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THE UNIVERSITY OF OKLAHOMA, PH.D., 1978

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THE UNIVERSITY OF OKLAHOMA

GRADUATE COLLEGE

THE IMPACT OF EMPLOYEE STOCK OWNERSHIP PLANS ON INDIVIDUAL MOTIVATION, PEER GROUP BEHAVIOR AND ORGANIZATIONAL PERFORMANCE

A DISSERTATION

SUBMITTED TO THE GRADUATE FACULTY

in partial fulfillment of the requirements for the

degree of

DOCTOR OF PHILOSOPHY

BY

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Norman, Oklahoma

1978

THE IMPACT OF EMPLOYEE STOCK OWNERSHIP PLANS ON INDIVIDUAL

MOTIVATION, PEER GROUP BEHAVIOR AND

ORGANIZATIONAL PERFORMANCE

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[illegible]

DISSERTATION COMMITTEE

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Stephen G. Franklin, Sr.

TABLE OF CONTENTS

LIST OF TABLES

ABSTRACT

THE IMPACT OF EMPLOYEE STOCK OWNERSHIP PLANS ON INDIVIDUAL MOTIVATION, PEER GROUP BEHAVIOR AND ORGANIZATIONAL PERFORMANCE

BY

STEPHEN G. FRANKLIN, SR.

Committee Chairman: Dr. Larry K. Michaelsen

The primary purpose of this research was to investigate the relationships between adoption of ESOP and measures of financial performance, employee motivation, peer leadership and group processes, and the extent to which these variables are conditioned by changes in managerial leadership and organizational climate. The primary questions the study attempted to answer were:

1. What are the relationships between the introduction of an ESOP and financial performance, employee motivation, peer leadership and group process measures of firms?

2. What are the strengths of relationships between 1) changes in managerial leadership and organizational climate and 2) changes in employee motivation, peer leadership and group processes following ESOP adoption?

Additional inquiry focused on the relationships between 1) the extent to which employees perceived ESOP as a valuable benefit and understood its affect on them and 2) the behavioral dependent variables mentioned above in Questions 1 and 2.

The subjects were 242 employees from seven American firms located in California, Missouri, Nebraska, Texas and Washington representing seven different industries. Financial performance data were obtained from these firms and each employee completed a survey questionnaire developed to solicit employee perceptions of the organizational environment prior to and following the adoption of ESOP.

The results were analyzed by utilizing Pearson correlation coefficients, the Student's $\underline{t}$ test and Multiple regression analysis at $\underline{P} < .05$. No significant changes in financial performance were exhibited in two years following the adoption of ESOP. There were significant positive changes in employee motivation, peer interaction facilitation and group processes following ESOP adoption. Measures of peer support, peer goal emphasis and peer work facilitation exhibited positive changes approaching significance, but failed to achieve statistical significance at $\underline{P} < .05$. There were no significant changes in any of the measures of managerial leadership or organizational climate following ESOP adoption. However, there were significant positive relationships within the sample

between changes in 1) managerial leadership and organizational climate and 2) changes in employee motivation, peer leadership and group processes. The data suggested that a substantial proportion of the variance that occurred in terms of changes in employee motivation, peer interaction facilitation and group processes could be explained by concurrent changes in managerial leadership and organizational climate, but a significant proportion of the variance in the dependent behavioral variables appeared to be directly related to ESOP adoption.

The most significant conclusions of this study suggested that companies wishing to achieve maximum levels of employee motivation and peer group performance must 1) provide positive and supportive managerial leadership and a favorable organizational climate, 2) provide employees the opportunity to own "a piece of the action" through an ESOP and 3) make sure that the ESOP is completely, clearly and effectively communicated to the employees with regard to what it is, what it can do for them and the critical importance of their united effort to make the company a success for everyone.

THE IMPACT OF EMPLOYEE STOCK OWNERSHIP PLANS ON INDIVIDUAL MOTIVATION, PEER GROUP BEHAVIOR AND ORGANIZATIONAL PERFORMANCE

CHAPTER I

INTRODUCTION

> Bring on those tired, labor-plagued, competition-weary companies, and ESOP will breathe new life into them. They will find ESOP better than Geritol. It will revitalize what is wrong with capitalism. It will increase productivity. It will improve labor relations. It will promote economic justice. It will save the economic system. It will make our form of government and our concept of freedom prevail over those who don't agree with us (Burck, 1976, p. 129).

This somewhat overblown rhetoric delivered by Senator Russell B. Long, Chairman of the Senate Finance Committee, to an attentive audience of tax experts doubtless was used somewhat in jest. Much the same rhetoric was used, however, in a Minnesota law encouraging the use of ESOP, suggesting the essential seriousness expounded by the glib statesman (Minnesota Statutes, 1973). Long's statement also suggests the panacean nature which has been attributed to ESOP and refers to some specific elements upon which this study focuses.

Extensive access to and ownership of property is a foundation stone of the American economic system. The last several decades have witnessed the growth of many institutions designed to assist American citizens in acquiring and protecting property of different types. The Homestead Acts, Federal Deposit Insurance Corporation, credit unions, cooperatives, and aid to small and minority business enterprises are developmental examples of efforts to broaden ownership of property among the average citizenry (Conte and Tannenbaum, 1977, Note 1).

Employee Stock Ownership Plans (hereafter referred to as ESOP) are one of the most recent variations to emerge in this development of expanding ownership. An ESOP enables employees to acquire up to 100 per cent of the equity of the firm for which they work, which increases their real property ownership as individuals.

With an ESOP, the company provides shares of stock to the employees, instead of cash, and can deduct as an expense an amount equal to the fair market or derived value of the stock. This reduces the company's income taxes and shifts more ownership of the company to employees, providing them a greater stake in the productivity and profitability of the organization.

Transfer of ownership is accomplished by an Employee Stock Ownership Trust (ESOT), which is the heart of the ESOP. The stock contributed to the employees goes into the ESOT, which administers individual accounts for each participating employee. Stock is allocated and vested according to certain company formulas. Dividends may be distributed to individual accounts or added to the value of non-allocated stock in the trust. Voting rights for the stock may be assigned to a board of trustees appointed by the company (which is usually the case) or passed through to employees as they are vested. Companies that take advantage of an additional 1 percent investment tax credit afforded by ESOP adoption are required to pass through voting rights to employees.

Upon termination of employment or retirement, an employee can take possession of his stock, sell it back to the company or attempt to sell it on the open market. Some ESOPs contain a right of first refusal on stock ex-employees are wishing to sell, so as to control divestiture of ownership.

In spite of the increased emphasis and interest in expanding ownership in general, and ESOP in particular, the majority of ESOP literature deals with the pros and cons of ESOPs as financing tools, how to implement an ESOP, or general descriptions of companies' experiences with ESOP. Very little empirical research has been conducted to determine relationships between ESOP and organizational climate, behavior and performance.

ESOPs are also corporate financing tools utilized for new corporate capital formation and expansion. Indeed, most of the controversy and literature surrounding ESOP has involved the leveraged variety of ESOPs which allows companies to finance growth with pre-tax earnings, both principal and interest being deductible. This study primarily is concerned with the former aspect of ESOP, but does not wish to diminish the importance and significance of the latter.

Statement of the Problem

Adoption and implementation of ESOPs are expensive because of man hours, resources and legal assistance required. Current literature surveys suggest that an estimated 1000-1500 companies representing numerous industries have adopted ESOP (Koepnick, 1975). For the most part, ESOPs have been accepted as desirable and expected to improve employee motivation and peer group performance since they provide the employees "a piece of the action." To date, however, the impact of ESOP has not been empirically tested in a wide or even limited range of firms.

Objectives of the Study

The primary objective of this study was to investigate the relationship between ESOP and organizational performance, behavior and climate for several different types of American firms. Secondary objectives included:

1. To determine if firms exhibit significantly improved organizational performance (as measured by several generally accepted performance measures) after an ESOP is adopted.
2. To determine if employee motivation, peer leadership and group processes measures significantly improved following adoption of ESOP.
3. To determine the strengths of relationships between 1) changes in managerial leadership and organizational climate and 2) changes in employee motivation, peer leadership and group processes.

Organization of the Dissertation

Subsequent chapters of the dissertation are organized in a systematic manner to accomplish the above objectives by (1) discussing relevant literature pertaining to ESOP, (2) describing the scope and details of the entire project, (3) presenting results and conclusions of the statistical analysis of the collected data, and 4) providing practical implications for business organizations and making suggestions for future refined research in the topical area.

Chapter II provides a survey of the relevant literature pertaining to ESOPs. Comparisons are made with profit sharing plans, advantages and disadvantages of ESOPs are presented, related empirical studies are discussed and results of a "pioneering" ESOP study are provided as an impetus for the present study.

Chapter III presents the research model and hypotheses and discusses the scope of the study, performance measures, development of the survey instruments, data collection procedures and methods of data analysis.

Chapter IV presents the statistical results of the research data.

Chapter V provides a summary, conclusions and implications of the research findings for management and suggests recommendations for future ESOP research.

CHAPTER II

SURVEY OF RELEVANT LITERATURE

This chapter delineates the differences between profit sharing plans and ESOP. It traces the evolution of employee ownership from "direct" to "beneficial" type plans and describes recent legislation and other catalytic elements that have contributed to the surge in ESOP adoption in American firms. Potential organizational advantages and disadvantages of ESOP are cited and the relationship of ESOP to employee motivation is discussed at length.

Profit Sharing Plans: A Brief Overview

It has long been thought that employees who feel that they own a "piece of the action" will be motivated to be more productive and committed to the organization's objectives. Profit sharing plans were one of the first attempts to generate and develop this employee devotion and performance.

The earliest formal records of profit sharing plans date back to nineteenth century France (Pigors and Myers, 1977, p. 373). The International Cooperative Congress in 1897 formulated the first precise definition of a profit sharing plan: "An agreement freely entered into, by which the employees receive a share, fixed in advance, of the profits" (Schloss, 1898, p. 242). Today there are over 100,000 IRS approved profit sharing plans in the United States (Metzger & Colletti, 1971, p. 28).

There are two basic types of profit sharing plans: (1) cash, or current distribution and (2) deferred, or trust distribution. Cash plans usually distribute monetary benefits to the employee participants at the end of each year if the company realizes a profit or saves on expenses. Deferred plans place the profits each year into a trust fund and the benefits are distributed upon employee retirement or in the event of death or disability. Some companies combine these two types of plans and distribute some cash each year while placing the remaining profits into trust (French, 1974).

Advocates of profit sharing contend that it:

1. effects an increase in productive efficiency through reducing costs and increasing output
2. improves employee morale and reduces labor management strife
3. provides for employee security in the event of death, retirement or disability
4. constitutes a mechanism of employee economic education
5. reduces turnover
6. improves public relations
7. draws labor and management closer together

Delineation of Profit Sharing Plans and ESOP: An Illustration

Most authors include ESOP into their general discussion of incentive systems, drawing no significant distinction between profit sharing plans and ESOP. It is the contention of this author that the two are not identical and that the "ownership" factor significantly differentiates

ESOP from profit sharing plans and even some aspects of "direct" stock plans (which will be described later). The following example will attempt to clarify the difference to the reader.

When an individual rents an automobile for use, he is not likely to care for it as well as he would his own automobile. For example, he probably will not be as careful about avoiding potholes in the road, rubbing tires against the curbing when parking, driving fast over bumpy dirt roads, spilling food or drinks on the upholstery or parking close to another car where an opened door can scratch the paint.

However, if an individual must pay for the gasoline used in the rented car, he probably will want to purchase the most inexpensive gasoline and obtain the most economical mileage from the automobile because that money comes out of his pocket as a variable expense. Therefore, if he is economy-minded he most likely will not "rev" or "goose" the engine or drive at excessively high rates of speed which consume more gasoline. He also will choose the most direct routes to save mileage charges (if there are any) and to reduce gasoline consumption and expense.

When a person owns his automobile, he, as well as the one who rents, will be concerned about gasoline and mileage expenses. However, he will in addition be concerned about avoiding potholes, driving slower on bumpy dirt roads and in general eliminating all actions such as those mentioned above which would have a destructive effect on his automobile.

Profit sharing is analogous to being careful with the gasoline and mileage expenses. If employees are economical with materials and work efficiently, they can help the company increase profits (get better mileage and reduce gas consumption) and therefore receive some percentage of that gain in cash or other benefits (keep more money in the pocket by spending less on gas and mileage).

Being economical and getting good gas mileage, however, is not the same as owning the automobile and does not provide the same psychological attachment and care for the car as does actually owning the vehicle. Likewise, this author contends that profit sharing is not the same as owning the organization and does not provide the same psychological attachment for the company as an ESOP has the potential to do.

Employee Ownership: An Evolution

While profit sharing plans have abounded in number and diversity, they certainly have not been the "panacea" many had hoped for and expected. Many companies with profit sharing plans experience the same problems of motivation, loyalty and commitment to corporate goals as do firms without profit sharing plans. Meanwhile, for many years there has been a steadily progressing movement among substantial numbers of firms wherein actual ownership is transferred to the employees; or, using our illustration, they are giving the car to the employees instead of just encouraging economical driving. Granted, the percentage of ownership among employees to date is very small; nevertheless, it is increasing significantly and has the potential for rapid expansion with future legislative and managerial developments.

Direct Stock Plans

Most "direct" stock plans are established whereby employees can buy stock directly from the company at a reduced rate or management gives the stock directly to the employees as a bonus or gift, with or without any relationship to profits or earnings of the employee. The employee owns shares of stock in the company just like any other stockholder in a joint stock company.

A National Industrial Conference Board (NICB) survey reported that 389 firms in which a large proportion of the stock was directly owned by employees were established in the United States by 1928 (NICB, 1928). "It is estimated at the present time (1928) that upwards of a million recipients of wages of salaries in the United States . . . own or have subscribed for over one billion dollars' worth of securities of the companies by which they are employed" (NICB, 1928, p. 71).

Interestingly, the NICB researchers ascertained that there were five basic reasons company management offered securities to employees:

1. As a reward for service
2. To stimulate interest in the company
3. To encourage thrift
4. To secure increased capital
5. Imitation or fashion

Two years prior to the NICB published report, a group of academicians and businessmen published a book entitled <u>Profit Sharing and Stock Ownership for Employees</u> (James, <u>et al</u>., 1926). This was a follow-up investigation on an earlier work and sought to analyze the scope of profit sharing and stock ownership for employees, to determine the limitations and results which might be expected from the use of either or both plans and to discover the most effective ways of applying the profit participation incentive to all company employees. Commenting on the various purposes for establishing "stock purchase schemes" or "stock bonus schemes," the authors pen the following remarks:

> There is a great diversity of purpose, and especially of the minor or incidental purposes, in these schemes. Some plans have been installed with the sole purpose of securing greater interest in the company and more loyal effort from the group to which the stock was sold. Other plans were started because there was a demand on the part of the employees for an opportunity to invest in the stock of the company and the directors did not see any harm in it (James, et al., 1926, p. 71).

One of the best known companies cited in this report was the Dennison Manufacturing Company, a firm in which a large part of the stock was owned and the entire organization was managed by the employees. In 1911 all the outstanding common stock of the company was called and reissued as nontransferable common stock to 200 management employees. In 1917, Dennison initiated a profit sharing plan and by 1919, all employees who had been with the company at least two years shared in profits. "Managerial industrial partners" received voting stock and "employee industrial partners" received non-voting stock. Dividends on both classes of securities were paid to the individual employees in cash. Dividends could not exceed one-half the net profits after preferred dividends were paid (NICB, 1928, p. 22-23).

Dennison distributed to his employees the stock and profits of the company and should be recognized as an early pioneer in initiating and developing the concept of employee ownership.

> Most of the men and women who sell and make Dennison goods are like partners sharing in both management and profits. The control of the company is wholly in the hands of those who are daily connected with its interests; those who are only investors have no voice in its affairs (James, et al., 1926, p. 260).

Beneficial Stock Plans

"Beneficial" stock plans have been labeled such by financial writers because the employees "benefit" without having to outlay money for company stock. Stock is allocated to them on a regular basis through a trust according to some company formula. The stock may or may not possess voting rights and the employees do not take actual possession of the stock until termination or retirement.

The beneficial stock plan concept has existed since the 1930's and there have been legislative provisions in the Internal Revenue Code permitting qualification of such plans since 1942. Prior to 1973, however, their role in U. S. industry was rather insignificant, with an estimated fewer than 500 beneficial stock plans operational as compared to over 100,000 approved deferred profit sharing plans (Todd, 1974).

Employee Stock Ownership Plans

The beneficial stock plan concept developed increased interest with the passage of two important pieces of legislation in 1974. It was during this period that beneficial stock plans came to be known and popularized as "ESOP" and this fashionable term was incorporated into these legislative acts:

1. The Employee Retirement Income Security Act (ERISA) of 1974, exempted ESOP from diversification of investment requirements and provided them with some additional exclusive benefits. With the passage of this act, the only type of trust which may legally accommodate large amounts of investment by employees in their company's stock is the ESOT.

2. The Tax Reduction Act (TRA) of 1975 was perhaps the most important legislation affecting ESOP. It increased the investment tax credit to 10 percent for 1975 and 1976, and allowed an additional 1 percent credit for corporations adopting ESOP (Reum, 1976).

The acknowledged "Father" of ESOP, and the person most responsible for the expansion and popularity of the term and concept, is Louis Kelso, San Francisco attorney, investment banker and lay economist (Reade, 1974).

Kelso has long been a proponent for broadening stock ownership with ESOP as the major vehicle to accomplish this goal. He has long believed that the Keynesian economic doctrine of full employment as the prescription for national prosperity has failed and is impractical. Kelso argues that no laborer gets rich by working on a job and that labor accounts for a steadily diminishing percentage of production in our society. "With rare exception, it is capital that produces affluence, while labor, in a free market, can at best normally produce only subsistence" (Burck, 1976, p. 131). The label Kelso employs to this critique of labor and capital is his "two-factor theory of economics."

The heart of Kelso's two-factor theory emphasizes that whoever owns the capital, tools and machines of production obtains real wealth.

> The only way to close the chronic gap between production and consumption . . . is not through heavy taxing and government spending--as the Keynesians claim--but by providing job holders the chance to own, not existing assets, but newly formed ones which stem directly from capital expansion (Thomas, 1975, p. 5).

Kelso contends that ESOPs turn workers into capitalists, broaden wealth without taking away from the rich to compensate the poor, and will broaden the tax base because of growing wealth and will generate greater government revenues in the long run (Thomas, 1976).

For many years Kelso's ideas and convictions remained dormant, but in the last several years numerous factors relating to the deterioration of the U. S. economy have sparked a dramatic increase in interest in ESOP. These factors include the stock market decline which has made it difficult for businesses to raise capital through sale of securities, tight money conditions, inflation, discoveries of ESOP by life insurance companies as a favored method for the sale of life insurance and, as already cited, legislation favoring ESOP, the latter resulting largely from Kelso's pioneering efforts. In 1973 he influenced Senator Russell Long, Chairman of the Senate Finance Committee, to push for legislation favoring ESOP. Through Kelso and Long's efforts the ESOP method of broadening corporate ownership among employees received encouragement in additional significant pieces of legislation:

1. The Regional Rail Reorganization Act of 1973, authorized Consolidated Rail Corporation to investigate the possibility of ESOP financing.
2. The Foreign Trade Act of 1974, provided a $1 billion federally guaranteed loan program through the Department of Commerce to guarantee up to 25 percent of loans by conventional lenders to companies in areas hurt by foreign competition that adopted an IRS approved leveraged ESOP.
3. The Tax Reform Act of 1976 extended the 1 percent ESOP tax credit through 1980, and created an additional tax credit of up to one-half of 1 percent to the extent that it is matched by employee contributions. This would mean a 12 percent tax

credit for companies that contribute the extra allowance to an ESOP. However, because the companies must pass through full voting rights to employees having shares in the ESOP, most companies are not yet claiming the bonus 2 percent tax credit. Most companies still seem hesitant about giving employees voting rights which result in loss of management control. The bonus can result in millions of dollars of savings for some companies--a fact which may eventually alter their philosophy on this matter (Sullivan, 1977; U.S. News and World Report, August 16, 1976; Newsweek, September 13, 1976; Harris, 1975).

Among other bills that Kelso, Long and others on Capitol Hill are pushing is the Accelerated Capital Formation Act, which would remove employer limitations on contributions to an ESOP and make dividends paid on ESOP-held stock tax deductible to employers. The passage of that act could create a snowballing effect for ESOP (Burck, 1976, p. 60).

The interaction of these environmental factors and rigorous efforts by Kelso, Long and others has given rise to a dramatic growth in ESOP since 1974. Estimates range from 1500 plus new plans since 1974, with one writer suggesting a growth rate of 10 new ESOPs a day (Benzer, 1975).

