Employee stock ownership and CEO entrenchment

Xavier Hollandts[1]

KEDGE, Chaire Alter-Gouvernance (CRCGM)

xavier.hollandts@kedgebs.com

Nicolas Aubert

Aix-Marseille Université & INSEEC

Victor Prieur

Université Paris Dauphine

Albine Zimbler

Université Paris Dauphine

Abstract

Employee stock ownership gives a voice to employees (in terms of shareholding and potential board membership) and therefore may have a major impact on corporate governance. From this perspective, employee stock ownership may be a powerful mean to protect CEOs from market for corporate control and dismissal threat. In this paper, we examine the relationship between employee stock ownership and CEO entrenchment. We use a comprehensive panel dataset of the major French listed companies from 2009 to 2012. Our results show that employee stock ownership exhibits a curvilinear relationship with CEO entrenchment measured by CEO age and tenure. Board employee ownership representation has a mixed impact on CEO entrenchment.

Keywords: Employee ownership, corporate governance, CEO entrenchment.

[1] Auteur correspondant

Employee stock ownership and CEO entrenchment

INTRODUCTION

Employee stock ownership is a powerful tool sometimes presented as a way to increase a shared capitalism (Kruse et al., 2010). When a firm makes some profits, the usual way is to share them between the firm itself (self-financing), shareholders and for a minor part, employees. With employee stock ownership schemes, employees are granted a part of profits which can increases their personal wealth and better associated them with firm's success.

The decision of implementing and developing employee ownership often lies with management. Executive managers have a discretionary power to implement such schemes (Scholes & Wolfson, 1990). Managers have two major motivations to offer company stock to their employees: to incentivize the employees and enhance corporate performance (Kim & Ouimet, 2014) or to keep their job (Rauh, 2006). Thus, the academic literature presents employee ownership as a two-edged sword. On the one hand, employee ownership is often used as a reward management tool to enhance corporate performance through its incentive effects. On the other hand, employee ownership may be used as a management entrenchment mechanism because of the potential collusion between employee owners and management. The impact of employee stock ownership on corporate governance is still debated in the literature. One can argue that the presence of employee stock ownership has a positive impact because it decreases the overall level of asymmetric information for all shareholders (Acharya et al., 2011). On the other hand, Faleye et al. (2006) underline the potential risk of "bilateral entrenchment": employee ownership may appear as a major defensive mechanism and executive managers can reward employee owners in exchange of protection, better job conditions or salaries (Cronqvist et al., 2009). In this configuration, employee owners can entrench themselves as CEOs do. From this perspective, employee ownership may appear as a potential mean for executive managers to increase their personal entrenchment. In this paper, we investigate this issue by addressing the following research question: does employee ownership affect CEO entrenchment? This impact can be split in two directions:

(1) Is employee ownership linked to CEO entrenchment?

(2) As employee ownership gives a "voice" to employee owners through potential board membership: is board employee ownership participation linked to CEO entrenchment?

Our empirical results show that employee stock ownership exhibit a curvilinear (inverted U-shaped) relationship with CEO entrenchment. Additional tests underline that board employee representation may play a role by giving an additional entrenchment tool for CEOs. The remainder of the paper is organized as follows. Section 2 reviews the literature on the relationships between employee ownership, corporate governance and CEO entrenchment. Section 3 presents the methodology and the sample. Section 4 presents the results. Section 5 discusses our results and section 6 concludes.

LITERATURE REVIEW

Employee ownership, firm performance and internal governance

Broadly speaking, employee ownership is a management tool that can contribute to develop a shared capitalism. Shared capitalism refers to "plans that tie worker pay or wealth to the performance of their own workplace" (Kruse et al., 2010, p. 5). In their book, Kruse et al. (2010) investigate shared capitalism in a representative sample of US workforce comprising more than 40,000 employees. They find evidence of the positive relationship between employee ownership outcomes and corporate performance. By giving employees a residual claim, it enhances job attitudes in the workplace and finally corporate performance. From the organizational perspective, employee stock ownership enhances cooperation and mutual monitoring within the workplace, increases productivity, decreases turnover and absenteeism. In his extensive literature review, Kaarsemaker (2006) concludes that most of the academic literature underlines that there is a positive relationship between employee ownership, employee attitudes and several firm performance measures. This is the "bright side" of employee ownership: a set of positive incentive mechanisms that increase numerous employee attitudes at work and finally corporate performance. In addition, employee ownership retains human capital and increase employee fidelity (Blair et al., 2000).

Indeed, as insider's equity ownership, employee stock ownership has an intriguing shareholding nature. Employee ownership can decrease CEOs' opportunistic behaviors since employee owners have an intimate knowledge of their organization (Acharya et al, 2011). By sharing information with external shareholders, they can decrease asymmetric information. The "internal governance" of the firm can "force a self-interested CEO to act in a more public spirited and far-sighted way" (Acharya et al, 2011:689). Employee owners have also a strong incentive to monitor executive managers because a big part of their personal wealth and savings directly depends on corporate decision makers (Blair, 1999; Kruse et al, 2010). Because employee ownership often represents a "cost" in terms of portfolio diversification (Yi Tsung et al., 2008), employee owners pay particular attention to management of their company. From this point, employee ownership could contribute to enhance corporate governance by decreasing the level of overall asymmetric information and push CEO towards corporate performance maximization.

