the performance of worker owned plywood firms is compared to that of conventional firms, see Bellas, C., Industrial Democracy and the Worker-Owned Firm. Praeger Publishers: New York, 1972; Berman, K., Worker-Owned Plywood Companies: An Economic Analysis, Pullman, Wash., Washington State University Press, 1967; Comparative productivity in worker-managed cooperative plywood plants and conventionally run plants. Unpublished, 1976. Bernstein, P., Democratization of Organization: Theory, Practice and Further Possibilities, Ph.D. dissertation, Stanford University, 1972. See also Melman, S., Managerial versus cooperative decision making in Israel, Studies in Comparative International Development, 1970-71, 6, 3, who compares the performance of kibbutz firms with conventional firms in Israel.

Table 11

Regression Coefficients for the Predictors of "Adjusted" and "Unadjusted" Profitability

	Adjusted (N=20)*	Unadjusted (N=25)*
multiple r=	.72	.47
Predictor:		
ESOT (=0) vs. direct ownership (=1)	-.22	-.34
Percent employees participating in plan	-.30	-.31
Percent equity owned internally	-.31	-.19
Percent equity owned by workers	1.02**	.78
Worker representativeness on board of directors	-.18	-.18
Employee stockholders vote	-.05	-.24

*The data necessary to calculate the adjusted profitability ratio are unavailable in five firms of the subset and five firms did not provide information concerning all of the predictors in this regression. The number of cases in the adjusted and unadjusted cells are therefore 20 and 25 respectively.

**$p < .02$

"adjusted" profitability, but only one of the predictors, the amount of equity owned by the workers themselves, proves statistically significant ($p < .02$); the more equity the workers own, the more profitable the firm, other things being equal (beta = 1.02).[1]

The second variable of importance in this analysis, the amount of equity owned internally, has, if anything, a negative relationship with profitability (beta = -.31) but the statistical significance of this variable is marginal, at best, a coefficient of this size occurring about one out of four times by chance. Variation in "internal ownership" in this context is really variation in ownership by managerial personnel since ownership by the workers themselves is controlled in the analysis. The possible implication, therefore, is that increases in the amount of equity owned by managers may have a negative effect if this increase is not accompanied by an increase in the equity owned by the workers. This result is not strong statistically, but it may be worth considering as a hypothesis.

The impact of the remaining variables can easily be attributed to chance but it is nonetheless tantalizing to see that they, too, imply, if anything, negative relationships in the regression. Direct ownership (rather than through an ESOT), the percent of employees who participate in the plan, the existence of worker representatives on the board, and the existence of voting rights show a negative relationship (if anything) to profitability when the percent of equity owned by the workers themselves is controlled.

Prediction of the unadjusted profitability index (second column in Table 11) is not as good as the prediction of the adjusted index, the multiple correlation being only .47, and none of the predictors meet the usual criterion of significance. The pattern of results, however, is

[1] "Beta" refers to a standard regression coefficient.

similar to that for the analysis of the adjusted profitability index, and the one predictor that approaches a marginal level of statistical significance in the analysis is the percent of equity owned by the workers (beta = .78, p = .11).

The negative signs associated with several of the variables in Table 11 do not imply (or they would not imply even if they were statistically significant) that these characteristics are associated with low profitability; they imply (or would imply) such a negative association only under the conditions of the regression analysis where, for example, the amount of equity owned by the workers is controlled statistically. In fact, because firms where workers hold a high percent of the equity are likely also to be directly owned, direct ownership, like the amount of worker ownership itself, is positively associated with profitability.

Table 12 helps to illustrate these associations. This table shows the simple, zero order correlations among the variables presented in the regression analysis. Asterisks indicate correlations that are significant at the .05 level or better. We see in this table not only how the predictors may be associated with profitability, but also how the predictors relate to one another. For example, firms in which workers hold a high proportion of the equity tend to be directly owned (r = .68), to have worker representatives on the board (r = .36), and to provide voting rights to employee owners (r = .68). On the other hand, the correlation between the percent of equity owned by the workers and that owned internally (by workers and managers) is not as high as one might expect, in view of the fact that internal ownership includes ownership by workers (r = .34). The proportion of equity owned by managers in many of these firms is relatively large and "internal ownership," therefore, reflects managerial ownership more than worker ownership.

Direct ownership in this table is significantly and positively related to adjusted profitability (r = .48)--unlike the relationship indicated in the regression analysis--because direct ownership is associated with the percent of equity owned by workers, which appears from the regression analysis to be the more basic correlate of profitability. Voting rights is also associated with the percent of equity owned by workers and it, too, shows a positive relationship with adjusted profitability (unlike the relationship in the regression analysis), although the magnitude of the correlation does not meet the criterion of statistical significance, given the small number of cases.

The percent of employees who participate in the ownership plan, however, does not show the relationship to profitability that one might expect from the hypothesis that employee ownership has a positive effect on profitability (r = -.33). The explanation may hinge on the association, or rather lack of association, between the percent of employees who participate and the percent of equity owned by workers (r = .14). Apparently, many firms that have relatively widespread employee ownership in fact involve only a small proportion of the companies' equity in such ownership. Many members, in other words, own very little.

Managers' Estimate of the Effect of Employee Ownership on Productivity and Profit

In an earlier analysis, we found substantial sentiment on the part of managers as well as of workers in favor of the employee ownership plan in a firm that had recently adopted such a plan.[1] According to members of that firm, employee ownership contributed substantially to the satisfaction of all employees as well as to the motivation of workers and ultimately to the productivity and profitability of the company. Records of the firm also indicated that grievances and waste (in the form of expendable tools) declined

---

[1] An employee owned firm. Survey Research Center, Institute for Social Research, The University of Michigan, January 17, 1977.

Table 12

Correlations Among Aspects of Employee Ownership and Profitability

	Profit (Adjusted) (N=20)	Profit (Unadjusted) (N=25)	ESOT vs. Direct Ownership (N=75)	Percent employees participating (N=75)	Percent of equity owned internally (N=75)	Percent of equity owned by workers (N=75)	Workers on board (N=75)
ESOT (=0) vs. Direct Ownership (=1)	.48*	.27					
Percent employees participating	-.33	-.29	-.23*				
Percent of equity owned internally	-.02	-.06	-.10	.25*			
Percent of equity owned by workers	.60*	.31	.68*	.14	.34*		
Workers on board	.24	.08	.36*	.08	.04	.43*	
Employee stockholders vote	.30	.18	.68*	-.11	-.11	.47*	.22*

*$p < .05$

and that productivity and profitability increased during a period immediately following the introduction of the plan (although profitability was higher during one period a number of years earlier).

In the present analysis, a management representative in each firm was asked two questions about the effect of employee ownership on productivity and profit. "Do you think that employee ownership affects profits? Does it increase profits, decrease them, or have no effect?" A similar question was asked concerning productivity. The average response to these questions, 2.6 on a three-point scale, indicates substantial support for employee ownership in the judgement of these managers. Furthermore, the analyses presented in the previous section, which suggest that the employee owned firms are above average in profitability for their respective industries, lend some credence to the claim of these managers. But the managers who are more likely to credit employee ownership for high levels of profit are not necessarily in the more profitable firms of our subset.

Table 13 shows the results of a regression analysis designed to determine which aspects of ownership are associated with the judgement by managers that employee ownership has a positive effect on profit and productivity. Managers in firms in which workers own a high proportion of the equity are no more likely to ascribe positive effects to employee ownership than are managers in firms in which workers own a small proportion of the equity--even though this aspect of employee ownership appears to be the more important correlate of profitability in our analysis (Table 11). On the other hand, employee ownership is more likely to be reported to have positive effects on profit where such ownership is direct, rather than through an ESOT (beta = .46, p = .06) and where workers do not have representatives on the board (beta = -.22 p = .10).

These results do not explain profit and productivity so much as they explain the attitude of managers concerning the possible impact of employee ownership on profit and productivity, and we see in Table 13 some indication (which we shall see repeated below) that the existence of employee representatives on the board may sometimes be associated with negative attitudes on the part of managers. Other things being equal, managers appear to react less positively in firms that have worker representatives on the board than in firms that do not have such representatives.

Employee Ownership and Attitudes of Workers toward Their Job, as Judged by Managers

Each managerial respondent was asked whether employee ownership affected the attitudes of workers toward their job. The average response was .84 on a scale from 0 to 1, where "1" means that work attitudes are better and "0" that they are worse as a result of the ownership plan. The score of .84, therefore, implies that these managers on the average perceive the employee ownership plan to have a substantially positive effect on the attitudes of employees. But as Table 14 suggests, this judgement by managers differs from firm to firm, and it may be less positive where workers have representatives on the board of directors than where they do not. The beta, -.39, which is associated with a provision in the plan for such representation is the only one that proves statistically significant ($p < .01$).

Managers' Satisfaction with the Employee Ownership Plan

The managerial respondent in each firm was asked, "Are you satisfied with the way employee ownership is working?" The average response to this question is 2.8, which implies in general a high degree of satisfaction--"3" being the highest possible score. Table 15 shows how aspects of employee ownership are associated with this satisfaction.

Table 13

Regression Coefficients for the Predictors of Manager's Estimate of the Effect of Employee Ownership on Productivity and Profit
(N=71)

Predictor:	multiple r=.35
ESOT (=0) vs. direct ownership (=1)	.46**
Percent employees participating in plan	.12
Percent equity owned by employees	-.12
Percent equity owned by workers	-.06
Worker representatives on the board (no=0; yes=1)	-.22*
Employee owners vote (no=0; yes=1)	-.07

**p=.06

*p=.10

Table 14

Regression Coefficients for the Predictors of Worker's Attitudes Toward Their Job, as Judged by Managers (N=70)

Predictor:	multiple r=.44
ESOT (=0) vs. direct ownership (=1)	.35
Percent employees participating in plan	.15
Percent equity owned by employees	-.13
Percent equity owned by workers	-.05
Worker representatives on the board (no=0; yes=1)	-.39*
Employee owners vote (no=0; yes=1)	.08

*p=.004

Table 15

Regression Coefficients for the Predictors of Manager's Satisfaction with the Employee Ownership Plan
(N=70)

multiple r=.42

Predictor:	
ESOT (=0) vs. direct ownership (=1)	.69*
Percent employees participating in plan	.28**
Percent equity owned by employees	.17
Percent equity owned by workers	-.24
Worker representatives on the board (no=0; yes=1)	-.12
Employee owners vote (no=0; yes=1)	-.22

*$p < .004$

**$p < .05$

Two variables prove significant in this regression. Managers are more satisfied with the plan where ownership is direct rather than through an ESOT (beta = .69, $p < .004$) and where the percent of employees who participate in the plan is relatively large (beta = .28, $p < .05$). It seems reasonable that managers should think well of the plan where participation is widespread. On the other hand, we have seen that widespread ownership is not associated with profitability; such ownership may very well mean that many employees own only a very small fraction of the equity--and it is the amount of equity owned by workers that appears to be the most important correlate of profitability.

Employee Ownership and Employee Influence

Each managerial respondent was asked, "Do employees have any direct input into any important decisions besides through a union?" Simple, zero order correlations indicate that managers judge worker influence to be relatively high in firms where the percent of equity owned by workers is relatively great ($r = .42^*$), ownership is direct ($r = .25^*$), employees have representatives on the board ($r = .25^*$), and employee-owners have voting rights ($r = .22^*$). One of these variables, the percent of equity owned by workers is the relatively more important one in a regression analysis, as can be seen in Table 16.

Table 17 provides the simple, zero order correlations between managers' satisfaction with the plan and their estimates of (1) the influence that workers have, (2) the plan's effect on productivity and profit, and (3) the

$^*p < .05$.

Table 16

Regression Coefficients for the Predictors of
Employee Influence, as Judged by Managers
(N=68)

Predictor:	multiple r=.50
ESOT (=0) vs. direct ownership (=1)	-.08
Percent employees participating in plan	-.05
Percent equity owned by employees	-.03
Percent equity owned by workers	.44*
Worker representatives on the board (no=0; yes=1)	.12
Employee owners vote (no=0; yes=1)	.09

---

* p=.04

plan's effect on workers' job attitudes. All of these variables, with the exception of the one concerning worker influence, relate positively to one another, again indicating that while managers tend to be consistent in appraising the implications of employee ownership, they do not include worker influence as part of their positive conception of such ownership.

Conclusions

Some degree of employee ownership of firms is not uncommon in this country, although examples in which non-managerial employees own a substantial part of the equity of the company are rare. Nonetheless, data about such companies offer preliminary evidence concerning the possible impact of expanded ownership on the economic viability of firms and on their ability to save jobs. We are led on the basis of these data to the following tentative conclusions.

First, the industrial relations climate in employee owned firms appears to be good, in the judgement of managerial respondents. Second, managerial respondents in these firms see employee ownership as having a positive effect on productivity and profit in the firm. Third, the employee owned firms that we have studied do appear to be profitable--perhaps more profitable than comparable, conventionally owned firms. Fourth, the single most important correlate of profitability among the aspects of ownership that we have studied is the percent of the company's equity owned by the workers themselves. Fifth, while the influence that workers have in the firm, as judged by managers, is a function of the amount of equity that the workers own, managers' evaluation of the ownership plan is not affected in a positive way by either the amount of ownership held by the workers or the amount of influence exercised by the workers. Managers appear to be more favorably disposed toward the plan where participation in ownership is widespread among

Table 17

Correlations Among Responses of Managers
Concerning Aspects of Employee Ownership
(N=90)

	Managers satisfied with plan	Positive effect on profit and productivity	Employees have influence
Positive effect on workers attitudes	.45*	.54*	.11
Managers satisfied with plan		.34*	.01
Positive effect on profit and productivity			-.07

*$p < .01$

employees, even though widespread participation may involve only a small fraction of the company's equity.

Several of the firms we studied adopted their ownership plan specifically as a way of saving the plant from economic collapse and saving the jobs in the plant. Some adopted the ownership plan for other financial reasons or for moral reasons. But in either case, the data of this report, indicate that employee ownership may contribute to the economic viability of a firm and to the economic well being of members as well as to the quality of working life within the firm.

The data suggest that the impact of employee ownership on unemployment in specific firms might be viewed from the point of view of prevention as well as from the point of view of cure. In the latter case, a firm in which the threat of unemployment is imminent might be bought by employees as a way of saving their jobs. We have examples in our data of this form of "cure." On the other hand, a healthy firm might move into employee ownership as a way of strengthening its performance so that the loss of jobs will not be threatened in the first place. Our data also include firms of this type.

We offer the above conclusions as tentative. The firms for which we have measures of profit may be select and our analyses are based on correlations that illustrate association among variables; they do not prove causation. The results of these analyses, however, are sufficiently encouraging to justify a detailed longitudinal (historical) study of a number of firms over a period of years. Such a study should include measures of the attitudes and motivations of all employees within the firms as well as measures of the performance of the firms.

II. An Employee Owned Firm[1]

This section concerns one firm that was acquired by its employees through an employee stock owners trust. The company was acquired by its employees following a decision by the original owner to liquidate because of a poor profitability picture. The plant's closing would have meant the loss of jobs for its 500 employees as well as for an estimated 100 to 200 others whose jobs depended indirectly on the plant. Several of the company's officers, with the backing of the employees arranged to borrow $10,000,000 to purchase the company and to keep it in operation. Half of the borrowed sum came from a revolving account established in the community by the Economic Development Administration as a means of helping to provide employment in the community. The remaining portion was borrowed from other, conventional sources.

Summary

The data that we report in this section were collected approximately 18 months after the acquisition and they came from two sources. First, are data concerning the attitudes and perceptions of company personnel obtained through interviews with 51 randomly selected persons in the company. Second, are data from company records that provide information about profit, worker productivity, absences, grievances, injuries, and other indicators of company performance.

---

[1]This section was prepared by Michael Conte, Fred Leech, Donna McCulloch, and Arnold Tannenbaum. We thank R. J. Bullock for his help in planning the analysis of the financial data provided by the company. We also very much appreciate the substantial help provided by the officers and employees of the company in making this report possible.

The data from these diverse sources are in large measure consistent in their implication that performance has improved at the company in recent years and that the level of morale and worker motivation has increased since the change in ownership. The causes of improvement can not be determined with certainty from the preliminary analysis presented here, although the reports of many company personnel, including workers and managers indicate that at least some of the improvement is attributable to the change in ownership and to the employee stock ownership plan. We hope to be able to answer the question of causality with more certainty as additional data become available to us and as more detailed analyses are undertaken.

Employee Attitudes and Perceptions

Changes in the company since the Employee Stock Ownership Plan

Practically all the workers and managers whom we interviewed indicated that the company had changed for the better since the employee stock ownership plan was introduced. (See Table 1.) Improvements in the company described by the respondents fell primarily into several categories (See Table 2.) First, about half of the workers and managers mentioned that the relationships between people had improved and that people worked better together now that they all owned the company. For instance, one worker stated that:

> You have everyone more united...and you have a better outlook on coming to work. It seems as if you're working for yourself. You just don't come in and put in your eight hours. It's kind of a psychological thing. You work like any other job but it's a psychological thing where you are working for yourself like you're in business for yourself.

Another remarked that, "I feel it's more of a family now, more homey. It's a pleasure to work here." One manager put it this way:

> I think we're a closer knit family. There's more feeling of ownership among the employees. Naturally, we still have a few employees we still have got to get that word to, that final convincing that they are owners. Over all, it's been a very healthy change.

Another manager pointed out that a problem that might have been considered a management problem, "Now it's everyone's problem."

Second, nearly three-quarters of the managers and close to half of the workers felt that morale had improved and that people were more conscientious about their jobs. For example, one manager stated that, "I think the morale is a lot better than it was before--you've got more of a feeling of personal pride among the workers," and another claimed "the interest of the employees

Table 1

Question: Have things changed at the company since the employee stock ownership plan has been introduced... are they better, worse, or about the same as before?

	% Workers (N=40)	% Managers (N=11)	% Total (N=51)
Better	93	82	90
Better in some ways	2	9	4
Worse	0	0	0
No different	5	9	6
	100%	100%	100%

Table 2

Question: In what ways have things changed?

	% Workers* (N=40)	% Managers* (N=11)	% Total* (N=51)
More of a united effort; more of a family; it's our company; better relations and cooperation between people and departments; better communications; more shared responsibility	58	45	55
Better attitudes and morale; more interest in work and company affairs; more conscientious; better effort	45	73	51
Better benefits; more bonuses; more pay; improved working conditions; more vacation; holiday turkey	48	27	43
Less waste; less absenteeism	10	18	12
More promising future; more confidence in the future; business is picking up; orders are better; fewer layoffs; in future we should be able to catch up to other plants in wages	13	9	12
Some workers still suspicious; poor communications in some cases	3	9	4
We have more of a voice in the company; participating more	8	0	6

*Percentages need not add to 100 because of multiple responses.

is more noteworthy. Everyone is trying a little harder." One worker felt that:

> The guys are more conscientious about their work. They feel they got to put out a much better product now because that's what's going to make more business for us. They do a little better work now than they did before.

A third category of comments, noted somewhat more by the workers than by the managers, concerns benefits and working conditions. For example, one worker was pleased with the new benefits even though he felt that working conditions had not changed appreciably.

> Yes, now workwise it's about the same in our department, but in benefits it's changed a lot. Really good, really good. I've never had it so good. We get raises more often and bonuses; week's pay; we get turkeys at Thanksgiving and things like that we never had before.

Another worker stated,

> Well, I think it has changed drastically because with [the former owner], we weren't getting what we're getting now. It's a different ballgame now. It's our company and they're treating us good. They give us bonuses; they give us extra checks, you know like vacation. They give us a couple of weeks vacation added in. [The former owner] never did that to us. They took all the money and they claimed they weren't making a profit. So far as the employee-owned is, in my opinion, I like it.

Reduction in waste and absenteeism were mentioned specifically by a number of respondents. For example, one worker said,

> Everybody is not so willing to throw a part away anymore which was one of the first signs they cared about the compnay. Scrap is held to a minimum. A ten minute break is now a 15 minute break where it used to be a half hour or 45 minute break. They're a little more conscious of a lot of small things.

Another person proclaimed, "My particular job is taking care of the scrap and since this last year I noticed the scrap off the machines I picked up as a lesser amount than previously."

A fifth category concerns the future of the company, which according to several workers and managers looks promising. As one worker put it, "There's much more confidence in the future. This is one of main things we have today that we didn't have before."

Finally, a small number of respondents mentioned that employees had more of a voice in the company, and a few indicated that some workers were still suspicious or that communications were not good. Negative comments of this kind were rare.

Attitude of Management Toward Employees

Managers and workers were asked about the attitude of management toward employees. Nearly three-quarters of the managers interviewed and about half of the workers felt that the attitude of management had changed for the better. About one-fifth of the managers and nearly half of the workers felt that no change had occurred, and small percentages of both groups felt that managerial attitudes were better in some ways but worse in others. None of the respondents felt that attitudes were worse. (Table 3.)

Change in the attitudes of management reported by respondents fall into several categories (Table 4). A fairly high proportion of both groups (64 percent of the managers and 43 percent of the workers) felt that workers were treated better by managers and more like owners and that communication was better. Thus, one worker felt that management was more considerate of him and described some of the consequences of this:

> They listen to our problems more readily. The people on the floor have to work with certain problems all day, week in and week out, year in and year out, and management is beginning to realize that and starting to listen to us where they didn't before, and it's good employee-employer relationships because if you know someone will listen to your problems, you feel more like a human and when you take the dehumanization out of the job, there's more productivity, you're more responsible, you're more willing to work more overtime, and less tension, and it's a pretty good deal all around.

Table 3

Question: Has the attitude of managers toward employees changed... for better or for worse?

	% Workers (N=40)	% Managers (N=11)	% Total (N=51)
Better	53	73	57
Better in some ways, worse in others	2	9	4
Worse	0	0	0
No different	45	18	39
	100%	100%	100%

Table 4

Question: In what way has attitude of managers toward employees changed?

	% Workers* (N=40)	% Managers* (N=11)	% Total* (N=51)
Better communications; workers treated as owners; more consideration; we work better together; more cooperation	43	64	47
Workers have more of a voice in decision-making; management doesn't give "orders" anymore; management goes to workers for ideas	3	36	10
Management has given worker better benefits, working conditions, and equipment	10	0	8
No change: we've always gotten along; it was always good and still is	8	9	8
No change: management has not improved in attitudes toward workers; management is management and workers are workers; the hierarchy is still the same	8	9	8
Management is tighter/stricter around the shop	3	0	2
Workers can be too assertive	0	9	2

*See footnote Table 2

Another worker felt that communications were better in that workers were better informed of managerial actions:

> We're more informed now on management's side of the company. They are telling us what's going on inside the company, what they have planned and how things are going.

One manager stated,

> I used to be a supervisor out in the shop and I think after the change took place we looked at the union guys as more of an equal rather than a subordinate that just did what we wanted him to.

About one-third of the managers and a small percentage of the workers felt that managers have given workers a greater say in decision-making and that they do not give "orders" to workers anymore. One manager commented that workers have "a little bit more responsibility in the decision-making process," and another stated that,

> We now look at him as a source of improvements. We go to them for ideas on how to improve things. Before we did it our way and that was it, but now we ask for ideas. I think it's more of an equal basis now.

One foreman described his alternative procedure to giving "orders" when he needed something done:

> Because as a foreman, at one time, we used to tell them what to do. Now, after all you're dealing with an owner. So we use a different approach. I say well, what do you want your foremen to do?... I say do you want me to enforce this or don't you. And 90, oh just about 100, percent of the time they say yes, we want this enforced, even if it applies to them. So, it kind of turned us around a little bit, but it works out good.

A small group of workers (10 percent) mentioned that management had given them more benefits. As has been shown, however, not all of the respondents felt that management's attitudes had changed. Many respondents did not elaborate on why they felt there was no change. However, of those who did, two distinct groups emerged. One group felt that relations were always fairly good between managers and workers and that nothing had changed in this respect. A typical comment of this sort by a worker was, "It's hard to say because they've always been nice and cared about the employees...." The other group made comments suggesting that the old hierarchy was still there and that management was management and labor was labor. One worker expressed his dismay with this, stating:

> No, I don't believe so, it's still the same. That's one thing that disappoints me. Because there seems to be still that dividing line where I don't think it should be. Well, it should be to an extent, but not the same as it was. Well, like they're still working for the conglomerate, and we're still more or less union.

On the negative side, one manager suggested that workers were getting too assertive and one worker complained that managers were stricter around the shop and wouldn't give him everything he wanted anymore.

<u>Attitude of Employees toward Management</u>

Respondents were invited to comment about changes in the attitude of employees toward management. A majority of both groups felt that employee attitudes had improved. (Table 5.)

