

The Changing Face of Employee Ownership in Ohio

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This report is based on an analysis of Larkspur Data Resources (LDR) IRS Form 5500 Pension Plan Reports over four data points: CDs labeled 1993-94, 1999, 2001, 2003. The CD year is the year of issue, and postdates the filing year of the report, as indicated in Table 1 below.¹ Because the Form 5500 is required from every pension plan (large companies every year and small ones every three years), the LDR reports provide the most complete listing of ESOPs in the U.S. They are used here to characterize the changing profile of the Ohio ESOP sector over nearly a decade.

As shown in Table 1, there appears to be considerable flux in the pool of companies that call themselves employee-owned (leveraged ESOP, unleveraged ESOP or stock bonus plan). On each CD, there are some companies that report only once, and vanish on the subsequent CD.

Table 1. Number of ESOPs and Stock Bonus Plans appearing in various CD Years (Larkspur Data Resources Pension Masters)

CD year (and range of reporting years)	CD93-94 (1993-1994)	CD1999 (1995-1998)	CD2001 (1997-2000)	CD2003 (1997-2001)
1994-2003	205	205	205	205
1994-2001	27	27	27	
1994-1999	10	10		
1999-2003		84	84	84
1999-2001		4	4	
2001-2003			39	39
only 1994	55			
only 1999		26		
only 2001			14	
only 2003				78
Total companies	297	356	373	406
% with only one year of data	19%	7%	4%	19%*

*It is too soon to tell if these are short-lived ESOPs.

Of 747 companies for which there is some data, about 23% appear to come and go within an interval of 3-4 years. Another 2% last slightly longer. Some of the flux is undoubtedly due to transfers of ownership, and some is perhaps attributable to errors in filings. Some ephemeral ESOPs may represent opportunistic use of tax law, particularly as a bridge from family ownership to a management buyout. It is too soon to tell if increased Form

¹ There is a lag between the filing date and the CD year. In addition small companies are required to file only every three years, so it is even possible to pick up some duplicate information on CDs that are less than four years apart.

5500 ESOP filings on the 2003 CD signal a surge of interest in ESOPs, or just an epiphenomenon of reporting cycles or economic processes in 2000 and 2001.

There is also considerable flux in the use of EIN (Employer Identification Number) plan numbers and the value of assets reported under a specific plan number. Some plans report building up assets over a period of years, followed by substantial payouts (or other loss in value) within a three or four-year period. From the incomplete data provided on the four CDs, some of the terminated plans appear to be rolling over funds into new and different plans, while others appear to be rapidly paying out assets to participants. Some simply report a decline in value, possibly attributable to stock market declines. In addition, labeling of the plans sometimes changes over time. The same number, over several years of reporting can begin as a 401(k) profit sharing plan, shift to an ESOP, and shift again to an employee savings plan with employer securities.

The interest of the Ohio Employee Ownership Center is chiefly in the 75% of companies that have a continuing existence through several years and those in existence today. For most of these, there is data on three or four points. Many are “real” ESOPs, in that they appear to have authentic, long-term employee ownership. Some “real” ESOPs have been sold or closed during the period, but the remaining 406, including ESOPs reporting data for the first time on the 2003 CD, are potential respondents for the upcoming OEOC survey of Ohio, along with employee owned companies that don’t appear on the LDR data because the employees own stock directly rather than through an ESOP.

Table 2 reveals some of the most obvious changes that have occurred in the Ohio ESOP population over the decade from 1993-2002. Looking beyond the flux, it appears that the number of employee-owned companies in Ohio has slowly grown by about 33% over a decade. This compares to national estimates that the number of ESOPs has remained stable or even slightly decreased. The number of active participants has more than doubled. Net assets reported by ESOPs has increased six-fold. And the mean of plans' assets per participant has grown by almost 40%.

However, the summary numbers conceal an enormous range of reality. In each category, the minimum assets reported by any company was zero, and a few companies report negative net assets, hinting that the cost of acquiring the company might have been greater than the assets now in the ESOP. The condition of heavy indebtedness applies to just a few companies. Whether deep indebtedness is a temporary situation that many ESOP companies pass through on their way to ownership, or whether a new pattern of deep indebtedness is emerging, is not clear from the data.