Employee ownership and bilateral entrenchment

But, employee ownership also exhibits what Faleye et al. (2006) call a "dark side" referring to its effects on corporate governance. Some authors argue that employee ownership is a powerful entrenchment tool because it reduces the probability of a takeover (Beatty, 1995). "The natural alliance" between employees and managers (Hellwig, 2000) encourage CEOs to establish implicit contracts with employee shareholders (Pagano & Volpin, 2002) in exchange for a "friendly" control of employee owners (Benartzi et al., 2007; Gamble, 2000). From this perspective, employee ownership prevents an efficient market for corporate control (Chaplinsky & Niehaus, 1994; Park & Song, 1995).

Gordon and Pound (1990) argue that many employee ownership plans were established in the US during the late 1980s explicitly to deter takeovers. Employee owners would vote against takeovers which often go along with layoffs. Employee ownership's bad effect on corporate governance is well documented empirically: employee ownership is more powerful than poison pills or golden parachutes (Chaplinsky & Niehaus, 1994) and other defensive mechanisms are less likely to be used when a firm has already employee ownership (Park & Song, 1995). Consequently, employee stock ownership reduces the probability of a takeover (Beatty, 1995; Rauh, 2006). Financial markets also react negatively to ESOPs' announcement (Chang, 1990; Chang & Mayers, 1992) especially when they appear as a mean to entrench management (Cramton et al., 2008). Faleye et al. (2006) argue that this protection is more general and they underline that the "dark side" of employee ownership leads to a "bilateral entrenchment": CEOs can be more easily entrenched with employee ownership but employees tend also to entrench themselves, benefitting from CEOs' protection (against layoffs for example - Atanassov & Kim, 2009). In this sense, employee ownership works as an insurance mechanism that ensures employee favorable employment policies and that decreases the propensity of layoffs or wages cuts (Kim et al., 2011). In return, employee owners would help CEOs to fight off takeover bid and the potential CEO dismissal associated to it (Chaplinsky & Niehaus, 1994; Pugh et al., 1999). This mutual protection between executive managers and employee owners is set up with implicit contracts that may occur (Atanassov & Kim, 2009; Pagano & Volpin, 2005). CEOs can benefit from employee owners' protection because they control a part of capital and voting rights. One major reason for CEOs to implement implicit contract is that they need to pay attention to employee residual claims in order to elicit co-operation within the firm (Acharya & al., 2011). Employee ownership is a perfect tool to signal to employees that CEO pay particular attention to them. In order to pursue implicit contracts, CEOs would implement policies to maintain or increase the level of employment and wages (Faleye et al, 2006). On this point, Cronqvist et al. (2009) have shown that CEOs who want to increase their entrenchment better paid their employees so as to gain social peace. Thus, shareholders pay this potential collusion with higher wages but also a lower probability of receiving a takeover premium (Kim & Ouimet 2014, Faleye et al., 2006). Kim & Ouimet (2014, p. 1277) explicitly suggest that "management bribes employee with higher wages to garner worker support to thwart hostile takeover bids". With this configuration, CEOs can have a "quiet life" by avoiding confrontations with external shareholders or the market for corporate control (Bertrand & Mullainathan, 2003). Aubert et al. (2014) however suggest that the incentive to increase managerial entrenchment by the mean of employee ownership could vary regarding to the corporate governance context. More precisely, it seems that the incentive for CEOs could vary regarding (1) the corporate performance and (2) their level of managerial entrenchment. The increase of employee ownership would be less motivating for CEOs that are well entrenched or/and high-performer (Gregory-Smith & al. 2009)/

Employee ownership on CEO entrenchment: a curvilinear relationship ?

Regarding the link between employee ownership and corporate performance, several recent papers underline that employee ownership exhibits non-linear relationship with corporate performance. In their paper, Faleye et al. (2006) test the impact of significant employee ownership (more than 5% of capital) on corporate performance, valuation, investment and risk and find that large employee ownership push away rather than toward shareholder value maximization. Results from Kim & Ouimet (2014) show that small ESOPs (less than 5% of shares) increase economic pie, benefitting both employees and shareholders. In their study, the positive effects of employee ownership occur to the threshold of 5% of the capital held by employees and effects are much weaker for large ESOPs. From this threshold, these gains are particularly absorbed by higher wages (Cronqvist et al., 2009). Recent papers underline the presence of a curvilinear relationship (Guedri & Hollandts, 2008) or at least the existence of a threshold (at 5%) (Faleye & al., 2006; Kim & Ouimet, 2014). For corporate performance optimization, the theoretical optimal level of employee ownership is the combination of small level of ESOPs that guarantee optimal incentives for employees and have low consequences in terms of free-riding problems (Guedri & Hollandts, 2008; Kim & Ouimet, 2014).

Regarding the level of CEO entrenchment, Aubert et al., (2014) underline that employee stock ownership is a powerful mechanism for low-performing CEOs. The incentive for CEOs to use employee ownership as an entrenchment tool could vary from the level of managerial entrenchment. Combining the corporate performance requirement and the benefit in terms of managerial entrenchment, the optimal combination for CEOs is to have a small fraction of employee stock ownership combined with a weak level of managerial entrenchment (Kim & Ouimet, 2014; Aubert et al., 2014). In this setting, ESOP is an effective tool to help CEOs to enhance their personal entrenchment (Chaplinsky & Niehaus, 1994; Park & Song, 1995). With a large fraction of employee stock ownership, the incentive for CEOs is less sensitive because CEOs may have sufficient entrenchment. To sum up, the link between employee stock ownership and managerial entrenchment exhibits two opposing forces. In one hand, low level of ESO can be useful for low-entrenched or low-performing CEOs and a guarantee to improve performance. On the other hand, high level of employee stock ownership is less useful for entrenched CEOs. In addition, CEOs have also the opportunity to develop more complex strategy by adding another entrenchment tools.