Table 6 provides a categorization of the changes indicated by respondents. 45 percent of workers and managers felt that working relationships between the two groups were improved in that better communication, more confidence and respect for managers and improved teamwork prevailed. One worker stated:

> The attitude of employees toward management now is not so negative, not so resentful of the authority they have. They figure whatever they're doing is for our success as a whole rather than money in the pockets of the higher-ups.

Another worker commented, "They think we're more human, at least to do the right thing...we feel like we're partners now and want to keep it that way." One manager saw a change in employee attitudes in this way:

> Morally speaking or philosophically, they realize that we can all see we're working together and the distinction between the two--

Table 5

Question: Has the attitude of employees toward management changed...for better or for worse?

	% Workers (N=40)	% Managers (N=11)	% Total (N=51)
Better	58	55	57
Better in some ways, worse in others	5	0	4
Worse	2	18	6
No different	35	27	33
	100%	100%	100%

Table 6

Question: In what ways has the attitude of employees toward management changed?

	% Workers* (N=40)	% Managers* (N=11)	% Total* (N=51)
We work better together, more of a team; better communication; better, friendlier relations; more confidence and respect; better cooperation	45	45	45
Workers take on increased responsibility; they try to solve things before they go to managers; management is more conscientious; trying harder	8	18	10
Workers have more say in decisions; workers can get results from their decisions	5	9	6
No layoffs	3	0	2
Some workers are still suspicious of management; fear that management is getting a bigger cut of the shares; management is still management and workers are still workers	10	27	14
Miscellaneous	15	27	18

* See Footnote Table 2

> i.e., 'they're the bad guys and we're the good guys'--that's been changing.

Another manager stated:

> We seem like we're working more as a team, where before it was always union and management, now it's almost like all owners. It's all teamwork, and I notice that people go over and help each other now where in the old days they used to say, 'hey, find somebody to help that guy.' Now, a man has a problem, three or four fellows come over and help him.

Another group of respondents (18 percent of the managers and 8 percent of the workers) felt that workers were taking on increased responsibilities or that management was more conscientious. One manager proclaimed that, "They're willing to accept some of our problems, and they're trying to help solve these problems before they even come to us." A worker remarked, "Oh yeah. They're trying to make the product better so they can sell it. Before it was like [the conglomerate] was in charge."

Some of those who felt that employees' attitudes toward management had remained the same or worsened expressed the opinion that workers were suspicious of management or that workers felt that management would come out with most of the shares. One manager elaborated upon this problem, stating:

> ...there is the suspicion of empire building. The prime thing is the way the shares are being divided by salary and they have the idea that the higher positions and management will come out with the majority of the shares. We've proved that management will come out with 33 percent and that the union will come out with 66 percent, but it's very difficult to convince these guys and they're still very suspicious. But I think this will change--you will change them when they receive two or three bonuses, etc., i.e., something they've never had before.

A worker confirmed this manager's opinion, stating,

> Well, some of them think that management gets a little better deal out of ESOP than they are. They're thinking moneywise to theirself. They figure that because management makes better wages, they're gonna get a big cut out of the share, I guess.

Other causes for suspicion included the union problem and the fact that many workers lost their pension when the ownership changed from conglomerate to workers. This was especially problematic for some senior employees who had accumulated substantial equity in the pension plan under the former owners, but who did not have quite enough seniority to claim their pension rights at the time of the transfer of ownership—but they would have lost those rights in any case had the company been liquidated. One worker described some of these problems:

> It's still a little bit suspicious. They don't know how far management will go. We still have a union problem here and we don't know how it will go. These older persons who lost out on the pension are in bad shape. We don't know how that is going to go.

Attitude of Employees toward Their Work

When asked whether employees' attitudes toward their work had changed most respondents, workers and managers alike, reported an improvement. (Table 7.) A high percentage of both groups (36 percent of the managers and 50 percent of the workers) mentioned that workers were more interested in their jobs because they felt they were working for themselves or that company success was a result of their efforts (Table 8). Thus, one manager claimed, "They feel a little bit more responsibility for quality workmanship, being it is their own company." Another manager described how reward depends on performance, stating:

> We know what we sell it [the product] for, and we can say, 'okay, fellows, every time one of those go out it's $8000 profit,' and you're back to dollars again and you're talking language they can understand and by doing this, you can get a little more enthusiasm out of the guys.

Some of the workers made similar comments. Regarding the feeling of ownership, one stated, "I seem to think I want to get it out better than I did because I know it's for me." And another remarked,

> I think we're getting a little better work out of people now. Now we got something to work for. Before we were working for a company. Now we're working for ourselves.

In the same fashion, another claimed,

> Well, now everybody is more or less in making money for themselves. It's their work, not just the company's. Before the money was going into somebody else's pocket. Now it's our own.

Table 7

Question: Has the attitude of employees toward their work changed...for better or for worse?

	% Workers (N=40)	% Managers (N=11)	% Total (N=51)
Better	83	91	84
Better in some ways, worse in others	0	0	0
Worse	2	0	2
No difference	13	9	12
Not ascertained	2	0	2
	100%	100%	100%

Table 8

Question: In what ways has the attitude of employees toward their work changed?

	% Workers* (N=40)	% Managers* (N=11)	% Total* (N-51)
Workers feel that they are working for themselves; realize that their salary is contingent upon their performance; workers have more interest in their jobs; company success is a result of <u>their</u> effort; better atmosphere	50	36	47
More conscientious; trying harder; putting more time in; not as much goofing off; less absenteeism	35	27	33
More precision; better quality of work; less waste	25	36	27
Worker making more money; getting ahead better	8	0	6
Greater quantity of work; higher productivity	3	9	4
More teamwork; workers help each other more	0	9	2

* See footnote Table 2

About a quarter of the managers and a third of the workers mentioned that employees were more conscientious and were putting in a greater effort. One manager stated that "They're more conscientious in what they do and how they perform." The workers expressed much the same opinion with one stating, "There isn't as much goofing off as there used to be" and another commenting,

> As far as I can see, I'd say I know my attitude has changed. I feel more conscientious about my job and I want to do my job to the best of my ability. I can't really speak for a whole lot of other people but the ones I talk to seem to be more conscientious about their jobs. I'd say yes, their attitudes have changed for the better.

About one-third of the managers and one-fourth of the workers felt that this extra effort was paying off in terms of better quality of work and decreased waste. One manager replied,

> The large percentage of the employees are more cost conscious, more scrap conscious, and are trying harder not to run scrap and still maintain a high level of earnings.

One worker put it bluntly, stating, "We're a little more careful about what we do and how much [we] waste. It's our money now." And another made a similar remark, "They're trying to put out good parts. If we don't run good parts, it's going to hurt us, come right out of our pocket." A third stated,

> They're doing a better job all around now. Like piece work jobs--they're not rushing right through because they don't want to get it back.

Smaller numbers of managers and workers mentioned other changes in the attitudes of employees toward their work. Some felt that "their production was on the better side." Others thought that there was more of a team spirit and that workers were helping each other out more. Thus one manager commented:

> They're working more as a team now...If a guy's got a problem, everybody used to sit back, and say 'I'm glad it's not me.' Now they feel just the other way around. It's us now.

Some workers felt that employee attitudes toward work had improved because the employees were making more money and getting ahead better.

Change in the Way Decisions are Made

While the employee stock ownership plan had strong effects on the attitudes of the respondents, it appears that the decision-making structure has not changed very much, according to most respondents. When respondents were asked whether there had been any change in the way decisions that affected them were made, a majority felt that there had been no change. (Table 9.)

Eighteen percent of the respondents, however, felt that they had more say, and that they were consulted about major decisions, that they were not given orders, or that formal channels, such as representation on the board of directors or employee votes, provided a means of participation in decision-making. One supervisor expresses this sentiment well, stating,

> As far as major decisions, I think we have more of a say as far as suggesting what might be done. We're allowed to put in our suggestions and they're heard, and management, upper management, is not afraid to listen to us, and they're willing to sit down and listen to an idea if we've got one. I know that if we go back and say this is the way it should be done, well, they come back and say, 'Well, you show us how it should be done.' It's a lot different than it was before. I think before, upper management just did it and that was it and I've been in all the way from the union up to management and I think it's changed. I think we have more of a say.

A worker felt there was a change in his foreman's order-giving behavior:

> I'm working as a fork lifter now. Instead of telling the guys, they ask the guys, they ask the guys in a sort of round about way that they're not forcing the person to do something and I feel it helps us in better relations between the management or even the foreman and the driver. I'll be walking around and one of the foreman may ask me to do something and he'll say when you get time and I'll say I got time now. I'll do it. I got that attitude. I like to do it. It's good.

Table 9

Question: Has there been any change in the way decisions that affect you are made?

	% Workers * (N=40)	% Managers* (N=11)	% Total* (N=51)
No change	68	55	65
We have more say; they ask for our opinion before making major decisions; they listen to us more; more equality; they don't give orders; we have representatives on the board of directors; they take employee votes	18	18	18
Attitudes of management better; they are for the worker	10	0	8
Decisions made by local personnel, not conglomerate	0	9	2
We may have more say in the future: will have more say when we own more stock; drastic changes take time	5	9	6
Decisions that were made by me are now made higher up; management used to set the pay scale, now the board does it	0	18	4
Workers have less say now, before we had a union even if it was weak	3	0	2

* See footnote Table 2

Another worker concentrated on the more formal aspects, stating:

> Now, if we've got something major, more or less, they come to us and get our opinion first and see how the guys feel about it around here. Some things they don't ask us, but most of the major stuff they ask us first. Well, they ask us like if we wanted to change the incentive program around a little bit on piece work and they sent out pamphlets and explained everything and asked our opinion of it and we could either vote yes or no or leave some other kind of answer. It was left up to us what we wanted to do with it.

A small number of managers and workers felt that although there were no changes now, they would have more say in the future, especially when they owned more stock and had some experience with participation. In this fashion, one manager stated,

> Again, I think it will be a certain period of time. They want to make certain changes but you have to learn to walk before you can run. This is the wisest move. This is what the Board of Directors is trying to do.

One of the workers gave his viewpoint, stating,

> Well, I don't think there is [a change] yet. There supposedly is supposed to be within the next three years I think it is. Well, they might listen to certain ones more now than they did about ideas and ways of doing things better. But in time, it's supposed to be to the point where we all have a say-so, if we have an improvement to make or something.

Another worker explained this in terms of percentage of stock owned:

> I'm looking at it from long range. Right now we really don't have any input, and say, because at this point, I feel we have a small percentage of the stock. Until we are in 100 percent of control then we will have more input and can have more control.

A small number of managers indicated that they had more say because decisions were currently made by local personnel rather than by the conglomerate. Others, however, felt that decisions were made at a higher level than before and that some of the decisions that were previously made by them were made higher up. One such manager commented, "Well, now in our pay scale and like that, where it used to be a management problem, now the board settles it."

A small number of workers remarked that they might have more say now than before because the attitude of their managers was better and that they were for the workers. Others stated that workers have less say now because they no longer have their union. One of these workers stated,

> No, they're still made the same; management makes them. Sometimes I think we got less say now. Well, before they had a union, but we didn't feel we was getting much out of it but we could hide behind them, for all the good it did...There would be like one or two guys from the union, which maybe tended to go the other way from the worker's point of view, would try to help, see what they could get out of it, which wasn't usually too much. But now since we just about don't have one, it's not that much to hide behind, so that they just take over.

General Opinions of the Stock Ownership Plan

When asked how they felt about the stock ownership plan, most respondents reacted favorably. Many of them commented specifically upon the benefits they had received and the feeling of togetherness and ownership it had created and expressed a favorable outlook for the future. Of the small group who gave negative or mixed answers, some complained that the money was divided up unfairly, that they did not have the influence that they should have or that they lost their pension in the change of ownership.

Again the answers of managers and workers were similar to one another. (Table 10.) Respondents (82 percent of the managers and 77 percent of the workers) made positive statements about employee stock ownership. As far as specific remarks are concerned nearly three-quarters of the managers and one-third of the workers drew attention to the improved benefits and working conditions that accompanied the plan. As one worker put it,

> It feels okay. We do get bonuses we didn't get before. I worked for 27 years and never even got a turkey at Thanksgiving. Now we get bonuses and vacations,we never got those things before. It's okay now. I like it.

Table 10

Question: How do you feel about the stock ownership plan?

	% Workers (N=40)	% Managers (N=11)	% Total (N=51)
General tone of comments			
Positive - I like it, a good idea, an improvement, things are better	77	82	78
Mixed - I like some things about it but not others; better in some ways, worse in others	10	0	8
Negative - I don't like it, it doesn't really give you influence, unfair, things are worse	13	18	14
	100%	100%	100%

	% Workers*	% Managers*	% Total*
Specific remarks			
Better benefits; better retirement provision; bonuses; better pension; more vacation; holiday turkey; improved working conditions; shares divided up fairly	35	73	43
We're all working together; it's good to be a part of something; working for yourself, you work harder and care about what goes on; better relations; better atmosphere	23	45	27
It has real possibilities; it will get even better in the future; they will improve it; will be more of a feeling of ownership in the future when employees get more stock	20	36	24
I have a job now because of it; it's worth it to stay with the company rather than to get another job	10	9	10
Financial gains for the company	3	9	4
Contingent answers: depends on business and outlook; if everyone is behind it, it will work; if problems get worked out, will be good; if it stays solven as long as we make money	15	0	12
I lost my pension in the change over; lost my seniority	10	9	10
Stock ownership does not necessarily give one influence; workers don't feel they have influence.	0	18	4
Don't like the way the stock is divided/money handled; shouldn't have to put $1000 in; stocks should be equally shared - not based on your salary; shouldn't have to wait 10 years to take money out	13	0	10

* See footnote Table 2

Another worker commented,

> I like it. In the first year what I've gained it took me 21 years on the previous pension plan and I contributed to that and look what I got in one year plus all the other benefits--bonuses two years in a row, turkey for Christmas, an extra week for vacation and an extra week at Christmas.

A manager felt that the pension plan provided was superior to ones he had previously encountered:

> If it works out like it's supposed to, I think it's a pretty good deal. It gives a guy, where normally he has to work 30 years to draw a pension, he can now work ten or 15 years and [if he] left, he would at least still get something.

Another fairly large group of respondents (45 percent of the managers and 23 percent of the workers) made remarks about the change in atmosphere at the company, and how the feeling of ownership created a spirit of togetherness and a desire to work harder. Thus, one worker commented,

> I think stock ownership makes a person want to do the best he can because it's for his own good. When you're treated right, you want to do right.

In a similar fashion, another worker commented,

> I feel as though it's something new when I come through the door. It's something I do for me. Everyone else is working for me too. We, as employees, were so fortunate to have a man like [the president.] He worked real hard and seemed to care about us all here.

One of the managers gave a somewhat more elaborate description of the effects of the feeling of ownership:

> Let's assume that somebody locally just bought us out. I don't think that the morale would be as high as it is now. I would still be of that opinion, that I'm working for somebody else, [that] I'm not working for myself...[but] right now you're working for yourself really. With ESOP, for instance, if I were working for [another company] down the street here, they had bought us, we really wouldn't be worried too much about how much we spent for this and how much overtime we put in here, but now being ESOP you start looking at your watch and say, 'gee, I'm working too much overtime and that's taken out of my over-all, that's taken off the top of the cream there and I don't like that.' So you have a little more pride and you're a little more conscious of what happens whereas if somebody else owns you, you're just not conscious of it. You just don't have that feeling. It's their money.

Other respondents (36 percent of the managers and 20 percent of the workers) focused upon the favorable outlook for the future and expressed their conviction that the plan will be improved even more. One worker briefly stated, "I'm in favor of it. In the long run it will pay off for us. Say ten years from now. So far we've been doing pretty good." Similarly, one manager remarked, "I think it will snowball as it improves and it will improve more." And another stated:

> After three years when employees actually have in their possession shares of stock that they know is their's and a percentage of it that even if they leave the company and they can figure out what that percentage will be, that's when your real feeling of ownership will be there. I'm certainly hoping for it.

Smaller numbers of managers and workers cited the fact that they still had jobs (9 percent of managers and 10 percent of workers) or that the company was making financial gains (9 percent of the managers and 3 percent of workers) as evidence of the plan's success. As one worker commented:

> I'm very glad we got it or otherwise we'd be out of a job. I don't know how it will affect us in the future or anything like that, but we do have jobs. Otherwise we wouldn't have jobs. We'd be looking for jobs.

In addition, a number of workers (15 percent) gave contingent answers, i.e., they would like the plan if it succeeded and if certain conditions are met. As one commented,

> I think it's a good idea. If everybody gets together on this thing and puts 100 percent into it, it's all going to come back on us. It will work out for us people, if it works out, but it's got to be a 100 percent deal, You can't have 80 percent for it and 20 percent not.

On the negative side, some respondents commented on their hard feelings over losing their pensions or that they were not as influential as they felt they should be or that they felt that the money was unfairly divided.

A small percentage of both workers and managers expressed bitterness over the loss of their pensions when ownership changed hands. One worker stated,

> Of course the only thing I can complain about is the pension. I got 25 years and no pension. They tell me I'm too young to get a pension. I can't go back 25 years and start again...

A manager echoed this statement:

> I lost my pension on the old plan and I'd like to see it work because it means a lot to me. I was here 22 years. I know it's a selfish reason but everybody's in the same way.

Some managers and supervisory personnel (18 percent) pointed out that stock ownership and increased influence do not necessarily go hand-in-hand. As one stated,

> Stock ownership does not really give stock owners influence in the company. Today it's a one man corporation--the president. He appoints the board of directors. The board of directors appoints the employee trust committee. It's one continuous circle. After 15-18 years when voting rights are vested, the shareholders will have appreciable influence. I am a bit skeptical of the ability of management to change. The Bank will not make management change. This is not a criticism of ESOP; it's a comment about the company.

Some workers (13 percent) were critical of the actual financial operation of the plan and felt that management and certain types of workers were getting a disproportionate number of shares. One worker had a number of complaints:

> I don't like the way it's set up. You got to put $1000 in before you're eligible to participate, plus stock shares are based on the amount of money you make, which I don't think is a fair way of doing it. I'd rather see it set up for amount of hours at work rather than amount of money--i.e., it should be an equal sharing. If you are a lower paid day worker rather than a piece worker, it's not fair. You got the same amount of responsibility. It takes everybody to do a job. I don't think it's a fair way of doing it. Also, at the age of 65, you can't call it profit sharing. All it amounts to is a retirement plan at 65. You retire or don't live to see it. It should be after 10 years, it should be 100 percent vested and you should be able to take that money out. After all, it is your money.

This worker may be revealing a misunderstanding of one aspect of the plan when he states that $1000 is required for eligibility. According to company officers, the plan prohibits that persons can "buy into" the plan. Another worker also complained about the way the stock is distributed, but he acknowledged that he did not really understand the plan:

> I feel all right about it, if we could make sense out of it. The way they spell it out, we don't know how much money we got, how much stock we got, or what they do with our stock after they have got it, which I suppose they do send us some machinery and different things, but how that works don't make too much sense to me. They don't spell it out clearly like an ordinary person could make sense of it. To them it probably does. To us it don't make sense. Unless we take it to a lawyer and have him figure it out and they cost you money. Well, I'm dissatisfied in a few ways. Like they said there's 12 people gets two-thirds of it. Well, that is wrong, because they're getting the highest wages to begin with. I still say, whatever profit come in through the back door should be split equally among the men plus the supervision. Not that they get a bigger share than the rest of us, and not to go by wages because wages vary, fluctuate quite a bit. Now, like me, I'm mostly on day work. All right, I'd be the one that would collect the smallest amount and I put out the same production as the other guys. That's where it hurts the smaller man with smaller wages. Where you're on piece work you can make your $60 a day and that's what they go by, the average of it. So where I make maybe $35, $40 a day, so I'm losing money.

This reaction may illustrate how some misunderstanding can arise when complex information is communicated to a large number of persons. It may also illustrate a real difference in point of view between at least some persons within the plant.

Company Performance

The morale and motivation of company personnel has improved as a result of the ownership plan, according to employees. According to these persons, employees are working more efficiently and more carefully because of the plan and they are contributing in this way to the success of the company. In fact, a number of measures of company performance based on company records do indicate improvement in recent years, although we are not able to determine from the available data how much of the improvement is attributable to the ESOP itself. The purchase of the company by employees was attended by other significant changes, including the establishment of an independent corporate identity, and some turnover in high level personnel. Each of these changes may have had an effect on corporate performance, quite apart from the ESOP itself. For example, according to some company officers, decision making has been facilitated and made more effective because decisions that had heretofore been centralized at conglomerate headquarters are now made within the plant itself. Furthermore, a number of significant changes in company strategy regarding marketing, production, and accounting were introduced along with the change in ownership. These strategies and some of their implications include:

-reduction in the backlog of orders which the company was having difficulty meeting efficiently and the elimination in that backlog of under-priced items

-stabilization of monthly sales

-decrease in the average collection time for accounts receivable

-reduction in annual insurance premiums (for the same degree of coverage)

-purchase of a small new division

Profit is one index of company performance. The years 1970 through 1975 were periods of loss for the company. The earlier years in this period, however, were difficult for the industry as a whole. Domestic new orders fell drastically in 1969 and did not rise to their previous level until the early part of 1973. The company did not do much worse than average for its class in 1972. In 1973, however, the industry in general returned to previous levels of profitability, while the company did not. The company did not move into the black until after the employee takeover. Monthly profit (net income before taxes) since that time has been consistently positive and the flow of profits has been stable.

The productivity of workers on jobs that have time standards appears also to have increased since the change in ownership and this increase in the amount of work turned out by each employee has not occurred at the expense of the quality of that work as measured by the rate of returns of the product from customers. The rate of these returns has gone down compared to the pre-ESOP period. Furthermore the expense associated with the use of perishable tools per sales dollar has also shown improvement, although labor costs per sales dollar has not changed noticeably since the initiation of the ESOP, perhaps because increased productive efficiency is partially compensated by increased pay for those employees who are working on incentives.

Two indices of employee behavior that are relevant to company performance, the rate of grievances and the turnover rate of salaried employees[1], have also shown favorable change since the ESOP was installed, but absenteeism and accident rates have not changed one way or the other.

---

[1] Data concerning non-salaried employees are unavailable from company records.

The available measure of absenteeism may be problematic, however, since it is based on person-days lost rather than on the number of absences that have occurred. The former is heavily influenced by a few persons who have serious long term illnesses and it is not sufficiently sensitive to the effect of "problem" employees who are absent often but for very short periods of time. Data concerning the latter type of absenteeism are not available in the records.

Conclusion

The company appears to have experienced a recovery in recent years according to a number of attitudinal, behavioral, and economic indicators. It is not possible in this preliminary analysis, however, to provide a definitive explanation of this recovery or to attach specific weight to the ownership plan itself. Some of the data do indicate that the plan is having positive effects, both direct and indirect. Yet the company has operated during earlier periods (prior to 1969) at levels of profitability as high if not higher than current levels. Furthermore, we can not say on the basis of this limited analysis that the company is performing better (or worse) than other, traditionally owned companies in its industry.

Perhaps the most unequivocal support for the effectiveness of the plan comes from the employees themselves, who indicate through interviews an unusually high level of morale, motivation, and commitment to the success of the company. The transition to employee ownership is not yet complete (the passing on of voting rights is scheduled to occur in several years) and the effects of employee ownership whether positive or negative are therefore not yet fully realized. Nonetheless, given the very positive attitudinal and motivational climate, and the demonstrable success of the company at present, there is reason to expect that performance will continue at present levels at least, barring a serious decline in the market for the company's product.

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.

SURVEY OF

EMPLOYEE STOCK OWNERSHIP PLANS

SURVEY OF EMPLOYEE STOCK OWNERSHIP PLANS:

Analysis and Evaluation of Current Experience

A Report Offered in Partial Fulfillment
of the Requirements for a Master of
Business Administration Degree

by

Matthew J. Bonaccorso
Sheridan M. Cranmer
David G. Greenhut
Daphne T. Hoffman
Niel Isbrandtsen

University of California, Los Angeles
Graduate School of Management

December, 1977

TABLE OF CONTENTS

UNIVERSITY OF CALIFORNIA, LOS ANGELES

BERKELEY • DAVIS • IRVINE • LOS ANGELES • RIVERSIDE • SAN DIEGO • SAN FRANCISCO | SANTA BARBARA • SANTA CRUZ

MANAGEMENT FIELD STUDY

GRADUATE SCHOOL OF MANAGEMENT
LOS ANGELES, CALIFORNIA 90024

December 2, 1977

Mr. Robert W. Smiley, Jr.
ESOP Council of America
11661 San Vicente Blvd.
Suite 911
Los Angeles, CA 90049

Dear Mr. Smiley:

Attached is our report for the ESOP Council of America. We have compiled our findings from the survey questionnaires and personal and telephone contacts and have drawn some preliminary conclusions about ESOP experience which we believe will be useful to the Council and its membership.