Similarities With Profit Sharing Plans

An ESOP is essentially one form of qualified retirement plan, similar in several respects to qualified profit-sharing plans. The Employee Retirement Income Security Act (ERISA) of 1974, defines ESOP in the following terminology:

> The term "employee stock ownership plan" means an individual account plan (A) which is a stock bonus plan which is qualified, or a stock bonus plan and money purchase plan both of which are qualified under Section 401 of the Internal Revenue Code of 1954, and which is designed to invest primarily in qualifying employer securities, and (B) which meets such other requirements as the Secretary of the Treasury may prescribe by regulation.

ERISA defines "qualifying employer securities" as either company stock or a marketable debt instrument, such as a bond. The stock may be voting, non-voting, preferred or common. The requirement that investment be "primarily" in qualifying employer securities is still a question of interpretation. Some legal authorities are assuming that "primarily" is defined as over one-half, which would still allow up to 49 percent for other investments, such as life insurance or other company stock. The proposed Javits-Humphrey legislation is attempting to restrict ESOP to holdings of no more than 30 percent of its assets in company stock, thus encouraging broader investment. However, most ESOPs currently are investing 90-95 percent in employer stock (Reum, 1976).

ESOPs are in the same family as pension, profit sharing and stock bonus plans. However, they are qualitatively different from these other types of plans in concept and application. "Because of its inherent flexibility, . . . ability to facilitate and enhance corporate growth . . . and separate status under the Pension Reform Act, the ESOP possesses an assortment of unique advantages not possessed by other qualified plans . . . (and) is destined to become an increasingly popular form of employee benefit plan" (Menke, 1975, p. 31).

Since ESOP and profit sharing plans possess several similarities it will be helpful to compare their important likenesses and differences. Among the basic similarities between ESOP and profit sharing plans are the following:

1. Both are qualified plans under Internal Revenue Code 401(a) with identical rules for eligibility, vesting and nondiscrimination. This means employer contributions are deductible when made, trust earnings are tax-exempt and participants are not taxed until their benefits are actually distributed to them. All full-time employees must be eligible after age 25 and one year of service, and a participant's vesting rights must satisfy one of three statutory requirements.
2. Both use individual accounts for participants for the allocation of employer contributions. These allocations normally are distributed in proportion to employee compensation.
3. Both permit annual variations in the amounts to be contributed by the employer. Contributions to both may be made dependent on profits.
4. Both permit a maximum deduction by the employer for contributions to the plan of 15 percent of payroll, with up to 25 percent for a "compound" ESOP or a defined contribution pension plan. A compound ESOP is a stock bonus plan incorporated with a "money purchase plan" which requires that employer contributions must be fixed or determinable, without relationship to profits, and forfeitures by terminating participants must be used to reduce future employer contributions, rather than be reallocated among the accounts of remaining participants.
5. Both can be integrated with Social Security.
6. For both plans, annual additions to a participant's account, including contribution carryovers and forfeitures, may not

exceed the lesser of $25,000 or 25 percent of the participant's compensation.

Differences With Profit Sharing Plans

ESOP differs from profit sharing plans in three very critical respects:

1. The amount of contributions to participants need not be dependent on profits. Employers may make contributions to the ESOP in cash or stock in a year when there are no profits. Profit sharing plans make no contributions when there are no profits.

This difference is not as important as the following ones but the ESOP provides for continual distribution of ownership among employees regardless of annual profitability whereby benefits of profit sharing are contingent on profitability of the firm.

2. Benefits must be distributable in the form of employer stock and the ESOP must invest primarily in company securities. Profit sharing plans, by law, can invest no more than 10 percent in employer securities.

This difference is of key significance because it sets forth the major avenue through which ownership is distributed and broadened among employees. In order to be in a position to distribute employer stock to terminating participants, the company must invest heavily in its own stock. ESOP proponents insist that this, in turn, motivates employees to put forth maximum effort in improving productivity, efficiency and profitability of the firm so as to increase the value of their personal ownership and wealth.

3. Due to the favorable legislation, ESOPs are considered to be important corporate financing tools. Profit sharing plans do not possess the same financial aspects.

The classic example of a leveraged ESOP is as follows: Suppose a company needs $1 million to build a new facility. The employees form an ESOP which borrows $1 million from a bank and turns it over to the company in return for $1 million of the company's capital stock. The ESOP can pledge the stock to the bank as security for the loan with the company guaranteeing the loan. This provides the company with increased working capital and net worth and it uses the money to build the facility. Each year the company can contribute up to 15 percent of the total payroll to the ESOP trust with <u>pretax</u> profits from the new facility for which it receives a tax deduction. The ESOP uses these pretax contributions by the company to repay the bank loan. When the loan is paid off completely, usually in 5-10 years, the company owns the facility, the employees own a substantial amount of stock in the company and the bank has been paid in full with normal interest on the loan. To extend the example a bit further, suppose the company has a payroll of $2 million annually. The company repays the loan with annual contributions to the ESOP of $240,000, (could be 15 percent of payroll or $300,000), the ESOP pays the bank and the bank releases shares of stock to the ESOP on a proportionate basis. At 8 percent simple interest (hypothetical), the bank loan would be repaid in five years with a total expenditure of $1.2 million. If the company were in the 50 percent tax bracket, the total expenditure would be $2.2 million had the loan been made conventionally and been repaid out of after tax earnings. With the ESOP arrangement, both principal and interest are deductible and paid with pretax dollars, whereas with the conventional plan only interest is deductible and principal is paid with after tax earnings (Linden, 1976).

This difference relates closely to the second in that it behooves employees to exert optimal performance in order to maximize the company's borrowing strength. This can result in greater company growth, expansion and worth, which in turn makes each employee's individual stock ownership more valuable.

As was mentioned in Chapter I, the "leveraged" ESOP is not the focus of this research, but it can have an impact on employees' attitudes toward the organization. For example, if employees perceive that the only reason management adopted the ESOP was for financing purposes, the potential positive impact of the ESOP could be diminished.

These three differences, in addition to the characteristics cited by Menke, distinguish the uniqueness of ESOP among employee benefit plans.

Organizational Features

In addition to the earlier mentioned environmental and legislative reasons, many companies are adopting ESOP because they believe the plan provides several distinct features that many of the proponents of ESOP view as advantages to the organization because of the positive effects on employees.

1. An ESOP actually transfers ownership of the organization to employees without requiring matching participation on their behalf. Management gives the employees vested interest in improving corporate profitability by sharing profits

and ownership. The underlying theory here is that when employees are given "a piece of the action" they will be motivated to greater productivity, higher morale and commitment, less turnover, absenteeism, grievances and waste. Several companies have publicly stated that their major reason for adopting an ESOP is to benefit employees and improve motivation and productivity. Louis E. Dolan, vice-president of Gamble-Skogmo, a large Minneapolis retailer, commented, "We're not using it (ESOP) to raise capital for the company, but to benefit our employees, who will get the stock at the price we paid for it" (Business Week, March 1, 1976). E-Systems, Inc., a giant Dallas-based electronics firm, adopted an ESOP in 1974. "We wanted to increase employee motivation and productivity, and with the help of intensive communications programs, we think we are succeeding," says Harry L. Thurmon, vice-president and treasurer (Business Week, March 1, 1976). Although it is difficult to pin down in quantitative terms exactly what effect ESOPs are having, E-Systems reported that since the introduction of its ESOP, turnover and absenteeism went down 50 percent, employee suggestions have doubled and profits for 1975 were up 64 percent over 1974 (Burck, 1976).

2. Employees can gain more from ESOP than standard profit sharing plans because the company's contributions to ESOP are usually 15-20 percent of payroll as opposed to the 7 percent rate typical of most benefit plans. In profit sharing plans there must be profits to share in order for a contribution to be made;

not so for ESOP. Also, ESOP can provide current as well as deferred income to employee shareholders by dividend pass-throughs (Koepnick, 1975, Note 2).

3. Proponents of ESOP contend that they improve labor relations by aligning employees' self interest with management. (All five unions at E-Systems "cordially" accepted the plan.) Employees gain a better understanding of the overall market enterprise system, if communications are good, by sharing the rewards and risks of capital ownership (Crichton and Manley, 1976).

4. Management can preserve company control by appointing a Board of Trustees who hold and manage the voting rights for the ESOP shares of stock (except for the portion relating to utilizing the investment tax credit, which must be passed through to the employees). In a sense, the ESOP goes public "internally," among its own employees. Many managers contend that this is much better than going public as far as management control is concerned because the employees will be more sensitive and rational in understanding managerial decisions (Reum, 1976).

ESOP Opponents and Disadvantages

There are numerous critical analysts and opponents of ESOP, as might well be expected of any current popular topic. These "non-believers" cite the following characteristics as distinct disadvantages for firms adopting ESOP:

1. Although company appointed trustees vote the ESOP shares of stock held by the trust (in most companies), the Employee

Retirement Income Security Act (ERISA) demands that they be governed by the "prudent man rule" and that they administer the ESOP "for the exclusive benefit of the employee" (Burck, p. 131). An employer must grant voting rights to employees for that portion of stock issued in order to take advantage of the investment tax credit bonus. Some have argued that this proportionate change of company ownership into the hands of employees could cause loss of management control, which many companies fear (i.e., not many companies have taken advantage of the investment tax credit bonus, which could save them millions of dollars in taxes) (U. S. News & World Report, Aug. 16, 1976).

2. ESOP assumes that all (or most) companies will continue to operate profitably, but many firms fail for reasons other than working capital; i.e., poor management and decision making, changing technology, increased competition, etc. However, a company could do poorly making the value of the issued ESOP stock questionable thereby causing employee morale, motivation, and productivity problems (Triad, 1975, Note 3).

Since ESOPs must be primarily invested in company stock, employees have "all their eggs in one basket," so to speak, since salaries and retirement security depend on the performance of the company and its stock. Dilution can haunt the employee participant if payouts per shares are worth less than anticipated. Furthermore, dissatisfaction with company and/or stock performance could lead to employee and/or legislative pressures for some guaranteed minimum requirement from companies.

For example, Burlington Industries recently paid retirement employees contributions to a profit sharing plan plus the bank savings rate on contributions because the market value of company stock had decreased significantly. If a company experiences complete disaster (i.e., Grant's, Penn Central), the employees quite literally are left "holding the bag."

3. Burck's Fortune article suggests that some "motivational experts" say that employees do not come to regard themselves as partners with management in an ESOP arrangement and therefore claim only modest, if any, improvement in motivation, morale, productivity, reduced absenteeism, turnover, etc. The "motivational experts" believe real wages, time off and work conditions are greater motivating elements than stock ownership. Hallmark and E-Systems, though they brag of increased morale, etc., have so far provided (in the "experts'" minds) little tangible evidence of improvement. This is a difficult argument to settle because the above referenced article does not cite any particular studies or "experts" (Burck, 1976).

4. Many critics argue that most unions are opposed to ESOP. "It's a phony and risky fringe benefit," declares an AFL-CIO spokesman. "The money gained could be bargained for in safer ways" (U. S. News and World Report, August 16, 1976, p. 68). Other union leaders feel it makes the worker less appreciative of and relate less to the unions and the "fruits" of collective bargaining.

5. Government may close the door on ESOP, creating tremendous problems in organizational adjustments and changeovers, employee

morale, etc. The U. S. Treasury will lose $210 million in tax revenues due to ESOP in fiscal year 1977, and $325 million in fiscal 1978. It is estimated that if all "eligible" corporations immediately adopted ESOP, the Treasury would lose $700 million this year. Many critics argue that ESOP is just another special interest tax loophole corporations are exploiting, and it will soon be plugged (Business Week, March 1, 1976).

Overall, however, ESOPs are growing at an impressive rate. Most ESOPs have been adopted by small to regional size companies, but some "giants" have also followed suit: Hallmark Cards, 9,000 employees; Gamble-Skogmo, 18,000 employees; Ralph M. Parsons Company, 4,000 employees; E-Systems, 10,000 employees; Mobil Oil; Weyerhauser; Atlantic Richfield; and AT&T is flirting with the idea (Newsweek, Sept. 13, 1976).

ESOP and Employee Motivation

After reviewing the current ESOP literature, one can readily ascertain that advocates contend this commonsense approach to expansion of employee ownership will improve overall organizational effectiveness primarily through increased employee motivation. Since there is little direct empirical support for this tenet, it is appropriate to review related empirical evidence that addresses these topics. These insights, coupled with the current ESOP literature proposals, will provide a substantive basis upon which to formulate tangible research hypotheses.

Motivational Basis For Organizational Behavior

Organizations perform at high levels of effectiveness for many different reasons, but the focus of concern for this study is the impact of the motivation of the people in the organization. Katz and Kahn (1966) provide a framework for measuring and predicting organizational effectiveness in terms which specify the types of individual behavior required for organizational effectiveness, different levels and patterns of motivation which can evoke effective behavior, and organizational conditions which enhance this type behavior. Their framework significantly relates to what effects ESOP will have on workers' and management's attitudes toward each other and the organization, motivation, morale, productivity and additional aspects of attendant behavior.

Katz and Kahn list and discuss three types of activity an organization must generate if it is to meet the effectiveness criterion of survival. First, people must be recruited and retained within the organizational system in order to function and accomplish its objectives. Turnover and absenteeism are only partial measures of organizational effectiveness because physical presence does not necessarily indicate psychological presence of application. Secondly, there must be "dependable activity" that meets some acceptable level of qualitative and quantitative performance standards. Thirdly, an organization must somehow stimulate its employees to creative, innovative, spontaneous action which will result in accomplishment of organizational goals. Katz and Kahn contend that this is essential to organizational survival and effectiveness. An ideal situation is where employees will go "beyond the line of duty" to offer suggestions for improving production or maintenance methods and procedures. "An organization that can stimulate its members to contribute ideas for organizational improvement is likely to be more effective, since people who are close to operating problems can often furnish informative suggestions about them which would not occur to those more distant (Katz and Kahn, 1966, p. 339).

Will ESOP be an attraction and retention feature for an organization? Will they encourage "dependable behavior"? Will they induce suggestions and actions beyond the line of duty? Will they encourage workers to self-education and improvement so as to assume higher responsibilities in the organization, therefore becoming eligible for more stock ownership? Will ESOP create a favorable image for the company in the community which surrounds it, thus making recruitment, and perhaps product disposal, easier? These are some pertinent questions to which substantiated answers need to be provided.

Katz and Kahn further argue that these three categories of behavior are motivated by different patterns of needs and drives. Four headings of motivational patterns are:

1. Legal compliance, which involves obtaining acceptance of role prescriptions and organizational controls on the basis of their legitimacy;
2. Use of rewards for inducing required behavior, which can include system-wide rewards, individual rewards, "instrumental identification" with organizational leaders, or affiliation with peers to secure social approval;

3. Internalized patterns of self-determination and self expression brought about by worker expression of talents and abilities;
4. Internalized values and self-concept, where personal and organizational goals are incorporated and reflect personal values or self concept.

ESOPs As System Rewards

The linking of external rewards to desired behavior is done with the anticipation that as rewards increase there will be accompanying increased motivation for greater performance or productivity. Rewards can be of four types (Katz and Kahn, 1966):

1. System rewards, which are earned merely by membership in the organization and increased by seniority. These include fringe benefits, cost-of-living raises, sick leave, and other across-the-board wage increases.
2. Individual rewards, which are based on individual merit and performance--usually monetary, such as a piece-rate system or bonus for valuable suggestion.
3. Approval, which is received from superiors.
4. Social approval of one's peer group, which can facilitate or impair accomplishment of organizational goals, depending upon the norms of the group.

Although individual monetary rewards properly administered can attract and retain people in an organization and motivate them to exceed quantitative and qualitative standards of performance, the impact is limited and application is difficult in large mass production organizations where so many people do the same type work. Because of these difficulties, many organizations have moved toward system rewards. However, individual monetary rewards can be very effective if they meet the following criteria (Scanlan, 1976):

1. The employee must be compensated on the basis of the results he achieves in terms of some predetermined standard or objective.
2. Wage differentials must adequately distinguish dollar-wise between two people performing essentially the same job but at different levels of efficiency.
3. Size of wage increases must be significant, given voluntarily, and earned in the sense that it truly reflects high levels of accomplishment.
4. Employees must perceive that wage increases are in fact awarded on the basis of performance, and as equitable by the majority of system members.

If these criteria can be met, individual rewards can lead to increased and improved productivity. Observations by McGregor (1960) and Marriott (1957) indicate that most organizations have not been successful in improving quality and quantity of production by individual incentive methods.

"System rewards are most effective for holding members within the organization . . . [but] . . . will not lead to work of higher quality or greater quantity than is required to stay in the organization" (Katz and Kahn, 1966, p. 355). Two exceptions to this are:

1. When/if employees "develop a liking" for the organization and just decide to cooperate in achieving organizational goals.
2. When/if they want the company's image in the community, which reflects on them, to be strong and respected.

System rewards must be uniformly applied to all employees or plausible major groupings of employees in the organization. Studies have shown that if members perceive the system rewards to be unevenly administered, resentment and inferior performance result. However, uniform distribution of system rewards " . . . will lead some people to identify with the larger organization, but more fundamental changes in organizational structure and roles make identification with the larger organization more likely. Specifically, this means broadening the role of members of the subgroups and giving them membership in some subsystem which is central to the mission of the organization" (Katz and Kahn, 1966, p. 359).

ESOPs classify as system rewards. Based upon Katz and Kahn's contentions, perhaps they would do nothing more than attract and retain employees. There is no indication that they would improve motivation and productivity, which is counter to the rhetoric voiced by ESOP proponents.

Managers surveyed by this author look upon ESOPs as individual and system-wide reward in the sense that the company is giving employees the opportunity to share in the ownership, growth and profitability of the company, which in most cases can make many employees quite wealthy upon retirement. Naturally, these managers hope that this "reward" will induce greater commitment and loyalty on behalf of the employee which will result in improved organizational performance and effectiveness.

Group Processes and Peer Leadership

The approval of peers is another type of reward in the organization.

> Social support from peers can add to the attractiveness of the subsystem and can be a factor in the reduction of absenteeism and turnover. It will lead to increased productivity and quality of work, however, only if the norms of the peer group sanction such performance (Katz and Kahn, 1966, p. 362).

The Hawthorne Studies (Mayo, 1933) revealed that informal group norms, or the extent of cohesion within the group, could affect productivity positively or negatively, depending upon the extent to which the group norms were in harmony with the overall goals of the larger organization.

Likert's (1961) extensive survey of the research in this area including Lewis (1958), Zaleznik, Christenson and Roethlisberger (1958) and Seashore (1954), concludes the following:

> Work groups which have high peer-group loyalty and common goals appear to be effective in achieving their goals. If their goals are the achievement of high productivity and low waste, these are the goals they will accomplish. If, on the other hand, the character of their supervisor causes them to reject the objectives of the organization and set goals at variance with these objectives, the goals they establish can have strikingly adverse effects upon productivity (Likert, 1961, p. 30).

Will ESOP bring about a common goal of higher productivity? Will employees sense a genuine feeling of partnership in the context of collective ownership, thus promoting higher peer cohesion, loyalty and support that will lead to greater productivity and improved organizational performance? ESOP proponents certainly think they will provide positive answers to these important questions.

Relationship of ESOP to Internalization of Corporate Objectives

"Value expression and self-idealization lead to the internalization of organizational goals. The goals of the group become incorporated as part of the individual's value system or as part of his conception of himself" (Katz and Kahn, 1966, p. 345). The complete internalization of organizational goals, or goal integration, usually occurs only at the upper executive levels of organizations except for volunteer organizations, where it extends to lower levels. "Partial" internalization is more familiar wherein a worker may internalize organization purposes which are not unique to the firm (i.e. scientist committed to finding a cure for some disease) or he may internalize the values of his own subgroup within the organization, which may or may not contribute towards achieving organizational goals most efficiently. The latter is a more frequent occurrence in organizations, and subgroup internalization of organizational objectives can occur only when agreement and harmony exists between group norms and organizational goals (Barrett, 1970).

The primary factors which contribute to internalization of group objectives include participation in establishing group objectives and decision making strategies, contributing to group performance in a meaningful way and sharing in the fruits of group achievement. These factors may be summarized under the general term organizational "climate" as it is used by Katz and Kahn (1966), Litwin and Stringer (1968), Friedlander and Margulies (1969), and others. Reasonable outcomes that can be expected from internalization of corporate goals and commensurate improved organizational climate are reduced turnover and absenteeism, spontaneous and innovative behavior and increased productivity on behalf of employees.