Therefore we suggest the following hypothesis:

H1: Employee stock ownership exhibits an inverted U-shaped relationship with CEO entrenchment. Employee ownership is positively related to CEO entrenchment across the low to moderate range of employee ownership and is negatively related to CEO entrenchment across the moderate to high range of employee ownership.

Combining two recent papers in the literature (Aubert et al. 2014; Kim & Ouimet, 2014), we can suggest the following relationships between ESO, managerial entrenchment and performance. ESO size is crucial but the focal relationship is also dependent from the level of managerial entrenchment and CEO performance.

	Small level of ESO	High level of ESO
Low-performing with weak ME	Optimal	Less interesting
Low-performing with high ME	Less interesting	Not interesting
High-performing with low ME	Interesting	Less interesting
High-performing with high ME	Less interesting	Not interesting

Another consequence of employee stock ownership is to give additional voice to employee owners by offering them an opportunity to be part of the board of directors. In most of European countries, employee's owners can seat on the board of directors or supervisory board (e.g Germany and the codetermination regime – Kim et al. 2011). For example, the 2006 French made employee owner's representation on the board of directors compulsory for listed companies (Ginglinger et al., 2011). If employee owners hold collectively more than 3% of shares, the general meeting of shareholders must give at least one seat to employee owner's representative. When employee ownership is coupled to a representation in the board of directors, it gives an additional entrenchment tool to CEOs leaders (Gordon & Pound, 1990; Pugh et al., 1999). CEOs appoint "friendly" directors (Westphal & Zajac, 1995) or rely on "friendly" directors as employee owners representatives (Guedri & Hollandts, 2008). "The natural alliance" between employees and managers encourage CEOs to establish implicit contracts with employee owners (Pagano & Volpin, 2005) that can include protection from employee owners during board of directors meetings (Guedri & Hollandts, 2008; Ginglinger et al., 2011). The joint effects of employee stock ownership and employee owners' board representation increase voting power and maneuvering margin of executive directors (Gordon and Pound, 1990; Pugh et al, 1999). From employee owners' side, it is much easier for them to lobby in favor of policy decisions maximizing their own interests, mainly employment and compensation policies.

In exchange of support from employee owners (Atanassov & Kim, 2009; Fauver & Fuerst, 2006), CEOs would implement corporate policies increasing the level of employment and wages (Faleye et al., 2006; Cronqvist et al., 2009). When board representation is compulsory in country like France, the incentive for CEOs to set up and maintain implicit contract with employee owners is enhanced. As a consequence, there is an alignment of interests between employee owners and CEOs so as to maintain their mutual protection and the consequences of mutual collusion. In this sense, there is a potential risk of "bilateral entrenchment", including at board level (Faleye et al., 2006). Employee owners' representation could increase CEOs entrenchment by offering additional entrenchment. In fact, board employee owners' representation is often viewed as an additional voice to employee ownership and the consequence of the recognition of significate employee ownership. As employee ownership board representation is the consequence of significant employee ownership it also means that potential implicit contracts are set up yet (Guedri & Hollandts, 2008). Therefore we suggest that board employee ownership representation can increase the potential relationship between employee ownership and CEO entrenchment. In other words, board employee ownership representation gives an additional mean to CEOs in addition to employee stock ownership. Therefore we suggest that board employee ownership representation moderates positively the relationship between employee ownership and CEO entrenchment.

H2: Board Employee ownership representation moderates the inverted U-shaped relationship between employee ownership and CEO entrenchment in such a way that the inflection point will occur at higher levels of CEO entrenchment as the level of board employee ownership representation increases.

DATA AND METHODS

In this section, we present an empirical examination of the relationship between employee ownership, employee representation and CEO entrenchment. We take into account variables that may affect this relationship and we test our research hypothesis on the 110 largest French listed companies, from SBF120 index. The literature underlines two sides of employee ownership voice: economic voice by employee stock ownership and political voice by board employee ownership representation.

DATA

We build our panel dataset using two types of resources. First, we used the INSEAD OEE Data Services (IODS) based on 110 largest French capitalizations. We check every employee stock ownership part of capital in each annual report for each company*year observation. We reported also another data from annual report such as board employee ownership representation. Our dataset is longitudinal, starting from 2009 to 2012 (end of available data). Our dataset starts in 2009 due to the lag of enforcement of 2006 law on board employee ownership representation since French government gave two years to enforce the law (end of enforcement 31/12/2008). Our data cover all managers' tenure between 2009 & 2012

VARIABLES DEFINITIONS

CEO entrenchment

The degree of entrenchment of the manager was operationalized using two variables (Linck et al., 2008). The first variable measures the age of the CEO in number of years in his position within the company (Hill & Phan, 1991). Several studies have shown that the longevity of the CEO in office makes it more resistant to internal and external pressures from different stakeholders. This longevity allows the CEO to influence, in its favor, the decision process leading to the governance structure (Boone et al., 2007; Hermalin & Weisbach, 2000). We also include the age of the CEO, the literature stressing that the age of the CEO influences his/her managerial entrenchment strategy, especially near retirement (Goyal & Park, 2002).