Your guidance in the study has been very important to its development, and we wish to thank you for your very generous assistance. Also, we wish to thank you for the considerable support provided by the ESOP Council.

Sincerely,

Matthew J. Bonaccorso
Matthew J. Bonaccorso

Sheridan M. Cranmer
Sheridan M. Cranmer

David G. Greenhut
David G. Greenhut

Daphne T. Hoffman
Daphne T. Hoffman

Niel Isbrandtsen
Niel Isbrandtsen

EXECUTIVE SUMMARY

Although employee stock ownership plans (ESOPS) have received a great deal of consideration in professional journals and seminars, only limited information is available on individual company experience with ESOPS. Recognizing the need for such information, the ESOP Council of America, a non-profit trade organization, sponsored this study by the UCLA management field study team.

The study was designed to ascertain whether the ESOP met the intended objectives of the company and the nature and extent of any problems. The study was intended to provide an overall evaluation of current ESOP experience and to assist the Council in understanding the characteristics and needs of its membership.

The study included a direct mail survey to 850 companies known to have ESOPS, personal and telephone interviews and a review of current literature. The results are based on the responses of 180 companies, most of which were closely held corporations with two to five principal stockholders. The number of employees ranged from 2 to 40,000 although 84% of the sample had under 200 employees. Primarily manufacturing, wholesale, financial, construction and service industries were represented. The sample also represented 33 states, with 42% of the companies being in California.

Most of the companies (85%) identified their ESOPS as stock bonus plans; the rest (15%) were stock bonus and money purchase plans. Sixteen percent of the plans were leveraged. The average age was three years.

The benefits and advantages considered most important were improved employee motivation, tax advantages, cash liquidity and market for closely held stock. It appeared that one of the most important uses of an ESOP was for estate (or life) planning, transfer of ownership, and preservation of the firm.

The problems most frequently cited as important were changing governmental regulations, administrative complexity, on-going costs and negative employee response. Even those companies generally pleased with the plan commented on the complexity, time and cost involved with the administration.

Dilution, considered one of the drawbacks to ESOPS, was not considered an important factor by the majority of respondents. Less than 6% of those responding thought loss of confidentiality was an important problem.

The risk inherent in an ESOP due to all an employee's eggs being in one basket was of concern to some, although it appeared that most felt the advantages of the ESOP outweighed the risks involved.

Because most plans had been in existence only a few years, most respondents were unsure of the ESOP's effect on employee motivation. Some of the factors mentioned were employee age and position in the company, and characteristics of both the firm and the industry. Comments showed the ESOP could not create an _esprit de corps_ where none existed previously.

The complexity of the plan and the difficulty of making an intangible benefit appear real underscored the need for education and good employer/employee communication.

Overall, most of the companies were highly satisfied with their ESOP. They believed it was living up to expectations and that it was important to the company. The great majority also said they would install an ESOP again if given the choice.

The study also showed, however, that the ESOP is a highly complex financial planning and employee benefit tool, and is limited in application.

Any company considering an ESOP would do well to define its objectives and needs carefully, and should investigate the alternative ways of accomplishing goals.

Plan design and implementation are also extremely important and should be undertaken with great care. Some companies felt their problems were due more to plan design than to improper use of an ESOP. Professional assistance is very important, but company administrators should also insure they understand the plan thoroughly themselves.

One of the important contributions the ESOP Council can make is to provide such assistance to companies with existing ESOPS and to those considering one. Clearly evident in the study was the willingness of those who participated to discuss their ESOP experience as well as a strong interest in the experience of others with ESOPS and the field generally.

INTRODUCTION

The Employee Stock Ownership Plan (ESOP) has been heralded as a possible solution to many of the problems confronting the American free enterprise economy. The high degree of interest in the ESOP is reflected by the rapid growth of literature on the topic, the constantly expanded offerings of ESOP educational seminars, the service organizations which have been formed to provide professional ESOP service, and the growing number of companies which have adopted them.

Two primary observations that emerge from the literature have been a persuasive factor in the growing acceptance of the ESOP:

(1) The ESOP is an employee benefit plan that can motivate employees through equity participation while also improving industrial relations, and

(2) The ESOP is a versatile financial tool that furnishes tax advantages in a variety of corporate transactions.

Although ESOPS have received a great deal of consideration in professional journals and seminars throughout the country, most of the commentary has revolved around the virtues of ESOPS with only limited commentary on the potential negative aspects. The few empirical studies done to date have been limited in scope and sample size. It has also been difficult to reach any definite conclusions about ESOPS because most have been in existence less than five years.

The purpose of this study was to solicit information from those companies with an ESOP currently in operation to ascertain whether the ESOP met the intended objectives and the nature and extent of any problems. The study was designed to provide information regarding plan design, implementation and operation, satisfaction with the various professional services involved, and overall satisfaction with the plan. In addition, it was intended to provide an overall picture of individual company experience with ESOPS and to furnish the ESOP Council with an informational framework of its membership in order to guide its policies and to design efforts for activities and services.

The study is divided into three sections: methodology, summary of findings, and an appendix of supporting survey data and correlations.

Statements, findings and conclusions are solely those of the field study team and do not necessarily reflect the opinions of the ESOP Council.

METHODOLOGY

I. Categories of Investigation

The investigators adopted seven broad categories for which information was needed:

1. Characteristics of the company with an ESOP
2. Plan description
3. Professional and administrative services
4. Benefits and advantages of the plan
5. Problems with the plan
6. Perceived employee response
7. Overall evaluation of the plan

II. Information Gathering Techniques

The following means for gathering information were employed:

1. Direct mail survey
2. Personal and telephone interviews
3. Review of the literature

Direct Mail Survey

A four-page survey questionnaire was designed to collect specific information of both a quantitative and qualitative nature about individual ESOPS. The initial design contained relevant questions organized under the seven categories of information needed. This was refined with information gained in preliminary personal interviews with ESOP administrators in several Los Angeles firms. The revised questionnaire was then sent to chief executive officers in companies with ESOPS and professionals working in the ESOP field who were represented on the official mailing list of the Council.

All those companies who returned a completed questionnaire identifying their plan as an ESOP were considered to have ESOPS for the purpose of the study.

Total mailing:	1136
Estimated number of companies with ESOPS reached by the mailing:	850
Number of completed responses in four week period:	186
Percent return for companies with ESOPS:	22%

Interviews

About 25 personal and telephone interviews were conducted in order to develop insight into the meanings and variety of responses which were possible for specific questions in the survey. Additional qualitative data was also collected concerning the unique experiences of these companies and the degree to which the ESOP met the company's objectives.

Interviews were conducted with company ESOP administrators, professional plan administrators, lawyers, trustees, researchers and government officials. Attitudes, comments and relevant information were recorded to provide a data source about the professional and legislative views regarding ESOPS.

Review of the Literature

Particular attention was given to reported research on existing ESOPS. Prior studies have been chiefly analytical in terms of the technical aspects of an ESOP, and have offered empirical findings based on relatively small samples (two studies provided data on 10-12 companies). The major emphasis of the only study dealing with a large sample (98 companies) was on productivity, job stability and the quality of working life. [1]

III. Analysis of the Questionnaire Responses

Numerical. A computer data base was constructed in APL computer language vectors from numerical responses to the questionnaire. Additional non-numerical questionnaire responses were coded in numeric form and also entered as vectors. Standard statistical compilations were performed to determine the characteristics of the aggregated data and the extent of correlation between pairs of variables for which a relationship was hypothesized.

Qualitative. Analysis of the different types of responses to specific questions yielded a set of guidelines for evaluating the intent of an answer where more than one interpretation of the question might be possible. The meaning of individual and aggregate responses were considered in determining whether a particular set of responses could be meaningfully correlated with other response sets.

[1] Employee Ownership: Report to the Economic Development Administration. United States Department of Commerce Project Number 99-6-09433. Survey Research Center, University of Michigan Institute for Social Research.

IV. Evaluation of the Results

The results of the questionnaire were compared with information gathered through other sources and with expected outcomes. Findings of the study were based on an evaluation of statistical results in terms of qualitative (including psychological) factors which might explain the statistical outcomes. Some of the interesting differences from the normally expected outcome of certain questions are presented in Appendix B.

SUMMARY OF FINDINGS

I. Characteristics of the Companies

Of the 186 responses from companies with ESOPS, 180 were completed questionnaires which could be used in the study. Three completed responses were eliminated because they turned out to be pure profit sharing plans. Two companies wrote that although they previously had an ESOP, the plan was dropped in 1977 due to government regulations incompatible with their purposes for the plan and increased paper work. One company, whose plan was less than a year old, indicated an inability to provide useful data.

Of the 180 companies analyzed most were closely held corporations. A small number of major public corporations are also represented. A summarized description of the sample follows. Full detail on data collected is published in Appendix A. A brief description of the sample appears below.

Characteristics of the Sample

1. The sample for the study consists of 180 responses from companies with ESOPs.

2. The average number of shareholders ranges from 2 to 5.

3. The proportion of companies with publicly traded stock (New York Stock Exchange, American Stock Exchange, Over the Counter, etc.) is 12.2%.

Characteristics of the Sample, continued

4. The sales range of the companies is broken down as follows:

Per Cent of Companies	Sales Range
8.3%	0 - $1,000,000
28.4%	$1,000,001 - $5,000,000
19.5%	$5,000,001 - $10,000,000
28.4%	$10,000,001 - $30,000,000
15.4%	Over $30,000,000
100.0%	

5. The number of employees varies from fewer than 10 to 40,000 but most companies have about 200 employees:

91% of the companies had 650 or fewer employees

84% " " " " 200 " " "

62% " " " " 100 " " "

40% " " " " 50 " " "

For the remaining 9%, the number of employees ranged from 651 to 44,000.

6. Twenty-six per cent of the companies have at least one union. One company has 118 unions.

7. The types of industries represented include the following:

Per Cent of Companies	Type of Industry
28.9%	Manufacturing
17.2	Wholesale
11.7	Financial
10.0	Construction
9.4	Service
6.7	Retail
6.1	Professional
1.1	Agriculture
.6	Utility
5.5	Other
2.8	Not stated
100.0%	

8. Thirty-three states are represented, with a range of 1 to 8 responses from each state. The exception: California, with 58 responses or 42% of the sample.

9. The average age of the plan is 3 years.

II. Plan Description

Eighty-five percent of the ESOPs reported were stock bonus plans; the remaining fifteen percent were stock bonus and money purchase plans. Seven of the plans were TRASOPS (Tax Reform Act ESOPS which take advantage of an additional 1-1½% investment tax credit).

Thirty percent of the plans were the result of a conversion from a previous plan; 25% of the plans are combined with another benefit plan. Only 16% of the ESOPS were currently leveraged.

Vesting requirements in most cases (85%) ranged from three to twelve years with 55% of the sample providing for a 10% vesting each year for a period of ten years. Ten percent of the plans required the statutory maximum vesting period of 15 years. The remaining 5% had 100% immediate vesting; most of these plans were TRASOPS.

Ninety-three percent of the trusts held common stock, while seven percent held preferred stock. Some trusts also held debentures, cash and other marketable securities.

In general, stock was distributed to terminating or retiring employees in lump sum with cash for fractional shares. A few companies offered the flexibility of an annuity which must be from the plan's pension portion.

Forty-three percent of the companies included a "put" [2] to the trust. The average length of time for the "put" was 9.3 months from the date of distribution. Many of the companies indicating they had no "put" later gave evidence to the contrary; it is possible that the question may not have been understood as it was presented. A number of respondents indicated that it was company policy to repurchase stock. Some of the companies were prohibited by law from repurchasing their own stock from terminated plan participants.

[2] A "put" to the trust gives the employee the right to sell his stock back to the trust within a specified time period subsequent to the stock distribution. New ESOP regulations (Sept. 2, 1977) require a mandatory 15 month "put" for leveraged ESOPS if there is no public market for the stock.

III. Professional Administrative Services

Questions on administrative services dealt with auditing, stock appraisal, legal services, trustee and general administrative services, whether provided internally or by outside consultants and plan keepers. Satisfaction was rated very high for all services.

Appendix A gives a detailed description of who provides what services and the satisfaction with each.

Administrative costs. Both installation and annual maintenance costs covered a wide range. Maintenance expense for the plan tended to be about one third to one half of the installation cost. The figures provided by respondents represented at best a rough estimate of actual plan costs due to the fact that some companies using internal services may not have allocated the appropriate amount of all costs incurred by the ESOP. Further, some respondents may have found it difficult to neatly divide expenses into the categories provided on the questionnaire.

Summary of Administrative Costs

	Range	Average
Plan installation:	\$500-\$125,000	\$12,204
Annual maintenance:	\$500-\$150,000	\$ 5,766

The average costs were determined after eliminating some very high and very low estimates. A breakdown of the cost components of both installation and maintenance expenses appears in Appendix A.

IV. Benefits of the Plan

The following benefits were most commonly cited as "important" (see Appendix A for additional factors):

	% of Companies
Improved employee motivation	70%
Tax advantages	64%
Cash liquidity of company	43%
Market for closely held stock	41%
Estate planning	35%

The two benefits most highly ranked were improved employee motivation and tax advantages. These results confirmed the expectations of the investigators which were derived from the descriptive literature on ESOPS and from personal interviews. Employee motivation is discussed below under the heading "Perceived Employee Response."

While cash liquidity was highly ranked, relatively few respondents felt the ESOP was important with respect to raising capital or financing new or existing debt. Rather, it appeared the majority of the firms in the sample were using the ESOP more for a market for closely held stock and for estate planning purposes. This was not surprising as more than half of the companies in the sample had five or fewer principal stockholders. Several people interviewed suggested that while an ESOP may be used for many different purposes, its main benefit in the long run may be estate (or life) planning, transfer of ownership, and the preservation of the company.

V. Problems with the Plan

The following problems were most frequently cited as "important" (see Appendix A for additional factors):

	% of Companies
Changing governmental regulations	64%
Administrative complexity	45%
Employee Reaction	26%
On-going costs	25%

Changing governmental regulations have been a source of frustration in plan implementation and have been responsible for extra administrative costs. One respondent estimated 90% of his yearly costs were related to compliance with the regulations. Another wrote, "We are thinking of abolishing the plan because of red tape and too many government changes which are making the costs too high." While the final Internal Revenue Code and Department of Labor ESOP regulations, issued Sept. 2, 1977, should alleviate some of the problems, other costs related to administrative complexity will remain.

It is true that the ESOP is more complex due to the requirements associated with stock valuation and handling. However, as many of the companies in the survey had no prior experience with a benefit plan, part of the concern expressed about costs and complexity may be applicable to employee benefit plans in general.

The on-going maintenance costs were not found to be related to the size of the company (number of employees) or its sales level. Therefore, attempts to arrive at a meaningful annual cost per employee for the plan were negated. Further, as many of the cost figures provided were estimates and did not distinguish between actual expense to the company from outside services and cost for the amount of internal time used, the investigation was unable to arrive at a measure of cost effectiveness of administrative services versus the size of the plan.

Complaints about high costs usually were from smaller companies with relatively low administrative costs as they were doing the administrative work internally wherever possible. However, their perceptions were that the plan was costing them more than it should. One executive allocated $25,000 to his installation cost estimate to cover his personal time, and a number of others also commented they had not expected to devote as much time to the plan's operation as they ended up doing.

Dilution of the equity of the pre-ESOP shareholders in a company is frequently cited as a possible drawback. When the number of shares outstanding increases, the value of the stock held by the original group of shareholders drops; earnings per share may also decrease. Theoretically, the increased profitability from improved employee motivation and the greater return on capital generated by the additional cash should offset the effects of dilution. Shareholders, who are also participants in the plan, may also find some of the ownership, previously given up, returned through allocations and forfeitures of employees leaving before fully vested. In effect, while a shareholder's piece of the pie may become proportionately smaller, the pie itself grows larger.

The majority of respondents did not feel dilution was a problem. 57% said it was not a factor at all while 30% felt it was of some importance. 13% said it was an important problem. In answer to a more specific question about stockholder objection to current or anticipated dilution, 68% of those responding did not consider it a factor while less than 6% considered it an important problem. The term "dilution" may have meant different things to different companies in responding to the question.

Comments about dilution expressed a variety of viewpoints. Several company administrators believed any dilution that had taken place actually strengthened the company. Others said that dilution was not a current problem but that there was concern that it would be in the future.

While dilution studies cannot forecast what may happen with certainty, the company considering an ESOP should define its objectives carefully taking into account the trade-offs involved.

Loss of confidentiality, also discussed in ESOP literature, was not considered a problem. Less than 6% of the respondents felt it was an important problem; 70% said it was not a factor. The figures from the survey, however, do not include those companies that decided against installing an ESOP because of it.

Several people in interviews expressed strong concern about the risk inherent in an ESOP as a sole retirement plan. Because the ESOP invests primarily in company stock, the employee finds all his eggs in one basket. His job and his retirement funds are dependent on the company's performance. One company said it was experiencing a sharp drop in the value of its stock due to industry and company down-turns. For another, strong growth had substantially increased the value of its stock, and the ESOP was doing far better than the profit sharing plan it replaced. Concern about the riskiness of an ESOP may be related to how one views the plan: as deferred compensation for employees or fundamentally as a gift.

VI. Perceived Employee Response

It was interesting to note that while the single most important advantage cited by firms was improved employee motivation, employee reaction also ranked high in the problems area.

Turnover

Only 20% of the respondents indicated that the ESOP had an effect on employee turnover; the remaining 80% believed there was no effect. The answers, however, were qualified with the following comments:

(1) Some plans have not been in effect long enough for a difference in employee turnover to be discernible.

(2) Some companies have normally low (or high) turnover rates which were not significantly changed with the installation of an ESOP.

(3) Managerial employees and other professionals (accountants, lawyers, etc.) may be more inclined to stay with a firm because of the ESOP (exception: in one case, several employees left as soon as they were fully vested in order to start their own, competing business).

(4) The decision to remain with the firm may be age related. Younger people may not consider the ESOP a relevant factor in their life (Many comments were offered that they would prefer a cash bonus at Christmas); older employees (those approaching 40 years and older) are concerned with the quality of their life in retirement.

There was also mixed reaction on the plan's ability to attract or retain personnel in comparison with other benefit plans.

As mentioned above, one explanation for this outcome may be that most of the plans have not been in effect long enough for a trend to be identified.

Employee Opinion of the Plan

Statistically there appeared little difference in employee opinion from the time of the plan installation to the present. Individual companies, however, noted both increases and decreases in the favorability of employee opinion.

Employee Motivation

Many companies indicated no difference in the level of employee motivation resulting from the plan. The greatest number of these claimed that the complexity of the plan and the difficulty of making an intangible benefit appear real was responsible for the apparent indifference or confusion on the part of the employee.

The effect of the ESOP on employee motivation seems to be a distinctly individual phenomenon, which is related more to the company's prior condition than to the event of ESOP installation. Further, the more closely involved the employee is in the outcome of the operation of which he is a part, the more interest he will have in the plan.

Even in those companies where perceived employee response was considered good, management stressed the importance of an on-going educational program to sell the ESOP concept. As employee understanding of the plan was rated fair to poor by 71% of the companies responding, the need for better communications is further underscored.

VII. Overall Evaluation of the Plan

The majority of responses to the survey indicated a high degree of satisfaction with ESOPS. Most respondents felt the plan was important to the company and that it was living up to expectations. The great majority of respondents also said they would install an ESOP again if given the choice.

In interviews with company administrators, it appeared that where the ESOP met the needs of the company well, management felt the plan was performing even better than had been expected. This seemed particularly true of those firms in which the trust owned, or was expected to own, all or a substantial portion of the company's stock.

It appeared that larger companies tended to be somewhat happier with their ESOPS than smaller companies. This was most likely due to the relative ease with which a plan can be administered and maintained.

The companies that were not happy with their plans cited administrative complexity, costs and negative employee response as the primary factors. Some felt they would not have installed an ESOP had they been more aware at the time of the pitfalls. "If we knew about ERISA, we never would have installed one."

Where the reaction to the ESOP was mixed, administrators expressed concern about possible future problems related to escalating costs, government regulations and reporting requirements, and trust cash needs.

The ESOP's effect on employee motivation appeared to depend on the individual company. As was the case above, the better the ESOP met the needs of employees, the more value it held for them. It did not seem that the ESOP by itself measurably improved employee morale or motivation unless the work atmosphere and employer/employee communications were good to begin with. Where no _esprit de corps_ exists, an ESOP cannot be expected to create it.

Finally, even in companies where employer/employee relations were good, administrators stressed the importance of continually selling the concept of the ESOP to employees. The intangible nature of an ESOP makes that a difficult job.

VIII. Concluding Remarks

One of the comments frequently made by company administrators was that the ESOP turned out to be far more complex, both in concept and administration, than was originally thought. Despite the attractiveness of the theory on which the ESOP is based and the many positive and unique aspects about it, an ESOP is limited in its application. As it is easy to be carried away by visions of increased cash flows and improved employee morale, the tendency may exist to overbuy and oversell ESOPS. ESOP experience of those companies in the survey was generally positive but doesn't mean an ESOP is the solution for all companies.

The objectives and needs of the company should be defined carefully before the decision is made to install an ESOP. Other alternatives may accomplish the same goals more effectively, and the advantages and disadvantages of each should be weighed.

If an ESOP is deemed the best alternative, the design and implementation of the plan should be carefully done. Some of the companies in the survey felt their problems were due more to plan design than the ESOP concept itself. While professional help is very important in that respect, company administrators should make sure they personally understand the plan thoroughly.

One of the important contributions the ESOP Council can make is to provide such assistance to companies considering an ESOP and those with plans already existing. The Council can provide information directly and through its membership can put companies in contact with others with similar experiences.

Clearly evident in the study was the willingness of those who participated to discuss their ESOPS as well as an interest in knowing how others with ESOPS were faring.

RECOMMENDATIONS FOR FURTHER STUDY

I. Follow-Up Survey

A follow-up survey should be undertaken in three to five years to determine the effects of maturity on the satisfaction with the plan. (A great number of those with 3-5 years current experience will at that time be anticipating or experiencing the effects of an increasing number of fully vested employee accounts.)

Also, the factors identified by this study as being important should be compared with the results of the new study to determine possible trends of company experience with the plans.

II. Employee Attitudes

Because the present study dealt with management's perception of the ESOP's effect on employees, a direct study of employee attitudes towards the ESOP should be undertaken.

APPENDIX A

MAIL QUESTIONNAIRE

and

RESULTS OF THE SURVEY

UNIVERSITY OF CALIFORNIA, LOS ANGELES

BERKELEY • DAVIS • IRVINE • LOS ANGELES • RIVERSIDE • SAN DIEGO • SAN FRANCISCO SANTA BARBARA • SANTA CRUZ

MANAGEMENT FIELD STUDY

GRADUATE SCHOOL OF MANAGEMENT
LOS ANGELES, CALIFORNIA 90024

August 26, 1977

Dear Administrator:

This is a Management Field Study project being conducted by five Masters of Business Administration candidates to fulfill the "Masters Thesis" requirement for graduation from the Graduate School of Management, University of California, Los Angeles. It will be one of the topics on the program at the UCLA Conference on Employee Stock Ownership Plans held at UCLA on October 8, 1977.

Enclosed is a questionnaire designed to investigate the experience that companies have had with employee stock ownership plans (ESOPs). The information derived from this survey will be used:

1. To provide a source of data about the characteristics of ESOPs in existence,including specific benefits and problems,
2. To set forth any solutions devised by participants to common ESOP problems,
3. To provide a source of information for companies contemplating the initiation of an ESOP; and
4. To evaluate the effect of present government regulations of ESOPs.

This questionnaire has been sent over 800 companies in the United States known to have ESOPs. The survey results will be aggregated, summarized, and provided to all participants.

The ESOP Council of America is our sponsoring organization and is reimbursing us only for the costs of the questionnaire. Your identity will not be disclosed and will be known only to the student team members and faculty advisors.

We would prefer having the questions answered with reasonable estimates rather than with more precise statements that would cause delay in compiling the data. If you have any questions concerning the completion of the questionnaire, please call the ESOP Council, (213) 826-1584, and leave your name and telephone number for the Field Study Team.

We would appreciate your completing and returning the questionnaire in the enclosed envelope on or before September 9, 1977.

Thank you for your assistance,

Matthew J. Bonaccorso
Matthew J. Bonaccorso

Daphne Hoffman
Daphne Hoffman

Sheridan M. Cranmer
Sheridan M. Cranmer

Niel Isbrandtsen
Niel Isbrandtsen

David Greenhut
David Greenhut

Arlene Chait
Arlene Chait
Director, Management Field Studies

CONFIDENTIAL SURVEY OF EMPLOYEE STOCK OWNERSHIP PLANS

Please complete and return by September 9, 1977 to: Management Field Study Office
UCLA Graduate School of Management
Los Angeles, CA 90024

/_/ Check here if you would like a copy of the study when it is complete. If so, please attach business card.