Table 2. Ten-year Profile of Employee-Owned Companies appearing on 2003 CD (most data from 2000-2001)

CD Year (Reporting years)	1993-4 (1993-1994)	1999 (1995-1998)	2003 (1997-2001)
Number of Companies, grouped by number of active participants	295	352	401
Small (<1,000)			
Medium (1,000 – 24,000)	259	320	360
Large (more than 24,000 -- P&G, TRW, Cardinal Health, Inc Dublin, OH)	35 1	31 1	40 3
Total of Employees	450,442 (260)	590,539 (350)	734,059 (187)
Small	45,706 (228)	212,018 (318)	230,395 (169)
Medium	343,058 (31)	311,084 (31)	368,717 (16)
Large	61,678 (1)	67,467 (1)	134,947 (2)
Total Participants	195,974 (295)	168,775 (352)	399,963 (403)
Small	35,115 (259)	40,206 (320)	48,143 (360)
Medium	136,121 (35)	104,084 (31)	241,481 (40)
Large	24,738 (1)	24,485 (1)	110,339 (3)
Total Assets of ESOP and Stock Bonus Retirement Plans	\$4.8 billion (294)	\$8.2 billion (351)	\$27.2 billion (401)
Small	\$0.74 billion (258)	\$1.7 billion (319)	\$ 2.1 billion 358)
Medium	\$2.5 billion (35)	\$4.6 billion (31)	\$ 9.5 billion (40)
Large	\$1.5 billion (1)	\$1.9 billion (1)	\$15.6 billion (3)

Table 2. (continued) Ten-year Profile of Employee-Owned Companies appearing on 2003 CD

CD Year (Reporting years)	1993-4 (1993-1994)	1999 (1995-1998)	2003 (1997-2001)
Total Liabilities of Plans		\$27.7 million (13)	\$192 million (31)
Small		\$1.8 million (10)	\$102 million (29)
Medium		\$25.9 million (3)	\$ 90 million (2)
Large		none reported	\$ 0
Total Net Assets of Plans	\$4.8 billion (294)	\$7.1 billion (348)	\$24.8 billion (403)
Small	\$0.7 billion (258)	\$1.5 billion (316)	\$1.7 billion (360)
Medium	\$2.5 billion (35)	\$2.7 billion (31)	\$8.9 billion (40)
Large	\$1.5 billion (1)	\$1.9 billion (1)	\$14.2 billion (3)
Total Payments to Participants	\$153 million (276)	\$406 million (351)	\$2.0 billion (401)
Small	\$37 million (244)	\$12 million (319)	\$0.1 billion (358)
Medium	\$116 million (34)	\$204 million (31)	\$0.8 billion (40)
Large	\$0 (1)	\$119 million (1)	\$1.1 billion (3)
Overall Median Value/Participant	\$13,811 (294)	\$22,312 (347)	\$19,180 (402)
Small	\$14,153 (258)	\$22,332 (315)	\$18,208 (359)
Medium	\$10,325 (35)	\$21,703 (31)	\$26,657 (40)
Large	\$61,900 (1)	\$76,270 (1)	\$64,408 (3)

One question raised by Table 2 touches upon a perpetual question in the literature on employee ownership. The question is whether employee owners in successful companies typically seek to maximize their personal economic position (increase their dividends, stock value and influence in stockholder voting) by hiring new employees without offering them the benefits of ownership. According to the theory, ownership is narrowed to concentrate profits.

Although the practice of narrowing ownership to concentrate economic advantage offers obvious financial benefits to employee owners, Table 3 indicates that overall, small and medium companies are broadening ownership or staying the same. Evidence of narrowing ownership is indicated for one of three large companies in Ohio, where participants are a declining percentage of employees over the decade for which evidence exists. However, conclusions from the evidence are weakened by the large number of companies that could not be included in the investigation because of missing data.

Table 3. Active Participants as a Percent of all Employees** For companies having data on both active participants and number of employees on both CD 1993-4 and CD 2003.

	CD 94	CD 99	CD 03
Small <1000 participants	54.4% n = 36	58.1 n = 35	59.2 n = 36
Medium 1000-24,000 participants	20.3 n = 8	20.5 n = 8	21.9 n = 8
Large > 24,000 participants	40.1 n = 1	36.3 n = 1	32.6 n = 1
Total	31.8 n = 45	31.9 n = 44	30.6 n = 45

** Thanks to Don Williams of the Economics Department of Kent State University's Business School for suggesting this micro-analysis. Even with so much missing data, the result is quite intriguing.

Table 4 presents extensive data on net assets and average plan value per participant for each company, annualized over the period for which filings are reported (which can be as much as 8 years (1993-2001) or as little as one year (for example 1997-1998)). Again, there is a great deal of variation. The minima and maxima range from negative – where the average employee account lost value -- to increases of more than \$30,000 per year over five years or more.

What makes the data hard to interpret is that several variables can affect the annualized average value per participant: the company can add participants, which reduces the average value per participant. It can borrow for expansion or acquisition of another firm, which reduces the average value per participant. Or it can pay off its acquisition loan, which enhances value per participant. Business can slow down, which reduces the average value per participant. Or business can improve, which increases the average value per participant. If an employee-owned firm is sold, the employee owners receive the value of their accounts in cash or short-term notes, also reducing the average value. (Of course, in the longer run, ESOP companies that are sold cease to be ESOPs and disappear from the data.)