Employee ownership

A continuous variable that measures the level of employee ownership as the average percentage of outstanding equity held by employees during the period the manager is in office (Aubert et al., 2014; Kruse et al., 2010). The percentage of employee ownership as a proxy for size of employee ownership is crucial to examine employee ownership – CEO entrenchment relationship (Kim & Ouimet, 2014).

Board employee representation

We measure board employee ownership by the total number of board employee representatives (Fauver & Fuerst, 2006). In French firms, board employee representation cannot be up to a third of board members and this configuration departs from another favorable regime such as codetermination regime (Guedri & Hollandts, 2008). French corporate governance system sometimes presented as "hybrid" (Aste, 1999), is between regimes without any employee representation and between German regime with compulsory and joint board employee representation.

Control Variables

In addition, we added several variables that may influence the focal relationship between employee voice and CEO entrenchment. We have two types of control variables depending on our model specification. To examine the link between employee ownership and CEO entrenchment, we add a set of control variables such as industry code, a proxy of firm size (total sales – Boone et al., 2007). We added the corporate performance (ROE) since low or high performing firms can have an impact on managerial entrenchment strategy (Aubert et al., 2014). We included also control variables related to corporate governance structure such as ownership concentration (largest shareholder in % of total capital - Hill & Snell 1988), a proxy of board size (total number of board members – Yermack, 1996), the proportion of external board members (Raheja, 2005). Regarding our second model specification for the test of board employee ownership representation and CEO entrenchment, we added one variable related to corporate governance that may influence the focal relationship: the board type so as to distinguish between board of directors and dual structure.

METHODS

Since our dataset is longitudinal and our dependent variables are continuous, we ran a set of OLS regressions after having done usual control (heteroscedasticity, normality of distribution, Hausman test). Since our Hausman test was not significant, we ran OLS regression with random effects (with robust standard errors).

RESULTS

Table 1: Descriptive statistics

EXPLAINED VARIABLES: CEO ENTRENCHMENT				
Continuous variables	Mean	Minimum	Maximum	Standard deviation
CEO entrenchment				
Tenure	6,58	0	37	7,03
CEO Age	55,72	41	76	6,38
EXPLICATIVE VARIABLES: EMPLOYEE OWNERSHIP & BOARD EMPLOYEE REPRESENTATION				
Employee ownership	2,41	0	28,7	4,33
Board employee representation	0,59	0	7	1,23
CONTROL VARIABLES				
Continuous variables	Mean	Minimum	Maximum	Standard deviation
Non-executive directors	41,34	0	100	25,05
Ownership concentration	29,05	2,5	84,51	20,72
Sales (in M€)	1.48e+07	1119	1.82e+08	2.44e+07
Corporate performance	7,77	-287,5	108,32	22,12
Board size	12,63	3	23	3,51
Dummy variables	Mean		S.D	
CEO duality	0,72		0,44	
Dual structure	0,27		0,43	

Table 2: Correlation Matrix

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. CEO age	1.0000													
2. CEO tenure	0.2389	1.0000												
3. Industry	-0.1512	0.0892	1.0000											
4. ROE	0.0641	0.0977	0.0548	1.0000										
5. Sales	0.1552	-0.1224	-0.0464	-0.0006	1.0000									
6. Ownership concentration	0.0356	-0.1349	0.0464	0.0721	-0.1218	1.0000								
7. Non executive directors	-0.0846	0.0170	0.0240	-0.0768	0.1401	-0.5119	1.0000							
8. Board size	0.1623	-0.0242	0.0516	0.0652	0.4124	0.0260	-0.2344	1.0000						
9. Dual board structure	-0.1221	0.1227	0.1341	0.0228	-0.1443	-0.0126	0.2079	-0.2958	1.0000					
10. Employee Ownership (ESO)	0.0112	0.0798	-0.1348	0.0136	0.1977	-0.1829	-0.0337	0.1360	-0.0074	1.0000				
11. Employee Ownership² (ESO²)	-0.0242	0.1441	-0.1152	0.0110	0.0447	-0.0907	-0.0826	0.0171	0.0383	0.9339	1.0000			
12. Board employee ownership (BEOR)	0.1257	-0.1257	-0.0904	-0.0619	0.3926	0.1122	-0.1969	0.4626	-0.1473	0.3032	0.1589	1.0000		
13. ESO*BEOR	0.0964	0.0376	-0.1338	-0.0019	0.2797	-0.0823	-0.1648	0.3396	-0.0888	0.8362	0.7222	0.6297	1.0000	
14. ESO²*BEOR	0.0320	0.1480	-0.1549	0.0117	0.0871	-0.0859	-0.1273	0.1362	-0.0006	0.8887	0.9061	0.2608	0.8706	1.0000

DESCRIPTIVE STATISTICS

Descriptive statistics are displayed in table 1. The average age for CEOs is up to 55 years and they stayed in the position for 6,5 years on average. Our data exhibits older CEOs and with longer tenure than in Aubert et al. (2014) study. The average percentage of equity held by employees is 2,4%, higher than former figures reported in previous studies (1,62% for Guedri & Hollandts (2008) with a larger panel and 1,63% for Ginglinger et al., (2011)). This difference is due to the window of our study since its focuses on recent years whereas previous studies end respectively in 2006 and 2008. As employee stock ownership is cumulative by essence (Blair et al., 2000), it means that firms have experienced continuous employee stock ownership schemes for the last years.