A. COMPANY INFORMATION

1. Type of industry ______________________ I.R.S. Business Code __ __ __ __

2. Number of principal stockholders (check one):

/_/ 1

/_/ 2-5

/_/ 6-10

/_/ 11 or more

3. Annual Sales (check one):

/_/ 0 - $1,000,000

/_/ $1,000,001 - $5,000,000

/_/ $5,000,001 - $10,000,000

/_/ $10,000,001 - $30,000,000

/_/ Over $30,000,000

B. EMPLOYEE INFORMATION (estimates acceptable)

4. Number of full-time employees ________ Number of part-time employees ________

Is there a union? ____

5. Employee age mix (percentage): Under 35 _____% 35-50 _____% Over 50 _____%

6. How many employees leave the company each year? ________ Of these, how many are fully vested? ________ How many are not fully vested? ________

7. Has the plan had any effect on the number of people leaving each year? (yes/no) ____

Please comment: ______________________________

C. PLAN DESCRIPTION

8. Type of plan (stock bonus, stock bonus and money purchase, etc.) ______________

9. Length of time plan has been in effect (to nearest month) ______________

10. How many months were required from the time work was begun on the plan until it went into effect? ______________

11. Was a "liquidity analysis" or "dilution study" done prior to the implementation of the plan? (yes/no) ____ If yes, was it done by someone from inside the company or by someone from outside the company? ______________

Are such studies now done on a regular basis (yes/no) ____ How Often? ________

12. Trust assets are (check one):

/_/ $50,000 or less

/_/ $50,001 - $100,000

/_/ $100,001 - $500,000

/_/ $500,001 - $1,000,000

/_/ Over $1,000,000

13. Annual contributions are (check one):

/_/ $25,000 or less

/_/ $25,001 - $50,000

/_/ $50,001 - $100,000

/_/ $100,001 - $500,000

/_/ $500,001 - $1,000,000

/_/ Over $1,000,000

APPENDIX A

QUESTIONNAIRE ANSWERS

A. COMPANY INFORMATION

1. Type of Industry________________________

Category	No.	Percent
Manufacturing	52	28.9%
Wholesale	31	17.2
Financial	21	11.7
Construction	18	10.0
Service	17	9.4
Retail	12	6.7
Professional	11	6.1
Agriculture	2	1.1
Utility	1	.6
Other	10	5.5
No response	5	2.8
Sample:	180	100.0%

2. Number of principal stockholders:

Category	No.	Percent
1. 1	30	17.4%
2. 2-5	72	41.6
3. 6-10	21	12.1
4. 11 or more	50	28.9
Sample:	173	100.0%

3. Annual Sales:

Category	No.	Percent
1. 0 - $1,000,000	14	8.3%
2. $1,000,001 - $5,000,000	48	28.4
3. $5,000,001 - $10,000,000	33	19.5
4. $10,000,001 - $30,000,000	48	28.4
5. Over $30,000,000	26	15.4
Sample:	169	100.0%

B. EMPLOYEE INFORMATION (estimates acceptable)

4. (a) Number of full time employees __________

I. Complete Data

Sample:	178
Range:	1-44,000
Mean:	971
Standard Dev.:	5327
Median:	90
Mode:	50, 70, 100, 120
Mode frequency:	5 each

II. Data in which very large companies and those with unions included in employment figures but not in the ESOP have been removed.

These figures more accurately reflect the number of participants in plans.

Sample:	157
Range:	1-1900
Mean:	151
Standard Dev.:	243
Median:	75
Mode:	70, 100
Mode frequency:	5 each

(b) Number of part time employees ______________

Figures not meaningful.

(c) Is there a union?

Category	No.	Percent
Yes	48	27.3%
No	128	72.7
Sample:	176	100.0%

5. Employee age mix (percentage): Under 35____% 35-50____%
Over 50____%

It was difficult to categorize the results of this question in a meaningful way. More substantive information came from written comments particularly those related to turnover. (See question 7)

On the average, the greatest number of employees (49%) in a firm are included in the "under 35" years old category. About 37% fall within the "35-50" age category and the remaining 14% fall into the "over 50" age group.

Category	Mean	Standard Deviation
Under 35	49.4%	24.0%
35-50	36.5	18.5
Over 50	14.1	12.1
Sample: 163	100.0%	

6. How many employees leave the company each year? ______
Of these, how many are fully vested? ______
How many are not fully vested? ______

Generally, figures not meaningful. The average annual turnover for the sample was about 18%.

7. (a) Has the plan had any effect on the number of people leaving each year? (yes/no)_______

Category	No.	Percent
Yes	31	21.1%
No	116	78.9
Sample:	147	100.0%

(b) Please comment______

Many of those responding believe their plans have not been in effect long enough to know whether there is an effect on turnover. Some feel turnover is due to factors other than the ESOP. Some feel age or position in the company makes a difference.

Comments:

"Too short a time to know"
"Too young"
"Plan not in effect long enough. Impossible to tell"

"Plan not a major reason for leaving"
"Industry and area, not plan"
"Other reasons are overriding"
"Employees leave because of age or school. They don't look for ESOP as security"

"No effect on people under 35 years old"
"Probably not; hourly workers seem generally not to comprehend significance of the plan to them"
"Turnover among younger more lowly paid employees to whom ESOP has less value"
"Not yet, but we are concerned that some younger employees will be tempted to leave once they have some money they can cash in"
"No effect. The plan is comparatively new; this could be the reason. Also during periods of high inflation, younger employees particularly need cash"

"ESOP has no effect on retention"
"Disappointment to company"
"It has been a consideration, but as far as we know, the ESOP has never stopped anyone"

7. (b) Continued

"Two employees left in order to get the money and use it to go into business against us"
"Believe it encourages some early leavings when individuals have $20,000-50,000 in vested accounts"
"Believe at least two employees left due to a sharp drop in stock valuation in a lean year"

"Once people are in the plan, the farsighted employees see advantages. A longer admission period would simplify administration"
"Believe it has some effect in reducing employee turnover"
"Turnover reduced"
"It seems to have slowed turnover rate for full time employees slightly"
"Effect only for employees with more years of service"
"Employees like having ownership in the company"
"Older employees stay"
"Acts as a deterent"
"Once approximately 50% vested, employees don't leave"

"Plan only in 4th year; no vesting until 5th year"
"Not possible to determine if some employees remain specifically because of the plan"
"We have no highly vested employees"
"Yes for people who are vested. No for those who aren't"
"Plan has not been properly promoted"
"Plan not well understood"
"Too intangible"
"We have had low turnover for years prior to establishment of ESOP"
"Equity not large enough yet"
"Some have returned"

C. PLAN DESCRIPTION

8. Type of plan (stock bonus, stock bonus and money purchase):

Category	No.	Percent
Stock bonus:	154	87.0%
Stock bonus and money purchase:	23	13.0
Sample Size:	177	100.0%

Seven of the stock bonus plans are actually TRASOPS (Tax Reform Act ESOPS). The companies with TRASOPS are the largest companies in the sample and are primarily in the petroleum industry and utilities.

9. Length of time plan has been in effect (to nearest month)______

Sample size:	173	
Maximum:	145	months
Minimum:	6	"
Mean time in effect:	36.4	"
Standard Deviation:	18.4	"
Median:	34	"
Mode:	24	"
Mode frequency:	19	

The average age of the plans is three years; many of those responding indicated that plans were too new to make definite judgments about them.

10. How many months were required from the time work was begun on the plan until it went into effect?______

Sample Size:	174	
Maximum:	43	months
Minimum:	1	"
Mean:	7.8	"
Standard Deviation:	5.7	"
Median:	6	"
Mode:	6	"
Mode frequency:	53	

11. (a) Was a "liquidity analysis" or "dilution study" done prior to the implementation of the plan? (yes/no)______

Category	No.	Percent
Yes:	81	45.8%
No:	96	54.2
Sample:	177	100.0%

(b) If yes, was it done by someone from inside the company or by someone from outside the company?

Inside:	33	40.7%
Outside:	37	45.6
Both inside and outside	11	13.7
Sample	81	100.0%

(c) Are such studies now done on a regular basis (yes/no)?______

Yes:	46	29.5%
No:	110	70.5
Sample:	156	100.0%

(d) How often? (are studies done)

Annually:	42	84.0%
Misc. Other:	8	16.0
Sample:	50	100.0%

12. Trust assets are:

Category	No. of Responses	Percentages
1. $50,000 or less	28	16.0%
2. $50,001 - $100,000	24	13.7
3. $100-001 - $500,000	68	38.9
4. $500,001 - $1,000,000	25	14.3
5. Over $1,000,000	30	17.1
Sample:	175	100.0%

13. Annual Contributions are:

A number of respondents indicated that the annual contribution varies from year to year dependent on a number of factors. In cases where two categories were checked due to yearly variations, the answer was not included in the sample.

Category	No. of Responses	Percentages
1. $25,000 or less	30	18.2%
2. $25,001 - $50,000	30	18.2
3. $50,001 - $100,000	35	21.2
4. $100,001 - $500,000	49	29.7
5. $500,001 - $1,000,000	12	7.3
6. Over $1,000,000	9	5.4
Sample:	165	100.0%

14. (a) Are annual contributions in the form of stock?______ Cash?________ or a combination?__________

Category	No.	Percent
Stock	56	32.4%
Cash	70	40.4
Combination (stock and cash)	47	27.2
Sample:	173	100.0%

(b) Does it vary?

Category	No.	Percent
Yes	57	52.8%
No	51	47.2
Sample:	108	100.0%

Comments:

"No, but it may vary in the future?
"Stock contribution so far; anticipate a combination later on"
"Initial contribution was in stock; subsequent contributions have been in cash and will continue to be"
"Contributions are in stock only, but it varies between common and preferred"

15. (a) Is the plan the result of a conversion from a previous employee benefit plan? (yes/no)___________

Category	No.	Percent
Yes	54	30.3%
No	124	69.7
Sample:	178	100.0%

Comments:

"Split off from existing profit sharing plan"
"Insured annuity purchase was frozen in 1970"
"Original plan was dropped; it didn't cover everyone"

(b) Is the plan combined with any other benefit plan? (yes/no)___

Category	No.	Percent
Yes	40	27.0%
No	108	73.0
Sample:	148	100.0%

(c) If yes, please specify________

Category	No.	Percent
Profit sharing	18	45.0%
Pension	13	32.5
Other	9	22.5
Sample:	40	100.0%

16. Is, or was, the plan leveraged (e.g., has the trust ever obtained a loan)?

A relatively low number of participants (16%) indicated their plans were leveraged. The question, however, did not ask if leveraging was a possibility in the future.

Category	No.	Percent
Yes	29	16.3%
No	149	83.7
Sample:	178	100.0%

17. What types of securities (e.g., common, preferred, voting, non-voting) does the plan have?_______

In addition to the statistics below, some respondents indicated the trust held debentures and bonds, and several respondents mentioned interest bearing notes. One respondent said the stock was voting common now but would be non-voting later.

Category	No.	Percent
Common:		
Non-specified	90	62.1%
Voting	24	16.5
Non-voting	12	8.3
Preferred:		
Non-specified	8	5.5
Voting	1	.7
Non-voting	6	4.1
Both Common and Preferred:	4	2.8
Sample:	145	100.0%

18. (a) What are the vesting requirements?

Responses were broken down into three main categories:

Category	No.	Percent
100% immediate vesting	9	5.8%
Statutory maximum period of 15 years	14	9.1
Vesting from 1-14 years	131	85.1
Sample:	154	100.0%

Most of those plans with 100% immediate vesting are TRASOPS. In the last category (vesting from 1-14 years), 79 plans (51.3% of the total sample) have ten year, 10% per year vesting requirements often with the vesting starting at 40% after four years. Several respondents indicated they were considering a change in their plan's requirements.

(b) Are there any specific vesting requirements with respect to non-resident aliens, union employees, etc.?______

Twenty-six participants mentioned specific vesting requirements. Exclusion of union members was the most common (19 responses). Several indicated only salaried employees are eligible for the plan. Two said non-resident aliens are excluded while one said they are included. One plan requires California residency.

19. (a) Does the plan carry life insurance? (yes/no)________

Category	No.	Percent
Yes	28	16.0%
No	147	84.0
Sample:	175	100.0%

(b) If yes, on everyone? (yes/no)________

Category	No.	Percent
Yes	3	12.5%
No	21	87.5
Sample:	24	100.0%

(c) On key people only?________

Category	No.	Percent
Yes	23	82.1%
No	5	17.9
Sample:	28	100.0%

(d) Is the trust the beneficiary?________If not, then who is?____

Category	No.	Percent
Trust	22	78.6%
Company	1	3.6
Employee choice	5	17.8
Sample:	28	100.0%

20. (a) Does the plan provide for a "put" to the trust, the company, or other party for a period of time? (yes/no)______

A "put" option permits the employee to sell his shares back to the trust within a certain time limit following distribution. As of September 2, 1977, the final regu-lations require a "put" for a minimum of 15 months for leveraged plans.

A few of the respondents said they did not understand the term "put". Others, who said their plan did not provide a "put" in response to this question, described a "put" option in the following question regarding distribution of the stock. Because the question as it was presented may not have been well understood, the results may not be meaningful.

Category	No.	Percent
Yes	68	42.5%
No	92	57.5
Sample:	160	100.0%

(b) If yes (the plan provides a "put"), what is the length of time (to nearest month)?_____

Sample:	45
Range	0 - "Indefinite"
Mean	9.3 months
Standard Dev.	18.6 "

21. How is stock distributed to vested employees upon termination, and what are the particular requirements of the plan in this regard?

The majority of plans distribute stock in a lump sum with certificates for whole shares and cash for fractional shares. Many of the plans offer to buy back the stock immediately, often doing so without actually transferring certificates.

Some plans offer the flexibility of annuity payments. A few plans require employees to wait until retirement age before the stock is distributed regardless of when the employees leave the company.

Comments:

"Distributed within six months of termination"
"Regular stock certificates usually converted to cash"
"Letter informing of stock in their name with an offer to repurchase for cash"
"Can not own shares until age 65. Upon termination prior to this time, the ESOT endeavors to repurchase at current value"
"Can be held until retirement, disability or death, or distributed at once"
"Priority to newly terminated employees for repurchase rather than regular stockholders; those recently terminated will get the first chance to sell back to the trust"
"Cash payment in lieu of stock"
"Under $1750, stock distributed upon termination, others upon attainment of age 60"
"Employees have choice between holding stock, lump sum payment or payment over a period of time"
"Mailed"
"Haven't faced this yet"
"None vested yet"
"Not definitely settled'

D. ADMINISTRATION

22. (a) Is the plan audited by independent accountants? (yes/no)_____

Category	No.	Percent
Yes	115	63.5%
No	66	36.5
Sample:	181	100.0%

(b) If no, will it be?________

Category	No.	Percent
Yes	19	47.5%
No	21	52.5
Sample:	40	100.0%

23. Is there a formal accounting procedure or allocation manual?_____

Category	No.	Percent
Yes	115	66.1%
No	59	33.9
Sample:	174	100.0%

24. (a) How often is the stock appraised?________

Category	No.	Percent
Annually	141	88.1%
Semi-annually	5	3.1
Quarterly	5	3.1
Other	6	3.8
Not done	3	1.9
Sample:	160	100.0%

24. Continued

(b) By whom is it appraised (e.g., independent appraisers, auditors, etc.)?

There appears to have been some confusion in the minds of some respondents as to what constituted an independent appraiser as opposed to an auditor. It is assumed that some people who responded with "independent appraiser" really meant "auditor."

Category	No.	Percent
Independent appraiser	80	47.3%
Auditor	38	22.5
Publicly traded	22	13.0
*Other	26	15.4
Not done	3	1.8
Sample:	169	100.0%

* Includes: trustee, board of directors, bank, attorney, accountant, plan committee, "internal formula"

(c) Satisfaction with stock appraisal (circle one):

Not Satisfied 1 2 3 4 5 Highly Satisfied

Mean ranking: 4.17
Standard Deviation: 1.04

Category	No.	Percent
1	6	3.8%
2	1	.6
3	34	21.7
4	36	22.9
5	80	51.0
Sample:	157	100.0%

24. Continued

(d) Satisfaction with valuation firm(s):

Not Satisfied 1 2 3 4 5 Highly Satisfied

Mean ranking: 4.11
Standard Deviation: 1.15

Category	No.	Percent
1	7	5.7%
2	2	1.6
3	26	21.1
4	23	18.7
5	65	52.9
Sample:	123	100.0%

(e) Have you changed valuation firms? (yes/no)_______

Category	No.	Percent
Yes	8	6.0%
No	125	94.0
Sample:	133	100.0%

(f) Are you contemplating a change? (yes/no)_______

Category	No.	Percent
Yes	7	6.4%
No	102	93.6
Sample:	109	100.0%

25. (a) Who provides legal services for the plan?

Category	No.	Percent
Corporate legal dept.	23	12.9%
Outside corporate counsel	113	63.1
Independent attorney for plan only	36	20.1
*Other	7	3.9
Sample:	179	100.0%

* Includes: professional plan/record keeper, bank, accountant, company secretary/treasurer.

(b) Satisfaction with legal services (check one):

Not Satisfied 1 2 3 4 5 Highly Satisfied

Mean ranking: 4.22
Standard Deviation: .98

Category	No.	Percent
1	3	1.8%
2	7	4.2
3	27	16.2
4	44	26.3
5	86	51.5
Sample:	167	100.0%

26. (a) Who provides administrative services (account allocations, etc.) for the plan?

In a sample of 177, 68 plans (38.4%) have internal corporate administrative services, 79 (44.7%) employ outside administrators, and 30 (16.9%) use a combination of the two.

Category	No.	Percent
Internal:		
Separate benefit staff	4	2.3%
Personnel department	3	1.7
Accounting department	38	21.4
Computer department	4	2.3
Other (comptroller, treasurer, trustee, stock committee, president)	12	6.8
More than one internal department	7	3.9
External:		
Accountant	6	3.4
Bank	12	6.8
Insurance company		
Professional plan/record keeper	51	28.8
Other (attorney, savings and loan officer, computer job shop)	4	2.3
More than one external administrator	6	3.4
*Combined internal and external administration	30	16.9
Sample:	177	100.0%

*Internal accounting department combined with professional plan/record keeper most often cited.

26. Continued

(b) Satisfaction with administrative services:

Not Satisfied 1 2 3 4 5 Highly Satisfied

Mean ranking: 4.09
Standard Deviation: 1.09

Category	No.	Percent
1	6	4.0%
2	6	4.0
3	29	19.2
4	37	24.5
5	73	48.3
Sample:	151	100.0%

27. (a) Who serves as the plan's trustee: an individual, a committee, an institution?_________

Category	No.	Percent
Individual	41	23.3%
Committee	69	39.2
Institution	66	37.5
Sample:	176	100.0%

(b) (Trustee's) Prior relationship to the company:

Of 176 companies responding, 76 or 43% indicated that they had a prior relationship with their trustee.

27. Continued

(c) (Trustee's) Current relationship to the company:

In most cases where the respondant noted a prior relationship between the company and the trustee, the same relationship was currently present.

(d) Satisfaction with trustee:

Not Satisfied 1 2 3 4 5 Highly Satisfied

Mean Ranking: 4.25
Standard Deviation: .97

Category	No.	Percent
1	3	1.9%
2	6	3.8
3	24	15.1
4	42	26.4
5	84	52.8
Sample:	159	100.0%

28. What did it initially cost to install the plan? (Please categorize if possible)

Due to the difficulty of distinguishing between internal and external costs and to the difficulty of dividing expenses neatly into the categories provided, the statistical results of this question, and of question 29 (Annual Maintenance Costs), should be considered only as rough approximations of installation costs.

Results from two samples are included. The first sample of 146 companies contains complete data. The second sample of 142 companies contains all data except for very low or very high figures. The low figures were removed because they appeared to reflect internal costs as opposed to external costs. The high figures were removed because they tend to distort the rest of the data. Generally these figures represented costs of the several very large companies with over 30,000 employees.

The histograms provide a more accurate picture than the calculated means.

28. COSTS OF INSTALLING THE PLAN: All Data Included

CATEGORY	SAMPLE SIZE	RANGE MINIMUM	RANGE MAXIMUM	MEAN	STANDARD DEVIATION	MEDIAN	MODE	MODE FREQUENCY
Design and IRS Qualification	56	$300	$125,000	$10,351	$19,196	$5,000	$5,000	11
Legal	74	$200	$ 40,000	$ 5,490	$ 6,944	$3,500	$5,000	12
Design, IRS *Qualification and Legal Combined	104	$600	$125,000	$10,834	$16,290			
Accountants	49	$150	$ 12,000	$ 1,792	$ 1,969	$1,000	$1,000	11
Trustee	29	$100	$ 20,500	$ 2,209	$ 4,176	$1,000	$ 500	8
Administration	54	$100	$ 30,000	$ 3,850	$ 5,934	$1,500	$ 500	10
**Other								
TOTAL INSTALLATION COSTS	146	$500	$125,000	$14,695	$18,790	$9,000	$5,000	12

** Included because in many cases, respondents grouped legal and design/IRS qualifications together.

* Other costs mentioned were: valuation, consultants, employee communications, in-house computer time, printing expenses and clerical time, negotiations to purchase stock from a testamentary trust, and "My time -- what a mess!".

28. COST OF INSTALLING THE PLAN: All costs below $500 excluded as well as costs that are well above the general range of the data.

CATEGORY	SAMPLE SIZE	RANGE MINIMUM	RANGE MAXIMUM	MEAN	STANDARD DEVIATION
Design and IRS Qualification	52	$500	$30,000	$ 7,452	$ 7,504
Legal	68	$500	$18,000	$ 4,866	$ 4,482
Accountants	42	$500	$ 5,000	$ 1,770	$ 1,283
Trustee	23	$500	$ 5,000	$ 1,334	$ 1,057
Administration	48	$500	$10,000	$ 2,715	$ 2,914
Other					
TOTAL INSTALLATION COSTS	142	$500	$52,000	$12,204	$11,296

29. What are the annual costs of maintaining the plan? (Please categorize if possible)

Due to the difficulty of distinguishing between internal and external costs and to the difficulty of dividing expenses neatly into specific categories, the statistical reresults of this question should be considered only as rough approximations of installation costs.

The histograms provide a more accurate picture than the calculated means.

As was done in question 28, installation costs of the plan, two sample results are included. The first contains complete data. The second excludes all costs under $500 and all very high costs associated with the few, very large companies in the survey.

29. ANNUAL COSTS OF MAINTAINING THE PLAN: Complete Data

CATEGORY	SAMPLE SIZE	RANGE MINIMUM	RANGE MAXIMUM	MEAN	STANDARD DEVIATION	MEDIAN	MODE	MODE FREQUENCY
Auditing	71	$100	$20,000	$1,489	$ 2,530	$1,000	$1,000	12
Valuation	73	$100	$10,000	$1,434	$ 1,529	$1,000	$1,000	18
Legal	91	$100	$ 6,000	$1,271	$ 1,193	$1,000	$ 500	20
Administration	98	$100	$42,000	$3,219	$ 5,529	$1,405	$1,000	15
Trustee	69	$150	$88,400	$3,454	$10,713	$1,500	$ 500	11
*Other								
TOTAL ANNUAL MAINTENANCE COSTS	127	$500	$150,400	$7,561	$14,400	$3,500	$3,000 $4,000	9 (each)

* Other maintenance costs mentioned were: forms and reports, internal evaluation, "government forms -- 90% of yearly cost"

29. ANNUAL COSTS OF MAINTAINING THE PLAN: All costs below $500 excluded as well as costs that are well above the general range of the data.