Mindful of all these cautions, we note, nonetheless, that companies that existed throughout the 1993-2001 period appear to have added an average of nearly \$3000 annually to their employees' pension funds. For the same group of companies, the median value added is around \$1200 annually. To give these data meaning, if the average employee earns around \$25,000 per year, an annual increase of \$1200 would be 4.8%, close to the annual gain of 5-6% of income reported nationally by all pension funds. The mean gain, however, is double the typical national plan. Excluding giant Procter and Gamble and the most heavily indebted companies little affects the gains for 199 companies with records through the full decade. And the strongest growth in asset value appears to be among the longest-lived ESOPs, suggesting that there is a compounding effect operating on the value of plan assets.

Table 4. Net Assets per Participant among ESOP companies currently operative and companies with three data points (1994-2001) – excludes plans with 1-4 participants, shell ESOPs or stock bonus plans that have no money or no participants, 401k with no employer securities, plans where employer securities are in a different plan, public and nonprofit entities

Range of data points and statistics	CD1993-4 Total Net Assets/ total participants	CD1999 Total Net Assets/ total participants	CD2001 Total Net Assets/ total participants	CD2003 Total Net Assets/ total participants	Average annual change in value per participant over interval between first and last filing
1994-2003					
N of companies	203	201	201	203	200
Means	\$28,944	\$45,469	\$54,066	\$47,287	\$2,897
Median	\$15,392	\$25,093	\$33,498	\$26,074	\$1,237
Minimum	\$206	\$0	-\$5,991	-\$5,118	-\$25,815 ²
Maximum	\$335,948 ³	\$311,695 ⁴	\$463,695 ⁵	\$336,504 ⁶	\$32,978 ⁷
1999-2003					
N of companies		80	82	84	81
Means		\$28,836	\$27,481	\$26,530	\$33
Median		\$18,701	\$22,198	\$17,771	\$371
Minimum		\$23,121	-\$242,200 ⁸	-\$207,633	-\$37,222
Maximum		\$256,234 ⁹	\$179,687 ¹⁰	\$184,508 ¹¹	\$31,346
1994-2001					
N of companies	27	27	27		27
Means	\$13,320	\$30,732	\$28,860		\$3,194
Median	\$11,243	\$22,643	\$16,725		\$2,010
Minimum	\$175	0	0		-\$6,072
Maximum	\$41,014	\$106,990	\$97,625		\$19,418
2001-2003					
N of companies			38	38	37
Means			\$15,321	\$14,530	\$225
Median			\$7,907	\$8,052	\$161
Minimum			-\$25,321	-\$45,548	-\$61,223
Maximum			\$103,748	\$92,747	\$33,825
2003					
N				77	
Means				\$23,166	
Median				\$10,521	
Minimum				-\$10,794	
Maximum				\$343,521	

² Newark Surgical Associates

³ Newark Surgical Associates

⁴ Proctor and Gamble

⁵ Floturn

⁶ Beverage Distributors

⁷ Antioch Publishers

⁸ Marine Mechanical

⁹ Ketchum, Walton

¹⁰ Comstock Valuation Advisors

¹¹ Producers Services

Table 5 reveals to what extent Ohio ESOPs are distributing wealth to retirees over the near-decade reported. Because there is some overlap in data that appears on the 2001CD, just the 1994, 1999 and 2003 reports are considered below. (To show it is omitted, the column is shaded.) Summing from these reports, it appears that Ohio ESOPs distributed **at least** \$3.4 billion to their participants during the 1993-2002 decade. However, most of this is attributable to a few giants like Procter and Gamble, with operations in several states and overseas. (Conversely, ESOP companies with operations in Ohio but headquarters in other states are not reported here.) Leaving Procter and Gamble out of the analysis, the total of distributions to participants was **at least** 1.7 billion. Overall, the CD2003 data indicate that plans are paying out around 8% of their net assets annually, but it is probably a little less than that, since the totals include the three-year reports of small companies.

From the data, it is impossible to tell how equitably the distributions are made, because the LDR data report neither the number of retired participants receiving benefits nor how the benefits are distributed. It is also clear from the maxima that a few large companies are making the bulk of the distributions. Since shares are typically distributed on the basis of W-2 earnings, the bulk of the benefits are almost certainly going to management, but what is unarguable is that employee ownership is generating substantial wealth for retired employee-owners.

One way to assess the distribution of assets is to examine small companies where the percentage of employees who are participants is relatively high. Among 91 companies with less than 500 employees reported on both the 2003 and 2001 CDs, median employees was around 120. Even these smallest companies distributed a total of \$44,056,478 on the 99 and 03 CDs. To look at it another way, over four years, the approximately 13,000 employees at these companies generated nearly \$3,400 per employee in wealth that was distributed to retirees, while they increased the value of their own pension plans as well.

