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Employees react to their company's ESG performance when investing in employee share ownership plans

Marie Brière,
Head of Investor Intelligence and Academic Partnerships, Amundi Institute

Catherine Leroy,
Head of Employee Saving and Retirement Solutions

Raphael Mimran,
Head of Employee Shareholding

Corporate ESG policies, which we already knew served as tools to build employee loyalty, also play a major role for the appeal of employee share ownership plans. Looking at a broad sample of French employees, we observed that employees are less inclined to invest in their employer's shares after ESG incidents. Incidents that impact the investment decisions of French employees the most are those associated with the social pillar, and particularly those affecting France and related to working conditions. Accordingly, a company's ESG policy is a critical factor affecting the loyalty of its employees. This is a key finding, at a time when the French government has set a goal of 10% employee share ownership in French large corporations.

Employee share ownership is a motivational tool and a savings vehicle for employees, as well as a major source of financing for companies. In many countries, this type of mechanism is encouraged by companies and by governments, through discounts on the share price, an attractive employer matching contribution, or tax benefits. As a result, employee share ownership is very widespread. In France, employees own around 3.5% of the share capital in the companies where they work[1], compared with 8%[2] in the United States. According to the European Federation of Employee Share Ownership, nearly 2 out of 5 employees are currently shareholders of their company in France.

What motivates employees to invest in their company? In addition to financial benefits (discount, employer matching contribution or tax benefit), the expected performance of company shares is a key driver. Furthermore, employees generally feel more

[1] *Annual Economic Survey of Employee Share Ownership in European Countries, European Federation of Employee Share Ownership, 2021.*
[2] *National Center for Employee Ownership: https://www.esop.org/ .*

"familiar" with their company and may think they hold more reliable information on their company than they do on the rest of the market. Other factors were also cited, such as **employee "loyalty"** to their employer. For example, employees of independent firms, who can thus invest directly in their division, invest 10% more in their company than employees of conglomerates, who are further from the decision-making centre (Cohen, 2009). Employee loyalty is particularly strong for companies in the event of a hostile takeover.

In a recent study[3], we examined whether **a company's ESG performance affects the motivation of its employees to invest in the employer's shares**. To that end, we used data on the savings plans of large corporations, managed by Amundi ESR in France, and determined if the ESG performances of the companies has an impact on the investment of nearly 400,000 employees. In particular, we assessed how employees reacted to learning bad news, associated with ESG incidents involving their employer, at the time where they were able to subscribe for a new employee share ownership fund offered by their employer.

We identified a very strong link between a company ESG performances and investment in employee share ownership plans. Doubling the number of negative ESG incidents reduces the propensity of employees to invest in the employer's shares by more than 15% and decreases the amount invested by around €350. In particular, employees are highly influenced by **bad news about their employer involving social aspects**, and especially incidents relating to **working conditions in France**.

They have much less of a reaction to environmental controversies or corporate governance incidents.

Interestingly, employees do not appear to react very strongly to ESG incidents having the greatest impact on the employer's share price. For example, they react more to local incidents occurring in France, whereas the markets react identically to incidents in France or abroad. Similarly, they react very strongly to incidents associated with working conditions, while human rights incidents (within the social pillar) have the greatest adverse impact on the markets. These results tend to **disprove the assumption that employees react according to purely financial motivations**, anticipating the negative impact of certain ESG incidents on the company's financial performance and their investment portfolio.

Today, employees are increasingly concerned by the corporate social responsibility practised by their company. Recent studies have shown, for example, that **employee retention rates are higher at companies with better corporate social responsibility practices** (Cen, Qui and Wang, 2021). We can also see lower pay (by around 9%) at companies operating in more sustainable sectors, because younger, more qualified workers accept lower salaries to work there (Krueger et al., 2020). Our results suggest that employees are also highly sensitive to ESG policies when they invest in their employer's shares. Of the various aspects of ESG policy, those directly associated with working conditions more directly affect employee loyalty. This behaviour differs from that of institutional investors, which are particularly sensitive to environmental issues when making their investment decisions.

[3] *Bonelli M., M.Brière and F. Derrien, "Altruism or Personal Benefits: ESG and Participation in Employee Share Plans", Amundi Working Paper 130, 2022.*

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