CATEGORY	SAMPLE SIZE	RANGE MINIMUM	RANGE MAXIMUM	MEAN	STANDARD DEVIATION
Auditing	52	$500	$ 6,000	$1,432	$ 977
Valuation	59	$500	$ 6,000	$1,551	$1,142
Legal	74	$500	$ 6,000	$1,507	$1,203
Administration	83	$500	$14,000	$2,739	$2,803
Trustee	67	$500	$11,500	$2,044	$2,350
Other					
TOTAL ANNUAL MAINTENANCE COSTS	123	$500	$25,000	$5,766	$5,107

E. REALIZED BENEFITS/ADVANTAGES OF THE PLAN

Please rank each of the following advantages according to the following scale:

0 = Not a factor 1 = Less important 2 = Important

BENEFIT	0	1	2	SAMPLE	MEAN	STANDARD DEVIATION
Improved employee motivation	9= 5.2%	43=24.7%	122=70.1%	174=100%	1.649	.577
Tax advantages	27=15.5%	36=20.7%	111=63.8%	174=100%	1.483	.751
Market for closely held stock	68=39.5%	33=19.2%	71=41.3%	172=100%	1.017	.901
Estate planning	58=33.5%	55=31.8%	60=34.7%	173=100%	1.012	.828
Cash liquidity	74=43.3%	24=14.0%	73=42.7%	171=100%	.994	.930
Liquidity for departing employees	60=35.1%	59=34.5%	52=30.4%	171=100%	.953	.810
Improved industrial relations	66=39.5%	47=28.2%	54=32.3%	167=100%	.928	.847
Executive compensation	76=44.4%	52=30.4%	43=25.2%	171=100%	.807	.814
Raising capital	98=57.7%	31=18.2%	41=24.1%	170=100%	.665	.842
Financing of new or existing debt	123=72.4%	21=12.3%	26=15.3%	170=100%	.429	.744
Divestiture/acquisition plans	132=78.1%	20=11.8%	17=10.1%	169=100%	.320	.649
Recapture of taxes paid in prior years	136=80.5%	15= 8.9%	18=10.6%	169=100%	.302	.653
Defense against takeover	140=82.4%	15= 8.8%	15= 8.8%	170=100%	.265	.611
Issuance of stock without registration	134=81.2%	19=11.5%	12= 7.3%	165=100%	.261	.583
*Other			6	6=100%		

* Includes: providing employees with ownership, enhancing the balance sheet (2), employee compensation (2) free dollar benefit, freedom from original owner--a one bank holding company, retirement program where none previously existed, deferred compensation.

F. PROBLEMS WITH THE PLAN

Please rank each of the following problems according to the following scale:

0 = Not a factor   1 = Less important   2 = Important

PROBLEM	0	1	2	SAMPLE	MEAN	STANDARD DEVIATION
Changing governmental regulations	30=17.4%	32=18.6%	110=64.0%	172=100%	1.465	.775
Administrative complexity	42=24.4%	53=30.8%	77=44.8%	172=100%	1.203	.809
Ongoing costs	66=38.6%	62=36.3%	43=25.1%	171=100%	.865	.789
Employee reaction	75=44.4%	50=29.6%	44=26.0%	169=100%	.817	.821
Dilution	97=56.7%	52=30.4%	22=12.9%	171=100%	.561	.712
Communications with former employees	115=68.5%	41=24.4%	12= 7.1%	168=100%	.387	.618
Stockholder objection to current or anticipated dilution	115=68.0%	44=26.0%	10= 5.9%	169=100%	.379	.596
Loss of confidentiality	119=70.8%	40=23.8%	9= 5.4%	168=100%	.345	.579
Obtaining ESOT loans (financing)	141=84.4%	16= 9.6%	10= 6.0%	167=100%	.216	.539
*Other			1	1=100%		

* Other problems: "government regulations are terrible!", lack of government regulations (2).

G. PERCEIVED EMPLOYEE REACTION:

(Rated on a scale of 1-5)

	1	2	3	4	5	Sample	Mean	Standard Deviation
Employee opinion of plan at time of installation	2	17	54	36	68	177		
(1=Unfavorable; 5=Highly favorable)	1.1%	9.6%	30.5%	20.4%	38.4%	100%	3.853	1.077
Current employee opinion of the plan	3	11	44	70	49	177		
(1=Unfavorable; 5=Highly favorable)	1.7%	6.2%	24.9%	39.5%	27.7%	100%	3.853	.954
Current employee understanding of the plan	22	37	62	35	15	171		
(1=Poor; 5=Good)	12.9%	21.6%	36.2%	20.5%	8.8%	100%	2.906	1.134
Plan's ability to compete with other benefit plans in keeping or attracting personnel:	20	22	46	45	39	172		
(1=Not effective; 5=Very effective)	11.6%	12.8%	26.7%	26.2%	22.7%	100%	3.355	1.283

H. OVERALL EVALUATION:

(Rated on a scale of 1-5)

	1	2	3	4	5	Sample	Mean	Standard Deviation
Is the plan living up to expectations? (1=Not at all; 5=Fully)	6	17	37	63	54	177		
	3.4%	9.6%	20.9%	35.6%	30.5%	100%	3.802	1.082
How complicated do you consider your plan? (1=Not complicated; 5=Very complicated)	27	20	56	36	39	178		
	15.2%	11.2%	31.5%	20.2%	21.9%	100%	3.225	1.326
How important is the plan to the company? (1=Not important; 5=Very important)	8	11	45	52	59	175		
	4.6%	6.3%	25.7%	29.7%	33.7%	100%	3.817	1.109
Would you install one again? (1=No; 5=Yes)	13	10	20	28	103	174		
	7.5%	5.7%	11.5%	16.1%	59.2%	100%	4.138	1.265

H. OVERALL EVALUATION continued

Would you install as ESOP again? (yes/no)______If not, why not?______

The comments below were made by both those who answered yes to the above question and those who answered no.

Comments:

"Complexity of ongoing costs and regulations" (several)
"Bureaucratic government regulations" (several)
"Plan is too new to know"
"Too many government changes and each time it requires our lawyer to rewrite which is added cost"
"Average employee not sophisticated enough to understand"
"Accounting and communication with employees too complex, plus government indecision"
"Better plans"
"Not enough of a morale booster, didn't get funds back into company, costly"
"Cancels employees' right to use IRAs"
"Complexity of ERISA regulations"
"Too difficult to make people understand the benefits--too much legalese--way too complex for employees to see the value of it"
"Lack of favorable response from employees; tedium of paperwork"
"Administrative headache"
"Too long a time between payoff and motivation approach. Plan was poorly installed which created barriers to motivation. Prevents individuals from setting up personal I.R.A.s"
"Not beneficial for small sized company"
"We are non-union--plan is an influence to keep it that way"
"Employees quit in order to get money"
"Just not worth it"
"Complexity and possible conflict of interest"

"Too expensive to stockholders in the long run. Advantages largely illusory or temporary. Potentially disastrous to employees, if company were to fail (no diversification of investments in what they consider to be their retirement funds). High potential, even encouragement, for insider misuse...hence lawsuits and expensive litigation. Difficulty of valuation also very hazardous, both to employees and management. Another problem and maybe the major problem: As an ESOP matures (in our case it was "mature" when we converted from the profit sharing plan), it is impossible to forecast the cash demands on the trust (i.e., the demands to buy back shares). If you have to restrict flow, employees become disenchanted, maybe desert the shop en masse, or remain "locked-in" and unhappy! I expect the ESOP vehicle will come under fire, and be emasculated or eliminated as soon as a few companies, highly leveraged with ESOPs, fail!"

"ESOP impractical except as a market for closely held stock. Profit sharing plan much preferred. With the former profit sharing plan, there were no investments in stock and never a single setback in a participant's account. The ESOP has seen serious setbacks (due to lean profit years and the resulting drop in stock valuation) and, until the fiscal year ended June 30, 1977, no recovery. Such setbacks have a very detrimental effect on morale. We hope this will reverse with this year's figures. Each and every participant leaving the company has requested (and received) an immediate repurchase of his stock. The issue of such stock and the repurchase seems so needless in such instances.

If (you were to install an ESOP again), would you make any changes in it? (yes/no)________

Category	No.	Percent
Yes	19	16.7%
No	95	83.3
Sample:	114	100.0%

What changes?________

"Simpler vesting"
"Try to keep definitions more simple but doubtful this is possible in light of ERISA"
"Simplify everything" (many)
"ERISA is killing us with paperwork"
"Vesting schedule" (several)
"Use common stock, not preferred"
"If we could change ESOP regulations"
"Government regulations provide for few options"
"Depends on government regulations"
"No "put" until retirement"
"Include employees participation earlier"
"Longer vesting schedule--it's for the people who stay, not the short-timers"
"(Assuming some reason for establishing plan..)"
"A better buy-back arrangement if possible"
"Make sure it's written in easy to understand ENGLISH"

H. OVERALL EVALUATION continued

Have you been asked to provide input or to comment on proposed changes in, or interpretations of, ESOP regulations? (yes/no)_______

Category	No.	Percent
Yes	26	15.4%
No	143	84.6
Sample:	169	100.0%

APPENDIX B

CORRELATIONS

APPENDIX B

C O R R E L A T I O N S

Subsequent to the collection and summarization of the information provided by survey respondents (See Appendix A), the team determined that it would be of great interest and importance to find out if replies to one question on the questionnaire bore any relationship with replies to other questions on the same questionnaire. This relationship is known as correlation and measures the degree of association or correlation coefficient and has a value ranging from -1.0 to +1.0. A perfect correlation of +1.0 indicates that each time a change occurs in the response to one question, the other question changes in the same direction by a proportionate amount. If, on the other hand, the correlation coefficient is -1.0, a change in the value of one question is complemented by an equal change in value of the other question in the opposite direction. A correlation coefficient of 0 indicates that no apparent pattern of relationship exists.

In addition to the correlation calculations performed with the aid of a computer, additional statistical tests were performed to determine the statistical validity of the correlations. Throughout Appendix B, those correlations having statistical validity within a 95% confidence interval are denoted with an asterisk (*). Those correlations not bearing the asterisk are not necessarily invalid, but due to the size of the sample and the variation involved in the replies do not have a 95% reliability.

I. Annual Sales

Annual sales were correlated with total annual maintenance costs and with overall satisfaction with the plan. (A few very high and several very low figures were deleted from the sample of annual maintenance costs for the purpose of minimizing distortion.)

Total annual costs tend to level off as sales volume increases. Also, refer to Appendix C, Exhibit 1.

	Annual Sales (in millions of dollars)				
	Less than 1 mil.	1-5 mil.	5-10 mil.	10-30 mil.	Over 30 mil.
Average Annual Maintenance Cost ($)	1,319	3,022	4,982	6,637	11,116

Annual sales correlated with overall satisfaction with the plan showed no trend except where sales exceeded $10,000,000 per year. For each of the questions in the table below the responses were given on a scale of 1 to 5 (1=lowest rating; 5=highest rating). The figures in the table represent the mean (average) response for the ratings for each question.

	Annual Sales (in millions of dollars)				
	Less than 1 mil.	1-5 mil.	5-10 mil.	10-30 mil.	Over mil.
(59) Is the plan living up to expectations?	3.62	3.56	3.69	4.08	4.17
(60) How complicated do you consider your plan?	3.38	3.25	2.73	3.65	3.00
(61) How important is the plan to the company?	3.46	3.77	3.81	4.25	3.91
(62) Would you install one again?	4.23	3.89	3.85	4.38	4.22
AVERAGE RATING FOR QUESTIONS 59, 61, 62	3.77	3.74	3.78	4.24	4.10

For additional correlations with annual sales, see under the heading Leveraged Plans.

II. Annual Contributions to the Trust

Annual contributions to the trust were correlated with total annual maintenance costs. (A few very high and several very low figures were deleted from the sample of annual maintenance costs for the purpose of minimizing distortion.)

Total annual costs tend to level off as the contribution to the trust increases. Also, refer to Appendix C, Exhibit 4.

	Annual Contributions (in thousands of dollars)					
	Less than 25	25-50	50-100	100-500	500-1,000	Over 1,000
Average Annual Maintenance Cost ($)	1,757	2,487	4,186	7,861	8,792	19,833

For additional correlations with annual contributions to the trust, see under the heading Leveraged Plans.

III. Length of Time Plan Has Been in Effect

The age of the plan (in years) was correlated with overall satisfaction with the plan. The results show a trend towards greater satisfaction among companies with plans in effect for five years or more, with an apparent dip for satisfaction among those with plans in effect from four to five years. The relative increase in satisfaction may be explained by increasing experience for the first few years, but for later years, may be explained by the fact that a number of plans of that age are conversions from other plans.

For each of the questions in the table below the responses were given on a scale of 1 to 5 (1=lowest rating; 5=highest rating). The figures in the table represent the mean (average) response for the ratings for each question.

	Time Plan Has Been in Effect (in years)					
	0-1	1-2	2-3	3-4	4-5	More than 5
(59) Is the plan living up to expectations?	3.92	3.70	3.75	3.86	3.79	4.15
(60) How complicated do you consider your plan?	3.58	3.06	3.26	3.00	3.23	3.38
(61) How important is the plan to the company?	3.73	3.82	3.89	3.83	3.57	4.15
(62) Would you install one again?	4.20	4.06	4.14	4.15	4.07	4.38
AVERAGE RATING FOR QUESTIONS 59, 61, 62	3.95	3.86	3.93	3.95	3.81	4.23

Also, refer to Appendix C, Exhibit 3.

IV. Liquidity and Dilution Studies

Whether or not the company had done preliminary liquidity or dilution studies was correlated with satisfaction with administrative services, an with benefits/advantages and problems cited for the plan.

Satisfaction: 1=not satisfied 5=highly satisfied	Mean Response on a Scale of 1 to 5: Initial Analysis	Mean Response on a Scale of 1 to 5: No Initial Analysis
Stock appraisal	3.95	4.39
Valuation firm(s)	3.95	4.33
Administrative services	4.00	4.16
AVERAGE	3.97	4.29

The fact that those who did a preliminary analysis were less satisfied with administrative services may be explained by the motivational forces for doing the study and the more critical attitudes of those who were using the plan in an aggressive manner.

The following two tables provide mean responses for factors cited as benefits or problems, as related to whether or not preliminary liquidity or dilution studies had been done. The factors were rated on a scale of 0 (not a factor) to 2 (an important factor).

	Mean Response: Initial Analysis	Mean Response: No Initial Analysis
BENEFITS/ADVANTAGES OF THE PLAN		
*Cash liquidity	1.15	.78
Market for closely held stock	1.65	.71
Divestiture/acquisition	.39	.21
Executive compensation	.75	.93
Takeover defense	.20	.36
Recapture of taxes	.43	.20
Improved industrial relations	.85	.91
Improved employee motivation	1.56	1.69
Liquidity for department employees	.95	.92
Stock issuance without registration costs	.27	.21
Debt financing	.52	.31
*Raising of capital	.85	.48
*Tax advantages	1.71	1.28
Estate planning	1.05	.94
Average:	.86	.71
PROBLEMS WITH THE PLAN		
Administrative complexity	1.45	1.22
*Loss of confidentiality	.48	.18
*Dilution	.80	.33
*Stockholder objection to dilution	.49	.25
*Obtaining ESOT loans	.32	.11
Ongoing costs	.91	.79
Changing governmental regulations	1.40	1.46
Employee reaction	.92	.70
Communication with former employees	.44	.32
Average:	.80	.60

In all except for one case (loss of confidentiality), those items marked as being either a statistically significant benefit or problem (see asterisks) are those specifically related to liquidity or dilution. Since the benefits and problems were being correlated to whether or not a dilution/liquidity analysis had been previously performed, this statistical correlation is not unexpected.

A correlation between plan installation costs and preliminary liquidity/dilution studies showed very little difference in initial costs:

	Initial Analysis	No Initial Analysis
Average Installation Cost	$11,983	$11,412

For additional findings concerned with liquidity/dilution studies see under the heading Leveraged Plans.

V. Leveraged Plans

No correlation was found between leveraged plans and the performance of liquidity/dilution studies or converted plans. However, the following percentages of companies falling into the categories in the table below are of interest:

PER CENT OF COMPANIES	LEVERAGED PLAN	PLAN NOT LEVERAGED	
Liquidity/dilution study done	9.9%	37.0%	=100%
Liquidity/dilution study NOT done	6.2%	46.9%	

Plan is a conversion	4.9%	24.5%	=100%
Plan is NOT a conversion	11.7%	58.9%	

Comparison of Annual Sales with Leveraged and non-Leveraged Plans

	Per Cent of Companies	
Sales	LEVERAGED PLAN	PLAN NOT LEVERAGED
0 - $1,000,000	8.0%	6.9%
1,000,001 - 5,000,000	24.0	29.8
5,000,000 - 10,000,000	4.0	23.7
10,000,000 - 30,000,000	36.0	27.4
Over 30,000,000	28.0	12.2
	100.0%	100.0%

Comparison of Annual Contributions to the Trust with Leveraged and non-Leveraged Plans

	Per Cent of Companies	
Annual Contributions to the Trust	LEVERAGED PLAN	PLAN NOT LEVERAGED
$25,000 or less	8.3%	20.6%
$25,001 - 50,000	12.5%	19.5%
$50,001 - 100,000	8.3%	23.4%
$100,001 - 50,000	50.0%	26.6%
$500,001 - 1,000,000	16.7%	4.7%
Over $1,000,000	4.2%	5.5%

Total Annual Maintenance Costs Compared with Leveraged and non-Leveraged Plans

	LEVERAGED PLAN	PLAN NOT LEVERAGED
Average Annual Maintenance Cost for the Plan	$6,878	$5,560

The following two tables provide mean responses for factors cited as benefits or problems, as related to whether or not the plan is leveraged. The factors were rated on a scale of 0 (not a factor) to 2 (an important factor).

	MEAN RESPONSE	
	Leveraged Plan	Plan Not Leveraged
BENEFITS/ADVANTAGES OF THE PLAN		
Cash liquidity	1.22	.91
Market for closely held stock	1.15	.96
Divestiture/Acquisition	.26	.28
Executive compensation	.59	.83
Defense against takeover	.44	.23
Recapture of taxes	.33	.29
Improved industrial relations	1.00	.85
Improved employee motivation	1.59	1.60
Liquidity for departing employees	.77	.95
Issuance of stock without registration	.22	.23
*Debt financing	1.07	.30
*Raising of capital	1.30	.51
Tax advantages	1.41	1.45
Estate planning	.85	.99
AVERAGE	.87	.74
AVERAGE EXCLUDING debt financing and raising of capital........................	.82	.80
PROBLEMS WITH THE PLAN		
Administrative complexity	1.19	1.18
Loss of confidentiality	.41	.30
Dilution	.48	.55
Stockholder objection to dilution	.30	.37
*Obtaining ESOT loans	.56	.15
Changing governmental regulations	1.37	1.42
Employee reaction	.89	.78
Communication with former employees	.44	.36
AVERAGE	.71	.66

The following two tables provide mean responses for perceived employee reaction and overall satisfaction with the plan for leveraged and non-leveraged plans. The responses were ranked on a scale of 1 to 5 (1=lowest rating; 5=highest rating).

	MEAN RESPONSE	
	Leveraged Plan	Plan Not Leveraged
PERCEIVED EMPLOYEE RESPONSE		
Employee opinion at time of plan installation	3.85	3.83
Current employee opinion of the plan	3.80	3.81
Current employee understanding of the plan	2.56	2.95
Plan's ability to compete with other benefit plans	2.74	3.38
AVERAGE	3.26	3.49
OVERALL EVALUATION OF THE PLAN		
*Is the plan living up to expectations?	4.11	3.71
How complicated do you consider your plan?	2.96	3.30
How important is the plan to the company?	3.88	3.79
*Would you install one again?	4.58	4.02
AVERAGE	3.88	3.70

For additional correlations with leveraging see under the headings Conversion and Auditing.

VI. Conversion

Correlations were done between converted plans and liquidity/dilution studies, use of an independent accountant, and existence of a formal accounting manual.

No apparent correlation was found between converted plans and the performance of liquidity/dilution studies. Of all plans surveyed which were non-conversions, 42% did an initial analysis; for those plans which were conversions, 54% had an analysis performed.

There appeared to be a strong relationship between converted plans and the existence of a formal accounting manual: 83% of all converted plans had a manual, while 59% of non-converted plans have a manual. Conversely, of all plans which have a manual, 38% are conversions, while of all plans not having a manual, 15% are conversions. These results, however, do not take into account the fact that an accounting manual may be used and maintained by an outside plan keeper.

PER CENT OF COMPANIES	CONVERTED PLAN	PLAN NOT CONVERTED	
Liquidity/dilution study done	16.8%	28.9%	=100%
Liquidity/dilution study <u>NOT</u> done	14.4%	39.9%	
Independent accountant used	16.6%	46.6%	=100%
Independent accountant <u>NOT</u> used	13.5%	23.3%	
Formal accounting manual	24.7%	29.1%	
<u>NO</u> formal accounting manual	5.1%	41.1%	=100%

Satisfaction with stock appraisal and valuation firms was slightly less for firms with converted plans than for firms whose plans were not conversions. Satisfaction with administrative services was only slightly higher for converted plans than for non-converted plans.

Satisfaction: 1=not satisfied; 5=highly satisfied	Mean Response on a Scale of 1 to 5: CONVERTED PLAN	PLAN NOT CONVERTED
Stock appraisal	3.96	4.26
Valuation firm(s)	4.12	4.18
Administrative services	4.14	4.06
AVERAGE	4.07	4.17

There were some noticeable differences concerning who provides legal services for converted plans versus plans which are not conversions:

PROVIDER	CONVERTED PLAN	PLAN NOT CONVERTED
Corporate legal department	6.1%	14.7%
Outside corporate counsel	61.2%	65.5%
Independent attorney	32.7%	13.8%
Other	0	6.0%

Installation costs for converted plans were approximately 35% higher for ESOPS which were converted; annual maintenance costs were about 30% higher for converted plans:

	CONVERTED PLAN	PLAN NOT CONVERTED
Total installation cost	$14,243	$10,515
Total annual maintenance cost	$ 6,389	$ 4,915

In most cases, firms with converted plans rated plan benefits and problems with the plan higher than did firms whose plans were not conversions. The following tables provide mean responses for factors cited and benefits or problems, as related to conversion. The factors were rated on a scale of 0 (not a factor) to 2 (an important factor).

	MEAN RESPONSE	
	CONVERTED PLAN	PLAN NOT CONVERTED
BENEFITS/ADVANTAGES OF THE PLAN		
*Cash liquidity	1.13	.76
*Market for closely held stock	1.19	.78
*Divestiture/acquisition	.54	.18
Executive compensation	.85	.72
Takeover defense	.30	.21
Recapture of taxes	.43	.20
Improved industrial relations	.80	.82
Improved employee motivation	1.48	1.51
*Liquidity for departing employees	1.04	.75
Stock issuance without registration costs	.27	.16
Debt financing	.41	.39
Raising of capital	.61	.59
Tax advantages	1.46	1.31
*Estate planning	1.13	.81
Average:	.83	.66
PROBLEMS WITH THE PLAN		
*Administrative complexity	1.67	1.01
*Loss of confidentiality	.48	.20
*Dilution	.67	.42
*Stockholder objection to dilution	.48	.27
Obtaining ESOT loans	.19	.21
*Ongoing costs	.96	.68
*Changing governmental regulations	1.46	1.24
Employee reaction	.78	.72
Communication with former employees	.43	.31
Average:	.79	.56

Perceived employee response rated slightly higher for firms with converted plans, as did overall satisfaction with the plan. The importance of the plan to the company and the plan's ability to compete with other benefit plans ranked significantly higher for converted plans than for plans which were not converted.

The following two tables provide mean responses for perceived employee reaction and overall satisfaction with the plan for converted and non-converted plans. The responses were ranked on a scale of 1 to 5 (1=lowest rating; 5=highest rating).