The mean of board employee representation for the whole sample is 0,59 board member but only 34 firms (on 110) experienced board employee representation. If we take into account only firms having at least one employee on the board, the average board employee representation is at 2,14 (for board size mean = 14,63). On average, board employee representation accounts for 15% of board size. From this perspective, French board employee representation illustrates an intermediate case between compulsory regime and other regime without employee representation (Aste, 1999). Regarding corporate governance and control variables, French board have 41% of non-executive board members (external), with ownership concentration on average at 29%. The average size of board is 12,63 which is very close from the figures of Ginglinger et al. (2011). In firms with board structure, 72% of CEO also holds the position of chairman of the board. 24% of our sample exhibits dual structure with a supervisory and a management board. The correlation matrix does not show high correlations between exogenous variables.

REGRESSION RESULTS

Table 3. Relationships between employee ownership and CEO entrenchment

MODEL VARIABLES	(1) CEO age	(2) CEO age	(3) CEO age	(4) CEO tenure	(5) CEO tenure	(6) CEO tenure
ESO		-0.0824	0.703**		0.0663	0.518*
		(0.113)	(0.288)		(0.126)	(0.299)
ESO²			-0.0350***			-0.0199*
			(0.0118)			(0.0119)
Industry	-0.495**	-0.487*	-0.468*	0.359	0.388	0.400
	(0.251)	(0.254)	(0.257)	(0.295)	(0.300)	(0.301)
ROE	0.00530	0.00530	0.00482	0.0110	0.0109	0.0106
	(0.00874)	(0.00875)	(0.00863)	(0.00805)	(0.00807)	(0.00805)
Sales	4.27e-08**	4.56e-08**	3.11e-08	-1.28e-08	-1.37e-08	-2.15e-08
	(2.02e-08)	(2.04e-08)	(2.11e-08)	(2.21e-08)	(2.24e-08)	(2.29e-08)
Own. concentration	0.00466	0.00111	0.0130	-0.0443*	-0.0432*	-0.0365
	(0.0234)	(0.0236)	(0.0240)	(0.0250)	(0.0253)	(0.0256)
Non exec. director	-0.00905	-0.00918	-0.00766	0.00583	0.00623	0.00718
	(0.0160)	(0.0160)	(0.0160)	(0.0158)	(0.0159)	(0.0159)
Board size	0.0145	0.0230	-0.0157	0.0479	0.0422	0.0289
	(0.116)	(0.116)	(0.116)	(0.116)	(0.117)	(0.117)
Constant	57.56***	57.62***	56.82***	5.464**	5.201**	4.614**
	(2.130)	(2.166)	(2.188)	(2.248)	(2.292)	(2.317)
R^2	0,0031	0,0039	0,051	0,0056	0,0046	0,033
Observations	438	436	436	438	436	436
Number of ID	111	110	110	111	110	110

Note: Robust standard errors are reported in parentheses:
* significant at 10%, ** significant at 5% and *** significant at 1%.

Table 4. Relationships between board employee representation and CEO entrenchment

MODEL	(7)	(8)
VARIABLES	CEO age	CEO tenure
Industry	-0.00583	0.255
	(0.0146)	(0.308)
ROE	6.93e-05	0.0108
	(0.000232)	(0.00829)
Sales	4.51e-10	-1.38e-08
	(8.76e-10)	(2.38e-08)
Own. concentration	-0.00135	-0.0271
	(0.000927)	(0.0263)
Non exec. director	0.000221	0.00849
	(0.000512)	(0.0167)
Board size	-0.00297	0.0703
	(0.00376)	(0.122)
Dual structure	-0.00839	0.986
	(0.0283)	(0.904)
Employee ownership	0.0474***	0.657
	(0.0136)	(0.428)
Employee ownership²	-0.00246***	-0.0317
	(0.000635)	(0.0199)
Board employee ownership representation (BEOR)	0.00181	-0.272
	(0.0184)	(0.604)
BEOR*ESO	-0.0292***	-0.0792
	(0.00822)	(0.264)
BEOR*ESO²	0.00139***	0.00760
	(0.000389)	(0.0125)
Constant	4.081***	3.989*
	(0.0912)	(2.408)
Observations	415	415
Number of ID	106	106
R-squared	0.058	0.087

Notes: Robust standard errors are reported in parentheses:

* significant at 10%, ** significant at 5% and *** significant at 1%.