Would ESOP bring about internalization of organizational objectives at all levels of the organization? Would "ownership" cause middle and lower level employees to view corporate growth and profits as a component of their own personal goals of increased dividends and stock value, therefore net worth, thus causing individual and sub-group efforts to yield greater motivation, efficiency, morale and productivity? Would this result without any organizational structural or decision-making changes? Many managers interviewed by this researcher believe (hope) employee ownership will integrate personal and organizational goals to the extent that the individual employee's goal of financial security and self-esteem will be reflected through the success of the company. Certainly the popular literature would have us answer these questions in the affirmative, but the empirical support is noticeably lacking.

In summary, this section has reviewed related empirical literature that attempts to provide explanations for changes (if there are any) in employee motivation, organizational climate and overall organizational performance following the adoption of an ESOP. The basic question becomes, "If there are positive changes in the above factors, to what extent is it due to expanded ownership and to what extent is it due to changes in organizational structure?" (Structure here refers to the quality of relationships between management and subordinates involving employee participation in goal setting, decision making, etc.) Katz and Kahn's findings would suggest that any positive changes occurring subsequent to the adoption of an ESOP would result from changes in the organization rather than changes in the reward structure due to expanded ownership. "Obviously, the conditions for securing higher motivation to produce, and to produce quality work, involve changes in organizational structure. . . ." (Katz and Kahn, p. 364). If these conclusions are accepted, one could assume that ESOP will have no different impact than any profit sharing or retirement plan, unless accompanied by major organizational and managerial changes which would call for greater participation at all levels of the firm. Under these changing conditions one could not ascertain the sole impact of the ESOP. However, the one unique dimension of the ESOP is the variable that may be the most important basis and justification for a dissertation study concerning ESOPs--expanded ownership. Will expanded employee ownership make a difference? Will ESOP be perceived as something more than a profit sharing or retirement plan by the workers? If so, will this perception result in improved motivation and productivity? An examination of two related studies will provide additional insights into these questions.

Scanlon Plan and Employee Motivation

The Scanlon Plan, developed in 1938, is one of the best examples in American industry of worker participation in goal setting and decision making within the organization. Many managers and academic authors consider the Scanlon Plan a profit-sharing plan, but in practice the plan provided workers with a bonus for tangible savings in labor costs. In its earliest stages of introduction, many accolades describing it sounded much like those being written about ESOP in current literature:

"enterprise for every man, industrial democracy, every man a capitalist" (Scanlon, 1950, pp. 52-59). The following characteristics of the Scanlon Plan distinguish it from a common profit sharing plan:

1. Joint management and union committees were established to discuss and propose labor saving techniques and other regular decisions of the firm. Most of the reduction in production costs were paid as bonuses to the employees, depending on overall success of the firm.
2. It was not a profit sharing plan, per se, because it did not establish any fixed percentage of profits, but workers as a group shared in reduced costs.
3. The plan was implemented within the context of the collective bargaining agreement between union and management.
4. Scanlon contended that his plan created "a genuine sense of partnership by both parties" (Scanlon, 1950).

In addition, the Scanlon Plan featured some basic structural changes in that the power structure was significantly altered by election of production committees by workers in each department. The committee could implement any changes in production technique which would not alter activities of other departments, or which would not require major financial expenditures. Workers also elected representatives to serve on a company-wide committee which performed executive level functions as did the department committees. As one can see, authority and decision making was moved downward in the organization, which for most companies represents major formal changes in organizational structure.

Reward structure changes were also a result of the Scanlon Plan. The formula for bonuses was worked out by the committees, and most plans resulted in average bonuses of 25 percent of wages after one to two years in operation. The bonuses were paid by separate check on a monthly basis when cost reductions were computed.

Scanlon reported on three firms wherein attempts were made to implement his plan on a company-wide basis. Two of the three companies failed in their attempts to successfully introduce the plan. One was an attempt to purposely keep workers from joining a union; but

> . . . a synthetic organizing threat developed within the ranks of the employees. . . . The Board of Directors already decided that the company had experienced a good year and the bonus was paid. . . . No sense of partnership, no joint participation in an effort to increase efficiency, no effort to improve the profit-making possibilities or the competitive position of the company had been developed. The plan was founded in hypocrisy and bad faith and had degenerated into a subtle game of wits (Scanlon, 1948, p. 60).

In the second case, management announced their willingness to adopt the plan four weeks after a strike settlement. Although the suggested Scanlon Plan truly represented a sincere change in management's philosophy, the workers were suspicious and did not have the details of the plan clearly communicated to them. The poor timing, poor communication, unilateral action on behalf of management and lack of mutual trust and confidence killed the plan.

The firm that successfully adopted the plan did so by developing the plan through joint management--workers' representatives committees. It was not introduced in a period of crisis, and mutual trust and confidence between management and employees was engendered through clear communications.

The changes in power and reward structure brought about by the Scanlon Plan has impact upon other areas of organizational operations. Reaching "formula" agreements and implementing employee suggestions require substantial changes in a firm's communication structure. Worker committees must have access to information previously restricted to management (costs of production, competition performance, etc.). This downward communication is balanced by increasing upward communication transmitted through departmental and company wide committees. These committees also effect changes in policy and decision-making, which is evident initially in the creation of the committee structure, agreement completion and formula setting.

Katz and Kahn conclude that the Scanlon Plan succeeds by:

> . . . Producing an internalization of organizational objectives among all members including the rank-and-file . . . [which] not only contributes to increased quality and quantity of role performance and to reduced absenteeism and turnover, [but] also carries the individual on to the many specific spontaneous actions necessary for organizational survival and the highest level of system performance. . . . In short, the Scanlon Plan appears as a creative solution to many of the problems which have become traditional in large organizations. It adds strong positive factors to the usual arsenal of "motivators," and it adds no penalties. There is a formal enlistment of the peer group via the representative committee structure, and such groups are strengthened through the close linkage of reward to group and super-group contributions to system efficiency. The job of the individual worker is enlarged and enhanced by the recognition and encouragement of innovative contributions, and the model of leadership which is called for comes much closer to the values of democratic practice as they exist in our culture and institutions outside industry (Katz and Kahn, 1966, p. 388).

Thus it would appear, based upon Katz and Kahn's observations, the success of the Scanlon Plan was not due to the financial distributions in savings realized by the employees, but rather to the concomitant changes in organizational climate. Can ESOP bring about internalization of goals, therefore greater motivation, productivity, morale, and job satisfaction without such concomitant changes? Surely it deserves investigation since the comparison is not identical.

Collective Ownership and Employee Motivation

A related study conducted by Tannenbaum, et al. (1974) looks at the effects of distribution of power, participation and collective ownership on employee motivation and overall organizational performance. The researchers studied organizations in countries with greatly different degrees of centralization and distribution of power. For instance, the Kibbutzim factories in Israel are characterized by wide distribution of power, while factories in Italy and Austria are more centralized than most American factories. Kibbutzim and Yugoslavian plants are characterized by extensive worker participation in decision making and other operational aspects of the organization. For example, Workers Councils are established to equalize authority and they have final authority on many basic decisions such as hiring and firing managers, setting prices of products and allocating and investing profits. Interestingly, no employee in the Kibbutz receives monetary payment, but all share in material rewards as needed.

A main finding of the research confirms empirically that in the more participative organizations, like the Kibbutzim and Yugoslavian plants, hierarchy is less differentiated than in less participative plants, like those in Austria, America and Italy. Differences between levels on dimensions such as authority, influence and reward, and demographic factors such as age and education are flatter in the more participative organizations. Sex was the only exception to the demographic factors. Women are located mostly at the bottom of the hierarchy in Kibbutzim and Yugoslavian plants, as is the case in other countries.

Differences between levels on dimensions such as job satisfaction, initiative and motivation were not as steep as authority and rewards. The authors contend that this difference is a result of the fact that attributes such as job satisfaction, initiative and motivation are not, by definition, part of the hierarchy and therefore not affected by it. On the other hand, authority and reward are explicitly or implicitly associated with hierarchical position or office.

It was noted, however, that "informal" participation takes place in many American plants (superiors treating subordinates as equals, providing supportive relationships, etc.) and has a somewhat mitigating effect on hierarchy. Also, formal participation does not completely eliminate effects of hierarchy in organizations. Position, for instance, makes less difference to Kibbutz and Yugoslavian plants, but it does make some difference. All systems show some degree of hierarchical effect. "Even where there is collective ownership of a factory, hierarchy exists and can have negative effects unless accompanied by supportive interpersonal relationships" (Tannenbaum, et al., 1974, p. xvi).

Thus Tannenbaum's findings suggest that employee ownership will not alter motivation or productivity levels unless accompanied by more participative management practices and attendant organizational restructuring. This would tend to negate some of the popular underlying assumptions about ESOP, namely:

1. The most important underlying assumption of ESOP is that if workers own a "piece of the action," everything will get better; increased productivity, efficiency, profitability, morale, attitudes of workers toward management, satisfaction, financial performance, and decreased absenteeism, turnover, grievances and production waste. The rationale behind it is common sense: You take better care of your own car than a rented car.
2. A closely related assumption is that ESOP will provide employees with a substantial "second income," which will add to their security both currently and in retirement, and will result in the same positive benefits mentioned in 1 above.
3. The assumption is that ESOP will improve labor-management relations by aligning employees' self-interests with management. By sharing in the rewards and risks of capital ownership, employees should be more sensitive, empathetic and understanding towards management's requests, decisions and expectations. It should move them away from restriction of output, unnecessary grievances, antagonistic cooperation, infringement upon management's rights and difficulty in collective bargaining.
4. ESOP makes the assumption that the company will continue to be financially successful and profitable. Should a company fail, it assumes that the reason primarily would be of a financial nature.
5. The assumption is made that ESOP will work for any type organization, regardless of size, structure, type of industry or any other organizational/managerial element.

Regarding motivation and organizational effectiveness, Tannenbaum acknowledges that "top-managed" corporations are very effective and workable, as are membership-managed companies. "For those of us who place great value on equality, the Kibbutz system, and perhaps the Yugoslav, is the model of success. The American model looks better to those of us who value individual achievement." Participation appears to be the wave of the future, but Tannenbaum contends that participation in privately owned companies:

> . . . will always be a limited compromise within a basically authoritarian structure, rather than the central and guiding tenet of organizational management that it can be in socialist enterprises. The reason, in the Marxian view, is ownership. Workers, if they are to participate fully, must make decisions about the allocation of profit--decisions they cannot make under the private system. If they did, what would be left for the owners? Such decisions are essential for full participation because of their implication for decisions concerning investment, production planning, modernization, wages, and many other issues. Limiting the prerogatives of workers with respect to profit therefore limits them with respect to most important decisions (Tannenbaum, et al., 1974, p. 227).

Is withholding voting rights a "limited compromise?" If voting rights are passed through, will workers want to make decisions and exercise their rights concerning allocation of profit? Does "full participation" in organizations mandate ESOP or employee-owners? These questions merit serious thought and research.

Empirical Findings on ESOP and Employee Motivation

The only empirical research concerning ESOP discovered by this researcher is that directed by the Survey Research Center at the University of Michigan (1977, Notes 1 and 4). The Economic Development

Administration (1977, Note 4) funded the Institute for Social Research (ISR) to conduct research concerning whether newer forms of employee ownership, such as ESOP, are reliable tools for business redevelopment to offset unemployment, underemployment and/or economic downturn. Two major questions were posed for ISR to address:

1. Can failing business firms be saved?
2. Will areas which have resisted other forms of development incentives be stimulated into growth and new work opportunities by expanded ownership devices?

Their study is the response to these and other related questions " . . . and represents, we believe, a pioneer effort" (Conte and Tannenbaum, 1977, p. ii, Note 1).

Detailed information was collected from 98 firms by means of telephone by surveying a managerial representative of each firm. Of those surveyed, 68 had ESOPs and 30 had direct ownership plans. Profit data was obtained from 30 of those companies. Attitudes of managers toward the ownership plan were measured as was their judgment about the plan's effect on company productivity and profit.

The most prominent reasons given by managers for having established an ESOP were incentives it provided to employees and tax advantages it afforded the company. Creation and maintenance of employees were reasons offered mostly by managers of direct stock plan companies.

Managers are in general very supportive of ESOP and definitely believe they contribute to increased productivity and profitability of the firm. The 30 firms for which financial data was collected revealed a higher level of profit than similar firms in their respective industries.

Conte and Tannenbaum's most significant conclusion was that the single most important correlate of profitability among all 30 firms was the percent of the company's equity owned by non-managerial employees. The more equity owned by non-managerial employees, the greater the profitability of the firm.

The authors emphasize that their findings are necessarily tentative, because the history of ESOP is too brief for absolute conclusions to be drawn.

> 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 performance of the firm (Conte and Tannenbaum, 1977, Note 1, p. 38).

The concluding challenge and appeal of Conte and Tannenbaum's pioneering effort is a fitting rationale for this research effort. On the one hand, proponents of ESOP argue that giving employees "a piece of the action" will result in increased motivation and performance. On the other hand, the related empirical literature suggests that if ESOPs have a positive effect it will be because of the changes in the way the organization is run, not because of the distributed financial benefits of ownership.

CHAPTER III

RESEARCH MODEL, HYPOTHESES AND METHODOLOGY

This chapter describes the theoretical model underlying this study and states the associated hypotheses and their rationale. Statistical measures are described along with the sample and data collection procedures and instruments.

Research Type and Model

As evidenced in Chapter II, the vast majority of ESOP research and literature has been descriptive. The only empirical study discovered by this researcher (Conte and Tannenbaum, 1977, Note 1) is described by its authors as a "pioneering effort" and they point to the lack of and need for empirical evidence relating the effects of ESOP on employees.

Social science researchers categorize empirical research methods into experimental and exploratory studies. Experimental studies require some degree of controlled environment and involve the manipulation and control of one or several variables in order to observe the effect on a second variable. A problem with experimental studies is that they require a high degree of cooperation by organizations in order to produce changes in some variables while controlling others. Exploratory studies are *ex post facto* inquiries of the relationships and interactions among several variables in social structures. They usually do not entail changes or alterations produced by the experimenter/researcher (Kerlinger, 1973).

The present study is exploratory research because 1) its objective is to discover relationships among specific variables, 2) it is an *ex post facto* inquiry of relationships among variables, and 3) the extent of cooperation and manipulation of variables required for rigorous experimental studies did not seem feasible in experimenting with ESOPs.

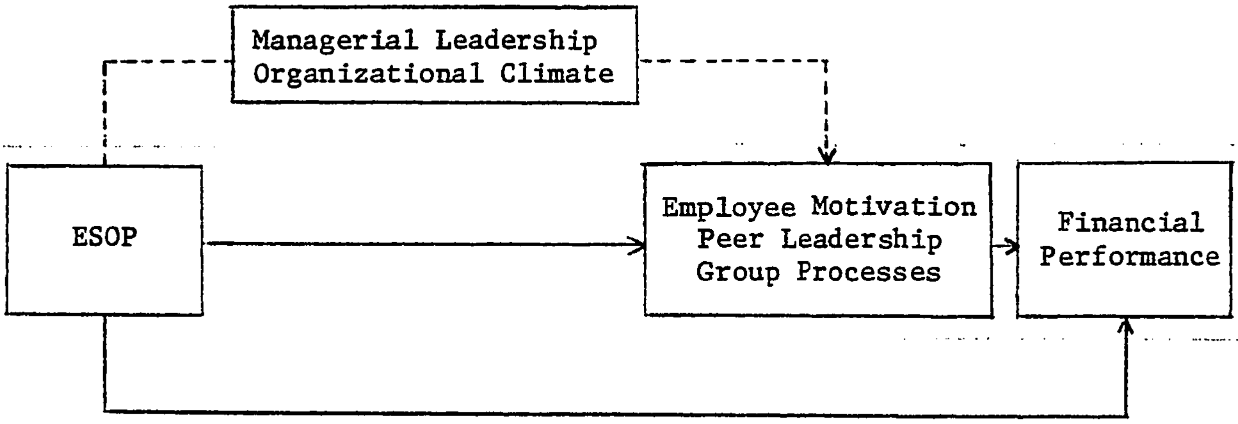
The major weakness of an exploratory study is its inability to prove directly the existence of cause and effect relationships. However, this approach can determine relationships among variables at a given point in time. If significant positive relationships are discovered between the adoption of ESOP and positive changes in employee motivation and organizational performance measures, this would offer considerable support for implementing ESOPs; it does not, however, prove a cause and effect relationship. In addition to discovering relationships among variables, exploratory research lays the groundwork for more systematic and rigorous hypothesis testing in the future (Kerlinger, 1973).

Model and Hypotheses

The questions and conclusions presented in Chapters I and II provided the basis for the present study. The primary questions that this research attempted to answer were: What are the relationships between 1) the introduction of an ESOP and 2) employee motivation, peer leadership, group processes and financial performance of a firm? What are the strengths of relationships between 1) changes in organizational climate and managerial leadership and 2) changes in employee motivation, peer leadership and group processes following the adoption of an ESOP?

Model

The expected relationships between ESOP and the above factors are indicated in the model illustrated in Figure 1.



Hypotheses and Rationale

Four principal hypotheses formed the rationale for the model. They are presented in the following pages with corresponding specific empirical predictions to be tested.

ESOP and Financial Performance

Hypothesis 1: A company's financial performance will significantly improve subsequent to the adoption of an ESOP.

This hypothesis rests on two theses. First, as workers begin to own a "piece of the action" they will be motivated to be more productive, efficient and committed to corporate profit maximization. It assumes that if all employees, from salesman to assembly line workers, are systematically and harmoniously committed to these goals then financial performance will show significant improvement. Secondly, because of the leveraged financial advantages of the ESOP, a company might finance inventory, expansion or new capital equipment through the ESOP trust and repay with pre-tax profits, thus potentially improving financial performance directly as measured by various ratios and indicators such as increased working capital, net worth, cash flow, etc. The following would be expected to result:

1A: Average annual sales growth will significantly increase following the implementation of an ESOP.

1B: Average annual earnings growth will significantly increase following the implementation of an ESOP.

1C: Average annual earnings to sales ratio will significantly increase following the implementation of an ESOP.

1D: Average annual earnings to total capital ratio will significantly increase following implementation of an ESOP.

ESOP and Employee Motivation

<u>Hypothesis 2</u>: Employees' personal motivation to be productive and work hard will significantly increase following the implementation of an ESOP.

This proposition is derived directly from the current ESOP literature and also is based on the assumption that as workers become "owners," not "renters," of the organization and its capital assets, they will be more committed to helping the organization accomplish its objectives.

<u>Hypothesis 3</u>: Employees' motivation to encourage and assist co-workers to be productive, efficient and work hard will significantly increase following the adoption of an ESOP.

Derived from current ESOP literature, this proposition makes the assumption that as workers become owners, they will sense a greater feeling of fraternity and mutual interest and want maximum output effort from everyone so as to increase their personal wealth and stake in the organization. "It's, Hey, you've got your hand in my pocket if you don't do your job" (<u>Time</u>, Oct. 4, 1976, p. 80). Thus, the following could be expected to result:

3A: Measures of peer support, the extent to which co-workers are friendly, attentive and willing to listen to each other's problems, will show significant increases following the adoption of an ESOP.

3B: Measures of peer goal emphasis, the extent to which co-workers encourage each other to maximize and maintain high standards of performance, will show significant increases following the adoption of an ESOP.

3C: Measures of peer work facilitation, the extent to which co-workers help each other discover improved methods of job performance, assist in planning, organizing and scheduling work ahead of time and offer each other new ideas for solving job-related problems, will significantly improve following the adoption of an ESOP.

3D: Measures of peer interaction facilitation, the extent to which co-workers will encourage teamwork, team goals and exchange of opinions and ideas, will significantly improve following the adoption of an ESOP.

<u>Hypothesis 4</u>. Measures of group processes, the extent to which employees plan, coordinate work, make good decisions, solve problems, share important information and strive to reach objectives <u>together</u>, will significantly improve following the adoption of an ESOP.

This proposition is closely related to Hypothesis 3 and its attendant propositions, but was included because it reflects the ". . . processes and functioning of the work group <u>as a group</u>" (Taylor and Bowers, 1972, p. 77). The reference for Hypothesis 3 is individual peers describing behavior in which each other engage and the reference for Hypothesis 4 is peers describing results achieved _as a group_.

These 4 principal hypotheses and their corresponding propositions constituted the primary focus of this study.

Moderating Effects

Managerial leadership and organizational climate. In addition to the main effects cited above, some moderating effects were analyzed in light of the contentions purported by the related empirical literature reviewed in Chapter II. Referring to the model on page 46, managerial leadership and organizational climate are portrayed as potential moderators between 1) ESOP introduction and 2) employee motivation, peer leadership and group processes. On one hand the current ESOP literature and popular rhetoric contend that ESOP directly motivates employees because of expanded ownership and providing them with a "piece of the action," which in turn should bring about greater efficiency and productivity within the firm, and should result in improved financial performance. On the other hand, the related empirical literature suggests the existence of strong causal relationships between 1) managerial leadership and organizational climate and 2) levels of employee motivation, peer leadership and group processes (Franklin, 1975, Likert, 1961, Bowers and Seashore, 1964, Katz and Kahn, 1964).