	MEAN RESPONSE	
	CONVERTED PLAN	PLAN NOT CONVERTED
PERCEIVED EMPLOYEE RESPONSE		
Employee opinion of the plan at installation	3.80	3.85
Current employee opinion of the plan	3.68	3.88
Current employee understanding of the plan	2.92	2.85
Plan's ability to compete with other benefit plans	3.60	3.21
Average:	3.50	3.45
OVERALL SATISFACTION WITH THE PLAN		
Is the plan living up to expectations?	3.90	3.70
How complicated do you consider your plan?	3.22	3.26
*How important is the plan to the company?	4.08	3.73
Would you install one again?	4.12	4.08
Average (59, 61, 62):	4.03	3.84

APPENDIX C

GRAPHS

Contents	Page
Exhibits	
1. Annual Maintenance Costs Versus Annual Sales	C-2
2. Overall Evaluation Versus Annual Sales	C-3
3. Overall Evaluation Versus Start-up Time	C-4
4. Annual Maintenance Costs Versus Annual Contributions	C-5
Number of Principal Stockholders	C-6
Annual Sales	C-6
Number of Employees	C-7
Design and Installation Costs	C-8 to C-12
Maintenance Costs	C-13 to C-18

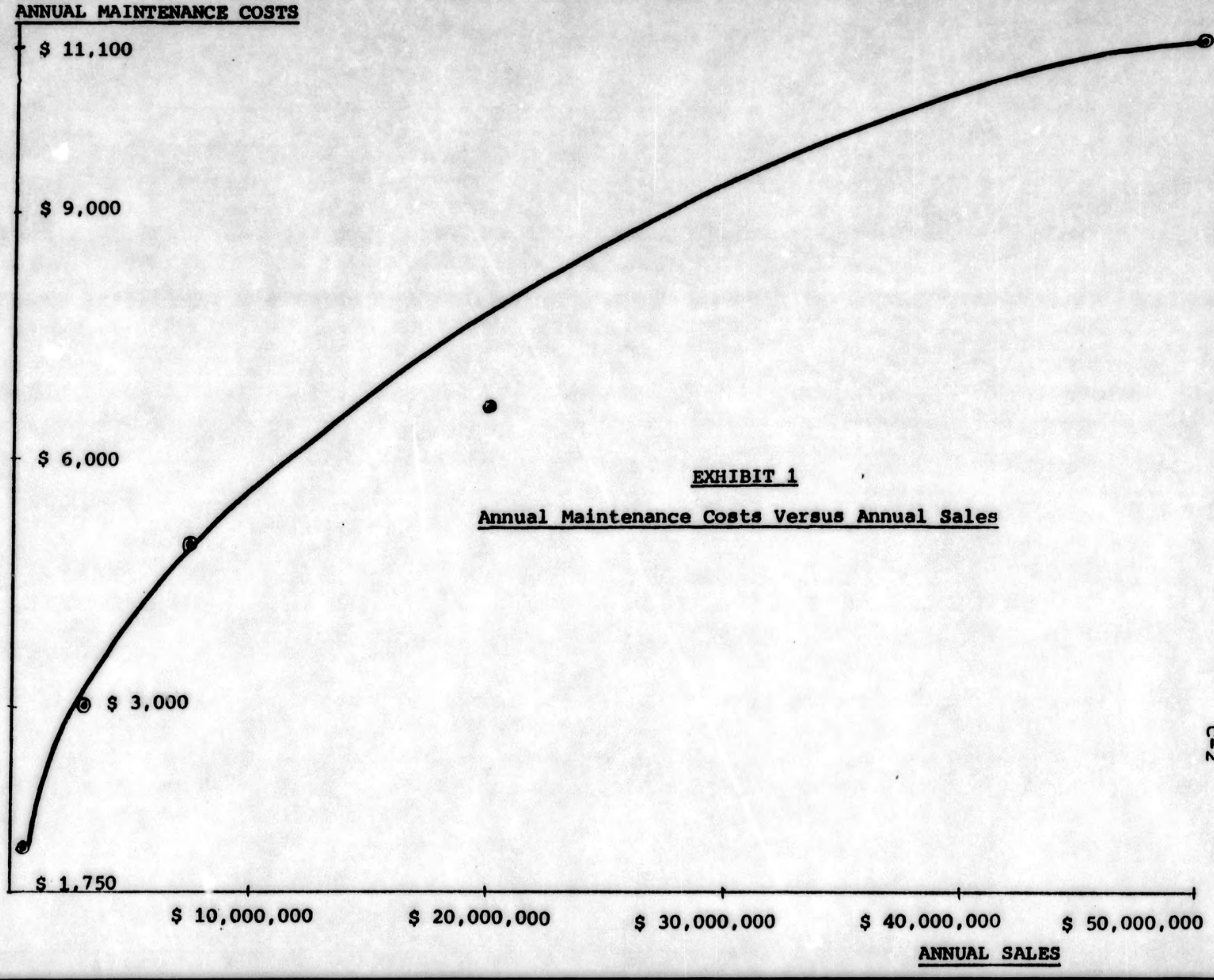


EXHIBIT 1

Annual Maintenance Costs Versus Annual Sales

EXHIBIT 2

Overall Evaluation Versus Annual Sales

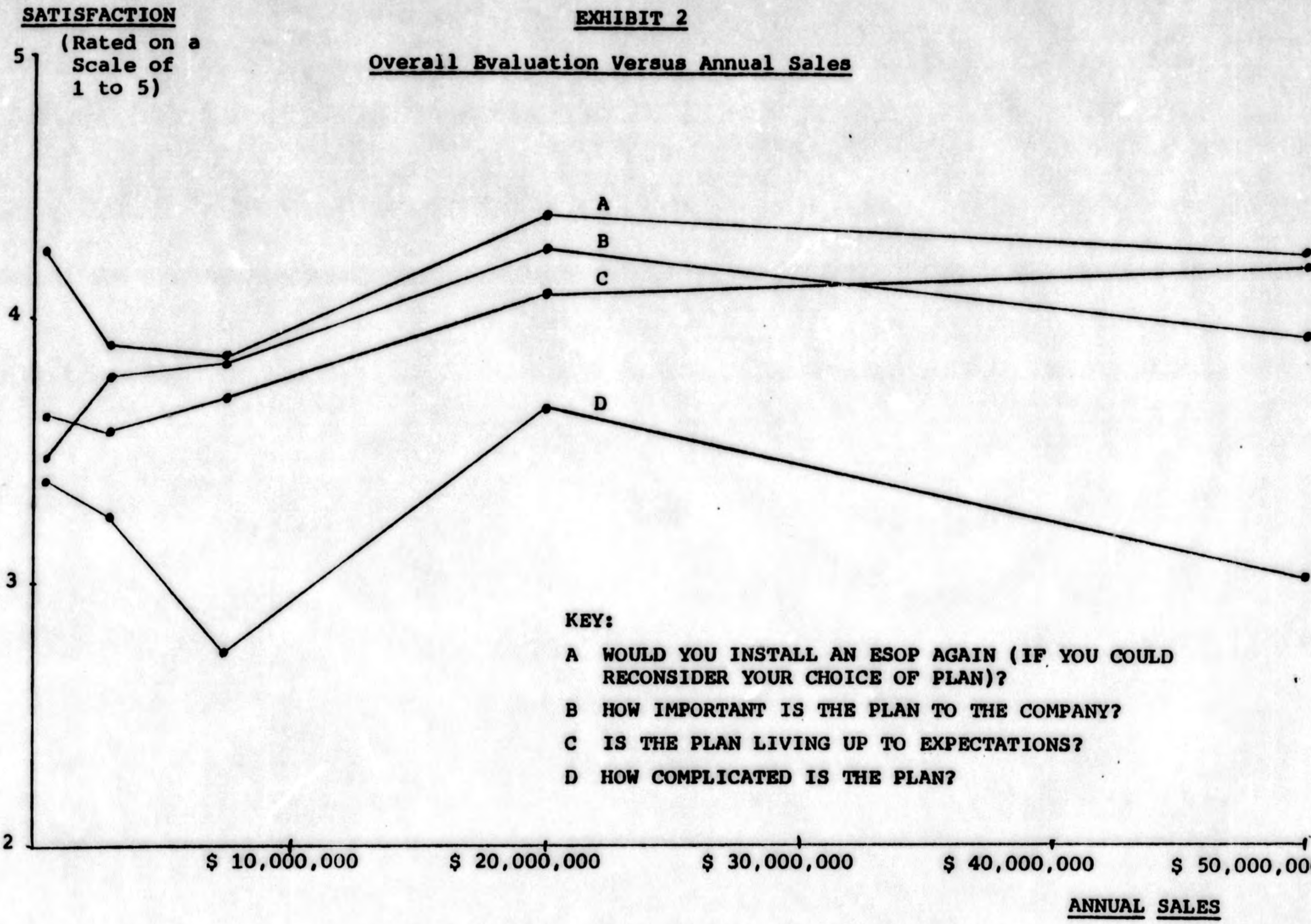


EXHIBIT 3

Overall Evaluation Versus Start-up Time

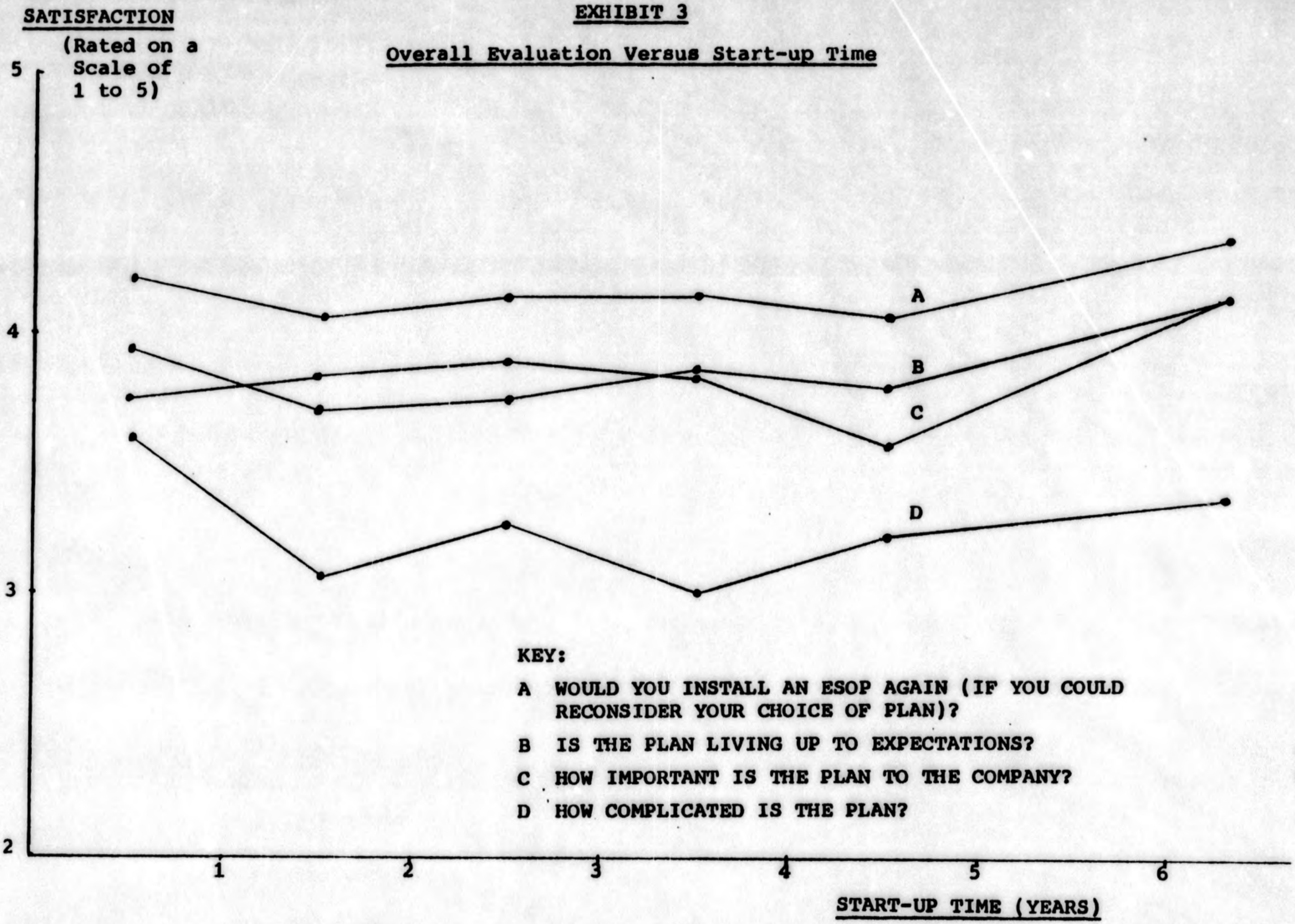
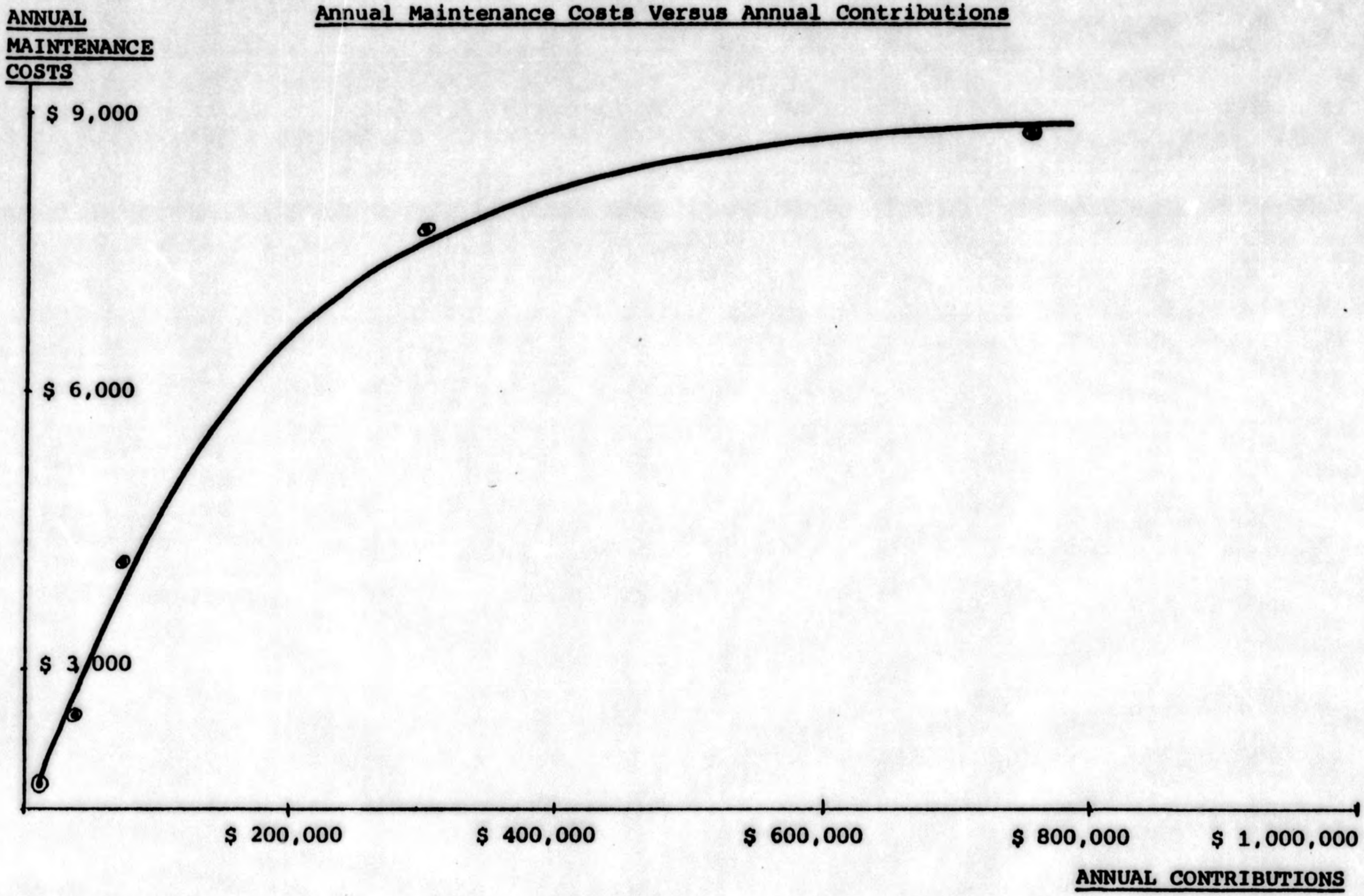
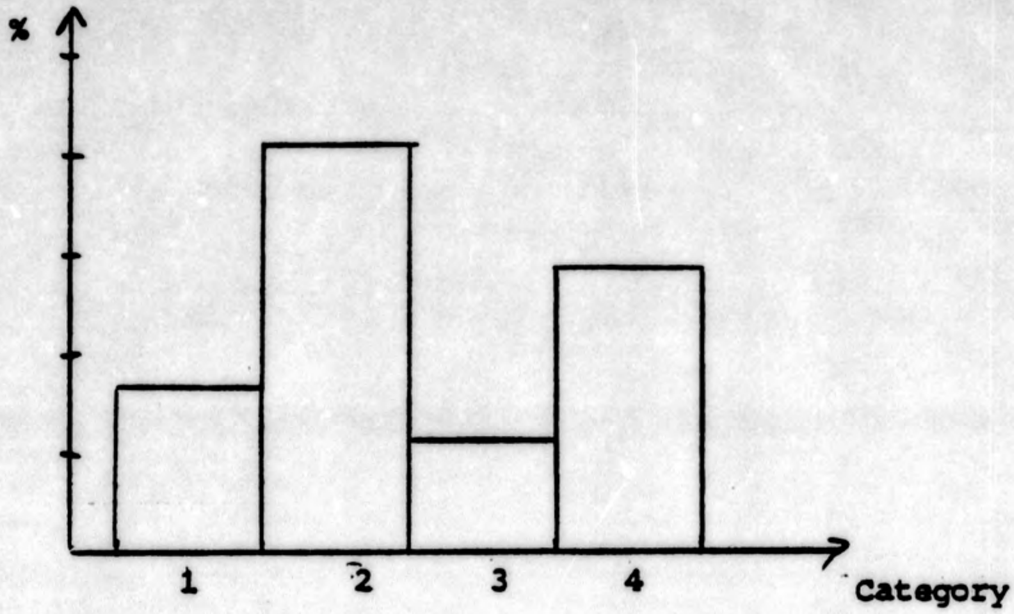


EXHIBIT 4

Annual Maintenance Costs Versus Annual Contributions



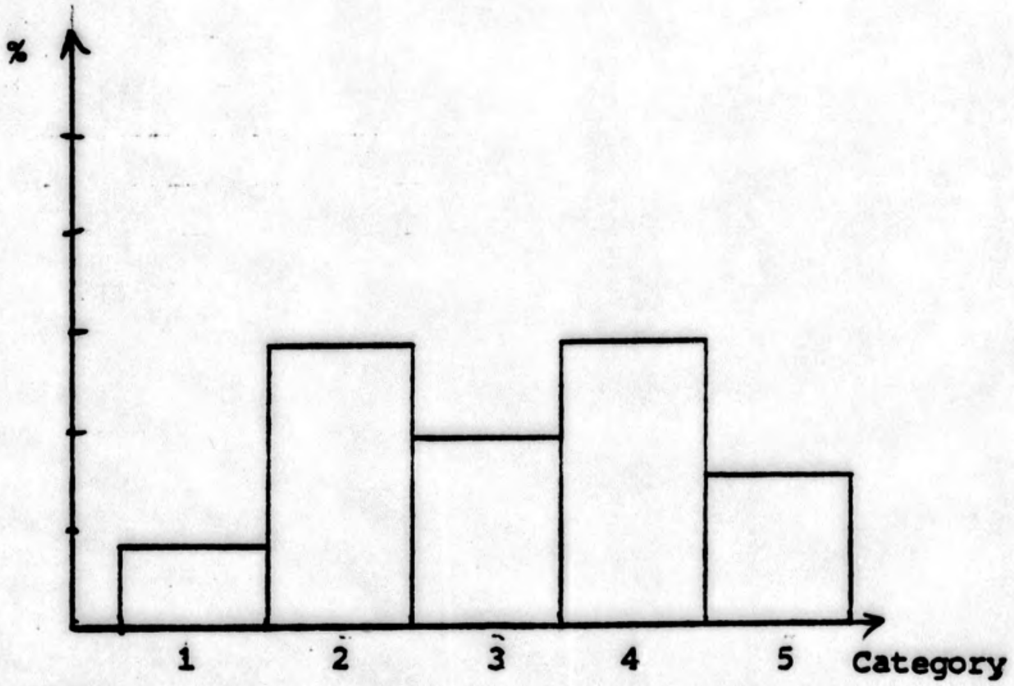
Number of Principal Stockholders



Categories:

1.	1	17.4%
2.	2-5	41.6
3.	6-10	12.1
4.	11 or more	28.9

Annual Sales

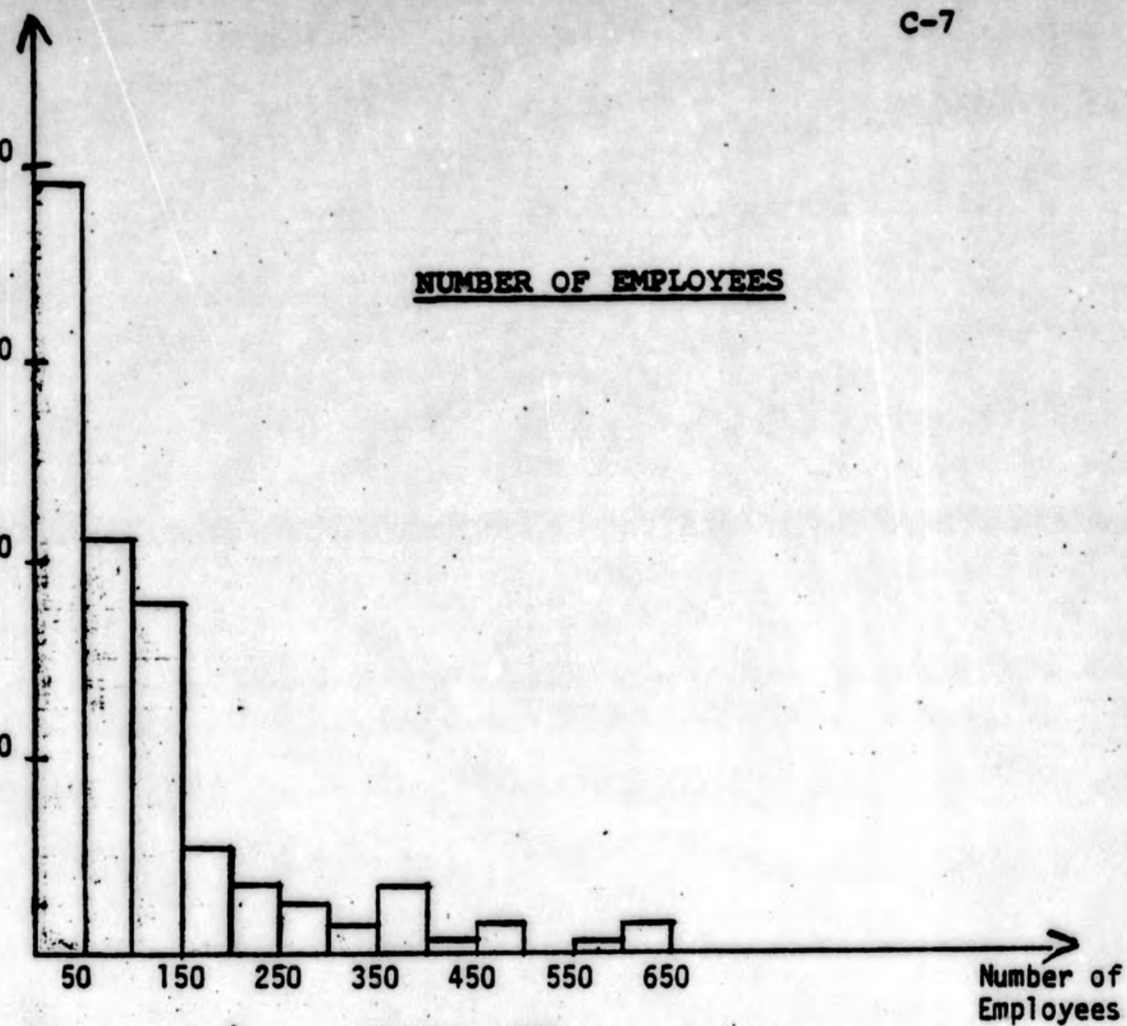


Categories:

1.	0 - $1,000,000	8.3%
2.	$1,000,001 - $5,000,000	28.4
3.	$5,000,001 - $10,000,000	19.5
4.	$10,000,001- $30,000,000	28.4
5.	Over $30,000,000	15.4

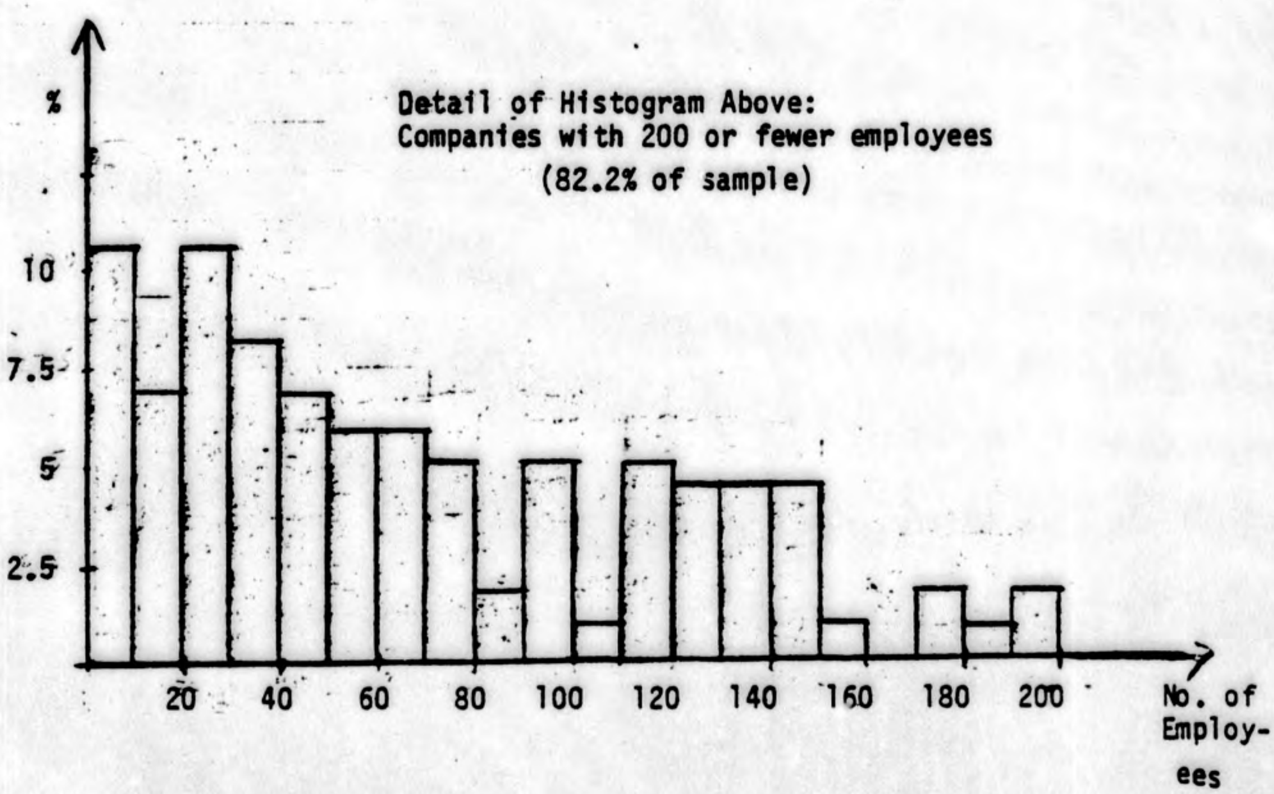
Very large companies and those where number of employees vs number of ESOP participants appeared different have been removed to provide a more accurate picture of plan participants.

