The impact of employee stock ownership on firms' investments and market value

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Abstract: Although, employee stock ownership may result in increased cash flows due to enhanced organisational productivity or improved governance, this benefit is counter-balanced by the increased risk premium due to a higher correlation between the returns to the firm and the returns to human capital in general. The analysis in this paper provides a framework for optimising employee incentives from stock ownership.

Keywords: employee stock ownership; firms| investments; market value.

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