Consequently, if any conclusions are to be drawn concerning the potential effects of the introduction of ESOP on employee motivation, peer leadership and group processes, it is essential to consider concurrent changes in managerial leadership and organizational climate, if such changes do occur. It is conceivable, although not supported by the literature, that the introduction of an ESOP would lead to improvements in employees' perceptions of managerial leadership and organizational climate, whether or not there have been actual changes in these dimensions. Therefore, the following hypotheses are proposed:

Hypothesis 5: Measures of managerial leadership will significantly improve following the adoption of an ESOP.

Hypothesis 6: Measures of organizational climate will significantly improve following the adoption of an ESOP.

If, following the adoption of an ESOP, managerial leadership and organizational climate measures significantly change along with changes in employee motivation, peer leadership and group processes, there is no way to specifically confirm the single determining factor for the improved motivation, productivity and performance. The question becomes, "Did the ESOP cause a positive change in managerial leadership and organizational climate which in turn caused a positive change in employee motivation, peer leadership and group processes, or did the ESOP directly contribute to improved employee motivation, peer leadership and group processes which in turn created changes in managerial leadership and organizational climate?"

If, on the other hand, motivational, peer leadership and group process measures reveal a significant increase following the adoption of an ESOP without managerial leadership and organizational climate measures yielding simultaneous changes, then this would provide substantial evidence that these behavioral dependent variables are directly affected by the introduction of the ESOP regardless of changes in managerial leadership or organizational climate.

Additional Hypotheses

Even if there are no significant overall changes in any of the measures cited above, there still may be significant relationships existing between 1) changes in managerial leadership and organizational climate and 2) changes in employee motivation, peer leadership and group processes. This is due to the fact that the sample includes employees from seven different companies representing various organizational climates and managerial leadership styles, some of which may have changed positively and some negatively following the adoption of the ESOP. Therefore, it is important to examine the relationships between changes in these variables.

Based upon the empirical literature reviewed in Chapter II, the following relationships would be expected between these two sets of variables:

<u>Hypothesis 7A</u>: There will be a significant relationship between changes in managerial leadership and changes in employee motivation.

<u>Hypothesis 7B</u>: There will be a significant relationship between changes in managerial leadership and changes in peer leadership.

<u>Hypothesis 7C</u>: There will be a significant relationship between changes in managerial leadership and changes in group processes.

<u>Hypothesis 8A</u>: There will be a significant relationship between changes in organizational climate and changes in employee motivation.

<u>Hypothesis 8B</u>: There will be a significant relationship between changes in organizational climate and changes in peer leadership.

<u>Hypothesis 8C</u>: There will be a significant relationship between changes in organizational climate and changes in group processes.

If there are strong positive relationships between 1) changes in managerial leadership and organizational climate and 2) changes in employee motivation, peer leadership and group processes, then the former set of moderating variables could enhance or depress whatever motivational influences may be due to ESOP directly.

Additional Research Questions

Additional issues examined in the present study were 1) the extent to which ESOP is perceived by the employees to be a significant benefit and 2) the extent to which employees perceive that the ESOP is understood by other employees and themselves, and how these two variables relate to the other variables included in the study. These issues were examined as research questions because of 1) the lack of empirical evidence directly relating ESOPs to employee motivation, organizational climate and the other variables included in the study, and 2) the probability that these variables would be significantly related. For example, it is conceivable that ESOP would be more accurately understood in an organization where it was perceived that there was good communication and information flows. It is also imaginable that ESOP would more likely be perceived as a significant benefit if it was accurately understood than if it was misunderstood or not comprehended at all.

Question 1: What variables included in the study are significantly related to the extent to which employees accurately understood the ESOP?

Question 2: What variables included in the study are significantly related to the extent to which employees perceive ESOP as a significant benefit?

Description of Sample and Data Collection

The subjects in this study were 242 employees of seven private business firms located in Texas, Nebraska, Washington, California and Missouri. Table 1 summarizes the company alphabetic designation, industry type, approximate number of employees, and questionnaire response rate.

The firms were located with the assistance of Mr. Bob Hoagland, President of ESOT, Incorporated, of Sacramento, California, and Dr. Arnold Tannenbaum, Institute for Social Research, University of Michigan. All seven companies possess active ESOPs ranging in age from a few months to over three years old. Initial contact was made by letter and follow-up phone calls to 27 ESOP companies. Out of this number twelve agreed to participate in the research within the time frame imposed by the researcher.

Nine of the twelve firms were personally visited by the researcher in January and February, 1978, and the survey instrument was either administered and collected on the site or was distributed to the employees with mailing instructions left with a key contact person in the company. Questionnaires were mailed to a contact person in the remaining three firms with specific instructions provided in print and over the phone. The questionnaires were distributed to all employees participating in the company ESOP. At the date of this writing questionnaires from seven companies have been collected for analysis. Future collections will be incorporated into a follow-up study and submitted for future publication to academic and practitioner journals.

Table 1

ESOP Companies Information

Company	Industry Type	No. of Employees	Response Rate
A	Serum Producer	25	56%
B	Advertising Agency	50	56%
C	Industrial Hydraulic Equipment Repre- sentative	22	68%
D	Engineering Company	200	59%
E	Electrical Parts Wholesaler	55	58%
F	Insurance Company (Data Collected from 2 Offices)	57	47%
G	Tire Manufacturer and Distributor	22	41%

Measurement Instruments

Quantitative Financial Performance Data

A performance data sheet was developed to obtain specific financial and other performance statistics from each firm (see Appendix 1). Information was requested for three years prior to the adoption of ESOP and then following ESOP so that annual percentage changes could be analyzed. Specific information was also requested concerning the percentage of employees participating in the ESOP, percentage of company equity owned by the ESOP trust and percentage of equity owned by managerial and non-managerial employees through the ESOP trust. Some additional questions regarding voting rights and management's perspective on the ESOP were included and the questionnaire was completed by a financial officer or ESOP administrator of each firm.

Every company except one failed to compute percentage of employee turnover, absenteeism, materials waste or number of grievances, so these categories were dropped as considerations for measures of a firm's quantitative performance.

Behavioral Research Instrument

The primary research questionnaire was formulated by integrating sections from three standardized survey research instruments (see Appendix 2): 1) Survey of Organizations (SOO) (Taylor and Bowers, 1972), 2) Organizational Climate Questionnaire (OCQ) (Litwin and Stringer, 1968), and 3) Quality of Employment Survey (QES) (Quinn and Shepard, 1974).

The SOO is a questionnaire developed at the Institute for Social Research (ISR) at the University of Michigan. The 1974 edition of the SOO contains 130 questions covering a variety of organizationally relevant topics including managerial leadership, organizational climate, peer leadership, work group processes and several areas of individual satisfaction.

Most questions in the SOO are answered by responding on a 5 point Likert type scale as follows (unless otherwise indicated):

1. To a very little extent
2. To a little extent
3. To some extent
4. To a great extent
5. To a very great extent

Questions representing all of the above organizational dimensions were included in the primary research questionnaire.

The OCQ was developed at the General Electric Company. A lengthy developmental process concluded with an improved climate measure instrument and the identification of nine dimensions of organizational climate: structure, responsibility, reward, risk, warmth, support, standards, conflict and identity.

Most of the 50 questions in the OCQ also are answered by responding on a Likert type scale as follows:

1. Definitely agree
2. Inclined to agree
3. Inclined to disagree
4. Definitely disagree

An analysis of these nine dimensions and the corresponding specific questions for each dimension resulted in the selection and integration of questions representing the Identity and Responsibility scales.

The OES is an extensive questionnaire also developed at the Institute for Social Research. It contains 236 questions covering a variety of organizationally relevant topics including quality of employment, labor standards problems, job satisfaction and physical consequences of job stress. Answer formats are extremely varied, but most are answered on different Likert type scales. The following is an example of one scale used in the questions integrated into this study's Survey of Organizations:

1. Never
2. Rarely
3. Sometimes
4. Often

An analysis of this instrument resulted in the selection and integration of three questions representing the personal motivation index.

In most cases the individual responses were grouped into multiple item indices. An individual score on such an index was computed by summing the response values for each item in the index and dividing by the number of items in the index.

Most of the questions had two parts: 1) Now and 2) Before ESOP. The respondents were asked to record their perceptions for each question as it is currently, and the "Before ESOP" part asked that they think back and record their perceptions of the organization <u>before</u> the introduction of the ESOP. This was a substitute for a true pre-test and post-test experimental design and the assumption was made that employees could accurately express definitive perceptions of the organization prior to introduction of the ESOP and could express perceptions of changes in the organization, if any, subsequent to the adoption of the ESOP. The assumption was also made that these definitive perceptions could be expressed on ordinal response scales that serve as measurable surrogates for actual perceptions and convictions by employees.

Measures

This study included measures of seven dependent variables. One variable is 1) financial performance, and the other six are behaviorally oriented measures: 2) employee motivation, 3) peer support, 4) peer goal emphasis, 5) peer work facilitation, 6) peer interaction facilitation, and 7) group process. Additional variable measures included managerial leadership, organizational climate, extent of perceived benefit and extent of perceived understanding of ESOP. Appendix 3 summarizes these measures and corresponding question numbers for each variable.

Financial Performance Measures

Four commonly used financial performance criteria were selected for measuring all firms participating in the study (Rue, 1973):

1. Sales growth is calculated as the average annual percentage growth experienced over the last three years preceding the introduction of the ESOP and is calculated according to the following formula:

$$\frac{100}{3} \sum_{t=1}^{3} \frac{X_t - X_{t-1}}{X_{t-1}}$$

X_t = value of net sales, as defined in standard accounting practices, in the t^{th} year.

This performance measure is appropriate for growth conscious firms. The use of percentage growth allows for comparison of growth among firms of different size.

2. Earnings growth is calculated as the average annual percentage growth experienced over the last three years preceding the introduction of the ESOP and is calculated according to the following formula:

$$\frac{100}{3}\sum_{t=1}^{3}\frac{X_t - X_{t-1}}{X_{t-1}}$$

X_t = value of earnings (income) after all operating and non-operating income but before extraordinary income is listed in company's records in the t^{th} year.

This measure is more appropriate for companies which are more concerned with growth in profits than growth in sales and is comparable for different size firms.

3. The earnings/sales ratio is calculated as the average annual earnings as a percentage of sales over the last three years preceding the introduction of the ESOP and is calculated according to the following formula:

$$\frac{100}{3}\sum_{t=1}^{3}\frac{X_t}{Y_t}$$

X_t = earnings in t^{th} year Y_t = sales in t^{th} year

This calculation is a measure of organizational efficiency, particularly in the use of labor and materials. If earnings are increasing, it could be partially due to increasing sales and operating efficiency. The same is true with decreasing earnings. A performance measure based upon growth of either sales or earnings provides an inadequate picture without additional knowledge of underlying causes.

4. The earnings/total capital ratio is calculated as the average annual earnings as a percentage of total capital over the last three years preceding introduction of the ESOP and is calculated according to the following formula:

$$\frac{100}{3}\sum_{t=1}^{3}\frac{X_t}{Y_t}$$

X_t = earnings in the t^{th} year

Y_t = total capital (common stock + preferred stock + long-term debt) in the t^{th} year

This is an efficiency measure in the use of capital which should be of major concern to company owners and creditors. Earnings and growth mean little as performance measures if the capital required to generate them is also considered. These predictions are consistent with "popular" ESOP literature and the automobile analogy described in Chapter II.

Employee Motivation

This index is designed to measure an employee's motivational investment in his work. It assesses ". . . the level of aroused motivation on the job, from the standpoint of devotion of energy to job tasks" (Patchen, 1965). The questions were obtained from the QES:

How often do you do some extra work for your job which isn't required of you?
135. Now
136. Before the ESOP

Some people are completely involved in their job--they are absorbed in it night and day. For other people, their job is simply one of several interests. How involved do you feel in your job?
139. Now
140. Before the ESOP

Would you say you work harder, less hard or about the same as other people doing your type of work?
141. Now
142. Before the ESOP

Peer Leadership

Peer leadership is comprised of four indices: 1) support, 2) goal emphasis, 3) work facilitation and 4) interaction facilitation. These indices are comprised of the following questions:

1. Support--This measure pertains to the extent to which employees are friendly, attentive and receptive towards each other and is comprised of the following questions:

In the questions below, work group means all those persons who report to the same supervisor.

How friendly and easy to approach are the persons in your work group?
93. Now
94. Before the ESOP

When you talk with persons in your work group, to what extent do they pay attention to what you're saying?
95. Now
96. Before the ESOP

To what extent are persons in your work group willing to listen to your problems?
97. Now
98. Before the ESOP

2. Goal Emphasis--This measure pertains to the extent to which employees encourage each other to establish and maintain high levels and standards of performance and is comprised of the following questions:

How much do persons in your work group encourage each other to give their best effort?
99. Now
100. Before the ESOP

To what extent do persons in your work group maintain high standards of performance?
101. Now
102. Before the ESOP

3. Work Facilitation--This measure pertains to the extent to which employees assist each other in improving job methods, planning, organizing, scheduling and problem solving and is comprised of the following questions:

To what extent do persons in your work group help you find ways to do a better job?
103. Now
104. Before the ESOP

To what extent do persons in your work group provide the help you need so that you can plan, organize, and schedule work ahead of time?
105. Now
106. Before the ESOP

To what extent do persons in your work group offer each other new ideas for solving job-related problems?
107. Now
108. Before the ESOP

4. Interaction Facilitation--This measure pertains to the extent to which employees encourage each other to function as a team and is comprised of the following questions:

How much do persons in your work group encourage each other to work as a team?
109. Now
110. Before the ESOP

How much do persons in your work group emphasize a team goal?
111. Now
112. Before the ESOP

To what extent do persons in your work group exchange opinions and ideas?
113. Now
114. Before the ESOP

Group Process

This measure pertains to the extent to which employees plan, coordinate work, solve problems, make good decisions, share important information, and desire to achieve objectives together, as opposed to individually, and consists of the following questions:

To what extent does your work group plan together and coordinate its efforts?
115. Now
116. Before the ESOP

To what extent does your work group make good decisions and solve problems well?
117. Now
118. Before the ESOP

To what extent is information about important events and situations shared within your work group?
119. Now
120. Before the ESOP

To what extent does your work group really want to meet its objectives successfully?
121. Now
122. Before the ESOP

To what extent is your work group able to respond to unusual work demands placed upon it?
123. Now
124. Before the ESOP

To what extent do you have confidence and trust in the persons in your work group?
125. Now
126. Before the ESOP

The scale ranges, sample size, mean, standard deviation and internal consistency reliability alpha coefficients for each of the behavioral dependent variable measures are shown in Table 2. A matrix of the intercorrelations between these measures, with the alpha coefficient for each inserted on the diagonal, is presented in Table 3.

Organizational Climate

> Organizational climate is a relatively enduring quality of the internal environment of an organization that (a) is experienced by its members, (b) influences their behavior, and (c) can be described in terms of the values of the particular set of characteristics (or attributes) of the organization (Taguiri and Litwin, 1968, p. 27).

Indicators of organizational climate utilized in this study are composed of SOO and OCQ measures and are listed below with corresponding questions:

1. Identity--This measure pertains to the feeling that you belong to a company and you are a valuable member of a working team; importance and emphasis is placed on this kind of team spirit. This was composed of the following questions:

Table 2

Measures of Employee Motivation, Peer Leadership and Group Process[a]

Measures	Sample Size	Sample Mean	Standard Deviation	Coefficient Alpha
Employee Motivation	240 / 135	3.23 / 3.29	.61 / .60	.62 / .58
Peer Leadership				
Peer Support	238 / 137	3.80 / 3.77	.83 / .85	.87 / .88
Peer Goal Emphasis	238 / 134	3.51 / 3.43	.87 / .92	.75 / .77
Peer Work Facilitation	238 / 135	3.19 / 3.15	.90 / .87	.87 / .87
Peer Interaction Facilitation	238 / 134	3.21 / 3.18	.96 / 1.00	.88 / .90
Group Process	238 / 134	3.61 / 3.52	.70 / .76	.86 / .89

[a] Now / Before ESOP

Table 3

Pearson Correlation Coefficients between Measures of Employee Motivation, Peer Leadership and Group Process with Coefficient Alphas on Diagonal[a]

	Employee Motivation	Peer Support	Peer Goal Emphasis	Peer Work Facilitation	Peer Interaction Facilitation	Group Process
Employee Motivation	.62 / .58					
Peer Support	.15* / .27*	.87 / .88				
Peer Goal Emphasis	.15* / .23*	.67* / .72*	.75 / .77			
Peer Work Facilitation	.16* / .22*	.60* / .62*	.74* / .74*	.87 / .87		
Peer Interaction Facilitation	.14* / .17*	.62* / .66*	.73* / .77*	.81* / .82*	.88 / .90	
Group Process	.22* / .28*	.71* / .74*	.73* / .77*	.75* / .74*	.76* / .80*	.86 / .89

*p < .05

[a] Now / Before ESOP

To what extent are people proud of belonging to this organization?
1. Now
2. Before the ESOP

To what extent do you feel that you are a member of a well functioning team?
3. Now
4. Before the ESOP

As far as you can see, to what extent is there personal loyalty to the company?
5. Now
6. Before the ESOP

To what extent do you have a feeling of loyalty toward this organization?
17. Now
18. Before the ESOP

2. Responsibility--This measure pertains to the feeling of being your own boss; not having to double-check all your decisions; when you have a job to do, knowing that it is your job. This index was composed of the following questions:

Our philosophy emphasizes that people should solve their problems by themselves.
143. Now
144. Before the ESOP

There are an awful lot of excuses around here when somebody makes a mistake.
145. Now
146. Before the ESOP

One of the problems in this organization is that individuals won't take responsibility.
147. Now
148. Before the ESOP

3. Communication Flow--This measure relates to the amount and flow of information upward, downward, and in lateral directions or channels aimed at achieving the organization's objectives. It is represented by the following questions:

How adequate for your needs is the amount of information you get about what is going on in other departments or shifts?
11. Now
12. Before the ESOP

How receptive are those above you to your ideas and suggestions?
13. Now
14. Before the ESOP

To what extent are you told what you need to know to do your job in the best possible way?
15. Now
16. Before the ESOP

4. Decision Making Practices--This measure relates to the selection of appropriate decision makers such that the decision making process helps to create adequate motivation in those employees who have to implement decisions; consultation with those employees affected by specific decisions and accessibility of required information to decision makers. It is represented by the following questions:

How are objectives set in this organization?
1) Objectives are announced with no opportunity to raise questions or give comments
2) Objectives are announced and explained, and an opportunity is then given to ask questions
3) Objectives are drawn up, but are discussed with subordinates and sometimes modified before being issued
4) Specific alternative objectives are drawn up by supervisors, and subordinates are asked to discuss them and indicate the one they think is best
5) Problems are presented to those persons who are involved, and the objectives felt to be best are then set by the subordinates and the supervisor jointly, by group participation and discussion
55. Now
56. Before the ESOP

In this organization to what extent are decisions made at those levels where the most adequate and accurate information is available?
57. Now
58. Before the ESOP

When decisions are being made, to what extent are the persons affected asked for their ideas?
59. Now
60. Before the ESOP

People at all levels of an organization usually have know-how that could be of use to decision-makers. To what extent is information widely shared in this organization so that those who make decisions have access to all available know-how?
61. Now
62. Before the ESOP

Managerial Leadership

This measure is comprised of the following four indices and corresponding questions:

1. Support--This measure pertains to the extent to which supervisors are friendly, attentive and receptive towards subordinates and is comprised of the following questions:

Supervisor means the person to whom you report directly.

How friendly and easy to approach is your supervisor?
65. Now
66. Before the ESOP

When you talk with your supervisor, to what extent does he pay attention to what you're saying?
67. Now
68. Before the ESOP

To what extent is your supervisor willing to listen to your problems?
69. Now
70. Before the ESOP

2. Goal Emphasis--This measure pertains to the extent to which supervisors encourage and set examples for employees to maintain high levels and standards of performance and is comprised of the following questions:

How much does your supervisor encourage people to give their best effort?
71. Now
72. Before the ESOP

To what extent does your supervisor maintain high standards of performance?
73. Now
74. Before the ESOP

To what extent does your supervisor set an example by working hard himself?
75. Now
76. Before the ESOP

3. Work Facilitation--This measure pertains to the extent to which

supervisors assist subordinates in improving their job performance by demonstration, scheduling and problem solving and is comprised of the following questions:

To what extent does your supervisor show you how to improve your performance?
77. Now
78. Before the ESOP

To what extent does your supervisor provide the help you need so that you can schedule work ahead of time?
79. Now
80. Before the ESOP

To what extent does your supervisor offer new ideas for solving job-related problems?
81. Now
82. Before the ESOP

4. Interaction Facilitation--This measure pertains to the extent to which supervisors encourage subordinates to function as a team and exchange ideas and opinions with him and is comprised of the following questions:

To what extent does your supervisor encourage the persons who work for him to work as a team?
83. Now
84. Before the ESOP

To what extent does your supervisor encourage people who work for him to exchange opinions and ideas?
85. Now
86. Before the ESOP

The scale ranges, sample size, mean, standard deviation and interval consistency reliability alpha coefficients for each of these variable measures are shown in Table 4. A matrix of the intercorrelations between these measures are presented in Table 5 with the alpha coefficient for each inserted on the diagonal.