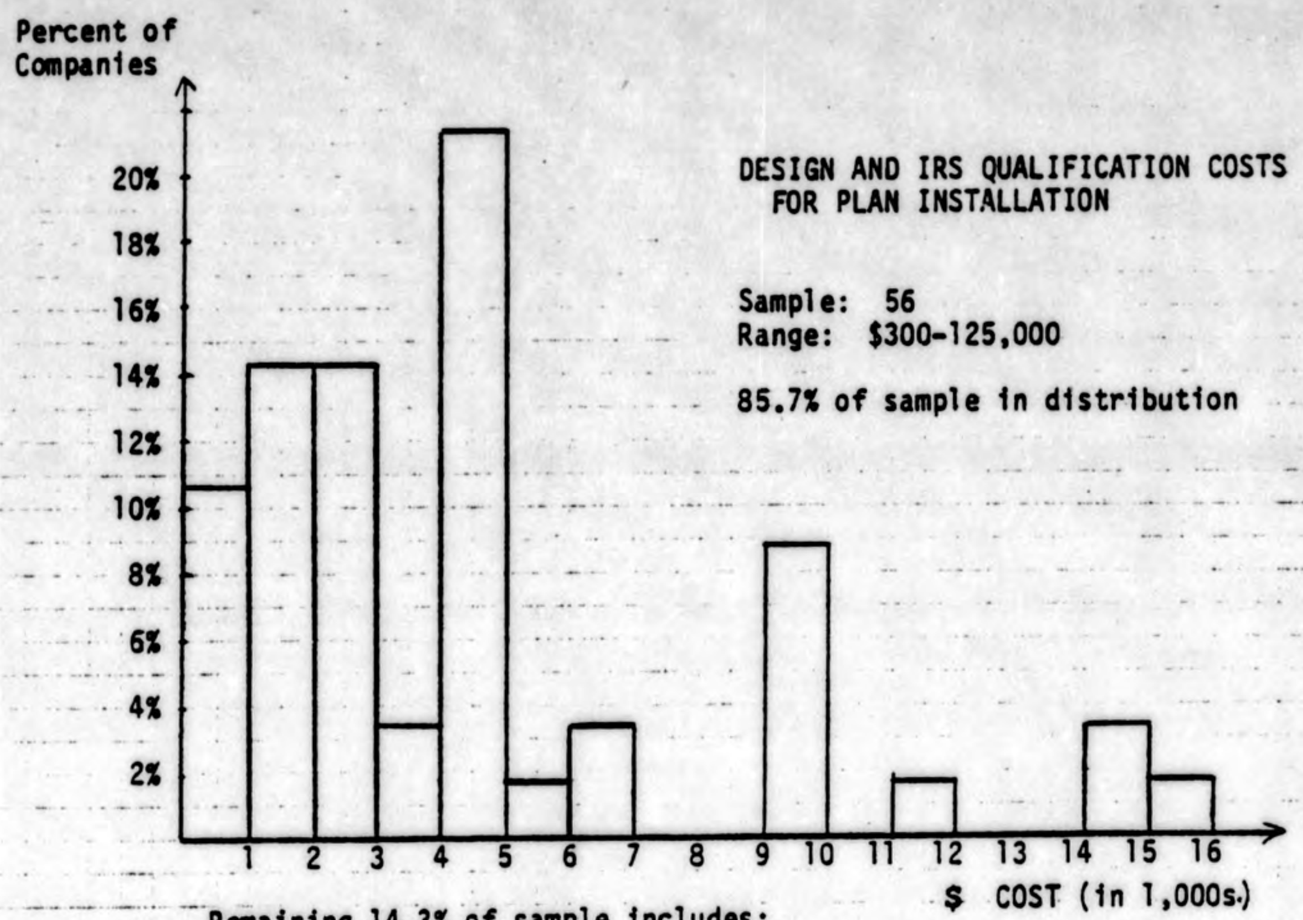
NUMBER OF EMPLOYEES



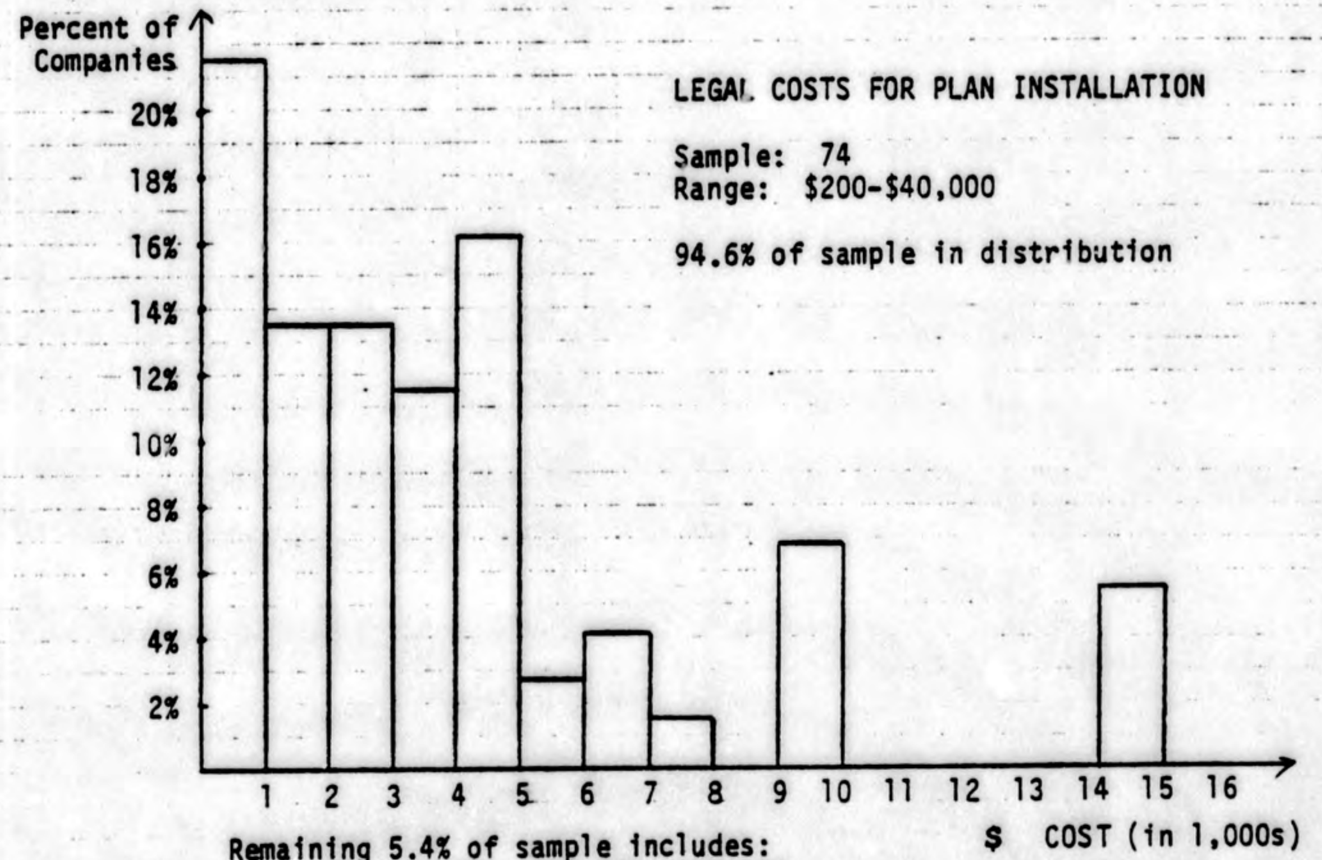
Sample: 157
Distribution of 96.7% of companies
Remaining 3.3% (5 companies) have the following number of employees:
850, 1000, 1200, 1200, 1900

Detail of Histogram Above:
Companies with 200 or fewer employees
(82.2% of sample)

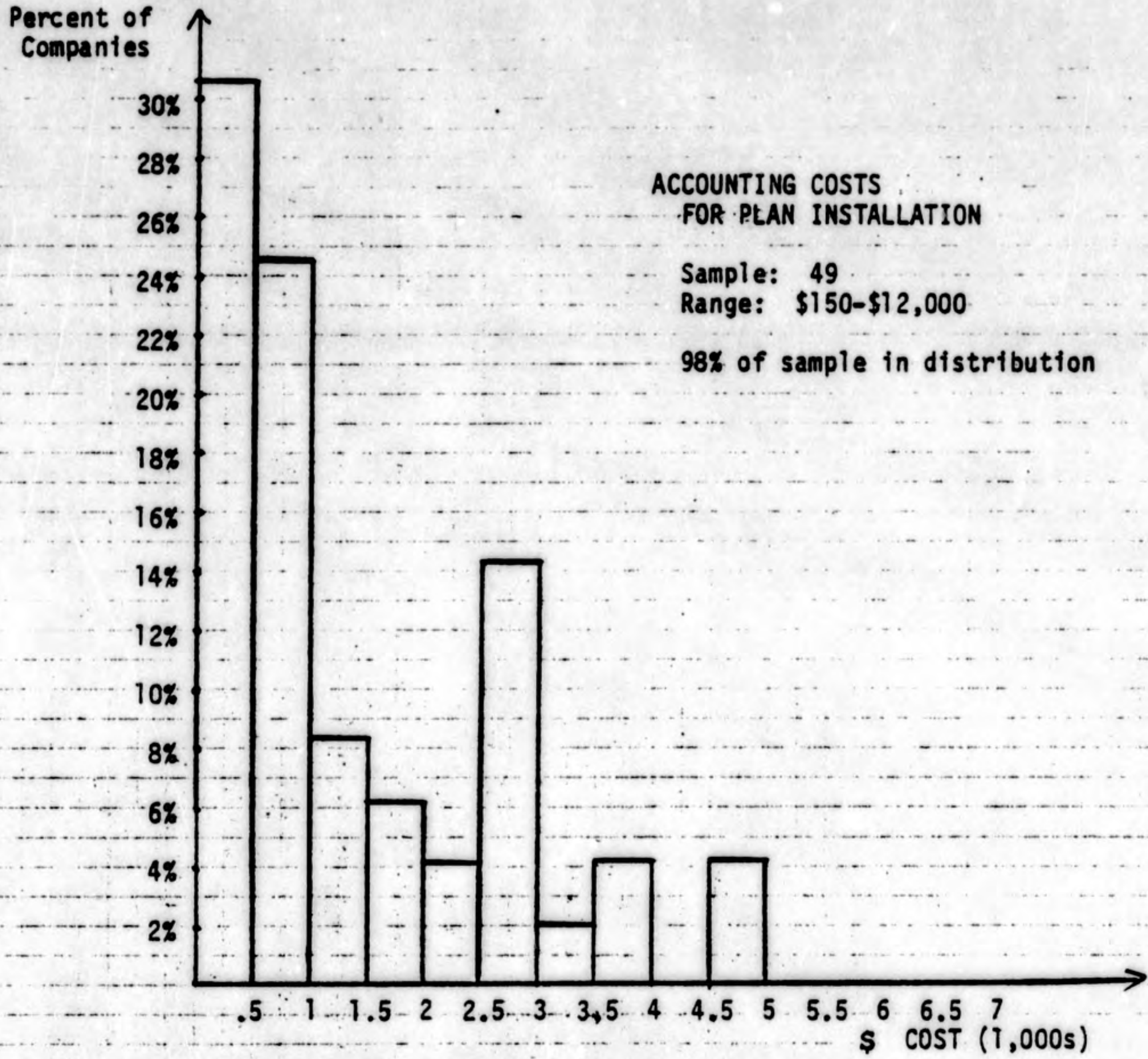




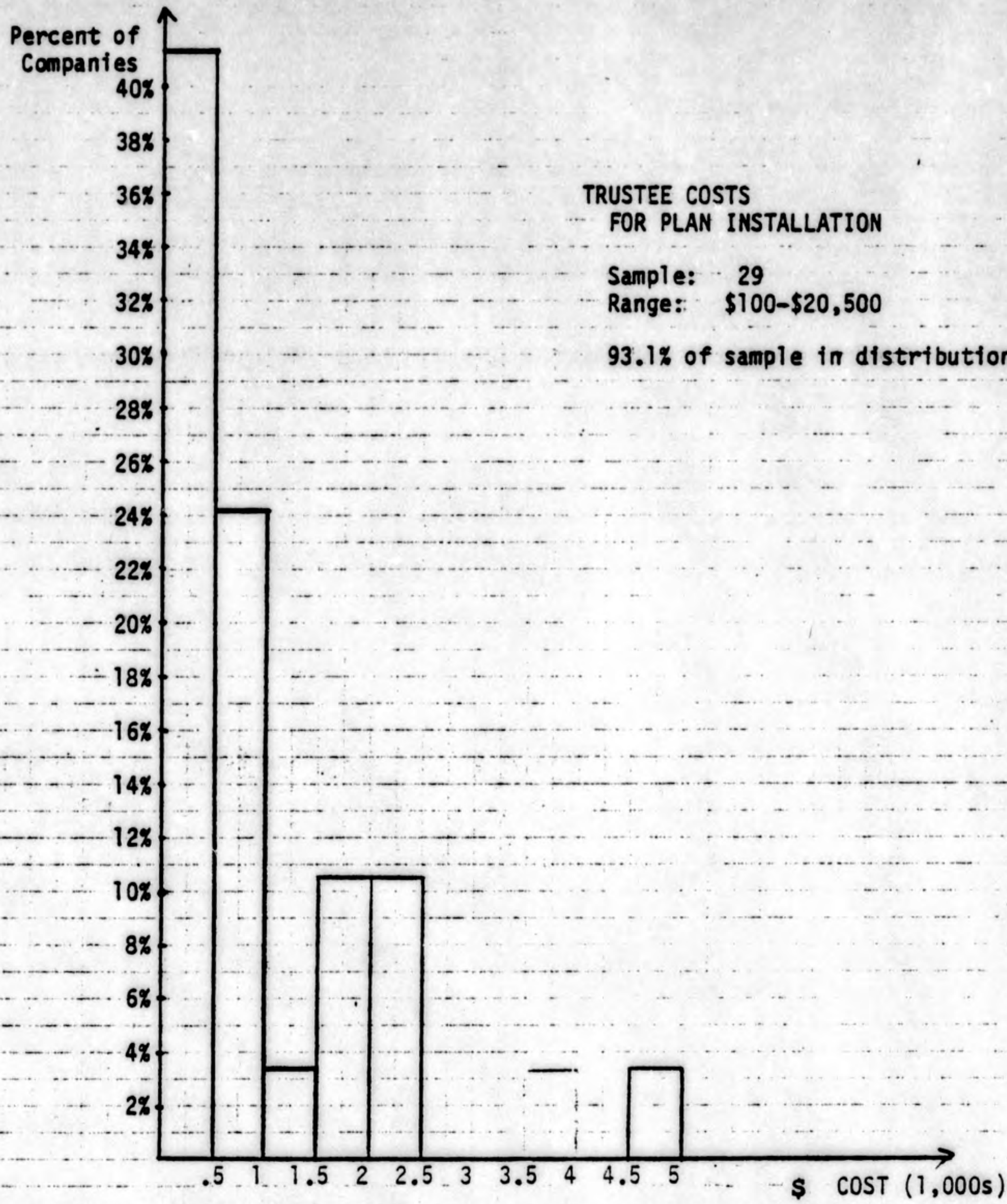
Remaining 14.3% of sample includes:
$20,000 (2), $25,000 (2), $30,000 (2)
$70,000, $125,000