Given that the data relates to 110 firms over four years (2009–2012), we employed generalized least squares cross-sectional time series analysis, corrected for any latent heteroscedasticity and serial autocorrelation (Greene, 2008). We ran GLS regression with robust standard errors. The regression results are displayed in table 3 and table 4. We used a hierarchical approach. Model 1 has only control variables and model 2 introduced employee and model 3 employee ownership and employee ownership² so as to test the curvilinear impact. We followed the same design for models 4 to 6. Models 7 & 8 test the moderating impact of board employee ownership representation on the focal relationship between employee ownership and CEO entrenchment. Overall results from Model 3 & 6 show the presence of a curvilinear (inverted U-shaped) relationship between CEO entrenchment and employee stock ownership. This curvilinear relationship is observed both for CEO age ($\beta eso = 0{,}7$, $p < 0.05$ and $\beta eso^2 = -0{,}035$, $p < 0.001$) and CEO tenure ($\beta eso = 0{,}518$, $p < 0.1$ $\beta eso^2 = -0{,}02$, $p < .0{,}1$). In model 3, one of our control variable exhibits a positive and significant relationship: industry. It suggests that some industries are more stable and maybe exhibit higher CEO age and tenure. As model 2 & 4 exhibit non-significant relationships between employee ownership and CEO age and tenure, results from Table 3 provide a strong support for our first hypothesis. In line with our hypothesis, employee ownership is positively related to CEO entrenchment across the low to moderate range of employee ownership and is negatively related to CEO entrenchment across the moderate to high range of employee ownership. This result suggests that employee ownership is attractive for CEO that want to begin or increase its entrenchment whereas employee ownership would be less interesting (as an entrenchment tool) for CEO that are well entrenched (for example with a longer tenure) or near to retirement (Goyal & Park, 2002). In table 4, we tested the moderating impact on employee ownership - CEO entrenchment relationship since it gives an additional voice to employee so as to extend their potential implicit contract with CEOs. Results from model 7 exhibit a positive an significant relationship ($\beta ber = 0.00139$, $p < .001$), still with the presence of curvilinear relationship (inverted U-shaped) between employee stock ownership and CEO age ($\beta eso =0{,}047$, $p < .001$, $\beta eso^2 = -0{,}024$, $p < .0{,}001$). This result underlines the fact that board employee ownership representation enhances the relationship between employee ownership and CEO entrenchment by pushing the inflection point toward higher employee ownership rates. This result confirms those in model 3&6 and suggests that the relationship between employee ownership and overall employee voice is sensitive to personal characteristics of CEOs. Results from model 8 do not show significant relationship between board employee representation and CEO tenure.

DISCUSSION

In this paper, we focus on the potential relationship between employee "voice", mainly employee stock ownership, and CEO's entrenchment. Employee ownership is often viewed as a management and financial tool that can help firms to increase their performance, decrease labor conflicts and add an additional way to finance firms' growth. For finance and corporate governance literature, employee ownership also represents a powerful entrenchment tool that can help CEOs to increase their tenure and repel the threat of dismissal (by the mean of the market for corporate control). The contribution of the paper is mainly empirical since we show significant evidence of the relationship between employee voice and CEO entrenchment. Our models show a curvilinear (inverted U-shaped) relationship between employee ownership and CEO entrenchment (measured by age and tenure). Additional tests for board employee representation also show that board employee representation positively moderates the employee ownership – CEO entrenchment relationship, only for CEO age.

Results from model 3 & 6 suggest that the strongest impact is for newly appointed CEOs (model 6) and CEOs away from retirement (model 3). Board employee representation has an additional impact on CEO entrenchment. These results suggest that employee may enter into implicit contracts with CEOs (Pagano & Volpin, 2005) in return of favorable corporate policies (Cronqvist et al., 2009; Acharya et al., 2011). Results from model 3 and 6 provide a strong support four our first hypothesis. We observed a significant inverted U-shaped relationship between employee ownership and CEO entrenchment. Our results underline that the impact of employee ownership is positively related to CEO entrenchment across the low to moderate range of employee ownership and is negatively related to CEO entrenchment across the moderate to high range of employee ownership. We interpret these results as evidence that employee ownership is a powerful entrenchment mechanism for newly CEOs and/or CEOs that are not totally entrenched and who want to increase their entrenchment. Broadly speaking, recent papers in the literature exhibit inverted U-shaped relationships between employee ownership and corporate performance or firm value (Faleye et al., 2006; Guedri & Hollandts, 2008; Kim & Ouimet, 2014). Our paper illustrates new evidence that employee ownership has a nonlinear impact on corporate governance and performance. In this paper, we fill the gap in the literature and provide evidence that employee ownership has an impact on CEO entrenchment, and not only in special case of takeovers bids. In addition, results from model 7 show that board employee representation can play a role in CEO entrenchment by giving an additional entrenchment tool to CEOs.

Results from model 7 suggest that representation of employee into the board of directors can have an additional impact on CEO entrenchment. We interpret our overall results as an evidence of the bilateral entrenchment since employee owners have an incentive to maintain implicit contracts with CEO until CEO retirement. We can also consider that incentives are very strong for newly CEOs or CEOs who are far away from retirement (Goyal & Park, 2002). Our results contrast from those observed in Ginglinger et al. (2011). Their results show that board employee representation could appear at least value-neutral and in some circumstances value-enhancing. We do not test directly the impact of board employee representation on firm value but our results (models 7 & 8) suggest that board employee representation can offer an additional entrenchment tool for CEOs. In this sense, our results highlight the mixed impact of employee ownership. In one hand, the literature has underlined the positive effects of employee ownership on employee performance and corporate performance but their voice in corporate governance is at least mixed. Employee voice can be seen as internal governance system (Acharya et al., 2011) but some authors have underlined the dark side of employee voice in corporate policies (Chen et al., 2012; Faleye et al., 2006). From a corporate governance perspective, recent papers suggest that employee ownership and employee voice still play a major role regarding managerial entrenchment matter (Aubert et al., 2014).

Combining overall results, we can suggest, as underlined by Fauver & Fuerst (2006) that employee ownership may enhance productivity, corporate performance and firm value (Kaarsemaker, 2006) but in some case, "excessive" employee ownership has also a dark side regarding its potential impact on CEO entrenchment. This notion of excessive employee ownership is present through the recent literature and suggests that an optimal level of employee ownership can be observed (Aubert et al., 2014; Kim & Ouimet, 2014; Guedri & Hollandts, 2008; Faleye et al., 2006). Away from optimal point, agency problems may be reintroduced (Fauver & Fuerst, 2006).

