

# Beyond Dichotomy: The Curvilinear Impact of Employee Ownership on Firm Performance

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## ABSTRACT

**Manuscript type:** Empirical

**Research Question/Issue:** This study examines the impact of employee stock ownership and board employee representation on firm performance.

**Research Findings/Results:** Results drawn from a longitudinal analysis of a sample of 230 French firms over the period 2000–2005 provide support for an inverted U-shaped relationship between employee ownership and accounting-based performance measures. However, this relationship is not supported when a market-based performance measure is used. We also found that the inflection point of the inverted U-shaped relationship between employee ownership and firm performance does not depend upon the level of employee representation on the board.

**Theoretical Implications:** This study addresses the inconsistency of results found so far in the literature examining the performance implications of employee ownership by proposing a theoretical framework and providing empirical support for the hypothesis suggesting that the relationship between employee ownership and firm performance is not linear, but indeed, has an inverted U-shape.

**Practical Implications:** In a governance context characterized by a spectacular increase in employee ownership fostered by a pervasive support from both managers and government, our results suggest that performance implications of employee ownership are positive up to a certain point, after which the marginal effect of employee ownership on firm performance becomes negative. As a result, our findings suggest that managers and shareholders should be careful when launching and increasing the level of employee ownership to not go beyond specific inflection points.

**Keywords:** Board Composition, Board of Directors Issues, France, Ownership Issues