Remaining 5.4% of sample includes:
$18,000, $20,000, $35,000, $40,000



Remaining 2% of sample includes:
$12,000

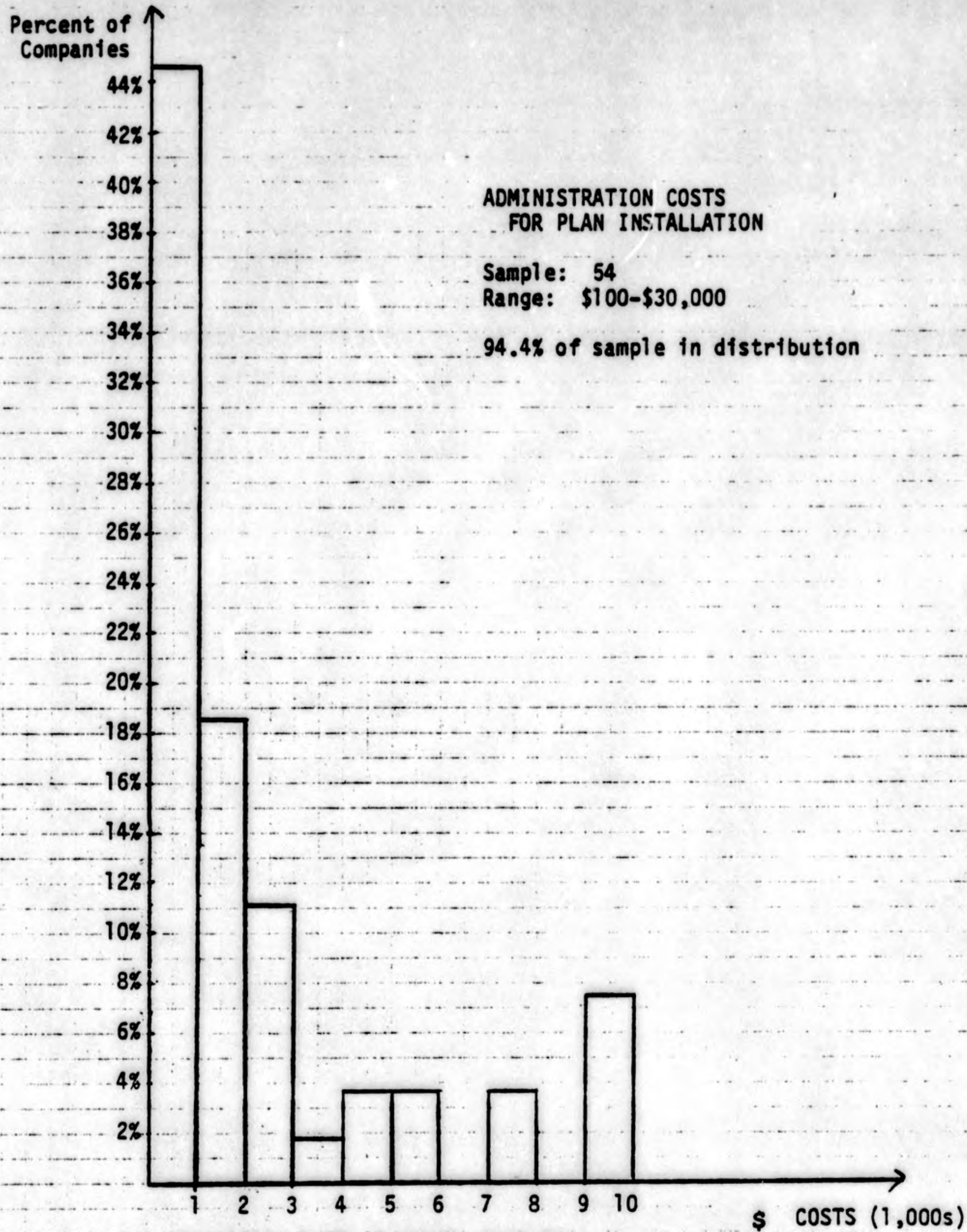


TRUSTEE COSTS
FOR PLAN INSTALLATION

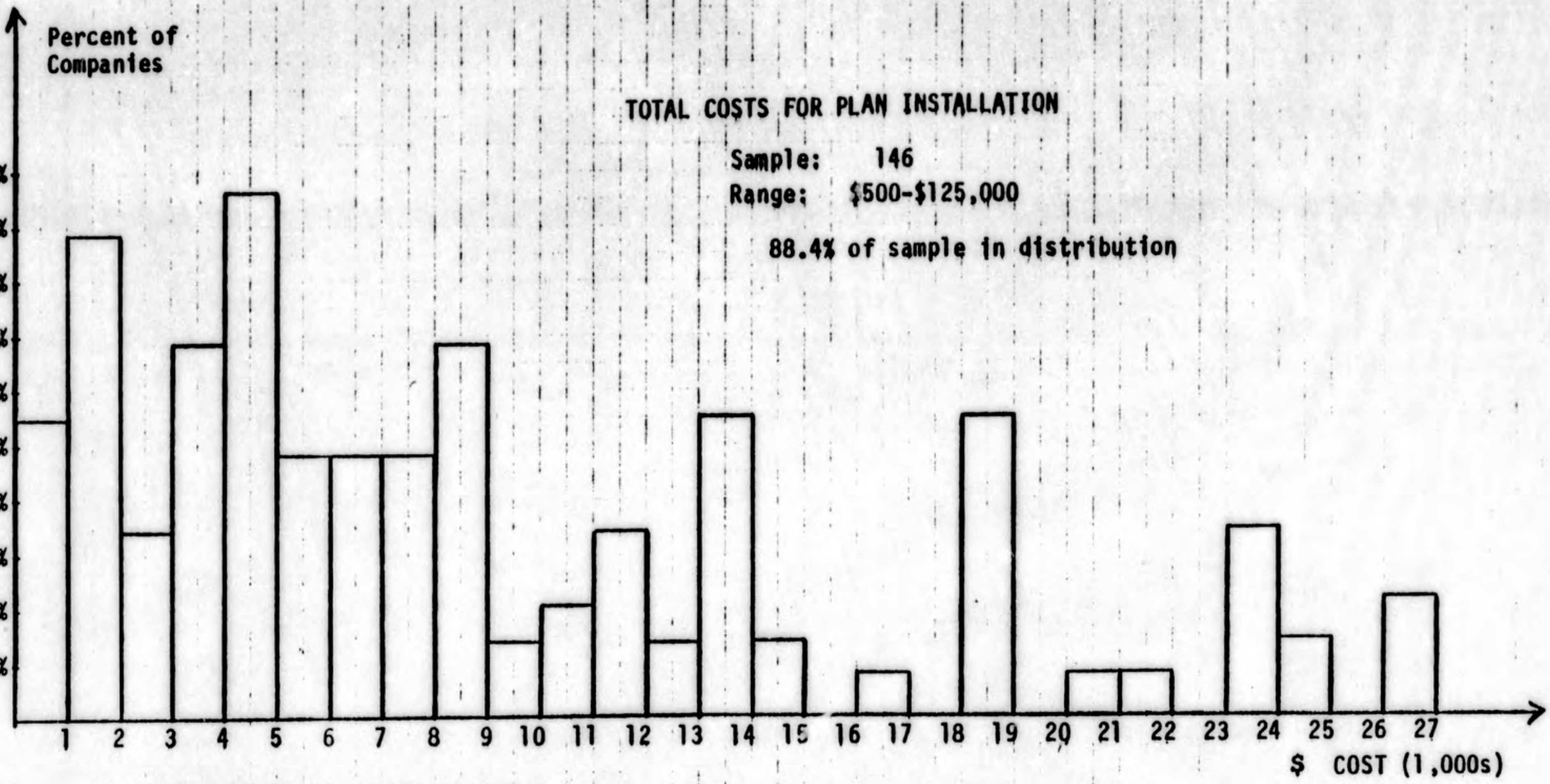
Sample: 29
Range: $100-$20,500

93.1% of sample in distribution

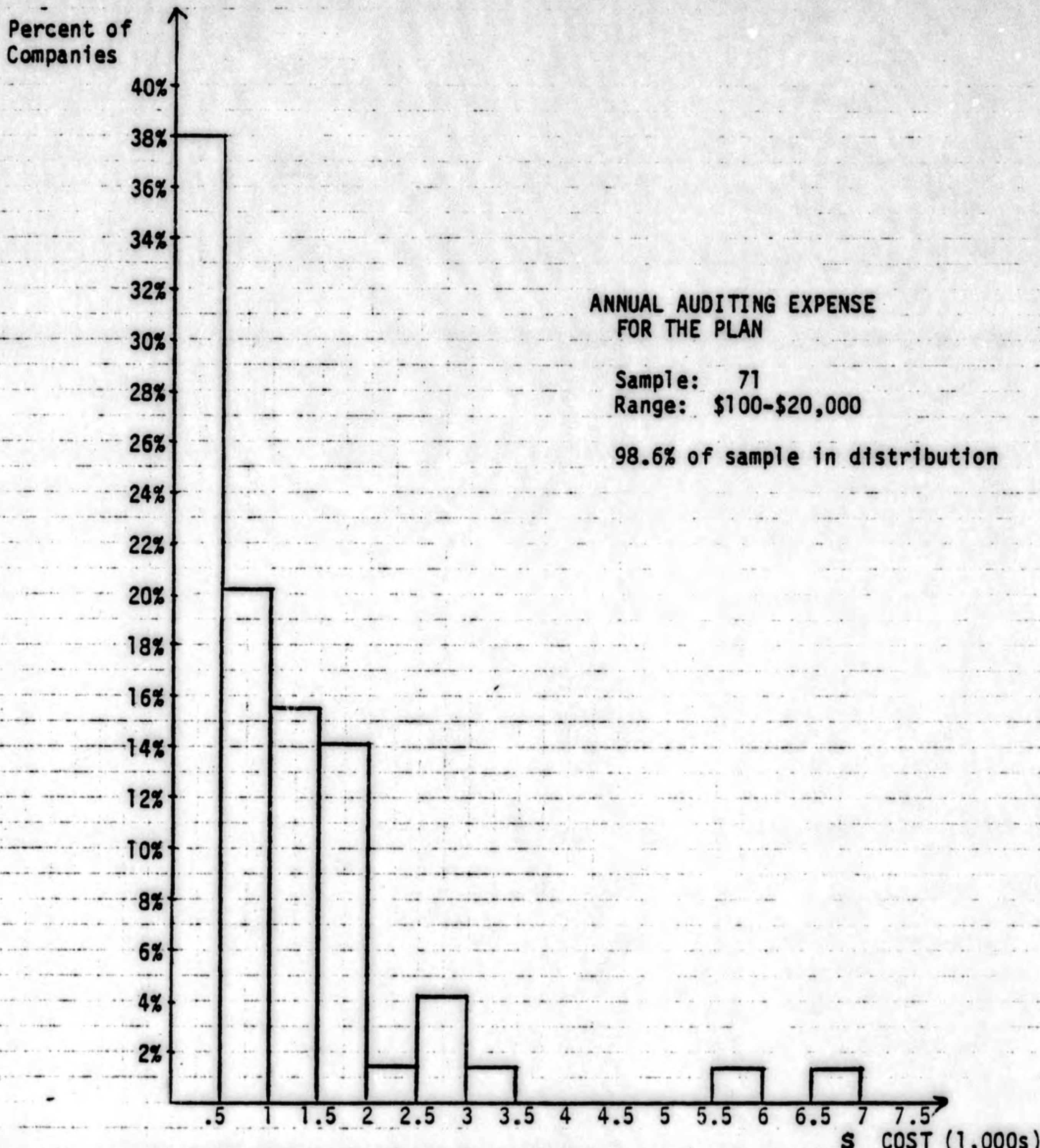
Remaining 6.9% of sample includes:
$12,000, $20,500



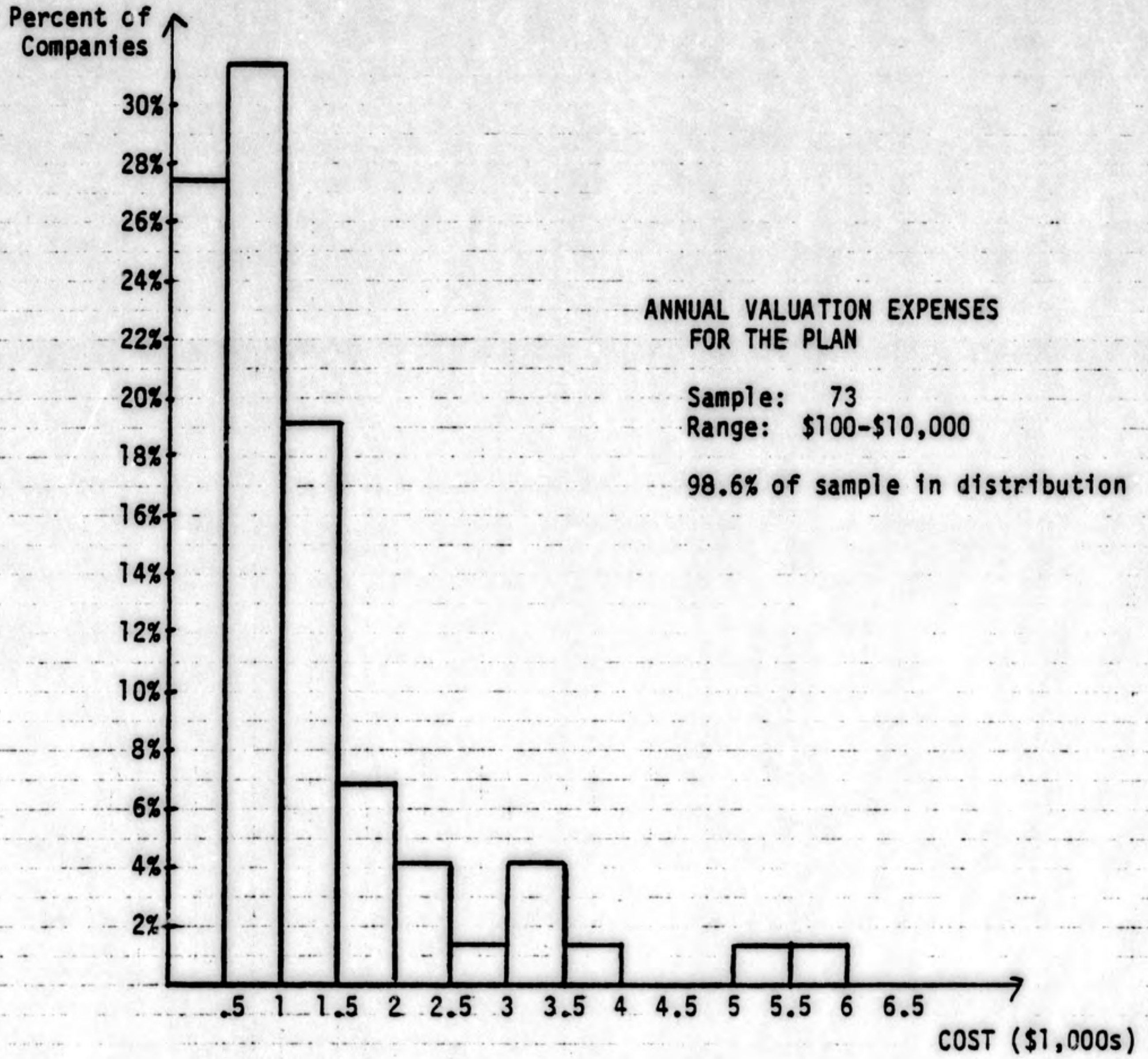
Remaining 5.6% of sample includes:
$19,500, $25,000, $30,000



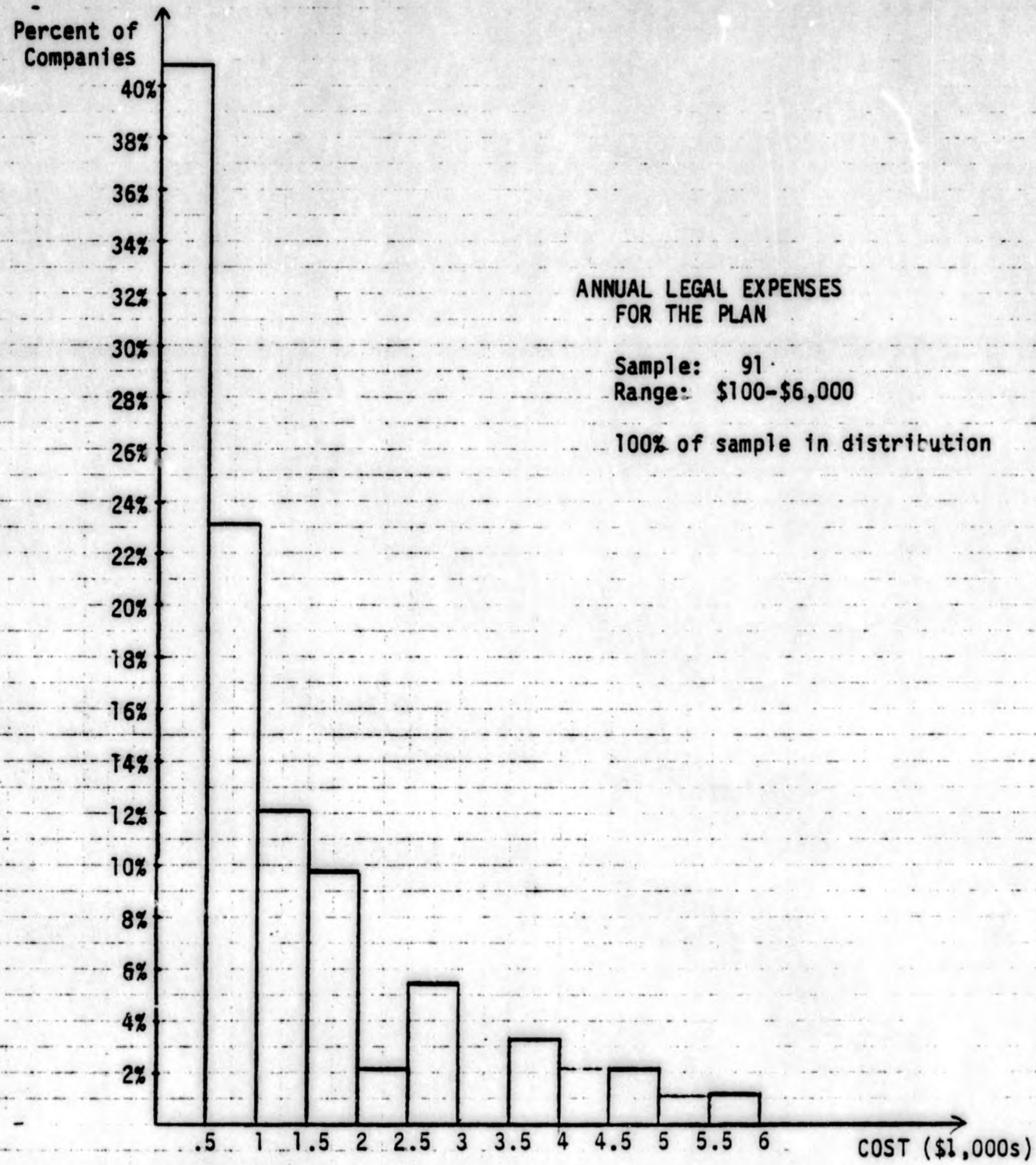
Remaining 11.6% of sample includes:
$30,000, $32,000, $33,500, $34,500, $35,000, $36,000, $38,175, $40,000
$42,000, $43,500, $45,000, $50,000, $52,000, $80,000, $100,000, $107,500, $125,000

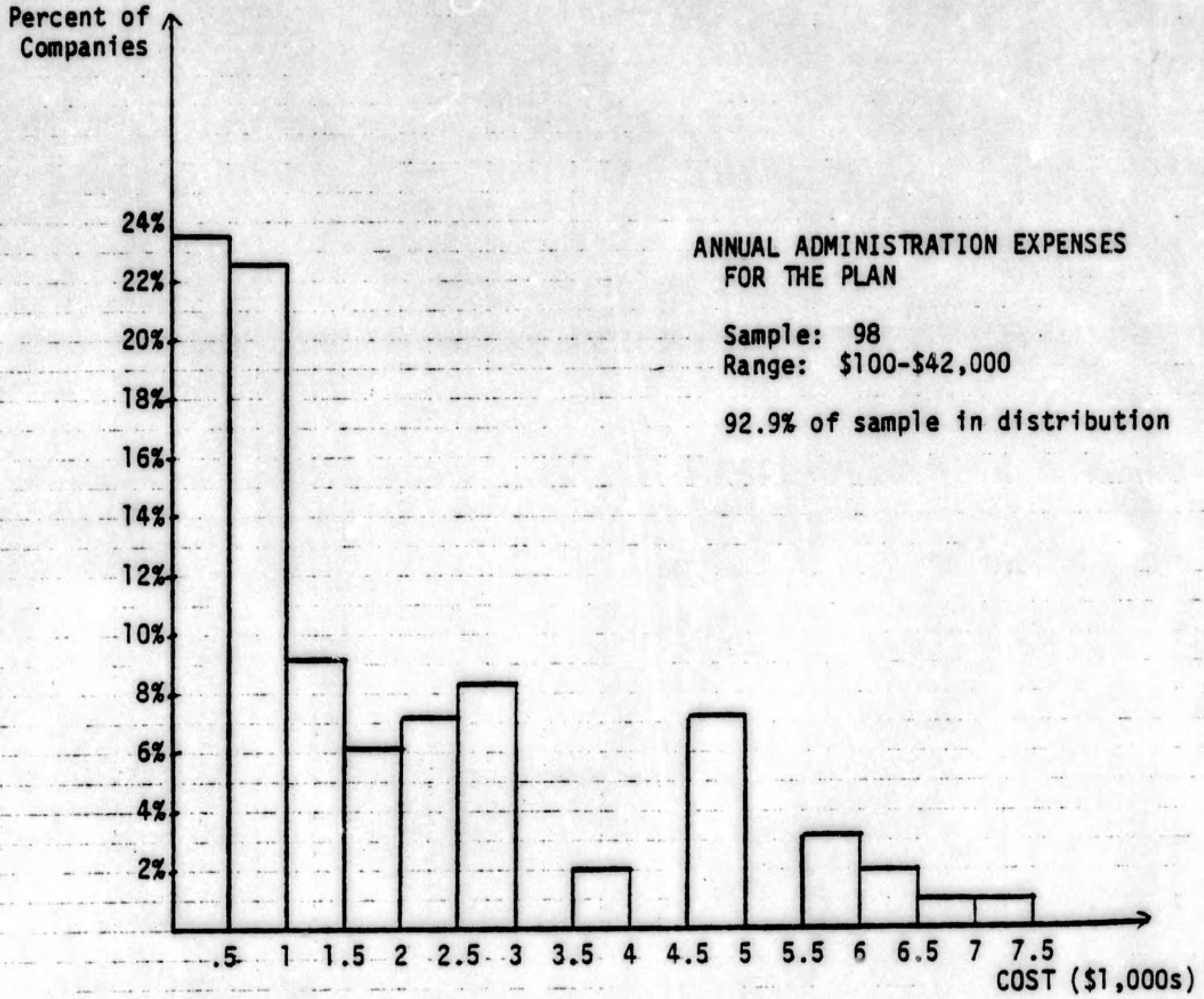


Remaining 1.4% of sample includes:
$20,000

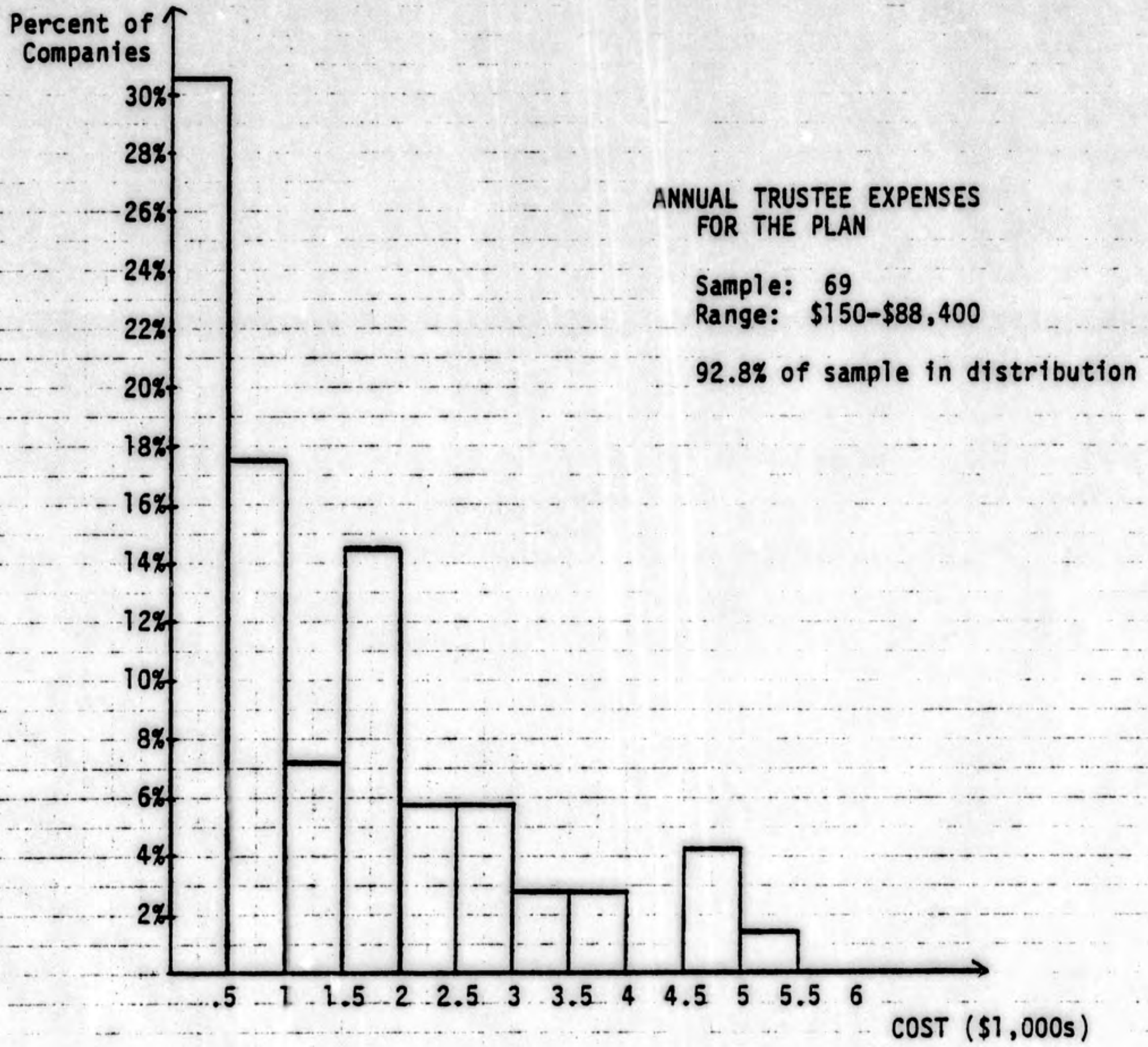


Remaining 1.4% includes: $10,000

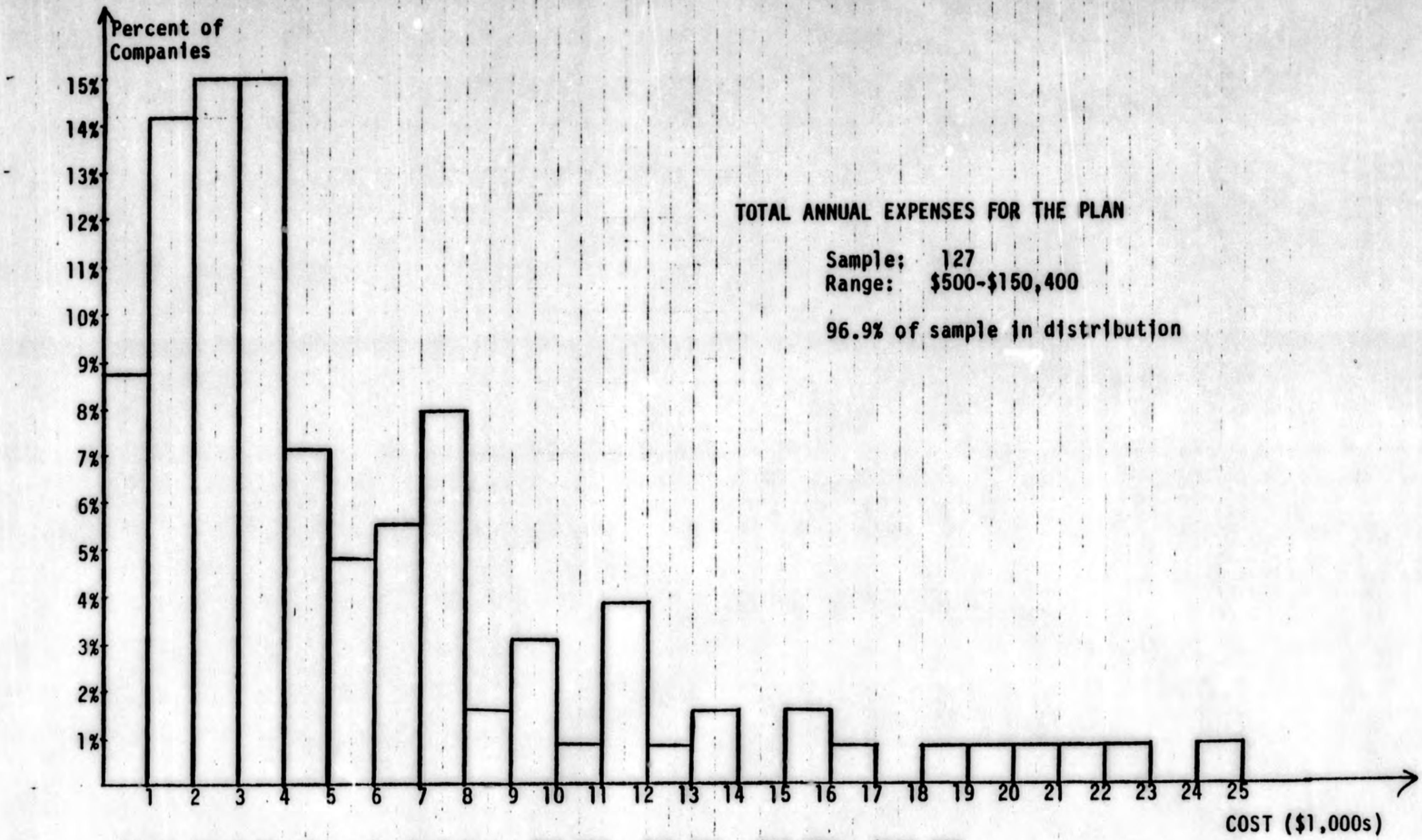

Percent of Companies
40%
38%
36%
34%
32%
30%
28%
26%
24%
22%
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
.5
1
1.5
2
2.5
3
3.5
4
4.5
5
5.5
6
COST ($1,000s)
ANNUAL LEGAL EXPENSES FOR THE PLAN
Sample: 91
Range: $100-$6,000
100% of sample in distribution



Remaining 7.1% of sample includes:
$10,000 (2), $14,000 (2), $18,000, $25,000,
$42,000



Remaining 7.2% of sample includes:
$10,000, $11,000, $11,500, $13,000, $88,400



Remaining 3.1% of sample includes: $27,000, $31,700, $42,000, $150,400

APPENDIX D

GLOSSARY OF STATISTICAL TERMS

GLOSSARY OF STATISTICAL TERMS

CORRELATION
A measure of the degree of relationship between two variables.

CORRELATION COEFFICIENT
A value from -1 to +1 which indicates the closeness of a relationship between two variables; the greater the degree of relationship, the closer the value will be to -1 (negative correlation) or +1 (positive correlation).

MEAN
The arithmetic average of a sample of numbers.

MEDIAN
The value of the number lying at the midpoint of a sample distribution.

MODE
The particular value in a sample of numbers which is most frequently observed.

STANDARD DEVIATION
The square root of the variance. It measures the variability of a distribution, or the degree of spread from the mean.

VARIANCE
The sum of the squares of the differences between the individual observations and the mean of a distribution. It measures the spread of a series of observations, or their tendency to depart from the mean.

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED AS A UNIT IN THE ORIGINAL DOCUMENT.