Further work is nevertheless needed to deeply understand what could be the potential combination of overall employee voice as employee ownership and board employee representation. Except the German case and codetermination regime which is well documented in the literature (Fauver & Fuerst, 2006; Kim & al., 2014), we have fragmented empirical results on hybrid case such as the French case (Guedri & Hollandts, 2008; Ginglinger et al., 2011). Some authors have explored the potential combination of employee voice in terms of shareholding power and board representation. Others have only explored impacts of board employee representation on firm valuation and profitability. To sum up, it seems clear that the biggest part of employee voice rest in terms of shareholding power since board employee representation is small[2]. The comparison with German codetermination regime is delicate because institutional and legal environment is different and results obtained with German parity firms must be made part of their context.

Another avenue for future research is clearly linked to financial literature. CEOs have strong incentives to enter into implicit contracts with employee owners (Hellwig, 2000, Pagano & Volpin, 2005). In this sense, CEOs have incentives to choose equity rather than debt in order to increase their entrenchment. This result departs from classical view as expressed by literature on debt/equity choice from managerial perspective (Zwiebel, 1996). Recent papers (Aubert et al., 2014) underline the fact that ESO can be a powerful tool for CEOs and that financing mean (by equity) can be attractive for low performing CEOs or newly appointed CEOs. Further research is also needed regarding the

[2] Only 34 firms on 110 have at least one board employee member; mean of board employee representation = 2,14 with board size mean at 14,63.

determinants of financing policies for CEOs. Is employee ownership an optimal tool allowing to both finance firm's growth but also guarding CEOs and firms against hostile takeovers?

CONCLUSION

This study examines the impact of employee voice on CEO entrenchment. French case represents an interesting case, between mandatory board employee representation and with a widespread employee ownership culture in listed firms. We used a comprehensive sample to test the impact of employee voice on CEO entrenchment. We find that employee stock ownership exhibit a curvilinear (inverted U-shaped) relationship with CEO entrenchment. Other tests underline that board employee representation may play a role by giving an additional entrenchment tool for CEOs. Overall results suggest that employee ownership could be seen as a double edged-sword. In one hand, previous research has clearly documented the positive impact on micro-level of organizations (implication, satisfaction, productivity, psychological ownership etc..). In the other hand, finance and corporate governance literature question the impact of employee voice on corporate governance and firm valuation. Acharya et al. (2011) underline that "internal governance" from subordinates could mitigate agency problems. But employee ownership and employee representation can play an insurance mechanism (Kim et al., 2014) that can ensure employees that implicit contracts will be enforced (Pagano & Volpin, 2005).

Following Fauver & Fuerst (2006), we can suggest that when employee voice representation reaches an excessive level, it may be the case that labor itself becomes the source of an agency cost as employees seek their own perks, exert their influence to maximize payroll rather than stock price, and create a situation in which the monitors themselves need to be monitored. This concept of "excessive" employee voice is present in the late literature and tends to show that employee ownership growth must be carefully managed.

REFERENCES

Acharya, V. V., Myers, S. C., & Rajan, R. G. (2011). The Internal Governance of Firms. *Journal of Finance, 66*(3), 689-720.

Aste, L. J., 32, 1. (1999). Reforming French corporate governance: A return to the two-tier board. *George Washington journal of international law ans economics, 32*(1).

Atanassov, J., & Kim, E. H. (2009). Labor and Corporate Governance: International Evidence from Restructuring Decisions. *Journal of Finance, 64*(1), 341-374.

Aubert, N., Garnotel, G., Lapied, A., & Rousseau, P. (2014). Employee ownership: A theoretical and empirical investigation of management entrenchment vs. reward management. *Economic Modelling, 40*, 423-434.

Beatty, A. (1995). The cash flow and informational effects of employee stock ownership plans. *Journal of Financial Economics, 38*(2), 211-240.

Benartzi, S., Thaler, R. H., Utkus, S. P., & Sunstein, C. R. (2007). The Law and Economics of Company Stock in 401 (k) Plans. *Journal of Law & Economics, 50*(1), 45-79.

Bertrand, M., & Mullainathan, S. (2003). Enjoying the Quiet Life? Corporate Governance and Managerial Preferences. *Journal of Political Economy, 111*(5), 1043-1075.

Blair, M. M. (1999). Firm-specific human capital and theories of the firm. In M. M. Blair & M. J. Roe (Eds.), *Employees and corporate governance* (pp. 58-90). Washington, DC: Brookings Institution Press.

Blair, M. M., Kruse, D. L., & Blasi, J. R. (2000). Employee ownership: an unstable form or a stabilizing force? In M. M. K. Blair, Thomas A. (Ed.), *The new relationship: human capital in the American corporation* (pp. 241-298). Washington D.C.: Brookings Institution Press.

Boone, A. L., Casares Field, L., Karpoff, J. M., & Raheja, C. G. (2007). The determinants of corporate board size and composition: An empirical analysis. *Journal of Financial Economics, 85*(1), 66-101.

Chang, S. (1990). Employee stock ownership plans and shareholder wealth: an empirical investigation. *Financial Management, 19*(1), 48-58.

Chang, S., & Mayers, D. (1992). Managerial vote ownership and shareholder wealth: evidence from employee stock ownership plans. *Journal of Financial Economics, 32*(1), 103-131.

Chaplinsky, S., & Niehaus, G. (1994). The role of ESOPs in takeover contests. *Journal of Finance, 49*(4), 1451-1470.

Chen, H., Kacperczyk, M., & Ortiz-Molina, H. (2012). Do Nonfinancial Stakeholders Affect the Pricing of Risky Debt? Evidence from Unionized Workers. *Review of Finance, 16*(2), 347-383.

