

When Employees Meet the Interests of Shareholders

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Abstract

At lower level of employee ownership, interests of employees are not fully aligned with those of shareholders. Conversely, at higher level of employee ownership, employees have incentives to pursue the objective for shareholder value maximization. In this paper, we test the hypothesis using a sample of Japanese firms over the period 2006-2009. Empirical evidence provides support for our hypothesis. At lower level of employee ownership, Tobin's Q declines while at higher level of employee ownership, Tobin's Q rises. Similar results are obtained using labor productivity and risk measure. In addition, foreign investors invest more in firms with higher employee ownership, but invest less in firms with lower employee ownership.

Key words: employee stock ownership; interest alignment; Tobin's Q

JEL classification: G32, G34