Table 4

Measures of Managerial Leadership and Organizational Climate[a]

Measures	Sample Size	Sample Mean	Standard Deviation	Coefficient Alpha
Managerial Leadership				
Supervisory Support	240 / 136	3.92 / 3.86	.98 / .93	.92 / .87
Supervisory Goal Emphasis	240 / 136	3.81 / 3.80	.87 / .85	.77 / .76
Supervisory Work Facilitation	239 / 133	3.14 / 3.15	.89 / .85	.82 / .82
Supervisory Interaction Facilitation	239 / 134	3.29 / 3.25	1.04 / 1.05	.83 / .88
Organizational Climate				
Identity	242 / 149	3.44 / 3.45	.77 / .72	.80 / .76
Responsibility	238 / 134	2.55 / 2.49	.52 / .52	.55 / .51
Communication Flow	242 / 142	2.91 / 2.83	.89 / .89	.75 / .75
Decision Making Practices	240 / 137	2.73 / 2.65	.89 / .88	.80 / .82

[a] $\frac{\text{Now}}{\text{Before ESOP}}$

Table 5

Pearson Correlation Coefficients between Measures of Managerial Leadership and Organizational Climate with Coefficient Alphas on Diagonal[a]

	Supervisory Support	Supervisory Goal Emphasis	Supervisory Work Facilitation	Supervisory Interaction Facilitation	Identity	Responsibility	Communication Flow	Decision Making Practices
Managerial Leadership								
Supervisory Support	.92 .87							
Supervisory Goal Emphasis	.65* .66*	.77 .76						
Supervisory Work Facilitation	.63* .59*	.70* .70*	.82 .82					
Supervisory Interaction Facilitation	.60* .58*	.70* .66*	.72* .71*	.83 .88				
Organizational Climate								
Identity	.32* .24*	.39* .26*	.32* .20*	.39* .32*	.80 .76			
Responsibility	.11* .09	.13* .08	.09 .07	.04 .06	.18 .16	.55 .51		
Communication Flow	.31* .24*	.30* .15*	.33* .16*	.33* .23*	.47* .46*	.21* .11	.75 .75	
Decision Making Practices	.33* .36*	.35* .29*	.31* .28*	.37* .34*	.45* .24*	.22* .16*	.54* .40*	.80 .82

*p < .05

[a]Now/Before ESOP

Extent of Benefit

This measure pertains to the extent to which employees perceive that the ESOP provides a valuable, significant benefit to the company, majority of employees in general and them personally. It is comprised of the following question:

> To what extent do you think the ESOP provides a valuable benefit for:
> 163. The majority of employees in general
> 164. You personally

Extent of Understanding

This measure pertains to the extent to which employees perceive that the majority of employees in the organization accurately understand the ESOP's impact on them and is comprised of the following question:

> 165. To what extent do you think the majority of employees understand the way the ESOP affects them personally?

The sample size, mean, standard deviation and interval consistency reliability alpha coefficients for these variables are presented in Table 6.

Statistical Techniques

The statistical test employed to evaluate hypotheses 1-6 was the Student's _t_ statistic. This technique is appropriate for analysis of means with medium to small sample sizes. The financial performance hypotheses entailed the comparison of a sample "before ESOP" mean to a sample "after ESOP" mean for each of the four financial measures. In cases where the "after" mean did not exhibit a significant change from the "before" mean, the inference was made that companies exhibited no significant differences or changes in the specific measure of financial

Table 6

Measures of Extent of Benefit and Extent of Understanding

	Sample Size	Mean	Standard Deviation	Coefficient Alpha
Extent of Benefit				
Majority of Employees	211	3.52	.94	.80
Personally	201	3.32	1.19	
Extent of Understanding	202	2.41	1.11	Not Applicable

performance. The behavioral hypotheses involved the comparison of a sample "Before ESOP" mean to a sample "NOW" mean. In cases where the "NOW" mean did not exhibit a significant change from the "Before ESOP" mean, the inference was made that employees perceived no significant differences or changes for that index of organizational life. A .95 level of confidence ($p < .05$) was used to determine the significance of results.

Pearson Correlation Coefficients were computed for Hypotheses 7A-7C and 8A-8C to determine the strength of relationships between changes in 1) managerial leadership and organizational climate and 2) employee motivation, peer leadership and group processes. Multiple regression analysis was also used to determine the strengths of these relationships by accounting for the amount of variance in the changes in the behavioral dependent variables that were accounted for by a combination of mangerial leadership and organizational climate change measures. Pearson Correlation Coefficients were also utilized to examine the relationships set forth in the above exploratory research questions.

The use of multiple item indices was justified by computing Cronbach's coefficient alpha for the variables within each index and including those variables that comprised an acceptable coefficient statistic. The alpha coefficient is a reliability coefficient that denotes whether a certain collection of related variables yield interpretable statements, as an index of equivalence, in consideration of the differences and similarities among the variables (Cronbach, 1961).

All calculations were performed by using the Statistical Program for Social Sciences on the University of Oklahoma IBM 370/158 computer (Nie, Hull, Steinbrenner and Brent, 1975).

CHAPTER IV

RESEARCH RESULTS

This chapter provides the statistical results of the data as they apply to the confirmation or denial of the hypotheses and research questions presented in Chapter 3.

Financial Performance Results

Table 7 presents the initial calculations of the financial performance measures for the ESOP firms two years prior to ESOP adoption and two years following adoption. The extremely large standard deviations accompanying sales and earnings growth rates demanded explanation and substantially questioned the validity of the data. Since the companies included in the study adopted ESOPs at different times, year Number 1 prior to ESOP adoption was not the same for all six companies, but all six percentages were summed and a mean and standard deviation were derived for this set of figures. The same procedure was followed for the second year prior to ESOP adoption and the two years following adoption for all four financial measures. This meant that sales growth percentages for 1972-73 were being averaged with figures from 1973-74, 1974-75, and 1975-76; the same was true for the other three measures.

In an effort to depress the effects of large fluctuations in the sales and earnings data, a limiting growth rate of plus or minus 40 percent annually was placed on these variables. This technique was chosen due to the fact that most firms do not plan to grow more than 40 percent annually except in unusual circumstances, disregarding mergers and acquisitions (Rue, 1973). Table 8 presents the figures, given this restraint on the data.

The hypothesis (#1) that company financial performance would significantly improve following the adoption of an ESOP was denied on all four measures. On the measure of sales growth, the average mean of 21.5 percent for the two years prior to ESOP adoption decreased to 21.3 percent for the two years following ESOP, but the change was not significant ($p = .99$). The earnings growth mean of 2.2 percent for the two years prior to ESOP did increase to 8.0 percent for the two years following ESOP adoption, but the increase was not significant ($p = .78$). The earnings to sales ratio mean decreased from 7.03 percent to 7.00 percent, but again the change was insignificant ($p = .98$). The earnings to total capital ratio (ROI) mean slightly increased from 29.2 percent prior to ESOP adoption to 30.7 percent following adoption, but the change was insignificant ($p = .77$).

In summary, the statistical results on financial performance did not support Hypothesis 1 established in Chapter III. On all four of the generally accepted measures of financial performance firms did not exhibit any significant changes, positive or negative, following the adoption of an ESOP. Table 9 summarizes the restricted results for these measures. Appendix 4 provides individual company financial data.

Behavioral Performance Results

The five primary measures of behavioral activity included in the study were 1) employee motivation, 2) peer leadership, 3) group process,

Table 7

Initial Performance Data for ESOP Companies
(%)

	Yr. - 2		Yr. - 1		ESOP	Yr. + 1		Yr. + 2	
	Mean	S.D.	Mean	S.D.		Mean	S.D.	Mean	S.D.
Sales Growth	31.7	30.04	21.6	20.76		23.3	14.9	16.5(5)	25.6
Earnings Growth	65.1	50.67	5.5	119.06		108.3	188.05	30.0(5)	93.6
Earnings/ Sales	8.8	7.51	5.2	3.51		6.9	7.18	4.3(5)	4.1
Earnings/ Capital (ROI)	43.2	22.3	28	14.77		36.5	14.94	31.7(5)	20.87

Table 8

Restricted Performance Data for ESOP Companies

	Yr. - 2		Yr. - 1		ESOP	Yr. + 1		Yr. + 2	
	Mean	S.D.	Mean	S.D.		Mean	S.D.	Mean	S.D.
Sales Growth	27.3	19.58	20.9	19.54		23.3	14.91	16.5(5)	25.59
Earnings Growth	38.2	15.76	-21.7	37.80		18.5	24.96	.8(5)	53.86
Earnings/ Sales	8.8	7.51	5.2	3.51		6.9	7.18	4.3(5)	4.10
Earnings/ Capital (ROI)	37.6	12.34	27	12.34		35.5	13.50	30.7(5)	19.65

Table 9

Research Results for Six* ESOP Companies' Restricted

Financial Performance Data

Measure	Two Year Mean Before ESOP	Standard Deviation Before ESOP	Two Year Mean Before ESOP	Standard Deviation After ESOP	T Value	Probability
Sales Growth	21.50%	11.83	21.33%	17.04	-0.02	.99
Earnings Growth	2.17%	22.75	8.00%	29.42	0.29	.78
Earnings / Sales	7.03%	5.37	7.00%	7.33	-0.03	.98
Earnings / Capital (ROI)	29.17%	4.45	30.67%	10.41	0.30	.77

*One company's ESOP was installed too recently to obtain financial performance change data.

4) managerial leadership and 5) organizational climate. Relationships were also analyzed between these variables and 1) the extent to which employees perceived ESOP as a valuable benefit and 2) the extent to which they understood the personal impact of the ESOP.

Employee Motivation

The hypothesis (#2) that employees' personal motivations to be productive and work hard would significantly increase following the adoption of an ESOP was confirmed. On a sample size of 135 employee responses, a "Before ESOP" personal motivation mean of 3.29 was obtained. The "Now" mean was 3.35 and this positive change was significant ($p < .05$) which suggests that, overall, employees were significantly more motivated to work following the adoption of an ESOP. This conclusion supported the tenets of the popular ESOP literature and proponents.

Peer Leadership

The hypothesis (#3) that employees' motivation to encourage and assist co-workers to be productive, efficient and work hard would significantly increase following the adoption of an ESOP was denied on three measures and confirmed on one measure. On the peer support measure a sample size of 137 responses yielded a mean of 3.77 on the "Before ESOP" scale questions. The "Now" mean mildly improved to 3.83, but the change was not significant ($p = .18$), thus denying Hypothesis 3A. The peer goal emphasis "Before ESOP" mean was 3.43 and improved to 3.49 for the "Now" response of 134 sample size. However, the positive change again was not significant ($p = .20$) and denied hypothesis 3B. On the measure of peer work facilitation a sample size of 135 resulted in a

"Before ESOP" mean of 3.15 and a "Now" mean of 3.20. Although the change was positive, it was not significant ($p = .11$), thereby denying Hypothesis 3C. The measure of peer interaction facilitation possessed a sample size of 134 responses. A "Before ESOP" mean of 3.18 was obtained and the "Now" mean was computed as 3.28. This was the only significant ($p < .05$) positive change measure under Hypothesis #3 and confirmed proposition 3D.

In summary, peer leadership measures exhibited no significant changes in three areas following the adoption of an ESOP and exhibited a significant change only in the measure of peer interaction facilitation. The other three measures, peer support, peer goal emphasis and peer work facilitation, did change in the positive direction and were approaching significance, but could not confirm the related hypotheses.

Group Process

The hypothesis (#4) that measures of group processes, the extent to which employees plan, coordinate work, make good decisions, solve problems, share important information and strive to reach objectives _together as a group_, would significantly improve following the adoption of an ESOP was confirmed. The group process measure sample size included 134 employee responses and yielded a "Before ESOP" mean of 3.52. The "Now" mean significantly ($p < .05$) changed in a positive direction to 3.64, which suggests that, overall, employees perceived themselves as working better together _as a group_ following the adoption of an ESOP.

In summary, these first four hypotheses that comprised the primary focus of the study, based upon the current popular ESOP literature and rhetoric, were split with regards to confirmation and denial. Measures of employee motivation and group processes revealed significant positive changes following the adoption of ESOP, along with one measure of peer leadership-peer interaction facilitation. Financial performance measures and three peer leadership measures--peer support, peer goal emphasis and peer work facilitation--failed to exhibit significant positive changes following ESOP adoption. However, the peer leadership measures did reveal mild positive changes approaching significance.

Table 10 summarizes the results for employee motivation, peer leadership and group process variables.

Managerial Leadership and Organizational Climate

Hypotheses 5 and 6 were derived from the related empirical literature and addressed the change effects of managerial leadership and organizational climate in conjunction with the adoption of ESOP.

Managerial Leadership

The hypothesis (#5) that measures of managerial leadership would significantly improve following the adoption of an ESOP was denied on all four measures. The supervisory support measure resulted in a sample size of 136 and "Before ESOP" mean of 3.86. The "Now" mean exhibited a mild but insignificant ($p = .17$) positive change to 3.91. Supervisory goal emphasis sample size also was 136 and the "Before ESOP" mean was computed as 3.80. The "Now" mean revealed a mild but insignificant ($p = .51$) negative change to 3.77. The measure of supervisory work facilitation possessed a sample size of 133 and a "Before ESOP" mean of 3.15 was obtained. There was a mild but insignificant ($p = .40$) positive change to the "Now" mean, computed as 3.25. The supervisory interaction facilitation measure exhibited a "Before ESOP" mean of 3.25

Table 10

Research Results for Seven ESOP Companies' Employee Motivation, Peer Leadership and Group Process Change Measures

Scale/Measure	Sample Size	Mean "Before ESOP"	Standard Deviation "Before ESOP"	Mean "Now"	Standard Deviation "Now"	T Value	Probability
13-14/Employee Motivation	135	3.29	.60	3.35	.61	2.00	.048*
23-30/Peer Leadership							
23-24/Peer Support	137	3.77	.85	3.83	.84	1.36	.18
25-26/Peer Goal Emphasis	134	3.43	.92	3.49	.94	1.28	.20
27-28/Peer Work Facilitation	135	3.15	.87	3.21	.89	1.63	.11
29-30/Peer Interaction Facilitation	134	3.18	1.00	3.28	1.01	2.38	.02*
11-12/Group Process	134	3.52	.76	3.64	.72	2.94	.004*

$*p < .05$

and a mild but insignificant (p = .32) positive change to a "Now" mean of 3.30. Sample size for this measure was 134.

In summary, there were no significant changes on any of the measures of managerial leadership following the adoption of an ESOP, which denies Hypothesis #5. There were three very slight but insignificant positive changes in supervisory support, work and interaction facilitation, but change in supervisory goal emphasis was mildly negative.

Organizational Climate

The hypothesis (#6) that measures of organizational climate would significantly change following the adoption of an ESOP was denied on all four measures. The organizational identity index included a sample size of 149 and exhibited a "Before ESOP" sample mean of 3.45. The "Now" mean revealed a mild but insignificant (p = .43) positive change to 3.49. Organizational responsibility measures possessed a sample size of 134 responses and registered a "Before ESOP" mean of 2.49. There was a mild but insignificant (p = .78) negative change to the "Now" mean of 2.48. Communication flow measures exhibited a "Before ESOP" mean of 2.83 with a sample size of 142. The "Now" mean of 2.86 exhibited a mild but insignificant (p = .54) positive change in this scale. Decision making practices measures obtained a sample size of 137 responses and "Before ESOP" mean of 2.65. There was a mild but insignificant (p = .50) positive change to the "Now" mean of 2.67.

In summary, there were no significant changes on any of the measures of organizational climate following the adoption of an ESOP, which fails to confirm Hypothesis #6. There were three very mild but insignificant positive changes in organizational identity, communications flow and decision making practices and a mild negative change in organizational responsibility.

Table 11 summarizes the results for managerial leadership and organizational climate variables.

Managerial Leadership and Measures of Employee Motivation, Peer Leadership and Group Processes

Hypotheses 7A, 7B and 7C looked at the significance of relationships between changes in measures of managerial leadership and changes in measures of employee motivation, peer leadership and group processes. Although there were no overall significant changes in measures of managerial leadership and organizational climate following ESOP adoption, the present section examines the possibility that within the sample there were significant positive relationships between changes in measures of 1) managerial leadership and organizational climate and 2) employee motivation, peer leadership and group processes. Table 12 summarizes these relationships.

The hypothesis (7A) that there would be significant positive relationships between changes in managerial leadership and changes in employee motivation following ESOP adoption was confirmed on three measures and denied on one measure. The Pearson correlation coefficients relating changes in supervisory support, work facilitation and interaction facilitation with changes in employee motivation were .48, .32 and .51, respectively ($p < .05$). Supervisory goal emphasis did not exhibit a significant relationship with employee motivation (.10, $p = .10$).

The hypothesis (7B) that there would be significant positive relationships between changes in managerial leadership and peer leadership was confirmed on all four measures. Table 12 presents the significant

Table 11

Research Results for Seven ESOP Companies' Managerial Leadership and Organizational Climate Change Measures

Scale/Measure	Sample Size	Mean "Before ESOP"	Standard Deviation "Before ESOP"	Mean "Now"	Standard Deviation "Now"	T Value	Probability
15-22/Managerial Leadership							
15-16 Supervisory Support	136	3.86	.93	3.91	.91	1.38	.17
17-18/Supervisory Goal Emphasis	136	3.80	.85	3.77	.93	-0.67	.51
19-20/Supervisory Work Facilitation	133	3.15	.85	3.11	.92	-0.84	.40
21-22/Supervisory Interaction Facilitation	134	3.25	1.05	3.30	1.07	1.00	.32
1-8/Organizational Climate							
1-2/Organizational Identity	149	3.45	.73	3.49	.78	.78	.43
3-4/Organizational Responsibility	134	2.493	.52	2.488	.52	-0.28	.78
5-6/Organizational Communications Flow	142	2.83	.89	2.86	.94	.62	.54
7-8/Organizational Decision Making Practices	137	2.65	.88	2.67	.95	.68	.50

Table 12

Pearson Correlation Coefficients between Changes in Measures of

1) Managerial Leadership and Organizational Climate and

2) Employee Motivation, Peer Leadership and Group Process

	Employee Motivation	Peer Support	Peer Goal Emphasis	Peer Work Facilitation	Peer Interaction Facilitation	Group Process
Managerial Leadership						
Supervisory Support	.48*	.32*	.31*	.40*	.31*	.43*
Supervisory Goal Emphasis	.10	.27*	.26*	.23*	.15*	.23*
Supervisory Work Facilitation	.32*	.60*	.66*	.59*	.53*	.55*
Supervisory Interaction Facilitation	.51*	.79*	.78*	.79*	.80*	.82*
Organizational Climate						
Identity	.12	.18*	.25*	.01	.22*	.27*
Responsibility	.37*	.26*	.35*	.19*	.19*	.34*
Communication Flow	.27*	.09	.18*	.16*	.24*	.31*
Decision Making Practices	.55*	.34*	.42*	.40*	.35*	.47*

*(p < .05)

correlation coefficients for all 16 pairs of relationships between the four measures of changes in managerial leadership and the four measures of changes in peer leadership.

The hypothesis (7C) that there would be significant positive relationships between changes in measures of managerial leadership and changes in measures of group processes following the adoption of an ESOP also was confirmed on all four measures. The significant coefficient computations relating supervisory support, goal emphasis, work facilitation and interaction facilitation with group processes were .43, .23, .55 and .82, respectively.

In summary, the Pearson correlation coefficients generally confirmed the existence of strong positive relationships between changes in measures of managerial leadership and changes in measures of employee motivation, peer leadership and group processes following adoption of an ESOP.

Organizational Climate and Measures of Employee Motivation, Peer Leadership and Group Processes

Hypotheses 8A, 8B and 8C explored the significance of relationships between changes in measures of organizational climate and changes in measures of employee motivation, peer leadership and group processes. A summary of these relationships also are presented in Table 12.