Cramton, P., Mehran, H., & Tracy, J. (2008). ESOP Fables: The Impact of Employee Stock Ownership Plans on Labor Disputes.

Cronqvist, H., Heyman, F., Nilsson, M., Svaleryd, H., & Vlachos, J. (2009). Do Entrenched Managers Pay Their Workers More? *Journal of Finance, 64*(1), 309-339.

Faleye, O., Mehrotra, V., & Morck, R. (2006). When Labor Has a Voice in Corporate Governance. *Journal of Financial & Quantitative Analysis, 41*(3), 489-510.

Fauver, L., & Fuerst, M. E. (2006). Does good corporate governance include employee representation? Evidence from German corporate boards. *Journal of Financial Economics, 82*(3), 673-710.

Gamble, J. E. (2000). Management commitment to innovation and ESOP stock concentration. *Journal of Business Venturing, 15*(5-6), 433-447.

Ginglinger, E., Megginson, W., & Waxin, T. (2011). Employee ownership, board representation, and corporate financial policies. *Journal of Corporate Finance, 17*(4), 868-887.

Gordon, L. A., & Pound, J. (1990). ESOPs and corporate control. *Journal of Financial Economics, 27*(2), 521-551.

Goyal, V. K., & Park, C. W. (2002). Board leadership structure and CEO turnover. *Journal of Corporate Finance, 8*(1), 49-66.

Greene, W. H. (2008). *Econometric analysis* (International ed., 6th ed. ed.). Upper Saddle River, NJ: Pearson Prentice Hall.

Gregory-Smith, I., Thompson, S. and Wright, P. W. (2009), Fired or Retired? A Competing Risks Analysis of Chief Executive Turnover. *The Economic Journal*, 119: 463–481

Guedri, Z., & Hollandts, X. (2008). Beyond Dichotomy: The Curvilinear Impact of Employee Ownership on Firm Performance. *Corporate Governance: An International Review, 16*(5), 460-474.

Hellwig, M. (2000). On the economics and politics of corporate finance and corporate control. In X. Vives (Ed.), *Corporate Governance : Theoretical and Empirical Perspectives*. Cambridge, UK: Cambridge University Press.

Hermalin, B. E., & Weisbach, M. S. (2000). *Boards of Directors as an Endogenously Determined Institution: A Survey of Economic Literature*. Working Paper.

Hill, C. W. L., & Phan, P. (1991). CEO TENURE AS A DETERMINANT OF CEO PAY. *Academy of Management Journal, 34*(3), 707-717.

Kaarsemaker, E. (2006). *Employee ownership and its consequences : synthesis-generated evidence for the effects of employee ownership and gaps in the research literature*. University of York.

Kim, E., Maug, E., & Schneider, C. (2011). Labor Representation in Governance as an Insurance Mechanism: European Corporate Governance Institute.

Kim, E. H., & Ouimet, P. (2014). Broad-Based Employee Stock Ownership: Motives and Outcomes. *Journal of Finance, 69*(3), 1273-1319.

Kruse, D., Freeman, R. B., & Blasi, J. R. (2010). Shared capitalism at work : employee ownership, profit and gain sharing, and broad-based stock options. *National Bureau of Economic Research conference report*. Chicago: The University of Chicago Press,.

Linck, J. S., Netter, J. M., & Yang, T. (2008). The determinants of board structure. *Journal of Financial Economics, 87*(2), 308-328.

Makri, M., Lane, P. J., & Gomez-Mejia, L. R. (2006). CEO incentives, innovation, and performance in technology-intensive firms: a reconciliation of outcome and behavior-based incentive schemes. *Strategic Management Journal, 27*(11), 1057-1080.

Pagano, M., & Volpin, P. (2002). Managers, Workers, and Corporate Control: European corporate governance institute.

Park, S., & Song, M. H. (1995). Employee stock ownership plans, firm performance, and monitoring by outside blockholders. *Financial Management, 24*(4), 52-65.

Pugh, W. N., Oswald, S. L., & Jahera Jr., J. S. (1999). ESOPs, Takeover Protection, and Corporate Decision-Making. *23*(2), 170-185.

Raheja, C. G. (2005). Determinants of Board Size and Composition: A Theory of Corporate Boards. *Journal of Financial & Quantitative Analysis, 40*(2), 283-306.

Rauh, J. D. (2006). Own company stock in defined contribution pension plans: A takeover defense? *Journal of Financial Economics, 81*(2), 379-410.

Scholes, M. S., & Wolfson, M. A. (1990). Employee stock ownership plans and corporate restructuring: myths and realities. *Financial Management, 19*(1), 12-28.

Schwartz-Ziv, M., & Weisbach, M. S. (2013). What do boards really do? Evidence from minutes of board meetings. *Journal of Financial Economics, 108*(2), 349-366.

Westphal, J. D., & Zajac, E. J. (1995). Who Shall Govern? CEO/Board Power, Demographic Similarity, and New Director Selection. *Administrative Science Quarterly, 40*(1), 60-83.

Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics, 40*(2), 185-211.

Yi Tsung, L., Yu-Jane, L., & Ning, Z. (2008). The Costs of Owning Employer Stocks: Lessons from Taiwan. *Journal of Financial & Quantitative Analysis, 43*(3), 717-740.

Zwiebel, J. (1996). Dynamic Capital Structure under Managerial Entrenchment. *American Economic Review, 86*(5), 1197-1215.