Table 5. Distributions to participants*

Payments to Participants - Summary from Larkspur Data, including P&G, Grouped by CD year, excluding ESOPs < 4, shells, public/nonprofit entities

Years Appearing in Larkspur Data		Payments to participants CD 1994	Payments to participants CD 1999	Payments to participants CD 2001	Payments to participants CD 2003
2003 only	N				78
	Mean				\$5,876,566.68
	Median				\$2,316.00
	Sum				\$458,372,201
	Minimum				\$0
	Maximum				\$138,215,484
2001 only	N		1	14	
	Mean		\$0.00	\$464,671.64	
	Median		\$0.00	\$15,509.50	
	Sum		\$0	\$6,505,403	
	Minimum		\$0	\$0	
	Maximum		\$0	\$4,535,328	
1999 only	N	2	26		
	Mean	\$325,702.00	\$651,733.96		
	Median	\$325,702.00	\$7,646.00		
	Sum	\$651,404	\$16,945,083		
	Minimum	\$182,522	\$0		
	Maximum	\$468,882	\$6,654,404		
1994 only	N	54			
	Mean	\$1,810,328.41			
	Median	\$38,708.00			
	Sum	\$97,757,734			
	Minimum	\$0			
	Maximum	\$40,027,851			
2001-2003	N			38	38
	Mean			\$2,565,524.61	\$249,778.97
	Median			\$0.00	\$0.00
	Sum			\$97,489,935	\$9,491,601
	Minimum			\$0	\$0
	Maximum			\$95,950,817	\$5,472,767
1999-2001	N		4	4	
	Mean		\$11,285.25	\$2,064.25	
	Median		\$427.50	\$690.50	
	Sum		\$45,141	\$8,257	
	Minimum		\$0	\$0	
	Maximum		\$44,286	\$6,876	

1994-1999	N	9	9		
	Mean	\$117,257.11	\$383,891.11		
	Median	\$34,571.00	\$116,910.00		
	Sum	\$1,055,314	\$3,455,020		
	Minimum	\$0	\$3,466		
	Maximum	\$402,879	\$1,295,938		
1999-2003	N	1	82	82	83
	Mean	\$0.00	\$424,763.26	\$695,378.26	\$1,136,743.94
	Median	\$0.00	\$674.50	\$12,400.00	\$33,280.00
	Sum	\$0	\$34,830,587	\$57,021,017	\$94,349,747
	Minimum	\$0	\$0	\$0	\$0
	Maximum	\$0	\$15,505,883	\$30,851,230	\$48,157,426
1994-2001	N	25	27	27	
	Mean	\$434,293.24	\$1,702,949.56	\$1,897,818.41	
	Median	\$5,973.00	\$36,128.00	\$154,079.00	
	Sum	\$10,857,331	\$45,979,638	\$51,241,097	
	Minimum	\$0	\$0	\$0	
	Maximum	\$8,104,319	\$20,450,893	\$20,450,893	
1994-2003	N	189	202	202	204
	Mean	\$4,953,115.54	\$1,506,340.05	\$11,172,576.05	\$7,024,784.43
	Median	\$31,304.00	\$85,339.00	\$117,396.00	\$160,251.50
	Sum	\$936,138,837	\$304,280,690	\$2,256,860,362	\$1,433,056,023
	Minimum	\$0	\$0	\$0	\$0
	Maximum	\$892,434,409	\$119,249,923	\$1,647,734,708	\$730,665,939
Totals	N	280	351	367	403
	Mean	\$3,737,359.36	\$1,155,373.67	\$6,727,863.95	\$4,951,041.12
	Median	\$32,937.50	\$41,036.00	\$46,812.00	\$50,534.00
	Sum	\$1,046,460,620	\$405,536,159	\$2,469,126,071	\$1,995,269,572
	Minimum	\$0	\$0	\$0	\$0
	Maximum	\$892,434,409	\$119,249,923	\$1,647,734,708	\$730,665,939

To summarize, employee ownership in Ohio appears to be growing -- more companies use it, more participants are involved, the value of employee stock ownership plans is growing and the value per employee is growing. Broadest ownership appears to be among the smallest companies, but strongest growth is among the largest ones. The economic performance of the stock plans (and presumably the companies they own) appears to vary dramatically, mirroring patterns in business in general. It is not clear that the performance of companies with employee ownership plans are exceeding the market generally, but it is equally arguable that they are not doing worse. Questions remain about the distribution of payments to participants, investment practices, management approaches and debt. The upcoming survey of Ohio employee-owned companies will provide an opportunity to answer some of the unanswered questions.