The hypothesis (8A) that there would be significant positive relationships between changes in organizational climate and changes in employee motivation following the adoption of an ESOP was confirmed on three measures and denied on one measure. Measures of organizational responsibility, communication flow and decision making practices were significantly related to employee motivation as indicated by coefficients of .37, .27, and .55, respectively. Organizational identity did not exhibit a significant relationship with employee motivation (.12, p = .08).

The hypothesis (8B) that there would be significant positive relationships between changes in measures of organizational climate and changes in measures of peer leadership following ESOP adoption was confirmed for all sets of relationships except between 1) identity and peer work facilitation (.01, p = .46) and 2) communication flow and peer support (.09, p = .11). The significant correlation coefficients for the other 14 pairs of relationships are presented in Table 11.

The hypothesis (8C) that there would be significant positive relationships between changes in measures of organizational climate and changes in measures of group processes was confirmed on all four measures. Significant correlation coefficients relating organizational identity, responsibility, communication flow and decision making practices with measures of group processes were .27, .34, .31, and .47, respectively.

In summary, the Pearson correlation coefficients generally confirmed the hypotheses that there would be significant positive relationships between changes in measures of organizational climate and changes in measures of employee motivation, peer leadership and group processes.

Overall Effects of Managerial Leadership and Organizational Climate

In addition to Pearson correlation coefficients, multiple regression analysis was utilized to determine the overall strength of relationships between changes in measures of 1) managerial leadership and organizational climate and 2) employee motivation, peer leadership and group processes. Table 13 contains the results of the multiple regressions for the measures of managerial leadership and organizational climate. These data further confirmed the existence of strong positive relationships between changes in overall measures of 1) managerial leadership and organizational climate and 2) employee motivation, peer leadership and group processes. The Multiple R's for all six dependent variables were highly significant ($p < .01$).

The combined measures of managerial leadership and organizational behavior accounted for 56% of the variance in changes in employee motivation, 71% of the variance in peer support, 75% of the variance in peer goal emphasis, 73% of the variance in peer work facilitation, 72% of the variance in peer interaction facilitation and 82% of the variance in group processes.

In summary, the multiple regression analyses considerably support and strengthen the Pearson correlation coefficients and conclusions that significant positive relationships exist between changes in measures of 1) managerial leadership and organizational climate and 2) employee motivation, peer leadership and group processes, which is consistent with contentions of Likert, Bowers and Seashore, and others.

Extent of Perceived Benefit and Understanding

Pearson correlation coefficients were utilized to determine the relationships set forth in the exploratory research questions in Chapter III. Table 14 summarizes the results of relationships between 1) the extent to which employees perceived ESOP to be a valuable benefit for themselves and other employees and the extent to which they believed most

Table 13

Results of Multiple Regression Analyses for Measures of 1) Changes in Managerial Leadership and Organizational Climate and 2) Changes in Employee Motivation, Peer Leadership and Group Processes

	R	R^2	F
Employee Motivation	.75	.56	19.52
Peer Support	.84	.71	43.18
Peer Goal Emphasis	.86	.75	44.74
Peer Work Facilitation	.85	.73	40.84
Peer Interaction Facilitation	.85	.72	39.74
Group Process	.91	.82	71.06

$p < .01$

Table 14

Pearson Correlation Coefficients between Measures of 1) Perceived Benefit and Perceived Understanding and 2) Behavioral Variables

Behavioral Variables	Extent of Perceived Benefit	Extent of Perceived Understanding
Employee Motivation	.34*	.17*
Peer Leadership		
Peer Support	.11*	.21*
Peer Goal Emphasis	.13*	.17*
Peer Work Facilitation	.13*	.24*
Peer Interaction Facilitation	.17*	.29*
Group Process	.20*	.26*
Managerial Leadership		
Supervisory Support	.23*	.13*
Supervisory Goal Emphasis	.31*	.18*
Supervisory Work Facilitation	.13*	.21*
Supervisory Interaction Facilitation	.25*	.24*
Organizational Climate		
Organizational Identity	.48*	.36*
Organizational Responsibility	.16*	.18*
Organizational Communications Flow	.20*	.20*
Organizational Decision Making Practices	.33*	.30*

*($p < .05$)

employees understood the personal effects of the ESOP and 2) measures of employee motivation, peer leadership, group processes, managerial leadership and organizational climate.

The Pearson correlation coefficients exhibited significant positive relationships between 1) the extent to which employees perceived ESOP to be a valuable benefit and the extent to which they understood the ESOP and every measure of 2) employee motivation, peer leadership, group processes, managerial leadership and organizational climate variables. Table 14 presents these 14 sets of significant relationships.

CHAPTER V

SUMMARY, CONCLUSIONS, DISCUSSION AND RECOMMENDATIONS FOR FUTURE RESEARCH

Summary

The primary purpose of this research study was to investigate the relationships between adoption of ESOP and measures of financial performance, employee motivation, peer leadership and group processes, and the extent to which these variables are conditioned by changes in managerial leadership and organizational climate. The primary questions the study attempted to answer were:

1. What are the relationships between the introduction of an ESOP and financial performance, employee motivation, peer leadership and group process measures of firms?
2. What are the strengths of relationships between 1) changes in managerial leadership and organizational climate and 2) changes in employee motivation, peer leadership and group processes following ESOP adoption?

Additional inquiry focused on the relationships between 1) the extent to which employees perceived ESOP as a valuable benefit and understood its affect on them, and 2) the behavioral dependent variables mentioned above in Questions 1 and 2.

The subjects were 242 employees from seven American firms located in California, Missouri, Nebraska, Texas and Washington representing seven different industries. Financial performance data were obtained from these firms and each employee completed a survey questionnaire developed to solicit employee perceptions of the organizational environment prior to and following the adoption of ESOP.

The Student's *t* statistical technique was utilized to test hypotheses 1 through 6 in the present study and revealed the following results:

1. Financial performance results did not significantly improve following ESOP adoption.
2. Overall, the index measure of employee motivation significantly improved following ESOP adoption.
3. Overall, three index measures of peer leadership, 1) peer support, 2) peer goal emphasis and 3) peer work facilitation, did not significantly improve following ESOP adoption.
4. Overall, one index measure of peer leadership, peer interaction facilitation, significantly improved following ESOP adoption.
5. Overall, the index measure of group processes significantly improved following ESOP adoption.
6. Overall, none of the four index measures of managerial leadership, 1) supervisory support, 2) supervisory goal emphasis, 3) supervisory work facilitation and 4) supervisory interaction facilitation significantly improved following ESOP adoption.
7. Overall, none of the four measures of organizational climate, 1) identity, 2) responsibility, 3) decision making and 4) communication flow, significantly improved following ESOP adoption.

Pearson correlation coefficients and multiple regression analysis revealed the following results concerning relationships among variables within the sample:

1. Within the sample, there were significant positive relationships between changes in managerial leadership and changes in employee motivation, peer leadership and group processes.
2. Within the sample, there were significant positive relationships between changes in organizational climate and changes in employee motivation, peer leadership and group processes.
3. Within the sample, there were significant positive relationships between 1) the extent to which employees understood ESOP's affect on them and 2) employee motivation, peer leadership and group processes.
4. Within the sample, there were significant positive relationships between 1) the extent to which employees perceived ESOP as a valuable benefit and 2) employee motivation, peer leadership and group processes.

Conclusions

The following conclusions must be tempered by the fact that this study encompassed only seven organizations, most of them very small, and the fact that the methodology required respondents to recall their perceptions of the organization prior to ESOP adoption. As was mentioned in chapter 3, the assumption was made that definitive pre-ESOP and post-ESOP perceptions could be expressed on ordinal response scales that served as measurable surrogates for actual perceptions by employees.

With respect to financial performance, the conclusion can be made that ESOP has no apparent significant relationship with or impact upon improvements in sales or earnings growth, earnings to sales or return on investment.

With respect to employee motivation, it can be concluded that, (following ESOP adoption), there is a significant increase in employee motivation as defined by a motivational index possessing variables measuring the extent to which employees perform extra work for their jobs not required of them, the extent to which employees feel more involved with their jobs and the extent to which employees perceive themselves as working harder, relative to other employees' jobs (see Appendices 2 and 6, #135-136, 139-142).

It can be concluded that ESOP's impact on peer leadership is limited to significant improvements in peer interaction facilitation, the extent to which employees encourage each other to work together as a team, emphasize team goals and exchange opinions and ideas among each other (see Appendices 2 and 6, #109-114). ESOP apparently had no statistically significant impact on peer support (the extent to which employees are friendly, attentive and receptive toward each other--see Appendices 2 and 6, #93-98), peer goal emphasis (the extent to which employees encourage each other to establish and maintain high levels and standards of performance--see Appendices 2 and 6, #99-102), or peer work facilitation (the extent to which employees assist each other in improving job methods, planning, organizing, scheduling and problem solving--see Appendices 2 and 6, #103-108).

With respect to group processes, the extent to which employees plan, coordinate work, solve problems, make good decisions, share important information, and desire to achieve objectives together (see Appendices 2 and 6, #115-126), it can be concluded that ESOP favorably affects this dimension of organizational activity.

It can be concluded that there is no significant relationship between ESOP adoption and changes in managerial leadership or organizational climate. ESOP did not significantly impact or alter either one of these dimensions of organizational life, as they are defined by the specific variables in the present study (see Appendices 2 and 6: managerial leadership, #65-86; organizational climate, #1-6, 11-18, 55-62, 143-148).

Although there were no statistically significant overall changes in managerial leadership or organizational climate following ESOP adoption, while simultaneously there were significant overall changes in employee motivation, peer interaction facilitation and group processes, there were significant positive relationships within the sample between changes in these two sets of variables. Therefore, it can be concluded that a substantial amount of the change in these latter dependent variables can be accounted for by changes within the sample in managerial leadership and organizational climate. Conversely, a significant amount of change in the latter dependent variables cannot be accounted for by changes in managerial leadership and/or organizational climate.

With respect to employee understanding of ESOP, it can be concluded that the more employee understanding there is of the plan, the greater will be improvement in employee motivation, peer leadership and group process. Similarly, it can be concluded that the greater the extent to which employees perceive that ESOP genuinely is a valuable personal benefit, the greater will be their motivation and peer performance (see Appendices 2 and 6, #163-165).

ESOP and Financial Performance

Financial performance data were extremely sporadic and, in spite of the fact that the 40 per cent restrictions did considerably lower the variations in sales growth, earnings growth, earnings to sales and earnings to net worth (ROI) figures, no significant changes occurred during the two years following ESOP adoption.* Although two of the financial performance measures (earnings growth and ROI) did exhibit slight (but statistically insignificant) positive changes subsequent to ESOP adoption, the other two measures (earnings growth and earnings/sales) exhibited mild (but also statistically insignificant) negative changes. Therefore, these overall financial results were somewhat contrary to many ESOP proponents' contentions that ESOP is a sort of financial "cure-all" benefit for companies.

The lack of significant findings was possibly accounted for in part by the numerous exogenous variables operating in the economy and the substantial fluctuations in the business environment during the period for which financial data were obtained (e.g. the 1974 recession and subsequent recovery period). However, any conclusions attempting to relate ESOP with financial performance would be at very best tenuous because of the many complexities and elements affecting such performance measures as sales and earnings growth and capital structure.

*It was decided to compare two years prior to ESOP with two years following because most companies could not conveniently gather data four years prior to ESOP, which would have been necessary for three figures of change data for sales and earnings growth prior to ESOP (see Appendix 4).

Nevertheless, this dimension was included in the study because the proponent ESOP literature so strongly contends that ESOP will improve financial performance (as a sort of "cure-all") and because surveyed firms agreed to provide the financial data requested. Therefore, this author deemed it worthy to take a "rough" look at these financial elements to determine if any striking changes did occur. Only one firm possessed figures on turnover, absenteeism, grievances or waste, which eliminated these factors from consideration in the present study.

ESOP and Employee Motivation

Obviously there are many dimensions of motivation not addressed by the questions included in this study. Therefore, conclusions and discussion must be limited to the specific dimensions of motivation covered by the questions included in the survey.

As was mentioned earlier, in Chapter 4, there were significant positive changes in the motivational index which was composed of items which measured the extent to which employees performed extra work for their jobs not required of them, the extent to which employees felt more involved with their jobs and the extent to which employees perceived themselves as working harder, relative to other employees' jobs, following ESOP adoption (see Appendices 2 and 6, #135-136, 139-142). However, there were no significant positive changes in several other dimensions of motivation such as the extent to which employees enjoyed performing their job, the extent to which they looked forward to working each day and the extent to which people, policies or conditions within the organization encouraged them to work hard (see Appendices 2 and 6, #37-42).

Taken together, these motivation questions suggest that the motivational changes that did occur were not due to "external" factors such as the job itself, people, policies or working conditions. This is consistent with what the author expected, given the fact that ESOP did not alter any of these external variables. Therefore, it appears that the motivational changes were "internal" in nature; that is, spontaneous individually motivated activity to perform extra work, become more involved and work harder, regardless of the "external" surroundings.

Internalization of Goals

This "internal" thesis is further substantiated by additional responses to questions which measured the extent to which employees feel a real responsibility to help the company be successful and the extent to which employees perceive that the organization is effective in getting them to meet the firm's needs and contribute to its effectiveness (see Appendix 6, #129-132). These measures represent the goal integration/internalization concept mentioned in Chapter 2 and exhibited positive changes following ESOP that were just short of being significant at $p < .05$. Therefore, it appears that these spontaneous "internal" motivational changes may be due in part to the fact that employees perhaps are reaching a point at which they are beginning to integrate their personal goals and identity with those of the organization.

As was suggested in the literature review in Chapter 2 (e.g. Katz and Kahn, Tannenbaum, etc.), the prerequisites for increased employee motivation and internalization of corporate goals would be changes in one or more of the following: 1) organizational climate, 2) managerial leadership, 3) participation in decision making, 4) internalization of subgroup norms and objectives (peer goal emphasis), 5) significant contributions to group performance and 6) sharing in the rewards received from successful group performance. In addition to the index questions representing these factors, none of the additional related questions that pertained to these particular factors exhibited statistically significant positive changes (see Appendices 2 and 6, #19-20, 35-36, 45-46, 51-52, 63-64, 91-92, 127-128, 149-158). In spite of the apparent contradictions with the above authors, it is this author's contention that expanded ownership, the sense of owning a "piece of the action," is the dynamic factor contributing to improved employee motivation and apparent goal internalization.

ESOP and System Rewards

Katz and Kahn suggest that desirable system rewards uniformly distributed are fairly effective in attracting and retaining employees in the organization, but do not induce the motivation for employees to work at higher levels of quantity or quality or " . . . motivate performance beyond the line of duty . . ." unless there is a substantial degree of goal integration and internalization of the corporate image because of its favorable "attractions" (1966, p. 356). ESOP, viewed as a system reward, does appear to be a favorable attraction that is contributing to some measure of goal integration and internalization of corporate identity, which is consistent with Katz and Kahn's contentions. However, they do contend that the above mentioned prerequisites to increased motivation and internalization are much more effective in bringing about these desired positive changes in motivation and performances, but since none of them did significantly change, it appears that the "attraction" of ownership is playing a major role in the effectiveness of ESOP as a system reward.

Alternative explanations for the above results in motivation and goal integration/internalization could be expectations of the employee's peer group and their consequent impact on attendant behavior.

ESOP and Peer Leadership

The only index of peer leadership behavior that exhibited significant positive changes following ESOP adoption was peer interaction facilitation, the extent to which employees encourage each other to work together as a team, emphasize team goals and exchange opinions and ideas among the peer team (see Appendices 2 and 6, #109-114). It represents a sort of internal spontaneous enthusiasm towards work, as a team. Based upon contentions of the popular ESOP literature and expectations of this author, these changes were expected and complement the discussion of the previous section on goal integration/internalization and motivation.

The peer support index, which pertains to the extent to which employees are friendly, attentive and receptive towards each other, did not exhibit significant positive changes (see Appendices 2 and 6, #93-98). Therefore, ESOP does not necessarily appear to contribute to making organizations significantly more sociable or sensitive. The sense of "fraternity" or "co-owners" apparently has not developed in ESOP companies to the extent desired or expected by ESOP proponents, including this author.

The peer goal emphasis index, which measures the extent to which employees encourage each other to establish and maintain high levels and standards of performance, did not exhibit significant positive changes (see Appendices 2 and 6, #99-102). This suggests that ESOP did not appear to induce employees to insist on maximum output and quality of performance from each other. A possible explanation for these results is that these questions can have a potential negative connotation in the sense that "encouraging" each other to give their best effort may be considered "riding" each other, and "encouraging" the maintenance of high standards may be viewed as being "picky" or unreasonable. If such were the perceptions by employees, then these results were understandable. Otherwise, the outcomes were somewhat unexpected and contrary to much of what ESOP proponents purport--that ESOP should bring about mutual "encouragement," not "riding" or "picking," among employees to perform at optimal levels of quality and quantity so as to enhance their own and the company's well-being.

The peer work facilitation index pertains to the extent to which employees assist each other in improving job methods, planning, organizing, scheduling and problem solving (see Appendices 2 and 6, #103-108). These dimensions did not exhibit significant positive changes following ESOP adoption which suggests that ESOP did not appear to promote employee involvement with each other's work. ESOP proponents and this author would have expected positive changes in these areas because of the mutual interests ESOP has the potential of creating, thus (hopefully) manifesting facilitative work behavior among co-worker/owners. As with the previous index, these questions might also be interpreted as somewhat negative in the sense that "helping" might be considered as "getting in the way" or "minding more than your own business"; but generally speaking the results were somewhat disappointing and unexpected.

It is this writer's contention that a major reason for the lack of significant positive changes in peer support, peer goal emphasis and peer work facilitation indices was the failure of management to comprehensively communicate to employees what ESOP is, what it can mean for the employees and the essential importance of their commitment to maximum performance and success of "their" company. More will be said about this later in the chapter.

The observations in Chapter 2 by Katz and Kahn, Likert, Mayo and others all strongly accent the importance of peer cohesion, support, loyalty and common goals as being major determinants of increased motivation, productivity and quality of work. Perhaps this spontaneous enthusiasm towards work as a team can strengthen peer cohesion, support and loyalty; and as more understanding is gained about ESOP and the importance of "common goals" among employees and the company, greater productivity, quality of work, motivation and all dimensions of peer leadership behavior will ensue. These results certainly would harmonize with contentions of ESOP proponents and limited results from case reports (Burck, 1976).

ESOP and Group Processes

The group process index is closely related to peer interaction facilitation in that the variables pertain to a spontaneous enthusiasm toward joint effort in the workplace, as a group. Specifically, the measure addresses the extent to which employees plan, coordinate work, solve problems, make good decisions, share important information and desire to achieve objectives together as a team. This index exhibited significant positive change following ESOP adoption which suggests that ESOP appeared to contribute to the improvement of these peer group behavior dimensions by enriching the worth of group accomplishments through expanded ownership.

ESOP and Managerial Leadership and Organizational Climate

There were no significant changes in any of the overall measures of managerial leadership or organizational climate following ESOP adoption. These potentially potent moderating variables apparently did not account for the overall positive changes observed in employee motivation, peer interaction facilitation and group processes obtained in the present study. Obviously all the dimensions of managerial leadership and organizational climate were not represented by the questions included in the present study. However, the lack of significant overall changes in the index questions and those related to managerial leadership and organizational climate (see Appendices 2 and 6, #87-92, 149-158) substantially confirm the above contention that these moderating variables apparently did not account for the overall changes in the dependent behavioral variables.

A key dimension within managerial leadership and organizational climate that could have made a marked difference on employee motivation and especially internalization of corporate objectives would have been those factors relating to participation in decision making. There is no dearth of research literature expounding the merits of employee participation and its positive impact on motivation, performance and internalization of organizational goals. Indeed, Katz and Kahn's comments regarding the Scanlon Plan and Tannenbaum's observations of the Kibbutzim (Chapter 2, pp. 37-38) reinforce this tenet.

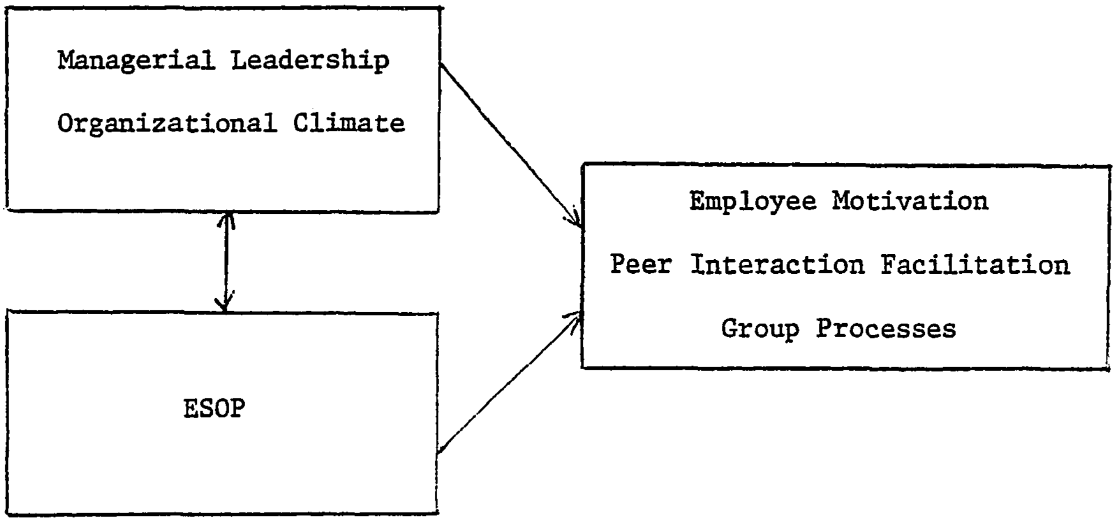
This author considered it a possibility that more participation in decision making and confidence and trust between managers and subordinates would result following ESOP adoption because of the co-owner "we're all in this together" concept that would (supposedly) develop. However, none of the decision making index variables (see Appendices 2 and 6, #55-62) significantly changed following ESOP adoption, nor did any of the related questions concerning mutual trust and confidence between supervisors and subordinates (see Appendices 2 and 6, #87-92). Therefore, the co-owner concept apparently has not developed to the extent that managers consider it beneficial and valuable to include employee participation in decision making, or to the extent that they really consider and treat subordinates as co-owners and therefore capable and willing to provide meaningful input for realistic goal setting and decision making.

Taken together, these findings suggest the existence of a direct link between ESOP adoption and improved employee motivation, peer interaction facilitation and group processes, and, as has already been mentioned, challenges the specific conclusions drawn by Katz and Kahn (1964, p. 364) that there will be no significant changes in dependent behavioral variables of this type unless there are commensurate changes in managerial leadership, organizational climate and other related organizational activity. Once again, it is this author's contention that employees are perceiving that they are beginning to own "a piece of the action" and this, in turn, is inclining them to exhibit higher levels of some dimensions of motivation and working together as a team of co-worker/owners for the improved sake of their company.

Relationships Between [1]Changes in Managerial Leadership and Organizational Climate and [2]Changes in Employee Motivation, Peer Leadership and Group Processes

Although there were no overall changes in managerial leadership or organizational climate, some employees within the sample apparently perceived these dimensions as improving, others perceived them as getting worse and others perceived no change. Simultaneously, these employees also perceived concurrent positive, negative and no changes in motivation, peer leadership and group processes. These positive relationships are in harmony with contentions of Katz and Kahn (1966), Likert (1961), Seashore (1954) and others in that a substantial proportion of the variance in changes in employee motivation, peer interaction facilitation and group processes can be explained by concurrent changes in managerial leadership and organizational climate.

Thus it appears that these variables also represent a causal chain through which employee motivation, peer interaction facilitation and group process behavior can be affected and improved. Consequently, the following model perhaps more accurately describes the relationship between ESOP and these sets of variables than the model originally proposed in Chapter 3.



ESOP Benefit and Understanding

There were significant relationships between 1) the extent to which employees perceived the ESOP as a valuable benefit and understood its affect on them and fellow employees and 2) employee motivation, peer leadership and group process variables. This would suggest that employees are more likely to exhibit higher levels of motivation and peer group performance when they more fully understand the effects of ESOP and are convinced that it is truly a valuable benefit to them.

Even though there were positive changes in some dimensions of motivation, group processes and peer interaction facilitation, perhaps a lack of comprehensive communication and understanding about ESOP has prevented statistically significant improvement in other dimensions of peer leadership: the development of a more "fraternity/co-owner" feeling among employees, "encouragement" of high levels and standards of performance and "helping" each other in the facilitation of work.

The mean response for question number 165 was 2.4: "To what extent do you think the majority of employees understand the way the ESOP affects them personally?" This implies that most employees see themselves and others as substantially lacking in understanding about ESOP and its ramifications. Comments by managers and employee responses on the open-ended questions substantiated a lack of effective communication efforts on behalf of management. For example, the following are some typical comments to question number 168: "What aspects, if any, are there about the ESOP you are uncertain or would like to have more information?":

"Everything!"

"Information on what ESOP is about."

"Most of the program."

"I am not familiar with the ESOP."

"I need more information on the ESOP to answer these!"

"I would like to know how benefits are computed."

Although these comments did not necessarily represent the majority of employees surveyed, they do suggest a need for more effective and comprehensive communications and explanations of ESOP. It is not unlikely that with more improved and thorough methods of communication, and hence higher levels of employee understanding and familiarity, there would be more significant changes in employee motivation, peer leadership and group process measures which could eventually result in improved quantity and quality of productivity and financial performance.

Overall Movement of Variables

Very often researchers make the assumption that $p < .05$ is a "magic number" and that everything not falling within that parameter has no meaning or significant whatsoever in the real world. This author chooses to agree with that number who believe this to be somewhat naive and unrealistic and therefore thought it worthwhile to mention the general overall movement of most of the variables in the survey.

An overview of Appendix 6 reveals that the vast majority of variables did exhibit positive changes following ESOP adoption. This possibly could be interpreted that, with a few exceptions, employees perceive that things seem to be getting a little better. It would be ludicrous to suggest what percentage of that positive change can be accounted for by the ESOP, but it certainly is worthy of serious acknowledgement and consideration by companies seeking improvement in the areas covered by the survey.

Significance to Management

1. The adoption of an ESOP appears to provide some direct positive benefit to organizations because of providing employees with "a piece of the action" even if there are no perceived or actual changes within the firm in areas of managerial leadership or organizational climate. Taken to its extreme, this possibly could imply that maximum levels of employee motivation and peer group performance are not attainable unless an organization provides its employees an opportunity to own "a piece of the action" through expanded employee ownership.

2. Since there were significant relationships within the sample between 1) changes in employee motivation, peer interaction facilitation and group processes and 2) changes in managerial leadership and organizational climate, it appears that the direct positive changes due to ESOP adoption can be enhanced or constrained by concurrent positive or negative changes in managerial leadership and/or organizational climate variables. It seems that a unique opportunity is present for progressive companies to combine expanded employee ownership with expanded employee participation in goal setting and decision making to achieve maximum levels of employee motivation, peer performance and employee internalization of organizational goals and identity.

3. The strong relationship exhibited between 1) the extent to which employees understand ESOP and perceive it to be a valuable benefit and 2) employee motivation, peer leadership and group processes suggests that a company must effectively and comprehensively communicate the meaning of ESOP to its employees and make sure that they understand their role in its success.

Taken together, perhaps these observations suggest that companies desiring to achieve maximum levels of employee motivation and peer group performance should do the following: 1) provide employees the opportunity to own "a piece of the action" through an ESOP, 2) provide positive and supportive managerial leadership and a favorable organizational climate characterized by employee participation in goal setting and decision making, and 3) make sure that the ESOP is completely, clearly and effectively communicated to employees with regard to what it is, what it can do for them and the critical importance of their united effort to make the company a success for everyone.

Recommendation for Future Research

There are numerous opportunities and avenues for future ESOP research. The following suggestions are not exhaustive but are logical extensions of the present study.

Future ESOP research should encompass a longitudinal study that obtains true pre-test/post-test measures of the organizational variables included in the present study and additional behavioral and quantitative measures. Time and money limitations prevented such a study for this dissertation project.

Future studies should be designed to provide more substantial information on the relationships between ESOP adoption and 1) managerial leadership and organizational climate, 2) additional dimensions of motivation, 3) financial performance of firms and 4) measurable levels of quantity and quality of productivity. Specifically, future research endeavors should include control groups of similar size and type companies whereby perceptual, quantitative performance and financial survey data could be gathered simultaneously with ESOP companies' data. This would allow more sophisticated statistical examination of changes in managerial leadership and organizational climate variables following ESOP adoption. Control groups would also provide the basis upon which to make meaningful financial performance comparisons and comparisons in changes of employee motivation, peer leadership, group processes and productivity.

Nothing has been mentioned about job satisfaction in the present study although several questions were asked of respondents concerning this factor (see Appendix 6, #21-34). Research attempting to determine the relationship between 1) job satisfaction and 2) motivation and performance has yielded various and contradictory findings (Yankelovich, 1975). However, job satisfaction does appear to have a definite positive relationship with employee turnover and absenteeism (Yankelovich). Therefore, future research studies should be conducted with firms that possess turnover and absenteeism statistics so that this dimension can be included into the overall ESOP impact paradigm.

It remains to be seen if the results from the present study can be replicated in future studies encompassing larger numbers of employees and a broader range of companies. If such results are replicated, ESOPs could be destined to become an essential and pervasive thread in the fabric of the American business system.

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APPENDIX 1

The University of Oklahoma 307 West Brooks, Room 105D Norman, Oklahoma 73019

College of Business Administration
Division of Management

COMPANY - A B C D E F G H I J

DATE ESOP IMPLEMENTED ______________________

NET SALES THREE YEARS PRIOR TO ESOP ADOPTION AND SINCE ADOPTION:

________ ________ ________ ________ ________

________ ________ ________ ________ ________

PRE-TAX NET PROFITS THREE YEARS PRIOR TO ESOP ADOPTION AND SINCE ADOPTION:

________ ________ ________ ________ ________

________ ________ ________ ________ ________

TOTAL CAPITAL THREE YEARS PRIOR TO ESOP ADOPTION AND SINCE ADOPTION:

________ ________ ________ ________ ________

________ ________ ________ ________ ________

PERCENT OF EMPLOYEE TURNOVER THREE YEARS PRIOR TO ESOP ADOPTION AND SINCE ADOPTION:

________ % ________ % ________ % ________ % ________ %

________ % ________ % ________ % ________ % ________ %

PERCENT OF EMPLOYEE ABSENTEEISM THREE YEARS PRIOR TO ESOP ADOPTION AND SINCE ADOPTION:

________ % ________ % ________ % ________ % ________ %

________ % ________ % ________ % ________ % ________ %

NUMBER OF GRIEVANCES THREE YEARS PRIOR TO ESOP ADOPTION AND SINCE ADOPTION:

________ ________ ________ ________ ________

________ ________ ________ ________ ________

PERCENTAGE OF WASTE (HOWEVER COMPUTED) THREE YEARS PRIOR TO ESOP ADOPTION AND SINCE ADOPTION:

_______% _______% _______% _______% _______%

_______% _______% _______% _______% _______%

PERCENTAGE OF EMPLOYEES PARTICIPATING IN THE ESOP TRUST_______%

PERCENTAGE OF COMPANY EQUITY OWNED BY THE ESOP TRUST _______%

PERCENTAGE OF EQUITY OWNED BY MANAGERIAL EMPLOYEES THROUGH THE ESOP TRUST_______%

PERCENTAGE OF EQUITY OWNED BY NON-MANAGERIAL EMPLOYEES THROUGH THE TRUST_______%

ARE VOTING RIGHTS PASSED THROUGH FOR THE ESOP SHARES OF STOCK?_______

DOES YOUR COMPANY HAVE NON-MANAGERIAL EMPLOYEE REPRESENTATIVES ON THE BOARD OF DIRECTORS?_______

IS YOUR COMPANY REPRESENTED BY A UNION(S)?_______

IN ORDER OF PRIORITY, WHAT WERE THE MAJOR REASONS YOUR COMPANY ADOPTED THE ESOP?

____

____

____

DO YOU THINK EMPLOYEE OWNERSHIP CONTRIBUTES SUBSTANTIALLY TO THE PRODUCTIVITY AND PROFITABILITY OF THE FIRM?_______

DO YOU THINK EMPLOYEE OWNERSHIP AFFECTS ATTITUDES OF WORKERS TOWARD THEIR JOBS?

____

ARE YOU SATISFIED WITH THE WAY EMPLOYEE OWNERSHIP IS WORKING IN YOUR FIRM?_______

The University of Oklahoma

College of Business Administration

THE UNIVERSITY OF OKLAHOMA, DEPARTMENT OF MANAGEMENT, NORMAN, OKLAHOMA

SURVEY OF ORGANIZATIONS

This questionnaire is part of a study designed in conjunction with your organization to learn more about how people work together now, and what effects the Employee Stock Ownership Plan (ESOP) has had on you and your fellow employees. The aim is to use the information to make your work situation more satisfying and productive.

If this study is to be helpful, it is important that you answer each question as thoughtfully and frankly as possible. This is not a test and there are no right or wrong answers.

The completed answer sheets are processed by automated equipment which summarizes the answers in statistical form so that individuals cannot be identified. To ensure COMPLETE CONFIDENTIALITY please do not write your name anywhere on the questionnaire or answer sheet.

INSTRUCTIONS

1. All questions can be answered by filling in one of the answer spaces on the enclosed answer sheet. If you do not find the exact answer that fits your case, use the one that is closest to it.

2. Most of the questions have 2 parts: (1) NOW and (2) Before ESOP. Please read each question and answer how it is now, and how it was before the ESOP. If you do not believe there have been any changes, put the same answer for both parts.

3. Please answer all questions in order.

4. Please use a soft pencil and observe carefully these important instructions:

    a) Make heavy marks that fill the column
    b) Erase cleanly any answer you wish to change
    c) Make no stray markings on the answer sheet

5. The answer sheet is designed for automatic scanning of your responses. Questions should be answered by marking the appropriate answer spaces on the enclosed answer sheet as illustrated in the following example:

How much does this organization try to improve working conditions?	To a very little extent	To a little extent	To some extent	To a great extent	To a very great extent
(1) NOW	1	2	3	4	5
(2) Before ESOP	1	2	3	4	5

If you believe that right now your organization tries to improve working conditions to a great extent, but prior to the ESOP it just tried to a little extent, you would mark the answer sheet as follows:

1 1 2 3 4■ 5	2 1 2■ 3 4 5	3 1 2 3 4 5	4 1 2 3 4 5
5 1 2 3 4 5	6 1 2 3 4 5	7 1 2 3 4 5	8 1 2 3 4 5
9 1 2 3 4 5	10 1 2 3 4 5	11 1 2 3 4 5	12 1 2 3 4 5
13 1 2 3 4 5	14 1 2 3 4 5	15 1 2 3 4 5	16 1 2 3 4 5
17 1 2 3 4 5	18 1 2 3 4 5	19 1 2 3 4 5	20 1 2 3 4 5
21 1 2 3 4 5	22 1 2 3 4 5	23 1 2 3 4 5	24 1 2 3 4 5
25 1 2 3 4 5	26 1 2 3 4 5	27 1 2 3 4 5	28 1 2 3 4 5

If you have any questions about this procedure, please ask the questionnaire administrator NOW.

6. DEFINITIONS: This questionnaire asks about a lot of different aspects of your work. Among these are questions about your SUPERVISOR and your WORK GROUP. The questions about your supervisor refer to the person to whom you report directly and the questions about your work group refer to all those persons who report to the same supervisor you do.

	To a very little extent	To a little extent	To some extent	To a great extent	To a very great extent
To what extent are people proud of belonging to this organization.					
1. Now	1	2	3	4	5
2. Before the ESOP	1	2	3	4	5
To what extent do you feel that you are a member of a well functioning team.					
3. Now	1	2	3	4	5
4. Before the ESOP	1	2	3	4	5
As far as you can see, to what extent is there personal loyalty to the company.					
5. Now	1	2	3	4	5
6. Before the ESOP	1	2	3	4	5
To what extent does this organization have clear-cut, reasonable goals and objectives?					
7. Now	1	2	3	4	5
8. Before the ESOP	1	2	3	4	5
In this organization people pretty much look out for their own interests....					
9. Now	1	2	3	4	5
10. Before the ESOP	1	2	3	4	5
How adequate for your needs is the amount of information you get about what is going on in other departments or shifts?					
11. Now	1	2	3	4	5
12. Before the ESOP	1	2	3	4	5
How receptive are those above you to your ideas and suggestions?					
13. Now	1	2	3	4	5
14. Before the ESOP	1	2	3	4	5
To what extent are you told what you need to know to do your job in the best possible way?					
15. Now	1	2	3	4	5
16. Before the ESOP	1	2	3	4	5
To what extent do you have a feeling of loyalty toward this organization?					
17. Now	1	2	3	4	5
18. Before the ESOP	1	2	3	4	5

How are differences and disagreements between units or departments handled in this organization?

1) Disagreements are almost always avoided, denied, or suppressed
2) Disagreements are often avoided, denied, or suppressed
3) Sometimes disagreements are accepted and worked through; sometimes they are avoided or suppressed
4) Disagreements are usually accepted as necessary and desirable and worked through
5) Disagreements are almost always accepted as necessary and desirable and are worked through

19. **Now**
20. **Before the ESOP**

	Very dissatisfied	Somewhat dissatisfied	Neither satisfied nor dissatisfied	Fairly satisfied	Very satisfied
All in all, how satisfied are you with the persons in your work group?					
21. Now	1	2	3	4	5
22. Before the ESOP	1	2	3	4	5
All in all, how satisfied are you with your supervisor?					
23. Now	1	2	3	4	5
24. Before the ESOP	1	2	3	4	5
All in all, how satisfied are you with your job?					
25. Now	1	2	3	4	5
26. Before the ESOP	1	2	3	4	5
All in all, how satisfied are you with this organization, compared to most others?					
27. Now	1	2	3	4	5
28. Before the ESOP	1	2	3	4	5
Considering your skills and the effort you put into the work, how satisfied are you with your pay?					
29. Now	1	2	3	4	5
30. Before the ESOP	1	2	3	4	5
How satisfied do you feel with the progress you have made in this organization up to now?					
31. Now	1	2	3	4	5
32. Before the ESOP	1	2	3	4	5
How satisfied do you feel with your chances for getting ahead in this organization in the future?					
33. Now	1	2	3	4	5
34. Before the ESOP	1	2	3	4	5

Why do people work hard in this organization?

1) Just to keep their jobs and avoid being chewed out
2) To keep their jobs and to make money
3) To keep their jobs, make money, and to seek promotions
4) To keep their jobs, make money, seek promotions, and for the satisfaction of a job well done
5) To keep their jobs, make money, seek promotions, do a satisfying job, and because other people in their work group expect it

35. Now

36. Before the ESOP

	To a very little extent	To a little extent	To some extent	To a great extent	To a very great extent
To what extent do you enjoy performing the actual day-to-day activities that make up your job?					
37. Now	1	2	3	4	5
38. Before the ESOP	1	2	3	4	5
How much do you look forward to coming to work each day?					
39. Now	1	2	3	4	5
40. Before the ESOP	1	2	3	4	5
To what extent are there things about working here (people, policies, or conditions) that encourage you to work hard?					
41. Now	1	2	3	4	5
42. Before the ESOP	1	2	3	4	5
To what extent do you feel your pay is related to how much you help your company be successful?					
43. Now	1	2	3	4	5
44. Before the ESOP	1	2	3	4	5

	Little or no influence	Some	Quite a bit	A great deal	A very great deal of influence
In general, how much say or influence do you have on what goes on in your work group?					
45. Now	1	2	3	4	5
46. Before the ESOP	1	2	3	4	5
In general, how much say or influence does each of the following groups of people have on what goes on in your department?					
Lowest-level supervisors (foremen, office supervisors, etc.)					
47. Now	1	2	3	4	5
48. Before the ESOP	1	2	3	4	5
Top managers (president, vice presidents, heads of large divisions, etc.)					
49. Now	1	2	3	4	5
50. Before the ESOP	1	2	3	4	5
Employees (people who have no subordinates)					
51. Now	1	2	3	4	5
52. Before the ESOP	1	2	3	4	5
Middle managers (department heads, area managers, etc.)					
53. Now	1	2	3	4	5
54. Before the ESOP	1	2	3	4	5

How are objectives set in this organization?

1) Objectives are announced with no opportunity to raise questions or give comments
2) Objectives are announced and explained, and an opportunity is then given to ask questions
3) Objectives are drawn up, but are discussed with subordinates and sometimes modified before being issued
4) Specific alternative objectives are drawn up by supervisors, and subordinates are asked to discuss them and indicate the one they think is best
5) Problems are presented to those persons who are involved, and the objectives felt to be best are then set by the subordinates and the supervisor jointly, by group participation and discussion

55. Now

56. Before the ESOP

	To a very little extent	To a little extent	To some extent	To a great extent	To a very great extent
In this organization to what extent are decisions made at those levels where the most adequate and accurate information is available?					
57. Now	1	2	3	4	5
58. Before the ESOP	1	2	3	4	5
When decisions are being made, to what extent are the persons affected asked for their ideas?					
59. Now	1	2	3	4	5
60. Before the ESOP	1	2	3	4	5
People at all levels of an organization usually have know-how that could be of use to decision-makers. To what extent is information widely shared in this organization so that those who make decisions have access to all available know-how?					
61. Now	1	2	3	4	5
62. Before the ESOP	1	2	3	4	5
To what extent do different units or departments plan together and coordinate their efforts?					
63. Now	1	2	3	4	5
64. Before the ESOP	1	2	3	4	5
Supervisor means the person to whom you report directly.					
How friendly and easy to approach is your supervisor?					
65. Now	1	2	3	4	5
66. Before the ESOP	1	2	3	4	5
When you talk with your supervisor, to what extent does he pay attention to what you're saying?					
67. Now	1	2	3	4	5
68. Before the ESOP	1	2	3	4	5
To what extent is your supervisor willing to listen to your problems?					
69. Now	1	2	3	4	5
70. Before the ESOP	1	2	3	4	5
How much does your supervisor encourage people to give their best effort?					
71. Now	1	2	3	4	5
72. Before the ESOP	1	2	3	4	5
To what extent does your supervisor maintain high standards of performance?					
73. Now	1	2	3	4	5
74. Before the ESOP	1	2	3	4	5
To what extent does your supervisor set an example by working hard himself?					
75. Now	1	2	3	4	5
76. Before the ESOP	1	2	3	4	5
To what extent does your supervisor show you how to improve your performance?					
77. Now	1	2	3	4	5
78. Before the ESOP	1	2	3	4	5
To what extent does your supervisor provide the help you need so that you can schedule work ahead of time?					
79. Now	1	2	3	4	5
80. Before the ESOP	1	2	3	4	5
To what extent does your supervisor offer new ideas for solving job-related problems?					
81. Now	1	2	3	4	5
82. Before the ESOP	1	2	3	4	5
To what extent does your supervisor encourage the persons who work for him to work as a team?					
83. Now	1	2	3	4	5
84. Before the ESOP	1	2	3	4	5
To what extent does your supervisor encourage people who work for him to exchange opinions and ideas?					
85. Now	1	2	3	4	5
86. Before the ESOP	1	2	3	4	5
To what extent do you feel your supervisor has confidence and trust in you?					
87. Now	1	2	3	4	5
88. Before the ESOP	1	2	3	4	5
To what extent do you have confidence and trust in your supervisor?					
89. Now	1	2	3	4	5
90. Before the ESOP	1	2	3	4	5
To what extent does your supervisor meet with his subordinates as a group, present problems that must be solved and work with the group to find solutions?					
91. Now	1	2	3	4	5
92. Before the ESOP	1	2	3	4	5

In the questions below, work group means all those persons who report to the same supervisor.

	To a very little extent	To a little extent	To some extent	To a great extent	To a very great extent
How friendly and easy to approach are the persons in your work group?					
93. Now	1	2	3	4	5
94. Before the ESOP	1	2	3	4	5
When you talk with persons in your work group, to what extent do they pay attention to what you're saying?					
95. Now	1	2	3	4	5
96. Before the ESOP	1	2	3	4	5
To what extent are persons in your work group willing to listen to your problems?					
97. Now	1	2	3	4	5
98. Before the ESOP	1	2	3	4	5
How much do persons in your work group encourage each other to give their best effort?					
99. Now	1	2	3	4	5
100. Before the ESOP	1	2	3	4	5
To what extent do persons in your work group maintain high standards of performance?					
101. Now	1	2	3	4	5
102. Before the ESOP	1	2	3	4	5
To what extent do persons in your work group help you find ways to do a better job?					
103. Now	1	2	3	4	5
104. Before the ESOP	1	2	3	4	5
To what extent do persons in your work group provide the help you need so that you can plan, organize, and schedule work ahead of time?					
105. Now	1	2	3	4	5
106. Before the ESOP	1	2	3	4	5
To what extent do persons in your work group offer each other new ideas for solving job-related problems?					
107. Now	1	2	3	4	5
108. Before the ESOP	1	2	3	4	5
How much do persons in your work group encourage each other to work as a team?					
109. Now	1	2	3	4	5
110. Before the ESOP	1	2	3	4	5

	To a very little extent	To a little extent	To some extent	To a great extent	To a very great extent
How much do persons in your work group emphasize a team goal?					
111. Now	1	2	3	4	5
112. Before the ESOP	1	2	3	4	5
To what extent do persons in your work group exchange opinions and ideas?					
113. Now	1	2	3	4	5
114. Before the ESOP	1	2	3	4	5
To what extent does your work group plan together and coordinate its efforts?					
115. Now	1	2	3	4	5
116. Before the ESOP	1	2	3	4	5
To what extent does your work group make good decisions and solve problems well?					
117. Now	1	2	3	4	5
118. Before the ESOP	1	2	3	4	5
To what extent is information about important events and situations shared within your work group?					
119. Now	1	2	3	4	5
120. Before the ESOP	1	2	3	4	5
To what extent does your work group really want to meet its objectives successfully?					
121. Now	1	2	3	4	5
122. Before the ESOP	1	2	3	4	5
To what extent is your work group able to respond to unusual work demands placed upon it?					
123. Now	1	2	3	4	5
124. Before the ESOP	1	2	3	4	5
To what extent do you have confidence and trust in the persons in your work group?					
125. Now	1	2	3	4	5
126. Before the ESOP	1	2	3	4	5
We don't rely too heavily on individual judgement in this organization; almost everything is double-checked . . .					
127. Now	1	2	3	4	5
128. Before the ESOP	1	2	3	4	5
To what extent do you feel a real responsibility to help the company be successful?					
129. Now	1	2	3	4	5
130. Before the ESOP	1	2	3	4	5

	To a very little extent	To a little extent	To some extent	To a great extent	To a very great extent
To what extent is the organization you work for effective in getting you to meet its needs and contribute to its effectiveness?					
131. Now	1	2	3	4	5
132. Before the ESOP	1	2	3	4	5
To what extent does the organization you work for do a good job of meeting your needs as an individual?					
133. Now	1	2	3	4	5
134. Before the ESOP	1	2	3	4	5

	Never	Rarely	Sometimes	Often
How often do you do some extra work for your job which isn't required of you?				
135. Now	1	2	3	4
136. Before the ESOP	1	2	3	4
On most days of your job, how often does time seem to drag for you?				
137. Now	1	2	3	4
138. Before the ESOP	1	2	3	4

	Very little	Slightly	Moderately	Strongly
Some people are completely involved in their job—they are absorbed in it night and day. For other people, their job is simply one of several interests. How involved do you feel in your job?				
139. Now	1	2	3	4
140. Before the ESOP	1	2	3	4

	Less hard	About the same	Harder
Would you say you work harder, less hard or about the same as other people doing your type of work?			
141. Now	1	2	3
142. Before the ESOP	1	2	3

	Definitely agree	Inclined to agree	Inclined to disagree	Definite disagree
Our philosophy emphasizes that people should solve their problems by themselves.				
143. Now	1	2	3	4
144. Before the ESOP	1	2	3	4
There are an awful lot of excuses around here when somebody makes a mistake.				
145. Now	1	2	3	4
146. Before the ESOP	1	2	3	4
One of the problems in this organization is that individuals won't take responsibility.				
147. Now	1	2	3	4
148. Before the ESOP	1	2	3	4
In this organization the rewards and encouragements you get usually outweigh the threats and criticism.				
149. Now	1	2	3	4
150. Before the ESOP	1	2	3	4
There is not enough reward and recognition given in this organization for doing good work.				
151. Now	1	2	3	4
152. Before the ESOP	1	2	3	4
A friendly atmosphere prevails among the people in this organization.				
153. Now	1	2	3	4
154. Before the ESOP	1	2	3	4
People in this organization tend to be cool and aloof toward each other.				
155. Now	1	2	3	4
156. Before the ESOP	1	2	3	4
There is a lot of warmth in the relationships between management and workers in this organization.				
157. Now	1	2	3	4
158. Before the ESOP	1	2	3	4

THE FOLLOWING REMAINING QUESTIONS DO NOT REQUIRE A "NOW" AND "BEFORE THE ESOP" ANSWER.

	To a very little extent	To a little extent	To some extent	To a great extent	To a very great extent
To what extent do you think each of the following influenced management's decision to implement your company's ESOP?					
159. Financial interest of the company	1	2	3	4	5
160. Financial interest of the employees	1	2	3	4	5
161. Other (Please specify on answer sheet #2, question #161.)					
To what extent do you think the ESOP provides a valuable benefit for:					
162. The company	1	2	3	4	5
163. The majority of employees in general	1	2	3	4	5
164. You personally	1	2	3	4	5
165. To what extent do you think the majority of employees understand the way the ESOP affects them personally?	1	2	3	4	5

PLEASE ANSWER THE FOLLOWING REMAINING QUESTIONS ON ANSWER SHEET #2.

166. What do you like best about the ESOP?

167. What do you like least about the ESOP?

168. What aspects, if any, are there about the ESOP you are uncertain or would like to have more information?

169. If you had a question about the ESOP, to whom would you go to get an answer?

APPENDIX 3

BEHAVIORAL VARIABLES AND CORRESPONDING QUESTION NUMBERS

Variable	Scale Now-Before	Question Numbers "Now"	Question Numbers "Before ESOP"
Organizational Climate			
Identity	1-2	1, 3, 5, 17	2, 4, 6, 18
Responsibility	3-4	143, 145, 147	144, 146, 148
Communication Flow	5-6	11, 13, 15	12, 14, 16
Decision Making Practices	7-8	55, 57, 59, 61	56, 58, 60, 62
Group Process	11-12	115, 117, 119, 121, 123, 125	116, 118, 120, 122, 124, 126
Employee Motivation	13-14	135, 139, 141	136, 140, 142
Managerial Leadership			
Support	15-16	65, 67, 69	66, 68, 70
Goal Emphasis	17-18	71, 73, 75	72, 74, 76
Work Facilitation	19-20	77, 79, 81	78, 80, 82
Interaction Facilitation	21-22	83, 85	84, 86
Peer Leadership			
Support	23-24	93, 95, 97	94, 96, 98
Goal Emphasis	25-26	99, 101	100, 102
Work Facilitation	27-28	103, 105, 107	104, 106, 108
Interaction Facilitation	29-30	109, 111, 113	110, 112, 114

Variable	Scale Now-Before	Question Numbers "Now"	Question Numbers "Before ESOP"
Perceived Benefit	31	163, 164	--
Perceived Understanding	V165	165	--

APPENDIX 4

INDIVIDUAL COMPANY FINANCIAL PERFORMANCE DATA

Company A

	1973-74	1974-75	1975-76	ESOP	1976-77
Sales Growth (%)	20	5	54		35
Earnings Growth (%)	-50	88	-19		173

	1973	1974	1975	1976		1976
Earnings/Sales (%)	26	11	20	10		21
Earnings/Capital (%) (ROI)	57	20	29	21		43

Company B

	1973-74	1974-75	ESOP	1975-76	1976-77	1977-78
Sales Growth	19	-3		24	22	17 (est)
Earnings Growth	43	-81		466	11	Unknown

	1973	1974	1975		1976	1977	1978
Earnings/Sales	2	2	.3		1.8	1.6	Unknown
Earnings/Capital (ROI)	62	83	19		56	50	Unknown

Company C

	1972-73	1973-74	ESOP	1974-75	1975-76	1976-77
Sales Growth	30	34		7	-28	28
Earnings Growth	72	244		-7	-73	78

	1972	1973	1974		1975	1976	1977
Earnings/Sales	1.8	2.4	6.2		5.4	2	2.8
Earnings/Capital (ROI)	13.8	21.3	56.4		35.8	8.7	13.6

Company D

	1973-74	1974-75	ESOP	1975-76	1976-77
Sales Growth	75	18		46	35
Earnings Growth	19	-45		8	160

	1973	1974	1975	1976	1977
Earnings/Sales	13	9	4	3	6
Earnings/Capital (ROI)	30	30	16	15	32

Company E

	1972-73	1973-74	1974-75	ESOP	1975-76	1976-77
Sales Growth						
Earnings Growth						

	1972	1973	1974	1975	1976	1977
Earnings/Sales	3	3	4	3	3	1
Earnings/Capital (ROI)	Not Available	16	46	30	24	13

Company F

	1972-73	1973-74	ESOP	1974-75	1975-76	1976-77
Sales Growth	9.6	3.4		16.8	31.6	17.3
Earnings Growth	17.4	-47		3	85.8	75.4

	1972	1973	1974	1975	1976	1977
Earnings/Sales	14.6	15.6	7.9	7	10.7	16
Earnings/Capital (ROI)	49.6	49.4	25.4	45.1	54.7	68.3

Appendix 5

Brief Background on ESOP Companies

A. Established in 1962. One office on the West Coast. Produces anti-serums for sale to hospitals, laboratories, research groups and universities. Service area is worldwide. Employee types range from white collar salaried office workers to hourly paid "ranch hands" who manage livestock.

B. Established in 1938. One of two offices in two Southwestern states. A full service advertising and public relations firm serving all types of clients. Service area is two states. Employees are all office workers including executives, secretaries, writers, artists and other agency personnel.

C. Established in 1949. One office in Northwestern state. Manufacturers representative for several lines of hydraulic and pneumatic equipment. Service area is parts of four Northwestern states. Most employees are office-type workers, but include three mechanics and two hourly workers in shipping department.

D. Established in 1956. Offices scattered throughout the world with home office in Southwestern state. Geotechnical/Foundation engineering firm that tests soil samples for building sites. Service area is worldwide. Employees range from blue collar unskilled maintenance employees to engineers to office personnel to top-level executives.

E. Established in 1945. Offices in four Midwestern states. Wholesale electrical components suppliers serving utilities, general contractors, and government agencies. Service area is eleven states.

Employees range from blue collar warehouse workers to white collar office personnel.

F. Established in 1889. Offices in two Southwestern states. Full service insurance agency for all types of coverage. Service area is two states. Employees are all white collar office-type ranging from secretaries to salesmen to top level executives.

G. Established 1967. One office in Western state. Tire distributors and manufacturers of retread tires for automobiles and trucks. Service area is northern portion of Western state. Employees range from blue-collar unskilled laborers to fairly skilled assembly-line workers to white collar office personnel and executives.

APPENDIX 6

RESEARCH RESULTS FOR ALL VARIABLES' CHANGE MEASURES

Variable No.	Sample Size	Mean "Before ESOP"	Standard Deviation "Before ESOP"	Mean "Now"	Standard Deviation "Now"	T Value	Probability
1-2	141	3.33	.89	3.42	.89	1.12	.27
3-4	143	3.32	.96	3.38	1.04	.83	.41
5-6	134	3.25	.89	3.32	.91	.98	.33
7-8	138	3.16	.97	3.31	1.03	2.21	.03
9-10	136	3.32	1.09	3.50	1.04	2.35	.02
11-12	140	2.44	1.08	2.46	1.14	.35	.73
13-14	137	2.99	1.12	3.06	1.14	1.38	.17
15-16	134	3.06	1.08	3.11	1.10	.82	.42
17-18	133	4.05	.97	4.06	.97	.12	.91
19-20	134	3.14	.95	3.18	.88	.60	.55
21-22	134	3.87	1.09	4.04	1.02	3.15	.00
23-24	132	3.86	1.14	3.92	1.11	.96	.34

APPENDIX 6--Continued

Variable No.	Sample Size	Mean "Before ESOP"	Standard Deviation "Before ESOP"	Mean "Now"	Standard Deviation "Now"	T Value	Probability
25-26	135	3.99	.95	3.98	.99	- .24	.81
27-28	134	3.96	1.08	3.93	1.10	- .63	.53
29-30	135	3.05	1.19	3.13	1.28	1.37	.17
31-32	135	3.55	1.17	3.63	1.18	1.35	.18
33-34	134	3.28	1.23	3.23	1.24	- .71	.48
35-36	134	3.66	1.11	3.61	1.16	- .80	.43
37-38	135	3.73	.83	3.80	.79	1.25	.21
39-40	135	3.57	.89	3.56	.90	- .29	.77
41-42	134	3.31	.96	3.31	.95	.0	1.00
43-44	135	3.01	1.20	3.06	1.22	.93	.36
45-46	134	2.97	1.20	3.07	1.20	1.79	.08
47-48	131	2.71	1.05	2.66	1.08	-1.14	.26
49-50	131	4.09	.95	4.08	.98	- .35	.73

APPENDIX 6--Continued

Variable No.	Sample Size	Mean "Before ESOP"	Standard Deviation "Before ESOP"	Mean "Now"	Standard Deviation "Now"	T Value	Probability
51-52	130	2.08	.99	2.10	1.03	.50	.62
53-54	131	3.03	1.00	3.02	1.08	- .21	.84
55-56	133	2.36	1.25	2.34	1.27	- .58	.57
57-58	133	3.09	1.09	3.11	1.16	.54	.59
59-60	137	2.48	.97	2.55	1.07	1.38	.17
61-62	134	2.66	1.07	2.66	1.13	.19	.85
63-64	134	2.73	1.02	2.73	1.08	.0	1.00
65-66	135	3.98	.99	4.07	.94	2.30	.02
67-68	135	3.76	1.08	3.79	1.05	.63	.53
69-70	133	3.86	1.03	3.89	1.05	.54	.59
71-72	134	3.68	1.07	3.64	1.12	- .69	.49
73-74	135	3.88	.86	3.81	.96	-1.39	.17
75-76	134	3.88	1.13	3.86	1.20	- .37	.71

APPENDIX 6--Continued

Variable No.	Sample Size	Mean "Before ESOP"	Standard Deviation "Before ESOP"	Mean "Now"	Standard Deviation "Now"	T Value	Probability
77-78	131	3.08	.95	3.02	1.01	-1.15	.25
79-80	133	3.14	1.02	3.08	1.11	-1.09	.28
81-82	132	3.22	.99	3.23	1.05	.14	.89
83-84	133	3.35	1.11	3.39	1.13	.93	.36
85-86	133	3.17	1.14	3.20	1.16	.67	.51
87-88	133	3.77	1.04	3.86	1.06	1.65	.10
89-90	133	3.80	.98	3.80	1.02	.0	1.00
91-92	132	3.03	1.20	3.10	1.26	1.08	.28
93-94	135	4.01	.90	4.03	.91	.45	.66
95-96	134	3.72	.96	3.79	.93	1.29	.20
97-98	133	3.62	.98	3.71	.95	1.88	.06
99-100	132	3.19	1.15	3.28	1.14	1.97	.05
101-102	132	3.67	.88	3.71	.91	.73	.47

APPENDIX 6--Continued

Variable No.	Sample Size	Mean "Before ESOP"	Standard Deviation "Before ESOP"	Mean "Now"	Standard Deviation "Now"	T Value	Probability
103-104	135	3.19	.96	3.19	1.03	- .07	.95
105-106	135	3.74	.86	3.80	.88	1.38	.17
107-108	134	2.01	.80	2.04	.89	.51	.61
109-110	132	3.16	1.13	3.25	1.12	2.08	.04
111-112	132	2.97	1.20	3.05	1.22	1.78	.08
113-114	134	3.42	1.01	3.54	1.02	2.58	.01
115-116	134	3.10	.98	3.22	1.00	2.91	.00
117-118	134	3.37	.92	3.51	.87	2.66	.01
119-120	134	3.09	1.04	3.25	1.02	3.45	.00
121-122	133	3.86	.93	3.90	.90	1.14	.26
123-124	133	3.95	.86	4.02	.81	1.91	.06
125-126	133	3.82	.94	3.92	.93	2.04	.04
127-128	132	2.99	1.24	2.95	1.23	- .96	.34

APPENDIX 6--Continued

Variable No.	Sample Size	Mean "Before ESOP"	Standard Deviation "Before ESOP"	Mean "Now"	Standard Deviation "Now"	T Value	Probability
129-130	133	4.01	1.00	4.09	.93	1.55	.12
131-132	132	3.47	.88	3.55	.89	1.78	.08
133-134	136	3.20	.96	3.26	.99	1.16	.25
135-136	135	3.74	.86	3.80	.88	1.38	.17
137-138	134	2.01	.80	2.04	.89	.51	.61
139-140	134	3.59	.79	3.63	.75	.96	.34
141-142	134	2.56	.74	2.64	.80	2.33	.02
143-144	131	2.69	.82	2.74	.89	1.62	.11
145-146	132	2.41	.81	2.41	.88	.0	1.00
147-148	132	2.73	.86	2.79	.87	1.96	.52
149-150	124	2.28	.99	2.31	1.04	.69	.49
151-152	130	2.24	.95	2.24	1.00	.0	1.00
153-154	130	1.83	.81	1.83	.86	.0	1.00

APPENDIX 6--Continued

Variable No.	Sample Size	Mean "Before ESOP"	Standard Deviation "Before ESOP"	Mean "Now"	Standard Deviation "Now"	T Value	Probability
155-156	129	3.03	.96	3.03	.97	.0	1.00
157-158	129	2.49	.92	2.43	.97	-1.15	.25